

## Monthly Client Newsletter Budget 2014

### Federal Budget 2014-15

Delivering his first Federal Budget statement, the Treasurer once again emphasised the tough decisions, the fiscal mess his predecessors left behind and the heavy lifting all of us have to do to fix it. However his statement was remarkably light on tax related measures, although he did acknowledge that a review of the tax system is due later this year.

The major tax announcement was the introduction of a 2% debt reduction tax on incomes over \$180,000. Given the relatively toothless nature of this tax (it will affect only 400,000 taxpayers, will result in an increased tax bill of just \$400 for those earning \$200,000 and will be extraordinarily easy to avoid for those affected) it is questionable whether it was worth breaking all those “no new taxes” promises made before the election for an initiative that will contribute so little to the job of reducing the deficit.

The big positive in the Federal Budget was the extensive program of infrastructure spending, although this appears to extend no further than the construction of lots of new roads — on which we may be increasingly reluctant to drive given the pending increase in fuel prices.

The major revenue measures announced in the Federal Budget (see further in this newsletter for more details) included:

- A temporary (three year) 2% debt reduction tax, known as the Temporary Budget Repair Levy, for incomes above \$180,000.
- The government confirmed that it was committed to cutting the company tax rate by 1.5% (to 28.5%) from July 1, 2015. For large companies, the reduction will offset the cost of the government’s 1.5% Paid Parental Leave levy.

- Medicare levy surcharge and private health insurance offset thresholds to be frozen.
- Most dependant offsets to be abolished.
- A “tax receipt” for individuals will be introduced from July 1, 2014.
- Super guarantee rate to go to 9.5% on July 1, 2014.
- Option to be given to withdraw excess non-concessional superannuation contributions.
- Family Tax Benefit changes: two-year freeze on rates; other changes.
- Fuel excise indexation to recommence.

### Individuals

#### Temporary Budget Repair levy

Corresponding with pre-budget announcements that a debt levy would be introduced, the government has confirmed that it will introduce a three-year temporary levy – otherwise dubbed the Temporary Budget Repair Levy – on high-income individuals from July 1, 2014 until June 30, 2017. The temporary levy will apply at a rate of 2% on individuals’ whose adjusted taxable incomes are more than \$180,000 a year.

A number of other tax rates that are currently based on calculations that take into account the top personal tax rate will also be increased. With the exception of the FBT rate, these tax rates will be increased for the same three years that the temporary levy is in place.

To prevent high-income earners from utilising fringe benefits to avoid the levy, the FBT rate will be increased from 47% to 49% from April 1, 2015 until March 31, 2017 to align with the FBT income year. The fringe benefits rebate rate will be aligned with the FBT rate from April 1, 2015.

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This debt tax is considerably less harsh than early reports indicated which suggests that a strongly negative popular reaction may have caused a rethink on the scale of the tax. Given that there was very little else targeted at high-income earners in the Budget and plenty of measures to tackle welfare “entitlements” (see below), it isn’t at all clear the Budget statement overall passes the fairness test.

**Tax receipts**

The government announced that it will improve transparency in the tax system by introducing a “receipt” for taxpayers that tells them where and how their taxes were used.

From July 1, 2014, the Tax Office will issue receipts to about 10 million individual taxpayers. In most circumstances, it will accompany their notice of assessment. The one-page personalised and itemised receipt will show, in dollar terms, how much of a person’s tax bill was spent on each budget area. It will also show the level of gross government debt, on a per-person basis.

**Personal tax rates**

The new personal income tax rates and thresholds are summarised for taxpayers in the table below (these rates do not include the Medicare levy – currently 1.5% but set to rise to 2% from July 1, 2014). With the Medicare levy included, the top marginal rate would be 49% from July 1, 2014 to June 30, 2017.

The 2% debt levy on those who earn over \$180,000 is expected to affect a relatively small number of taxpayers – approximately 400,000 people. For those affected, the tax increase proposed to apply from July 1, 2014 (on top of the already legislated increase in the Medicare levy to 2%) may result in people bringing forward revenue where possible so that they can be charged at a lower rate and deferring deductions which may be worth more after July 1, 2014. The chances of the debt levy passing Parliament will hinge on post July 1 support in the Senate – complicating tax planning for affected individuals.

