

### This Week's Top Articles

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### Budget: Permanent promises, temporary revenues

Graham Hand

The first lines in the Treasurer's Budget Speech would make John Williamson (or ACDC) proud:

*"Tonight, I announce that the Budget is back in the black and Australia is back on track ... our nation is again paying its own way."*

Expect a repeat of this message many times in the next month's lead up to the election. It is due to "charting a responsible path to surplus" and "a long road from where this process started when the Government was first elected." The so-called Underlying Cash Balance, which is the measure used for the 'surplus', is forecast at \$7 billion in 2019/20, the first surplus after a decade of deficits. But it is next year, so it's not yet 'delivered'.

(Details on superannuation, investing and retirement saving in the 2019/20 Budget are [summarised in another article](#)).

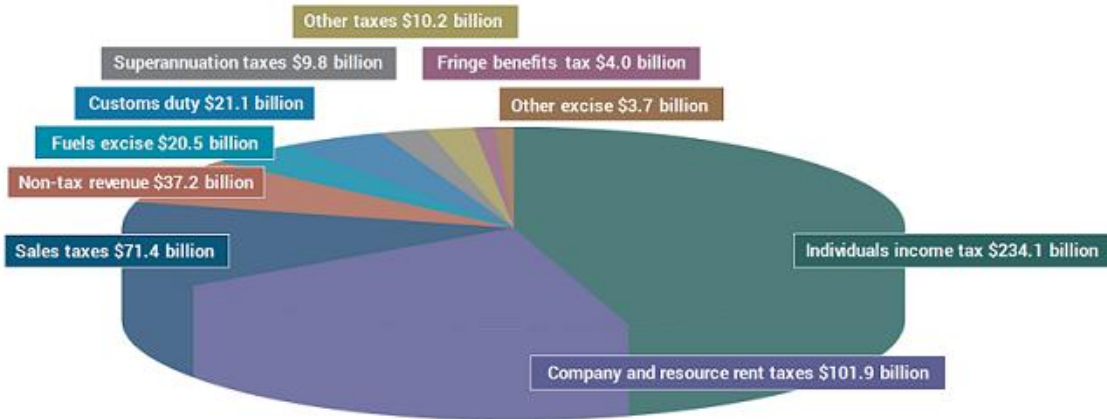
#### Budget surplus and economic parameters

On economic parameters over the forward outlook, there is an expected pickup in wages growth from the current 2.5% to 3.5% by 2022/23, but consumer prices (at 2.5%) and unemployment (at 5%) are forecast to remain steady. With the anticipated steady growth of surpluses until 2028/29, net debt (not gross debt) is projected to be eliminated within a decade. In reality, this is unlikely to happen, with net debt currently \$373 billion, and its elimination would require four government terms of favourable financial conditions and fiscal discipline. Real GDP will grow at 2.75% over the next two years, taking Australia into 30 years of uninterrupted economic growth by 2021.

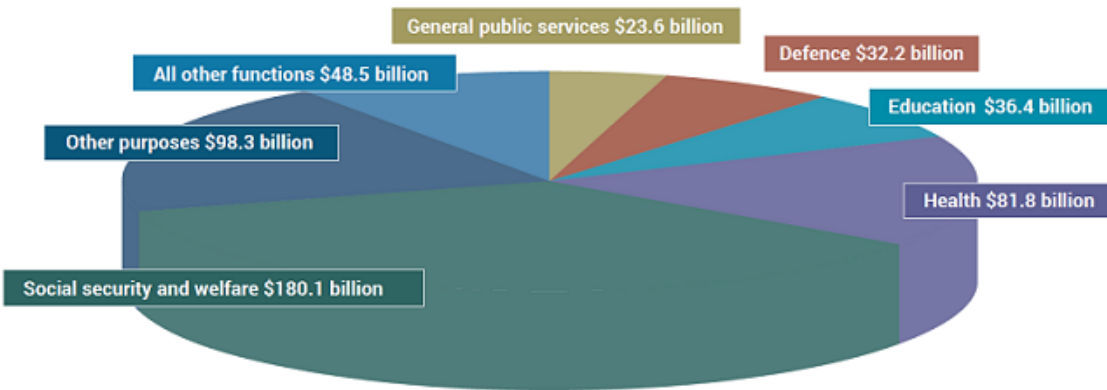
The Budget is a good reminder of where the revenue comes from, and where the spending goes. Total revenue for 2019-20 is expected to be \$514 billion, with total expenses of \$501 billion.



