2018-19 FEDERAL BUDGET BRIEF

OVERVIEW

The Budget position has improved in every year: deficit is smaller (or surplus larger) in every year compared to previous forecasts in MYEFO. A tiny surplus of $2.2bn is forecast in 2019-20, a year earlier than previously forecast, growing to $11 billion the following year and $16.6 billion the year after (2021-22). This is mainly driven by faster growth in tax revenues, partly offset by faster growth in spending. Net debt as a share of GDP is forecast to peak in the current financial year (2017-18), a year earlier than previous forecast, and decline thereafter as a share of GDP.

Major economic announcements include:
- A 10 year plan to cut income tax, starting for those on incomes less than $87,000 and reaching higher incomes by mid 2020s.
- A restatement of policy to reduce company tax to 25 per cent for all companies by 2026-27.
- Cancelling of plans to increase the Medicare Levy by 0.5 percentage points.
- Spending growth to be the lowest of any Commonwealth government over the last 50 years.

<u>Headline economic figures</u>
These figures are broadly unchanged, the only exception being somewhat faster forecast employment growth in 2017-18. More forecasts are on pages 1-10 and 2-6 of Budget Paper 1.

Year	Real GDP	Employment	Unemployment	CPI
	% growth	% growth	%	%
2017-18	2.75%	2.75%	5%	2%
2018-19	3%	1.5%	5.25%	2.25%
2019-20	3%	1.5%	5.25%	2.5%
2020-21	3%	1.25%	5.25%	2.5%
2021–22	3%	1.25%	5%	2.5%

Key items for FSC

- Group insurance in super to be opt-in for members under 25, accounts with low balances, and accounts without contributions.
- Cap on passive super fees of 3% for small account balances.
- Ban exit fees from super.
- Transfer of small account balances to ATO who will attempt to restore balances to members.
- SMSF funds with good history to be audited every 3 years.
- Relaxation of work test for people aged 65-74.
- A requirement on super trustees to formulate a retirement income strategy for fund members.
- Changes to the pension means test for lifetime retirement products – more generous/less punitive than previous proposals.
- Removal of CGT discount at fund level for MITs.
- Tightening eligibility for R&D tax concession.
- Additional funding for APRA, ASIC and Australian Financial Complaints Authority.

LIFE INSURANCE

Group Insurance in Super (Paper 2 p.26)

The Government is proposing to move from a default framework to be offered on an opt-in basis for:

(i) *Members with low balances of less than $6,000*
Trustees will need to communicate with their members to ensure they are aware of the changes because from 1 July 2019 these members will have their cover switched off unless they opt-in.

(ii) *Accounts for new members under the age of 25 years*
This will only apply to new members from 1 July 2019.

(iii) *Members whose accounts have not received contributions in 13 months and are inactive*

There will be notification requirements of the changes to existing members which are likely to be similar to those proposed by the ISWG Voluntary Code (i.e. after 6 months, 9 months and 13 months).

These changes will take effect on 1 July 2019. Existing superannuation members will have 14 months to decide whether they will opt-in to their existing cover or switch it off.

The Government will consult publicly on these measures, the consultation period is likely to be only three weeks. It is estimated that these measures would save the budget $697 million over the forward estimates.

There will be a separate consultation addressing a range of measures including premium caps of insurance in super.

Consolidation of super
(see super section)

Banning of exit fees
(see super section)

Genomics Health Futures Mission
The Government has committed to investing $500 million from Medical Research Future Fund over 10 years to the Genomics Health Futures Mission. The first project will be Mackenzie's Mission, a $20 million trial in pre-conception screening for diseases including spinal muscular atrophy, cystic fibrosis and fragile X syndrome.

Current life insurance practices around the use of genetic tests reviewed in light of the Government's announcement.

SUPERANNUATION

- A range of measures called Protecting Your Super, including:
  a. Capping passive fees at 3% per year for accounts with a balance below $6,000. Passive fees are defined as investment and administration fees. It does not include fees for services requested by members.
  b. Banning exit fees from all super accounts. This does not include a ban on buy-sell spreads.
  c. Consolidation of small and inactive accounts – see below
  d. These measures are expected to increase the Budget cash balance by $1.1bn over the forward estimates (the increase in accrual terms is $166m – the difference is because of the time it takes for the ATO to reunite super balances).
  e. More details on these measures are in Budget Paper 1, page 25.

