



What do the
2019-20
Federal Budget
outcomes
mean for your
SMSF?



Government delivers surplus election friendly 2019-20 Federal Budget – Leaves superannuation largely untouched

A surplus election budget is the news coming out of the 2019-20 Federal Budget. With superannuation left largely untouched, the Government focused on further personal income tax cuts.

However, three key announcements include providing more flexibility for individuals to contribute at ages 65 and 66, the ability to choose their preferred exempt income tax method and increased funding for electronic super rollovers are welcomed.

This Federal Budget will provide much needed stability and flexibility for SMSF members while looking to reduce red tape.

In the run up to the election, this places the Government in a strong contrast to the Australian Labor Party which has a superannuation policy platform that negatively impacts many SMSFs through changes to franking credit refunds, limited recourse borrowing arrangements and contribution rules.

Finally, this Budget is unique in its proximity to an election in two aspects. First, the Government is unlikely to legislate the vast majority of their announcements prior to calling an election for May, so many of the changes discussed in this paper may not come to fruition. Second, if you read the Budget papers closely there is just over \$3.2 billion in Budget expense measures where the decision has been taken but not yet announced. Expect to see these announced prior to election day.

The key changes proposed for SMSFs and superannuation are:

Greater flexibility for retirement contributions

From July 1 2020, Australians aged 65 and 66 will now be able to make voluntary superannuation contributions, both concessional and non-concessional, without meeting the Work Test. Previously, this was only available to individuals below 65.

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.

This also includes extending access to the bring-forward arrangements to individuals aged 65 and 66 which allows individuals to make three years' worth of non-concessional contributions to their super in a single year.

The Government has also increased the age limit for spouse contributions from 69 to 74. Currently, those aged 70 years and over cannot receive contributions made by another person on their behalf.

The Work-Test-Exemption which allows individuals a further year to voluntarily contribute to superannuation after they have finished working will still apply to individuals from 67 to 74.

We support greater flexibility for making contributions to superannuation. While we suggested that the Government should remove the work test altogether in our Budget submission, this measure is a step in the right direction.

Reducing red tape for superannuation funds — ECPI changes

The Government will streamline administrative requirements for the calculation of exempt current pension income (ECPI).

The Government will allow superannuation fund trustees with interests in both the accumulation and retirement phases during an income year to choose their preferred method of calculating ECPI.

This change will reduce unnecessary red-tape for SMSFs in pension phase.

The SMSF Association advocated for these changes in its Budget submission this year and accordingly supports this proposed change by Government. This change will reduce unnecessary red-tape for SMSFs in pension phase.

Reducing costs for super industry by including superannuation release authorities in electronic SuperStream Rollovers

The Government will provide \$19.3 million over three years from 2020-21 to the Australian Taxation Office (ATO) to send electronic requests to superannuation funds for the release of money required under a number of superannuation arrangements. This is an improvement on the current process which includes physical documentation.

The start date of SMSF rollovers in SuperStream will be delayed until 31 March 2021 to coincide with the expansion of the SuperStream.

We support extending SuperStream Rollover Standard to include release authorities which will improve the efficiency of the superannuation system. However, we are disappointed that the inclusion of SMSFs in SuperStream for rollovers will be delayed from November 2019 to March 2021. This has been a long awaited change to improve the efficiency of the SMSF sector.

Personal income tax changes

The Government will lower taxes for individuals by building on its legislated Personal Income Tax Plan announced in the 2018-19 Budget. The changes to the plan will provide immediate relief to low- and middle-income earners. Under the changes, the reduction in tax provided by the low and middle income tax offset will increase from a maximum amount of \$530 to \$1,080 per annum and the base amount will increase from \$200 to \$255 per annum for the 2018-19, 2019-20, 2020-21 and 2021-22 income years.



From 1 July 2022, the Government will increase the top threshold of the 19 per cent personal income tax bracket from \$41,000, as already legislated, to \$45,000.

From 1 July 2024-25, the Government will reduce the 32.5 per cent marginal tax rate to 30 per cent.

In 2024-25, the 37 per cent tax bracket will be abolished under the Government's already legislated changes.

Other changes

- A forecasted surplus for 2019-20 of \$7.1 billion.
- Expanding the instant asset write-off for small and medium size businesses.
- A \$2.8 billion increase in infrastructure spending.

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