**Where revenue will come from, 2019-20**



**Where money will be spent, 2019-20**



**Income tax relief**

The cornerstone of the election spending in the 2019/20 Budget is lower personal income taxes. Immediate tax relief goes to low- and middle-income earners, worth up to \$1,080 a year for singles and \$2,160 for families. About 4.5 million Australians will receive the full benefit in the 2018/2019 financial year.

**Tax relief by taxable income bracket**



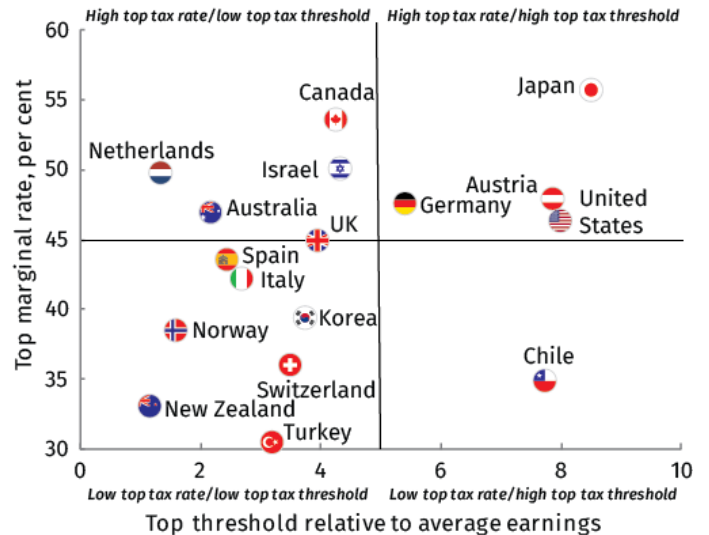
From 2024/25 (a wait of six years), the middle tax bracket will reduce from 32.5% to 30%, which together with the abolition of the 37% bracket, will mean 94% of taxpayers pay a marginal tax rate of 30% or less. But six years is a long time in politics.

The Government stresses that the tax system remains progressive and internationally competitive after the 2024/25 cuts. For example, Australia’s top marginal tax rate clicks in at around 2.2 times average full-time earnings, lower than Canada, UK, Germany and the US. The top 5% of taxpayers will pay a third of all personal income tax collected.

**Share of personal income tax paid by the top 1%, top 5%, top 10% and top 20% of taxpayers**

	Share of tax paid in 2017-18	Share of tax paid in 2024-25 without the Government’s plan	Share of tax paid in 2024-25 with the Government’s plan
Top 1% of taxpayers	16.7%	15.6%	17.0%
Top 5% of taxpayers	32.7%	31.6%	32.9%
Top 10% of taxpayers	44.6%	43.4%	44.0%
Top 20% of taxpayers	60.6%	59.5%	59.5%

**Current top marginal tax rates comparison, selected OECD countries**



**Instant asset write-off**

Expect to see a lot more vans and utes priced just under \$30,000, with the instant asset write-off threshold rising to this level from tonight until 30 June 2020. It applies on a per asset basis. This has been a popular stimulus in the past, with more than 350,000 businesses already using it. It has also been expanded to include medium-sized businesses by increasing the annual turnover threshold from \$10 million to \$50 million.

