

Advice Matters

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Federal Budget Summary - 2019-2020

Overview

On 2 April 2019, the Government handed down the 2019-20 Federal Budget.

The focus of the 2019-20 Budget is a plan for a stronger economy and securing a better future. In last year's Budget, the Government commented that just as most households had to tighten their budgets over recent years, the Government was committed to doing the same. With the Budget returning to a surplus position much sooner than anticipated, the Government is now seeking to give back to Australians.

From a pure financial planning and wealth perspective, the positive news from this year's Budget is that the changes are minimal in number compared to prior years, and largely positive in nature. This is not a surprise in an election year. From accelerating the timing of changes to personal taxation thresholds and tax offsets originally announced in the 2018-19 Budget, measures to allow people to contribute to super for a longer period of time, and additional assistance to welfare recipients to overcome increasing living costs, particularly for essential utilities such as electricity, there is something for nearly everyone in this Budget.

It is always important to remember that at this point, the Budget measures are only statements of proposed changes, and are not yet law. With an election expected to occur in May 2019, it's likely that these proposals will only become law if the current Government is successfully re-elected.

Following is a summary of some of the major proposals and how they may affect you.

Taxation

The major aspect of taxation reform centres on the Government's 'Personal Income Tax Plan'. The Personal Income Tax Plan was announced in the 2018-19 Federal Budget, and is being phased in over a seven year period.

The first set of changes implemented under the Personal Income Tax Plan, which took effect from 1 July 2018 (until 30 June 2022), was the introduction of a 'Low and Middle Income Tax Offset', valued at up to \$530 per annum. In this year's Budget, the Government has announced they will more than double the maximum benefit to \$1,080 per annum. This is still proposed to have a commencement date of 1 July 2018, which means if legislated, the benefit will flow through to eligible individuals when they lodge their tax return for the current financial year.

The maximum benefit will flow to those with taxable income ranging from \$48,000 to \$90,000, but there is some benefit if your taxable income is below \$48,000 or between \$90,000 and \$126,000.

It had been expected that the Government would further accelerate other elements of the Personal Income Tax Plan, but they have chosen not to do this. However, they are providing additional relief by making further changes to thresholds and rates. These changes are reflected in the table on the following page.

Content is current as at 2 April 2019.

GENERAL ADVICE WARNING

This publication contains general (including taxation) information only. It is not intended to constitute financial product advice. Any information provided or conclusions made, whether express or implied, do not take into account the investment objectives, financial situation and particular needs of an investor. It should not be relied upon as a substitute for professional advice. You should obtain and consider a Product Disclosure Statement (PDS) before making any decision to acquire a product.



Financial Planning



Federal Budget Summary cont.

Resident marginal tax rates and thresholds (excluding Medicare Levy)					
Current taxable income thresholds (from 1 July 2018)	Tax rate	From 1 July 2022	Tax rate	From 1 July 2024	Tax rate
Up to \$18,200	Nil	Up to \$18,200	Nil	Up to \$18,200	Nil
\$18,201 - \$37,000	19%	\$18,201 - \$45,000	19.0%	\$18,201 - \$45,000	19.0%
\$37,001 - \$90,00	32.5%	\$45,001 - \$120,000	32.5%	\$45,001 - \$200,000	30.0%
\$90,001 - \$180,000	37.0%	\$120,001 - \$180,000	37.0%	Removed	Removed
\$180,001 and over	45.0%	\$180,001 and over	45.0%	\$200,001 and over	45% of each dollar over \$200,000

Superannuation

Superannuation was left largely untouched except for a number of adjustments to existing policies, including giving individuals greater flexibility to contribute to super.

From 1 July 2020, if you are aged 65 or 66, you will be able to make additional contributions to super even if you're no longer working. This is a welcome change for many Australians looking to boost their income in retirement. It is also intended to provide an alignment to the qualification age for the age pension, which is progressively rising to age 67 (from 1 July 2023).

In addition, from 1 July 2020 there will be an increased ability to make spouse contributions to super. Currently, this is only an option provided your spouse hasn't turned 70.

The existing age limit will be increased to allow you to make contributions on behalf of your spouse, up to age 74.

Welfare

The Government has committed to increased funding to make more aged care spaces available for Australians in the future – an important commitment for those in need. Of more current impact however is an immediate one-off payment of \$75 for individuals and \$125 per couple for eligible welfare recipients to assist with their next power bill.

Concluding thoughts

Overall, the number of changes announced in this year's Federal Budget relating to financial planning and wealth are small compared to prior years. The big ticket items from the Budget are the Government's commitments to increased expenditure on infrastructure and essential services.

However, with many Australians feeling pressure from increased costs of living and the inevitable impact on tightened household budgets, the proposed acceleration of personal tax cuts is a positive, and many will look to benefit from income tax changes. It's important to remember though that any possible benefit gained is only half the story. The real question is what you do with those savings.