Personal income tax rates and thresholds						
	2013-14		2014-15		2015-16 and 2016-17	
	Threshold	Rate	Threshold	Rate	Threshold	Rate
<b>1st tier</b>	\$18,201	19.0%	\$18,201	19.0%	\$19,401	19.0%
<b>2nd tier</b>	\$37,001	32.5%	\$37,001	32.5%	\$37,001	33.0%
<b>3rd tier</b>	\$80,001	37.0%	\$80,001	37.0%	\$80,001	37.0%
<b>4th tier</b>	\$180,001	45.0%	\$180,001	47.0%	\$180,001	47.0%

**Family Tax Benefit (FTB) changes – two-year freeze on rates and other changes**

The government will maintain – in other words, freeze – the current FTB payment rates for two years from July 1, 2014. Under this measure, indexation of the maximum and base rates of the FTB Part A, and the rate of the FTB Part B will be paused until July 1, 2016.

- **FTB Part B threshold:** The government will reduce the FTB Part B primary earner income limit from \$150,000 a year to \$100,000 a year from July 1, 2015. The income threshold for the Dependent (Invalid and Carer) Tax Offset will also be reduced to \$100,000 as it is linked to the FTB primary income earner limit.
- **Limiting FTB Part B:** The government will limit FTB Part B to families whose youngest child is younger than 6 years of age from July 1, 2015. As a transitional arrangement, families with a youngest child aged 6 and over on June 30, 2015 will remain eligible for FTB Part B for two years.
- **Limiting Large Family Supplement:** The government will limit the FTB Part A large family supplement (currently \$313.90 per child a year) to families with four or more children from July 1, 2015. The supplement will be paid in respect of the fourth and each subsequent child in a family.

- **New FTB allowance for single parents:** From the point they become ineligible for FTB Part B, the government will provide \$750 for each child aged between 6 and 12 years old in an eligible family from July 1, 2015.
- **Remove FTB Part A per child add-on:** The government will remove the FTB Part A per child add-on to the higher income free threshold for each additional child from July 1, 2015.
- **Revise FTB end-of-year supplements:** The government will revise the FTB end-of-year supplements to their original values and cease indexation from July 1, 2015. The revised supplements will provide \$600 per annum per FTB Part A child and \$300 per family per annum for each FTB Part B family.

**Medicare levy surcharge and private health insurance offset thresholds frozen**

The income thresholds for the private health insurance offset and the Medicare levy surcharge will be frozen for three years from July 1, 2015. The 2013-14 thresholds are set out in the table below. The private health insurance offset table includes the rebate percentages that apply from April 1, 2014.

Tier	Income for surcharge purposes 2013-14		Private health insurance rebate percentages from April 1, 2014		
	Singles \$	Families \$	Under 65 (%)	Age 65-69 (%)	Age 70+ (%)
Base	0 - 88,000	0 - 176,000	29.040 (30)	33.880 (35)	38.720 (40)
Tier 1	88,001 - 102,000	176,001 - 204,000	19.360 (20)	24.200 (25)	29.040 (30)
Tier 2	102,001 - 136,000	204,001 - 272,000	9.680 (10)	14.520 (15)	19.360 (20)
Tier 3	136,001+	272,001+	0	0	0

Notes: The rebate percentages applying for the period July 1, 2013 to March 31, 2014 are shown in brackets after the rebate percentage (in bold) applying from April 1, 2014. The income thresholds will be indexed from July 1, 2014. For families, the income thresholds are increased by \$1,500 for each child after the first.

**Medicare – patient contributions for general practitioner, pathology and diagnostic imaging services (\$7 co-payment)**

The government will reduce Medicare Benefits Schedule (MBS) rebates from July 1, 2015 by \$5 for standard general practitioner consultations and out-of-hospital pathology and diagnostic imaging services and allow the providers of these services to collect a patient contribution of \$7 per service.

For patients with concession cards and children under 16 years of age the MBS rebate will only be reduced for the first 10 services in each year, after which it will return to current benefit levels. A new Low Gap Incentive will replace bulk billing incentives for providers of these services. The Low Gap Incentive will be paid to providers where they provide services to patients with concession cards or children under 16 years of age and only charge the \$7 patient contribution — for the first 10 services in a year, or where they charge no patient contribution — for additional services in that year.

The measure will also remove the restriction on State and Territory Governments from charging patients presenting to hospital emergency departments for general practitioner like attendances.