**Integrity of the tax system**

The Government claims impressive results will be achieved by focussing on tax collection from multinationals and the black economy. The ATO Tax Avoidance Taskforce is estimated to raise a further \$4.6 billion in tax liabilities over the next four years. The impact on the black economy is estimated to return an extra \$5 billion to the budget.

From 1 July 2019, increased attention will be given to high-risk industries to prevent hiding of income, making it harder for businesses to pay cash wages to staff while also evading their obligations to report the income. The Australian Business Number (ABN) system will be strengthened and targeted.

**Essential services**

The Budget provides \$528 million over the forward estimates for a Royal Commission to examine violence, abuse and exploitation of people with a disability, and \$328 million for prevention and frontline services to reduce violence against women and their children. There is \$525 million for vocational education and training, with added funding for employers to train apprentices. Defence capabilities will receive a mind-boggling \$200 billion over the next decade. Annual funding for schools will grow from \$20 billion in 2019 to \$32 billion in 2029, while universities will receive \$18 billion next year.

After the ‘medi-scare’ of the last election, there is a ‘guarantee’ to strengthen Medicare to ensure Australians access timely and affordable healthcare. Mental health care has higher priority and funding.

Total funding for aged care will increase from \$22 billion next year to \$25 billion in 2022/23, including support for in-home services.

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## Infrastructure

The headline number for infrastructure is a neat \$100 billion investment for "*busting congestion and ensuring our towns and regions are better connected.*" Good luck with that on a lot of Sydney roads.

The big initiatives include:

- A new Road Safety Package of \$2.2 billion
- Urban Congestion Fund increased from \$1 billion to \$4 billion
- A new Commuter Car Park Fund of \$500 million
- Roads of Strategic Importance funding increased from \$3.5 billion to \$4.5 billion
- Major Project Business Case Fund of \$250 million
- \$2 billion to help deliver fast rail from Geelong to Melbourne
- Establishing the National Faster Rail Agency
- Fast rail business cases for Sydney to Newcastle, Sydney to Wollongong, Sydney to Parkes (via Bathurst and Orange), Melbourne to Greater Shepparton, Melbourne to Albury Wodonga, Melbourne to Traralgon, Brisbane to the regions of Moreton Bay and the Sunshine Coast, and Brisbane to the Gold Coast
- Melbourne to Brisbane Inland Rail of \$9.3 billion
- Western Sydney (Nancy Bird-Walton) International Airport of \$5.3 billion
- Melbourne Airport Rail Link of \$5 billion

To further assist the reduction in congestion, the Migration Program will be reduced from 190,000 to 160,000 places for four years from 2019-20. The Government will also create incentives for migrants to settle in regional centres.

## Climate change

The Government claims Australia will overachieve its second Kyoto Protocol target (2013–2020) by 240 million tonnes. To meet emissions reductions under the Paris Agreement, \$3.5 billion will be invested in a new *Climate Solutions Package*, including a \$2 billion Climate Solutions Fund. A \$79 million investment in energy efficiency measures, including grants to businesses and communities, is expected to deliver 63 million tonnes of emissions reductions.

There is funding of \$1.4 billion for the Snowy 2.0 project to bring 2000 MW of electricity generation into the system and up to 175 hours of energy storage that can meet the peak demand of up to 500,000 homes.

*Graham Hand is Managing Editor of Cuffelinks. There is not much on superannuation and retirement incomes in the 2019/20 Budget, but the few changes are summarised in another article.*


## Superannuation and retirement policies

### Graham Hand

Anyone hoping for some exciting initiatives on superannuation will be disappointed. There's not much in the 2019/2020 Budget on retirement and super changes. Maybe that's a good thing given superannuation is often a revenue target and recent amendments have introduced restrictions. There were even calls in recent days for super to be made voluntary.

The industry was hoping for a wide range of eligibility openings, as detailed in [Graeme Colley's article](#), but little changed this time around.

On the Financial Services Royal Commission, the main story is about 'restoring trust in the financial system', with the key policies included in this graphic.