The most important consideration you might have right now is to ensure that you don't over-react to measures as they are still only proposals, and are subject to the Government's re-election and then the successful passage of legislation. The best thing you can do is to seek advice that is personal to your own circumstances. The first step to take is to speak with a professional adviser.



SALARY SACRIFICING

- *not* such a sacrifice

A global survey of people's attitudes to retirement savings shows while Australians expect to spend, on average, 23 years in retirement, their money will run out after only just 10 years¹. This gap in retirement savings, affectionately called 'the retirement gap' is a growing concern and more and more Australians are looking for ways to boost their super savings.

The good news is that there are easy ways to boost your super

Salary sacrificing is the choice you can make to re-direct some of your salary and make increased contributions into super. This is known as salary sacrifice and is taxed at only 15% (or 30% for high income earners) - that is, for most people, much lower than their marginal tax rate.

Salary sacrificing, particularly for those who have spare cash flow, can be particularly effective as shown in the table below:

	Taken as salary	Salary sacrificed into super
Gross contribution	\$1,000	\$1,000
Tax rate* (%)	34.5	15
Tax payable	\$345	\$150
Net benefit	\$655	\$850

* Includes Medicare levy

For employees with a marginal tax rate of 34.5 per cent (including Medicare levy), they are \$195 better off for every \$1,000 they choose to salary sacrifice. Depending on their salary this benefit can be even greater, however it's important to remember that salary sacrificing doesn't make sense in every situation.

Taxable income + benefits	Marginal tax rate* (%)	Contributions tax rate (%)	Net tax saving on contribution (%)
\$0 to \$18,200	0	15	Negative
\$18,201 to \$37,000	21	15	6
\$37,001 to \$90,000	34.5	15	19.5
\$90,001 to \$180,000	39	15	24
Over \$180,000	47	15	32

* Includes Medicare levy

Important: concessional contributions are capped at \$25,000 (in the 2018/19 financial year) which include the employer SG contribution and salary sacrifice contributions. Additional tax may apply to concessional contributions above this limit.

Government co-contribution

For employees earning less than \$52,697 (in the 2018/2019 financial year) the Government co-contribution is another way to boost super balances.

For after-tax contributions of \$1,000 or more into super, the Government will make a co-contribution of up to \$500. The \$500 maximum applies for employees earning less than \$37,697 and reduces by 3.333 cents for every dollar of income over \$37,697, before phasing out completely once they earn \$52,697.

¹Sydney Morning Herald – Australia's retirement gap among the world's largest – January 2015



WAYS

TO PROTECT your financial information

As theft of financial data becomes more common, securing online accounts and personal information has never been more important.

Hacking and identity theft are growing in scale and sophistication. Research shows that hackers stole more than \$2.3 billion from Australian online consumers in 2017, with more than 6 million people falling victim to cybercrimes such as identity theft.¹

Money is a primary motivation of hackers, making financial information a major target of cybercrimes. Financial pretexting – which involves obtaining personal information under false pretence – and phishing accounted for 93 per cent of all the 2017 breaches Verizon investigated.²

So how might you keep phishers and hackers from snooping into and stealing your financial information? Here are five suggestions.

1. Use strong passwords

Setting strong and unique passwords for your accounts is your first line of defence. According to Verizon, 81 per cent of hacking incidents in 2017 succeeded due to stolen or weak passwords.³ Use long and complicated passwords to help you secure your accounts. Avoid re-using them for other accounts,

no matter how tempting it is to recycle a password. Changing them regularly – once every few months – may also help you increase your account security.

2. Set up two-factor authentication

Two-factor authentication adds a layer of security that makes it difficult for hackers to access your online accounts. Many financial institutions require two-step authentication to access applications or portals. If your provider offers this as an option, it's wise to activate it.

Also set up two-factor authentication for any other accounts or portals that contain financial information, including emails and cloud storage.

3. Monitor your accounts

Regularly monitoring your financial accounts – at least once a week – may alert you to any suspicious activity and enable you to report it early. Using a private network to access your online accounts is also critical to help ensure your financial information remains secure.

4. Deal directly with your provider

If someone claiming to be from your financial institution reaches out to you through email or over the phone asking for your account

information to address a 'problem', it's sensible to do a basic check regardless of how legitimate the request may seem. Experts suggest that users contact their provider directly instead of responding to the email or giving information to the caller.

5. Use secure portals

If your financial provider has a client portal – or a secure online storage system – for keeping and sharing digital documents, take advantage of it. Using a secure portal provides a level of security that may help protect your identity and personal information. Experts advise against relying on emails to share financial documents because of their vulnerability to attacks.

Take precautions

Cybercrimes will not go away – they will only grow in sophistication. But you may keep hackers and phishers at bay by increasing the security of your personal data, especially your financial information.

¹ Norton, 2017, 2017 Norton Cyber Security Insights Report – Australia. Available at: <https://au.norton.com/cyber-security-insights-2017>.

² Verizon, 2018, 2018 Data Breach Investigations Report. Available at: www.verizonenterprise.com/verizon-insights-lab/dbir/.

³ Ibid.

Contact your local Adviser