TECHNICAL NEWS
Latest changes and insights
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Key changes for FY 2018/19

2 July 2018

Some key changes took effect on 1 July that could impact your advice and create opportunities and obligations for clients.

Note: More information on Downsizer contributions, the FHSSS and other measures summarised in this article can be found in the Technical section of Adviser Online.

Superannuation

Downsizer contributions

Status: Bill passed

Effective: 1 July 2018

Individuals aged 65 years or over are now able to contribute up to $300,000 (per person) to superannuation from the proceeds of selling their main residence.

These 'downsizer contributions' can be made regardless of other restrictions and caps that apply to voluntary super contributions (eg age, meeting the work test or the total super balance test).

Downsizer contributions must:

- apply to contracts for sale entered into on or after 1 July 2018[1]
- relate to the sale of a dwelling that was their main residence (wholly or partly) and was owned for at least 10 years before disposal, and
- be made within 90 days of the change of ownership (settlement date), with any extensions to be approved by the Commissioner of Taxation.

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First home super saver scheme

Status: Bill passed

Effective: 1 July 2017 for super contributions
1 July 2018 for release authorities

Eligible individuals who made voluntary super contributions since 1 July 2017 can now withdraw these contributions to purchase their first home. Voluntary contributions are limited to $15,000 per year, up to a total of $30,000 and count towards the relevant contribution cap. Withdrawals are limited to 100% of NCCs and 85% of concessional contributions (CCs) plus associated earnings.

[1] Contracts entered into prior to 1 July 2018 are not eligible even if the settlement occurs after this date.

Catch-up CCs

Status: **Bill** passed

Effective: 1 July 2018

Individuals with super balances less than $500,000 on 30 June of the prior financial year can now carry forward unused CC cap amounts on a rolling basis for a period of five years.

2018/19 is the first financial year unused CC cap amounts can be accrued and these unused amounts can be used from 1 July 2019.

This measure will enable clients who take time out of work or work part-time to make catch-up contributions when they accumulate lumpy income or decide to work full-time.

In addition, an opportunity will exist for those who intend to sell a CGT asset in the future where they can accumulate unused CCs. They can offset CGT on the sale of the asset by making a personal deductible contribution in the relevant income year that uses up the accumulated unused CC cap amounts.

SG and salary sacrifice

Status**:** **Bill** before Parliament

Effective: *1 July 2018*

Proposed changes include:

- **amending the definition of 'ordinary time earnings' and 'salary and wages'** to include amounts salary sacrificed to super
- removing a loophole allowing employers to potentially claim salary sacrificed amounts by their employee as an employer contribution that meets their Super Guarantee (SG) obligation, and
- removing restrictions imposed by workplace related agreements on choice of funds.

If legislated, these changes will provide many employees with an opportunity to maximise their SG entitlement and greater flexibility when choosing super funds.

SG amnesty

Status: **Bill** before Parliament

Effective: 1 July 2018

Employers who **voluntarily disclose** previously undeclared SG shortfalls (including nominal interest) between 24 May 2018 and 23 May 2019, will not be liable for late payment penalties and will be able to claim a deduction for catch-up payments.

The ATO has released SG amnesty fund payment forms for employers:

- to **pay the amount owing in full** to an employee's super fund, and
- who **cannot pay the full amount owing**.

Preventing inadvertent cap breaches

Status: **Bill** before Parliament

Effective: 1 July 2018

High income earners with multiple employers will be able to apply to the ATO for an **'employer shortfall exemption certificate' to** avoid inadvertently breaching the CC cap.

This will effectively apply to people who are able to demonstrate[2] that they are likely to have total income exceeding $263,157 pa (where 9.5% SG would use up the CC cap).

A certificate will prevent an employer from having an SG shortfall if super contributions are not made for a period and reduce the **'maximum contributions base' for the person** to nil for the quarter in which it is issued.

A certificate may be issued for multiple quarters within a financial year and will not extend beyond the financial year in which they are issued.

Once issued, a certificate will not be able to be revoked or varied. Employers can choose not to comply with the exemption certificate.

The individual may be able to negotiate with an employer to receive additional amounts as salary and wages, rather than super contributions.

An application for a certificate will need to be lodged with the ATO at least 60 days before the first day of the quarter to which the application relates.[3]

LRBAs and TSB

Status: **Bill** before Parliament

Effective: 1 July 2018

The outstanding balance of a Limited Recourse Borrowing Arrangement (LRBA) will be included in an individual's Total Super Balance (TSB), if the LRBA is entered into on or after 1 July 2018 and a member has either:

- satisfied a condition of release with a nil cashing restriction, or
- arranged the LRBA with a related party.

This will be tested not only at the time the loan is entered into, but on an ongoing basis. This means that if a member has a related party LRBA or will soon meet a full condition of release and wishes to make NCCs in the future, they may need to take steps to unwind the LRBA.

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[2] The ATO will look to data such as prior tax returns and single touch payroll reporting data to substantiate the **likelihood that the client's salary will breach the CC cap** before issuing the certificate.

[3] As the measure is proposed to commence on 1 July 2018, it is expected that for the first quarter of 2018/19 the Commissioner will defer the due date for all applications.

Conditions of release with a nil cashing restriction for this purpose are retirement, terminal illness, permanent incapacity and reaching age 65.

An exemption exists for pre-1 July 2018 LRBA arrangements that are refinanced after that date.

This measure is designed to stop individuals using an LRBA to artificially reduce their TSB. The TSB impacts:

- eligibility to make NCCs
- eligibility to use the CC catch-up provisions
- entitlement to the Government co-contribution, and
- entitlement to the spouse superannuation contribution tax offset.