 Improving consumer outcomes	 Improving access to redress	 Enhancing accountability	 Ensuring effective regulators	 Promoting competition and innovation
<ul style="list-style-type: none"> <li>• Banning excessive credit card surcharges</li> <li>• Requiring mortgage brokers to act in their client's best interests</li> <li>• Protecting retirement savings from undue erosion by inappropriate insurance premiums and excessive fees</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing the Australian Financial Complaints Authority (AFCA) and extending its remit to allow consideration of complaints dating back to 1 January 2008</li> <li>• Establishing a compensation scheme of last resort</li> </ul>	<ul style="list-style-type: none"> <li>• Significantly broadening and increasing civil and criminal penalties</li> <li>• Creating the Banking Executive Accountability Regime and extending it to superannuation funds and insurance companies</li> </ul>	<ul style="list-style-type: none"> <li>• Significantly increasing ASIC's and APRA's powers</li> <li>• Providing ASIC and APRA with record levels of funding</li> <li>• Creating a Financial Regulator Oversight Authority</li> <li>• Appointing a second ASIC Deputy Chair who will lead ASIC's Office of Enforcement</li> </ul>	<ul style="list-style-type: none"> <li>• Introducing Open Banking reforms</li> <li>• Establishing comprehensive credit reporting</li> <li>• Removing barriers to entry for new 'challenger' banks</li> </ul>

Other than the general assistance to welfare recipients, such as the energy assistance payment, the superannuation-specific measures are:

### 1. Improved flexibility for people aged 65 and 66 (the work test)

At the moment, people aged 65 to 74 can make voluntary superannuation contributions only if they work at least 40 hours over a 30 day period in the relevant financial year. Retirees aged 65 and over cannot access bring-forward arrangements and those aged 70 and over cannot receive spouse contributions.

There is some debate in the industry about the power of the work test, as some people can 'arrange' 40 hours of casual work with a friendly business.

Under the change, voluntary contributions (both concessional and non-concessional) can be made by those aged 65 and 66 without meeting the work test from 1 July 2020. They can also make up to three years of non-concessional contributions under the bring-forward rule. Those up to and including age 74 will be able to receive spouse contributions.

It might not sound like a major change but the estimated Budget cost is \$75 million over the forward estimates.

### 2. 'Protecting Your Super' Package

These are amendments to the package announced in last year's Budget to transfer inactive accounts to the ATO, including redefining when an account is considered inactive. The ATO is given a large budget to manage this and the impact on the fiscal balance is \$120 million. It's a software consultant's dream project.

There is also a delay to 1 October 2019 in the start date for ensuring insurance within superannuation is only offered on an opt-in basis for balances of less than \$6,000 and new accounts belonging to members under the age of 25 years.

### 3. More money for ASIC, APRA and the Federal Court

In total, the Government is providing \$607 million to facilitate the response to the Financial Services Royal Commission including 'taking action' on all 76 recommendations (even if that means not adopting some of them, such as with mortgage brokers). Expense measures since the 2018-19 MYEFO include \$77 million for APRA and \$397 million for ASIC for implementation.

APRA's increased budget includes \$34 million to extend the Banking Executive Accountability Regime (BEAR) to all APRA-regulated entities, including super funds and insurance companies. ASIC gets \$21 million for a new

conduct-focussed accountability regime, whatever that is. Plus there is \$8 million for an independent Financial Regulator Oversight Authority. A regulator regulating the regulators.

Welcome to a new world of compliance and looking over the shoulder at every move. The regulators were hit by Kenneth Hayne's comments, and now they have the firepower to prosecute.

There is also \$44 million for funding the Federal Court of Australia following the expansion of its jurisdiction to cover the Royal Commission and corporate crime.

#### **4. Superstream extension**

The ATO is expanding the SuperStream Rollover Standard used to transfer information between employers, superannuation funds and the ATO. The start date of SMSFs will be delayed until 31 March 2021 to coincide with the expansion of the overall standard.