**Medicare levy low-income thresholds for families increased**

The government will increase the Medicare levy low-income threshold for families from the 2013-14 income year. The threshold for couples with no children will be increased to \$34,367 and the additional amount of threshold for each dependent child or student will be increased to \$3,156 for the 2013-14 income year. The increase in the thresholds takes into account movements in the consumer price index (CPI) and ensures that low-income families who were not liable to pay the Medicare levy in 2012-13 will continue to be exempt unless their incomes have increased by more than the CPI.

**Dependent Spouse Tax Offset (DSTO) abolished**

The government will abolish the DSTO for all taxpayers from July 1, 2014. This is on the back of the 2011-12 Mid-Year Economic and Fiscal Outlook measure which limited access to the DSTO to those whose dependent spouse was born before July 1, 1952 effective from July 1,

2012. That measure had an estimated \$370 million gain to revenue over the forward estimates.

**Mature Age Worker Tax Offset (MAWTO) abolished**

The government will abolish MAWTO from July 1, 2014. The 2012-13 Budget began the phase out of the MAWTO from the 2012-13 income year, limiting it to taxpayers born before July 1, 1957. This measure had an estimated \$255 million gain to revenue over the then forward estimates period. Savings will be redirected to the government's expanded seniors employment incentive payment called "Restart" (more below) to support mature age job seekers to re-enter the workforce. Employers will also get \$10,000 for employer mature age job seekers.

**Stricter rules for jobseekers under 30 and Work for Dole reintroduced**

From January 1, 2015, all new claimants of Newstart Allowance and Youth Allowance who are under 30 must demonstrate appropriate job search and participation in employment services support for six months before receiving payments. Prior workforce participation may reduce the waiting period. After six months, claimants will be required to participate in 25 hours per week Work for the Dole to receive income support, and following this may continue to access employment services for a further six-month period – including access to a wage subsidy in lieu of income support.

Social commentators already decried the Work for Dole measure when it was first flagged earlier this year, saying people who subsist on sub-poverty-level subsistence being mandated into forced labour or else be deprived of subsistence completely will not lead to positive employment outcomes.

From July 1, 2015, existing recipients of Newstart Allowance and Youth Allowance who are under 30 years old will also be subject to these new arrangements. These people will have already served six months on Work for the Dole. Payment recipients who have a partial capacity to work, are the principal carer of a child, are part-time apprentices, are in education, or are job seekers in Disability Employment Services or Job Services Australia Streams 3 and 4 will be exempt.

### **Newstart Allowance and Sickness Allowance changes**

From January 1, 2015, the government will increase the age of eligibility for Newstart Allowance and Sickness Allowance from 22 to 24. Current recipients of both payments, aged 22 to 24 years of age on December 31, 2014 will remain on those allowances.

### **First Home Saver Accounts scheme abolished**

The government announced that it intends to abolish the First Home Saver Accounts scheme using a phased approach. Any new accounts opened from Budget night (May 13, 2014) will not be entitled to the current government co-contribution or any tax or social security concessions. Existing account holders will continue to receive the co-contribution and all existing tax and social security concessions for 2013-14. The co-contribution will cease from July 1, 2014 and the tax and social security concessions will cease from July 1, 2015. As of July 1, 2015, account holders will be able to withdraw their account balances without restriction. Once the scheme is abolished from July 1, 2015, these accounts will be treated like any other account held with a relevant provider.

### **Cease indexation on Clean Energy Supplement**

The government will remove further indexation from payment of the Clean Energy Supplement, which is paid to recipients of all social welfare payments. This means the rate of payment will be the rate payable prior to July 1, 2014.

### **National Rental Affordability Scheme to end**

The government announced that it would not proceed with the final round of National Rental Affordability Scheme because it had fallen “well short of expectations”. The government said incentives already allocated through the scheme would continue to be paid for up to 10 years, as long as eligibility requirements are met and homes in the construction pipeline are built in the agreed locations according to agreed timeframes. The scheme was originally designed to encourage investment in affordable housing.

### **Student loan schemes**

The government will reduce the income threshold for repayment of HELP debts, starting in 2016-17, and will adjust the indexation of HELP debts from June 1, 2016. The new minimum threshold (estimated to be \$50,638 in 2016-17) will be established for the repayment of HELP debts, set at 90% of the threshold that would otherwise have applied in 2016-17. Further, a new repayment rate of 2% of repayment income will be applied to debtors with incomes above the new minimum threshold.