Preservation age

The superannuation preservation age has increased from 56 to 57. This will apply to individuals born between 1/7/1961 and 30/6/1962.

Events-based reporting for SMSFs

SMSFs will generally need to start event-based reporting for the transfer balance cap using the Transfer Balance Account Reporting (TBAR) from 1 July 2018. The ATO has provided a detailed **explanation** of the new reporting obligations for SMSFs.

Note: SMSFs still need to ensure they have appropriately documented all income stream valuations and decisions for the 2017/18 year.

SMSF contribution reserves

SMSFRB 2018/1 recently confirmed the ATO's view on contribution reserves. SMSF trustees are able to accept contributions to suspense accounts pending allocation to the relevant member in accordance with Division 7.2 of the SISR, being not later than 28 days after the end of the month. Contributions made to reserves in June 2018 therefore need to be allocated to the relevant member by 28 July 2018.

ATO to administer early release on compassionate grounds

From 1 July 2018, the ATO will **administer** the early release of superannuation benefits on **compassionate grounds**. There will be a transitional period where the Department of Human Services will continue to process existing applications submitted before 1 July 2018.

Personal tax cuts

Status: Bill passed

Effective: From 1 July 2018

Personal taxation changes announced in the 2018 Federal Budget have passed, including:

- a Low and Middle Income Earners Tax Offset of up to $530 applying from 1 July 2018 to 30 June 2022
- an increase to the Low Income Tax Offset from 1 July 2022 from $445 to $645, and
- a progressive increase in the income tax thresholds in 2018/19, 2022/23 and 2024/25.

Tables illustrating the tax changes, tax savings and effective tax-free thresholds can be found in the Appendix. These tax changes provide opportunities to:

- review clients salary packaging arrangements to ensure a favourable outcome is still achieved
- review contribution strategies to ensure ongoing tax effectiveness (especially personal deductible contributions and salary sacrifice)
- advise on directing excess cash flow
- consider the structure of existing and future negative gearing strategies for members of a couple, or the overall benefit for all individuals
- review ongoing drawdowns from transition to retirement pensions paid to individuals under age 60 and taxable death benefit pensions in light of reduced taxation, and
- discuss the timing of future assets sales where capital gains will be realised.

Social security

New Child Care Package

Status: Bill passed

Effective: 2 July 2018

A new Child Care Package (CCP) has replaced the previous Child Care Benefit and Child Care Rebate. The CCP is:

- based on combined family income
- paid to providers, where it is passed on to families
- subject to the child meeting immunisation requirements
- determined by a new activity test that applies to parents, and
- determined by the type of service a family chooses to use for child care (eg centre based day care, family care or outside school hours care).

The CCP also provides targeted additional fee assistance for vulnerable families through the Child Care Safety Net.

Other social security measures

A **Bill** has passed that means:

- the Widow Allowance is not available to new applicants from 1 July 2018, and
- Jobseekers aged 55 to 59 on Newstart Allowance will need to be engaged for at least 30 hours per fortnight from 20 September 2018, of which at least 15 hours is in suitable paid work.

Also, a **Bill** is before Parliament proposing that a family income test of $250,000 per annum will be applied to Carer Allowance from 20 September 2018. Carers with an annual income of less than $250,000 will continue to be eligible.

Other

Australian Financial Complaints Authority

The Minister for Revenue and Financial Services has authorised the establishment and operation of the Australian Financial Complaints Authority (AFCA) – the new external dispute resolution scheme for the financial services industry.

When it starts on 1 November 2018, AFCA will replace the:

- Financial Ombudsman Service (FOS)
- Credit and Investments Ombudsman (CIO), and
- Superannuation Complaints Tribunal (SCT).

The SCT will, however, continue in run off mode for a further period to deal with any open disputes it has when AFCA commences.

AFCA will accept new complaints from 1 November 2018. All financial firms required to hold membership of an external dispute resolution scheme will be required to join AFCA by no later than 21 September 2018.

Contact details

For further information, please contact MLC Technical Services on **1800 645 597.**

Appendix: Tax changes, savings and tax-free thresholds

Personal tax rate and threshold changes

Tax rate (excl Medicare)	Income thresholds before 1/7/2018	New income thresholds		
		From 1/7/2018	From 1/7/2022	From 1/7/2024
0%	$0 - $18,200	$0 - $18,200	$0 - $18,200	$0 - $18,200
19%	$18,201 - $37,000	$18,201 - $37,000	$18,201 - $41,000	$18,201 - $41,000
32.5%	$37,001 - $87,000	$37,001 - $90,000	$41,001 - $120,000	$41,001 - $200,000
37%	$87,001 - $180,000	$90,001 - $180,000	$120,001 - $180,000	Not applicable
45%	> $180,000	> $180,000	> $180,000	> $200,000

Tax savings[1]

Taxable income	Tax paid in 2017/18	Tax saved		
		From 1/7/2018	From 1/7/2022	From 1/7/2024
$40,000	$4,947	$290	$455	$455
$80,000	$19,147	$530	$540	$540
$120,000	$34,432	$215	$2,025	$2,025
$160,000	$50,032	$135	$2,025	$3,825
$200,000	$67,232	$135	$2,025	$7,225

1. Source: Budget 2018-19 fact sheet, 'Lower, fairer and simpler taxes'.

Effective tax-free thresholds

Taxpayer eligible for:	Effective tax-free threshold
Low income tax offset (LITO) and Low and Middle Income tax offset (LMITO)	$21,595
Senior and Pensioners tax offset plus LITO and LMITO ▪ Single ▪ Couple (combined)	 ▪ $32,915 ▪ $59,222
15% pension offset	$52,545[2]

2. Where no other sources of income are received and the pension is 100% taxable component.