#### **5. Permanent tax relief for merging superannuation funds**

A previous change due to expire in 2020 is now made permanent to make it easier for super funds to merge. ASIC has been pushing for rationalisation in the industry so this move makes sense. It ensures members are not adversely affected by taxation consequences (such as realising capital gains) when funds merge.

#### **6. Reducing red tape for superannuation funds**

Designed to reduce costs and simplify reporting for super funds, trustees with both accumulation and pension phase assets can choose their preferred method of calculating Exempt Current Pension Income (ECPI). Where the proportionate method is used, with all fund members in retirement phase, no actuarial certificate is required.

There is also another \$42 million in funding for the ATO to recover unpaid tax and superannuation liabilities.

#### **That's all, folks.**

Not much for the superannuation industry to get excited, or complain, about.

## **Budget 2019: Sponsor news and views**

### Cuffelinks

#### **AMP Capital**

Chief Economist, Shane Oliver, recaps the key measures put forward and considers how they might affect the Australian economy and investment markets. [Watch and read here](#)

#### **Oliver's Insights**

The 2019-20 Australian Budget – the long awaited surplus and the promise of more tax cuts ahead of the election. [View PDF](#)

#### **Colonial First State**

Head of Technical Services, Craig Day, has shared a [video overview](#) and a [detailed briefing paper](#) covering the key budgetary measures discussed by Treasurer Josh Frydenberg including tax, super, social security, and aged care.

#### **nabtrade**

Budget Hub: [www.nabtrade.com.au/budget2019](http://www.nabtrade.com.au/budget2019)

#### **Video: Three key Budget takeaways**

Gemma Dale dissects the tax, super and social security proposals from this year's Budget. [Watch now](#)

#### **Budget highlights at a glance**

From economic forecasts to infrastructure spending, our infographic provides a snapshot of key Budget announcements. [View PDF](#)

**Video: What are the stock market implications?**

Peter Switzer and Paul Rickard discuss which stocks and sectors could benefit from this year’s Budget. [Watch now](#)

**Podcast: Budget in-depth**

We discuss key Budget proposals at length and what they could mean for you. [Listen now](#)

**Perpetual**

Federal Budget 2019 – Black ink and lower taxes. [View here](#)

**SuperConcepts**

**Federal Budget 2019 - SMSF changes**

A recap from leading SMSF expert Peter Burgess. [View PDF](#)

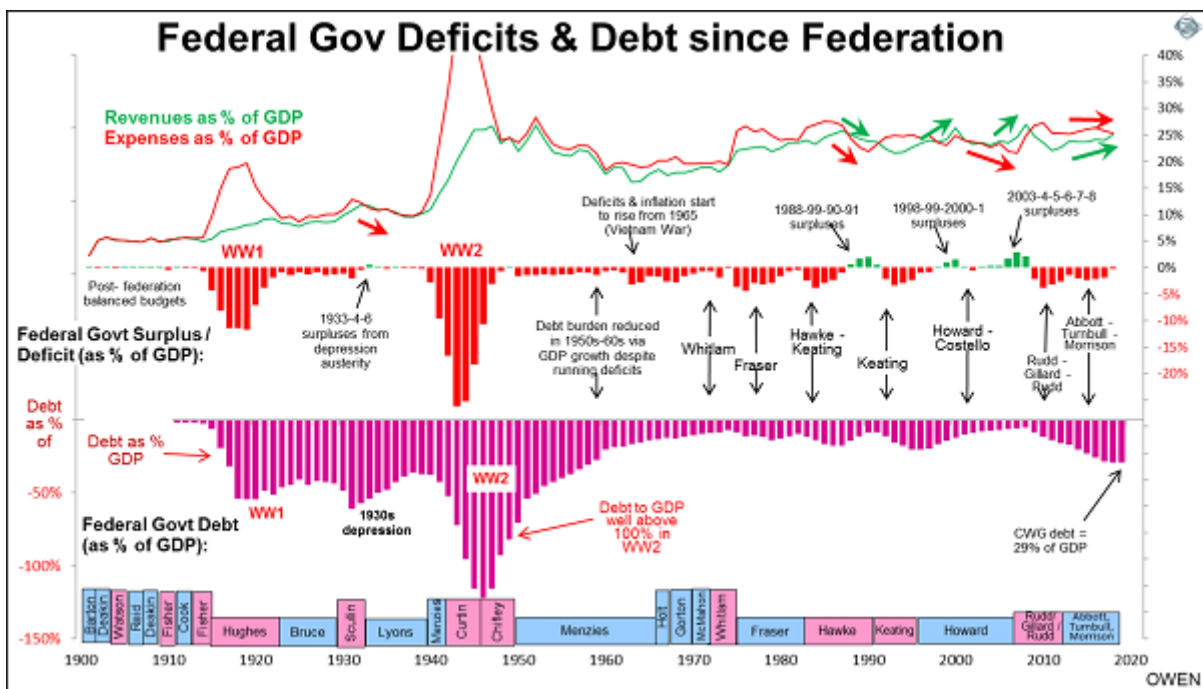
Video: What it means for superannuation & SMSFs. [Watch now](#)