In addition, the annual indexation applied to HELP debts will be adjusted from the CPI to a rate equivalent to the yields on 10 year government bonds, capped at 6% a year, from June 1, 2016. The government will continue to make available HELP loans so that eligible students do not have to pay their fees up-front. However, the HECS-HELP benefit will end from 2015-16. The government will also remove the 25% loan fee applied to FEE-HELP loans for fee-paying undergraduate courses and the 20% loan fee applied to VET FEE-HELP loans for eligible full fee-paying students in higher level vocational education and training courses.

### **Aged care**

#### **Age Pension age to increase to 70 by 2035**

Confirming a previous announcement, the government will raise the eligibility age for the Age Pension to 70 by 2035. From July 1, 2025, the Age Pension qualifying age will continue to rise by six months every two years – from the qualifying age of 67 years that will apply by that time to gradually reach 70 by July 1, 2035. People born before July 1, 1958 will not be affected by this measure. The staggered implementation will allow older Australians to consider their retirement income arrangements and make adequate preparations.

#### **Untaxed super income included in eligibility for Seniors Health Card**

The government will include untaxed superannuation income in the assessment of income to determine eligibility for the Commonwealth Seniors Health Card from January 1, 2015. All super account-based income streams held by CSHC holders before the implementation date will be grandfathered under the existing rules.

### **Seniors Supplement and Pensioner Education Supplement to end**

The government will cease the Seniors Supplement for holders of the Commonwealth Seniors Health Card from September 20, 2014. Eligible seniors who do not receive a pension will continue to be eligible for a concession card. Senior Health Card holders will still receive the Clean Energy Supplement and a range of concessional benefits including lower co-payments for medicines on the Pharmaceutical Benefits Scheme and access to the lower threshold for the extended Medicare Safety Net. The government also said it would cease the Pensioner Education Supplement from January 1, 2015.

### **Freeze on eligibility thresholds for certain government social welfare payments**

The government will maintain – in other words, freeze – eligibility thresholds for the Australian government payments for three years. Eligibility thresholds for non-pension payments – including FTB, Child Care Benefit, Child Care Rebate, Newstart Allowance, Parenting Payments and Youth Allowance – will be maintained for three years from July 1, 2014. Eligibility thresholds for pension and pension-related payments – including the Aged Pension, Carer Payment, Disability Support Pension and the Veterans' Service Pension – will be maintained for three years from July 1, 2017.

### **Index pension and equivalent payments only by inflation**

The government will index pension and equivalent payments and Parenting Payment Single only by the consumer price index as opposed to the higher of the increases in inflation, Male Total Average Weekly Earnings or the Pensioner and Beneficiary Living Cost Index. This measure will commence on July 1, 2014 for Parenting Payment Single recipients and from September 1, 2017 for Bereavement Allowance and pension payments such as Age Pension, Disability Support Pension, Carer Payment and Veterans' Affairs pensions.

### **Reset the assets test deeming rate thresholds**

The government will reset the deeming thresholds used in the pension assets test to \$30,000 for singles and \$50,000 for couples from

September 20, 2017.

### **Changes to Disability Support Pension (DSP)**

The amount of time that DSP recipients can leave Australia and still receive DSP will change from a maximum of six weeks to four weeks in a 12 month period should they travel overseas. All DSP recipients who leave Australia on or after January 1, 2015 will be subject to the new rules.

## **Business**

### **Company tax rate to go down by 1.5%**

The company tax rate will go down from 30% to 28.5% from July 1, 2015. The tax rate cut will of course not affect unincorporated small businesses.

### **Instant asset write-off situation unresolved**

No arrangements have been made within the Federal Budget for the continuing uncertainty over the state of the instant asset write-off, mainly because its fortunes are tied to the repeal of the mining tax.

Abolishing the latter would have also seen the instant asset write-off reduce to \$1,000 from \$6,500 with effect from January 1, 2014. However the mining tax repeal has not passed the Senate, and no mention was made of the tax treatment for such assets (nor regarding the rules for motor vehicles).

The question remains whether the instant asset write-off and motor vehicle rule changes will still apply from January 1, 2014 or what the treatment would be should these measures be passed by the new Senate after July 1. This continuing uncertainty for small businesses is not helpful.