Consolidation of small and inactive accounts
From 1 July 2019, the Government will strengthen the ATO-led consolidation regime by requiring the transfer of all inactive superannuation accounts with balances below $6,000 to the ATO. The ATO will expand its data matching process to proactively reunite these inactive accounts with the member's account, where possible. This measure will also include the proactive payment of funds currently held by the ATO.

The consultation for this measure will commence shortly and will be open for only three weeks.

This measure is estimated to provide an improvement to the budget of $166.6 million in fiscal balance terms, and a gain of $1.1 billion in underlying cash balance terms over the forward estimates term.

Treasury estimates that there are about 13 million either inactive, or low balance accounts (<$6,000).

Other measures:
- The Government is providing $133.7 million to the ATO to continue measures to target unpaid tax and superannuation. This extends measures announced in August 2013 (Addressing the level of unpaid tax and superannuation in the community) that would otherwise expire on 30 June 2018. See Budget Paper 2, page 19.
- The Government will allow individuals whose income exceeds $263,157 and have multiple employers to nominate that wages from certain employers are not subject to the SG. This will enable individuals to avoid unintentionally breaching the $25,000 concessional contribution cap. See Budget Paper 2, page 40.
- The annual audit requirement for SMSFs will be amended to every three years for SMSFs with a "history of good record keeping and compliance". This measure will commence from 1 July 2019. See Budget Paper 2, page 41.
- The work test for voluntary contributions to super will be removed for people aged 65-74 with super balances below $300,000 for the first year the do not meet the work test. This measure is expected to cost the revenue $10 million over the forward estimates.
- Funding of $15 million over three years from 2018-19 to the ATO to modernise payroll and super reporting, to support small business in the transition to Single Touch Payroll. Budget Paper 2, page 185.

- Amend the SIS act to introduce a retirement covenant that requires super trustees to formulate a retirement income strategy for fund members; and introduce a requirement for providers of retirement income products to report simplified standardised metrics in PDSs to assist consumer decision making.
    a. The Government will release a position paper for consultation shortly outlining the proposed approach to the covenant. See Fact sheet 3.4.
- Early release of super – the Budget contains no new measures on this issue. The Government has already announced early release for victims of crime; there will be another round of consultation on the remaining measures.

RETIREMENT LIVING & INCOME

The measures include:

- Funding of $22 million over five years from 2017-18 to protect the rights of older Australians and protect them from abuse. Budget Paper 2, pages 76-77
- Numerous funding measures for aged care, see Budget Paper 2, pages 117-119
- Increase the Pension Work Bonus from $250 to $300 per fortnight, and expand to self-employed, at a cost of $227.4 million over the forward estimates. Budget Paper 2, page 175
- Changes to the pension means test for lifetime retirement products, at a cost of $20.2 million. Budget Paper 2, page 175
    - The rules will
        - asses a fixed 60% of all pooled lifetime products as income (a lower percentage than the previously proposed 70%);
        - assess 60% of the purchase price of the product as assets until age 84 (or a minimum 5 years) – this is a lower percentage than the previously proposed 70%; and
        - assess 30% of the purchase price of the product as assets from that point onwards – this is a lower percentage than the previously proposed 35%.
    - In broad terms, this approach is less punitive than previous DSS proposals, and may in fact be promoting lifetime products. Modelling will be required to determine the exact impact of the proposal.
    - The proposals apply from 1 July 2019, but existing products will be grandfathered.
    - See Fact Sheet 3.4.
- Expand the Pension Loans Scheme to everyone over Age Pension age, and increase the maximum fortnightly income stream to 150% of Age Pension Rate. Cost of $11m. Budget Paper 2, page 175