**Commodity prices rescue 2019 Budget**

Ashley Owen

It is budget time again in Australia, and the nation is heading for its first Federal Government surplus since 2008, mostly from good luck with China and commodities.

Here is a chart showing the Federal Government’s deficit and debt position since 1901. The upper section shows revenues (green line) and expenses (red). The middle section shows the resultant annual surpluses (green bars – look hard!) or deficits (red bars). The purple bars in the lower section shows the level of Federal Government debt. All are expressed relative to total national output (GDP) each year.



**The brief history of budgets**

The Federal Government ran balanced budgets in the early years following Federation but it had very few functions prior to the introduction of Federal Government pensions in 1909. World Wars I & II changed all that, requiring massive war-time deficits and debt build-ups. These were finally brought under control by the 1950s and 1960s booms. The Government still ran small deficits (1-2% of GDP) but rising tax revenues from the booming economy were enough to pay for expanding services and nation-building projects, and still reduce the debt/GDP ratio down to low levels by the 1970s. The current level of debt relative to national output is the highest it has been since the late 1950s.

Producing a government surplus can be done in one of two ways: by cutting costs or increasing tax revenues, or sometimes both. Most of the time the surpluses have been a result of windfall revenue gains, mostly from fortuitous mining booms. The problem is that costs are controllable, but tax revenues depend on mining booms that are based on global commodities price cycles outside our control.

Only rarely have surpluses been achieved by cutting costs. This was the case with the 1930s surpluses. Australia did not follow Roosevelt's big spending approach in the US. Instead we had to endure harsh 'austerity' cost-cutting imposed by London bankers. The government wasn't able to borrow anyway after it defaulted on its debts in 1931. Arguably the austerity cuts prolonged the depression and stunted the recovery.

The only other period of surpluses produced by cost cutting was the four-year period from 1988 to 1991 by Hawke and Keating. Commodities prices and tax revenues were falling but they were able to produce surpluses by cutting costs by even more, resulting in the deep 1990-91 recession.

The Howard Government had two spells of surpluses – four years from 1998 to 2001, and then another five years from 2003 to 2007 (or six years if you count the 2007-08 year during which Rudd came to office, when boom-time mining revenues were still flowing in prior to the GFC). Both of these surplus spells were driven by windfall tax revenue gains – first from the 1990s 'dot-com' boom and the second from the 2003-08 mining boom. Government spending was also reducing during the whole period – from 25% of GDP in 1996 to 21.7% in 2007. But because most of the gains were from boom-time tax revenue rises, the windfall surpluses quickly disappeared when the booms ended.