### **Businesses hiring over 50s to get cash incentive**

Businesses could get up to \$10,000 if they hire a job seeker aged 50 or older in a wage subsidy program announced in the Federal Budget. This wage subsidy program, called "Restart", will cost \$524.8 million over four years.

Starting from July 1 this year eligible employers will receive \$3,000 if they hire a full-time mature age job seeker who was previously unemployed for a minimum of six months if they employ that

person for at least six months.

Once the job seeker has been working for the same employer for 12 months, the business will receive another payment of \$3,000, then another \$2,000 at 18 months and a final \$2,000 at two years.

To be eligible, businesses will need to demonstrate the job they are offering is sustainable and ongoing, and that they are not displacing existing workers with subsidised job seekers.

But the government said it will scrap the Mature Age Workers Tax Offset saving \$760 million over the next four years and the Seniors Employment Incentive Payment, with savings directed to the Restart program.

### **Reintroduction of fuel excise indexation**

Funding for road infrastructure will be sourced from reintroducing a biannual indexation by the consumer price index of excise duty for all fuels (except aviation fuels). The government said this will generate \$2.2 billion over forward estimates. The excise has been locked at 38.1 cents a litre since the Coalition dumped indexation in 2001. The re-indexation of fuel will start from August 1, 2014.

### **Tax treatment of biodiesel**

The excise on biodiesel will reduce to zero for the 2015-16 year, however from July 1, 2016, the excise rate will be increased for five years until it reaches 50% of the energy content equivalent tax rate. Grants made under the Cleaner Fuels Grant Scheme will reduce to zero from July 1, 2015, and the excise equivalent customs duty for imported biodiesel will continue to be taxed at the full energy content equivalent tax rate.

### **R&D tax incentive rates reduced**

The rates of the refundable and non-refundable offsets for the Research and Development (R&D) Tax Incentive will be reduced by 1.5%. So from July 1, 2014:

- 43.5% refundable tax offset (used to be 45%) for eligible entities with an aggregated group turnover of less than \$20 million, provided they are not controlled by income tax exempt entities, and
- 38.5% non-refundable tax offset (used to be 40%) for all other eligible entities.

### **FBT rate increase**

The Fringe Benefits Tax (FBT) rate will be increased from 47% to 49% from April 1, 2015 until March 31, 2017 (to align with the FBT income year). This measure is associated with the 2% "Budget Repair Levy", with the government saying it is to prevent high income earners from utilising fringe benefits to avoid the levy.

## **Superannuation**

### **Withdrawal of excess contributions allowed**

The government will allow individuals the option of withdrawing superannuation contributions in excess of the non-concessional contributions cap made from July 1, 2013 and any associated earnings, with these earnings to be taxed at the individual's marginal tax rate. The measure comes on the back of the government promising to develop an appropriate process that addresses all inadvertent breaches of the contribution caps where the error would result in a disproportionate penalty.

## **Other measures**

### **Medical Research Future Fund**

A new Medical Research Future Fund will be established from January 1, 2015. It is envisaged the fund (to be invested and managed by the board of the existing Future Fund) will receive its first instalment of about \$1.16 billion in January 2015, paid for out of existing savings in the health portfolio. The value of the new fund is expected to reach \$20 billion. Payments will commence in 2015-16.

### **Infrastructure Growth Package**

The government unveiled an \$11 billion Infrastructure Growth Package sure to please businesses. It said it secured funding for additional road infrastructure projects by introducing biannual indexation by CPI of excise and excise-equivalent customs duty for all fuels except aviation fuels. The measure is expected to generate \$2.2 billion over the forward estimates period for building new and upgrading existing road infrastructure.

### **Limbo over carbon tax and mining tax repeal**

The government remains committed to forego the \$6.5 billion and \$5.3 billion of tax revenue from abolishing the carbon price and mining tax respectively. However without any clarification in this Budget, the previous defeat of both the government's bills to repeal the carbon tax and mining tax have left taxpayers unsure if the following tax-related measures will proceed:

- repeal of the loss carry-back for small companies
- repeal of the low-income super contribution
- repeal of the income support bonus, and
- repeal of the schoolkids bonus
- the maximum value of the low-income tax offset remaining at \$445 (instead of falling to \$300 from July 1, 2015)
- the withdrawal rate of the LITO remaining at 1.5%, instead of falling to 1%, and
- the threshold below which a person may receive LITO remaining at a taxable income of \$66,667 instead of increasing to \$67,000 from July 1, 2015.

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