TAXATION

Personal tax

- *The Medicare levy will not increase to 2.5% but will remain at 2%. This measure is forecast to cost the Budget $12.8bn over the forward estimates period.*
- *Personal tax reductions:*
    - *Introduce a Low and Middle Income Tax Offset of up to $530 applying to incomes from $48,000 to $125,333.*
    - *From 1 July 2018, increase the threshold for the 37% tax bracket from $87,000 to $90,000*
    - *From 1 July 2022, increase the LITO from $445 to $645; increase the threshold for the 19% tax rate from $37,000 to $41,000; and increase the threshold for the 37% tax rate from $90,000 to $120,000*

- *From 1 July 2024, abolish the 37% tax threshold completely; and increase the threshold for the 37% tax rate from $120,000 to $200,000. This means the marginal tax rate of 32.5% will apply to incomes from $41,000 to $200,000.*
- *These changes in total are forecast to cost the revenue $13.4bn over the forward estimates. More details in Budget Paper 2, page 33.*

Stapled Structures
The Budget indicates that the previously announced reforms to stapled structures will result in a gain to revenue of $400m over the forward estimates period. Further details in Budget Paper 2 on pages 38-39.

The measure as stated in the Budget is different from the announced measure: rather than proposing that MITs will be prohibited from investing agricultural land, it proposes that MITs will no longer be able to access concessional MIT rate for investments in agricultural land. This implies that MIT investment in this type of land will still be permitted.

Capital Gains for MITs at fund level
The Government will prevent MITs and AMITs from accessing the 50% capital gains tax discount at the trust level from 1 July 2019. MITs that derive a capital gain will still be able to distribute this income as capital gain that is eligible for a discount in the hands of the beneficiary.

This measure is partly designed to ensure the CGT discount is not available to corporates investing through MITs.

This measure is estimated to have a small, unquantifiable gain to revenue (as this is a revenue protection measure).

Better targeting the R&D tax incentive
For income years starting on or after 1 July 2018, the following changes:

- For companies with aggregated annual turnover of $20m or more, the non-refundable R&D tax offset will be linked to R&D intensity. The additional R&D premium will be:
  - For R&D intensity from 0 to 2%; the premium will be 4 percentage points (pp)
  - For R&D intensity from 2 to 5%; the premium will be 6.5 pp
  - For R&D intensity from 5 to 10%; the premium will be 9 pp
  - For R&D intensity above 10%; the premium will be 12 pp
- R&D intensity is R&D expenditure as a % of total expenditure.
- The maximum R&D eligible for the premium will be increased from $100m to $150m.
- For companies below $20m in turnover the refundable R&D tax offset will be 13.5 pp above the entity's company tax rate.
- The Government will provide additional resources to the ATO and Department of Industry to undertake greater enforcement activity.
- The ATO will be able to disclose R&D claimant details
- Time limits will be introduced on R&D claims
- There will be a number of technical amendments as well.
- See Budget Paper 1, pages 21-22.

ROYAL COMMISSION, AFCA, ASIC AND APRA FUNDING (paper 2 p175 and p188)

The Government will provide $10.6 million over two years to ASIC and 2.7 million in 2018-19 to APRA to assist with their involvement in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

This will be funded by both APRA and ASIC industry levies totalling 13.3 million over the next two years, further to the Government funding of $5.9 million provided to ASIC in 2017-18.

The Government will provide $1.7 million in 2018-19 to provide a grant to the Australian Financial Complaints Authority (AFCA) to support its establishment.

CONSUMER DATA RIGHT AND OPEN BANKING REGIME

The Government will provide $44.6 over four years from 2018-19 to establish a national consumer data right that will allow consumers and small to medium business enterprises to access and transfer their data between service providers in designated sectors. It is unclear whether financial services will be captured by this measure.

The Treasurer has committed to moving forward the open banking regime. It is unclear whether this will be extended to other areas of financial services.

WOMEN'S FINANCIAL CAPABILITY

Provide $10 million to ASIC to support initiatives to enhance female financial capability. Budget Paper 2, page 183.

FINTECH

Provide funding to Treasury of $0.1 million to promote Australia internationally as a FinTech destination.

MENTAL HEALTH (paper 2 p122-124)

The Government has committed further funding to support Australians with mental illness, including providing 33.8 million to LifeLine Australia over four years from 2018-19 to enhance its telephone crisis services.