If the Federal Government achieves a surplus in the current 2018-19 year it will be mainly thanks once again to fortuitous tax revenue gains from the mining boom, not because of cost management. In the past five years the population has grown by just 8%, but government spending has risen by an incredible 21%. By sheer luck the mining boom has increased revenues by 27% but windfall gains like these are not sustainable.

*Ashley Owen is Chief Investment Officer at advisory firm [Stanford Brown](#) and The Lunar Group. He is also a Director of Third Link Investment Managers, a fund that supports Australian charities. This article is for general information purposes only and does not consider the circumstances of any individual.*

## Who receives the Energy Assistance Payment?

Graham Hand

This is an extract from the Treasurer's announcement on the Energy Assistance Payment. Before anyone spends it, remember it requires legislation.

### **One-off energy payment to help 3.9 million Australians with their next energy bill**

#### **Joint media release with The Hon Paul Fletcher MP Minister for Families and Social Services**

*More than 3.9 million Australians will receive a one-off Energy Assistance Payment to help with their next energy bill and cost of living expenses.*

*The payment of \$75 for singles and \$125 for eligible couples will be exempt from income tax and will be paid automatically before the end of the current financial year, subject to the passage of legislation.*

*The Government is able to deliver this assistance because our responsible budget management allows us to guarantee the essential services Australians rely on.*

*It will provide additional support to:*

- 2.4 million Australians receiving the Age Pension;
- 744,000 recipients of the Disability Support Pension;
- 280,000 carers receiving the Carer Payment;
- 242,000 Parenting Payment Single recipients; and
- 225,000 veterans and their dependants receiving eligible payments from the Department of Veterans' Affairs.

*Guaranteeing essential services is part of our plan for a stronger economy and securing a better future.*

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*After the Budget, Treasurer Josh Frydenberg announced that Newstart recipients will also be eligible. The changes will cost \$80 million, pushing the total cost to \$360 million.*

## **Super boost: more flexibility for retirement**

Graham Hand

This is a copy of the Treasurer's announcement on superannuation flexibility for people aged 65 and 66.

*"The Morrison Government is taking action to help Australians boost their retirement savings by giving them greater flexibility as they near their retirement years.*

*From July 1 2020, Australians aged 65 and 66 will be able to make voluntary superannuation contributions, both concessional and non-concessional, without meeting the Work Test.*

*Currently, they can only make voluntary contributions if they meet the Work Test, which requires that they work a minimum of 40 hours over a 30 day period.*

*This means that Australians aged 65 or 66 years who don't meet the work test, because they may only work one day a week or volunteer, will now be able to make voluntary contributions to their superannuation.*

*This will align the Work Test with the eligibility age for the Age Pension, which is scheduled to reach 67 from 1 July 2023.*

*There are around 55,000 Australians aged 65 and 66 who will benefit from this reform in 2020-21.*

*In addition, we will increase the age limit for spouse contributions from 69 to 74 years. Currently, those aged 70 years and over cannot receive contributions made by another person on their behalf.*

*We will also extend access to the bring-forward arrangements, which currently allow those aged less than 65 years to make three years' worth of non-concessional contributions, which are capped at \$100,000 a year, to their super in a single year. This will now be extended to those aged 65 and 66.*

*The Government can deliver these reforms because our responsible budget management allows us to guarantee the essential services that Australians rely on.*

*These reforms build on our Government's plan to make sure Australia's \$2.7 trillion superannuation system is working in members' best interests.*

*We have introduced new laws that reunite superannuation members with low balance or inactive accounts, scrapped exit fees and other excessive fees, and introduced legislation to protect Australians paying premiums for insurance they don't want or need.*

*Helping Australians save for their retirement is part of our plan for a stronger economy and securing a better future."*

## **Super wishlist: what the industry hoped for**

Graeme Colley

In the lead up to the 2019 Budget, there were hundreds of submissions sent to the Treasury on how our taxes should be collected and how government income should be spent.

We take a look at what the superannuation industry suggested, in particular focussing on any changes proposed to the current super regime. None of the significant changes were adopted.

### **Self-Managed Super Fund Association (SMSFA)**

#### **Contributions**

- An increase in tax deductible contributions from \$25,000 to \$35,000 p.a. if you are 50 years or older.
- Allow you to contribute to super up to age 75 without having to meet a work test once you reach 65.

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### **Super balances**

- Allowing a couple to even out their super balances which will allow both to use the \$1.6 million pension cap more effectively.

### **Benefit withdrawals**

- Allowing the many varieties of pensions that have evolved over time to be converted to account-based pensions. For most, this would mean just one type of pension to be paid, to help simplify the super system.
- Allowing transition to retirement pensions to convert to account-based pensions when you meet a retirement condition of release of age 65.

### **Fund administration**

- Simplifying the contribution rules so that SMSF trustees/members who move overseas for a short period can be treated on the same basis as members of larger super funds. This mainly impacts on your ability to make contributions to your SMSF while you are overseas. The same situation does not occur with larger super funds.
- No need for your SMSF to obtain an actuarial certificate where it is wholly in retirement phase for the year.
- Re-introduction of SMSFs to choose when the assets are pooled or segregated for taxation purposes irrespective of your super balance. From 1 July 2017 many SMSFs had no choice but to use the pooled method.
- Simplifying how child pensions are counted for purposes of the \$1.6 million transfer balance cap.
- Encourage the government to pass the legislation which requires it to take into account the objective of superannuation independently of the government's budget process.

### **Chartered Accountants Australia and New Zealand**

#### **Contributions**

- Increase tax deductible contributions from \$25,000 to \$50,000.
- Replace annual contributions with lifetime caps.
- Introduce a once-off amnesty for employers who have not been paying the correct amount of superannuation guarantee contributions. Legislation is currently in the parliament to allow this to occur but has not been passed.

#### **Super balances**

- Permit joint super accounts for spouses.

#### **Benefit withdrawals**

- Allowing the conversion of previous types of pensions to account-based pensions. This would help simplify the super system.

#### **Fund administration**

- No need for your SMSF to obtain an actuarial certificate where it is wholly in retirement phase for the year.
- A review of binding death benefit nominations.

### **Tax & Super Australia**

#### **Contributions**

- Increase tax deductible contributions from the current \$25,000 if you are 50 or older irrespective of your super balance.
- Extension of the carry-forward concessional contributions for unused concessional contributions to be carried forward without any restrictions.
- Removal of the work test for anyone aged between 65 and 75.
- Insurance proceeds received by a fund member from temporary or permanent invalidity be contributed to super without any contribution limits applying. This would be similar to the treatment of structured settlement payments under the current rules.

### **Fund administration**

- Changes to the administration of the \$1.6 million transfer balance cap concerning notification of tax payments.
- Alternative dispute resolutions where an SMSF has suffered loss due to fraud or dishonesty.

### **Australian Institute of Superannuation Trustees (AIST)**

#### **Contributions**

- Abolish the minimum monthly superannuation guarantee income threshold of \$450 so that all employees irrespective of earnings will have super paid for them.
- Taxpayers eligible for the low-income superannuation tax offset receive an additional superannuation contribution.
- Superannuation guarantee contributions be paid on parental leave payments.
- Extension of superannuation guarantee to independent contractors and self-employed workers.
- Increase the rate of superannuation guarantee earlier than the proposed program.

#### **Super balances**

- Greater work by the Australian Taxation Office to reconnect super fund members with their lost super.

#### **Fund administration**

- Establish a council to assess whether the superannuation system is delivering its objectives.
- Including the right to superannuation as part of a person's employment conditions.
- Encourage the government to pass the legislation which requires it to take into account the objective of superannuation independently of the government's budget process.

*Graeme Colley is the Executive Manager, SMSF Technical and Private Wealth at [SuperConcepts](#), a sponsor of Cuffelinks. This article is for general information purposes only and does not consider any individual's investment objectives.*

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