



## Federal Budget Update 2013

### Key highlights

- Personal tax rate changes deferred for at least three years
- Future increase in Medicare levy
- Limited deductibility for self education expenses
- Confirmation of April superannuation announcements
- Age pension relief for pensioners considering downsizing their principal residence

### Overview

The 2013 Federal Budget was the 6<sup>th</sup> Budget delivered by the current Treasurer and incumbent Government. Delivered exactly 4 months out from the next Federal election, it may prove to be their “swan song”. The announcements made on 14 May 2013 were largely non-surprising with virtually all major announcements (from a wealth perspective) having been rumoured and confirmed in the days and weeks leading up to this night.

Together, these final comments highlight why it is important to seek financial advice personalised to your circumstances and goals to ensure you can have confidence in decisions about your financial future.

### Budget measures and announcements

#### Taxation

##### Deferral of changes to personal income tax regime

Deferred from 1 July 2015 until certain requirements met

Announced in the week before the 2013 Budget, the changes to personal marginal tax rates and thresholds has been deferred from their intended start date of 1 July 2015. Funding for these changes was linked to the price for carbon and the revenue expected to be generated from the Carbon Pricing Scheme. As the projected price of carbon is lower than initially expected, the changes in personal tax rates and thresholds will not commence until the price of carbon in a future Budget is estimated to be above \$25.40. Based on current projections, this will not be until at least 1 July 2018 and may be later. The current and future thresholds are shown in the following table:

Current marginal tax scales		Future marginal tax scales when carbon price threshold reached	
Taxable income	Marginal tax rate	Taxable income	Marginal tax rate
\$0 - \$18,200	0%	\$0 - \$19,400	0%
\$18,201 - \$37,000	19%	\$19,401 - \$37,000	19%
\$37,001 - \$80,000	32.5%	\$37,001 - \$80,000	33%
\$80,001 - \$180,000	37%	\$80,001 - \$180,000	37%
\$180,001 and above	45%	\$180,001 and above	45%

\*Table excludes Medicare levy

Whilst not specifically stated, it is expected the previously announced and legislated changes to the low income tax offset will also be deferred until the same thresholds are reached.

## Increase in the Medicare levy for Disability Care Australia

Effective date: 1 July 2014

As announced in the lead up to the Federal Budget, the Government will increase the rate of the Medicare levy by 0.5% from 1.5% of taxable income to 2.0% of taxable income with effect from 1 July 2014. This increase will be used to fund DisabilityCare Australia (previously known as the national disability insurance scheme or NDIS). This increased levy will apply to all taxpayers who are subject to the Medicare levy based on their taxable income, and will result in a reduction of after tax income. The following table shows the additional amount of overall tax that will be payable on certain levels of taxable income.

Taxable income	Impact of 0.5% increase in Medicare levy
\$50,000	\$250
\$80,000	\$400
\$110,000	\$550
\$140,000	\$700
\$170,000	\$850
\$200,000	\$1,000

## Net Medical Expense Tax Offset

Effective from 1 July 2013

After making significant reforms to the Net Medical Expense Tax Offset (NMETO) in the 2012 Budget, the Government has now decided that from 1 July 2013 the NMETO will be phased out completely. Whilst the NMETO will continue to be available until 30 June 2019 for out of pocket medical expenses related to disability aids, attendant care or aged care expenses, it will only be available for the year commencing 1 July 2013 if a claim is made for the current year (i.e. the year ended 30 June 2013).

## Limitations on deductions for work-related self-education expenses

Effective from 1 July 2014

Announced on 13 April 2013, an annual cap on the deduction for work-related self education expenses will apply from 1 July 2014. Deductions will be limited to \$2,000 per annum. This could have a significant impact for you where those education expenses include travel and accommodation costs, and where they may include post graduate studies.

## Changes for non-resident taxpayers on sale of Australian property

From 1 July 2016

With effect from 1 July 2016, where a non-resident sells a property located within Australia, a new (non-final) withholding tax regime will apply. This measure is designed to ensure that the appropriate amount of tax is recovered by the Australian Government on taxable capital gains that arise when such properties are sold. These measures will apply to all Australian taxable property, other than:

- where the property is owned and sold by an Australian resident (ie it applies to non-resident taxpayers only)
- residential properties valued at less than \$2.5 million.

Under this measure, the purchaser of the property will need to withhold 10% of the purchase price and forward it to the ATO as a form of withholding tax. As a result, the vendor will only receive 90% of the sale proceeds up-front. They will need to lodge a tax return if they want to receive any of the remaining 10%.

## Targeting dividend washing arrangements

Effective from 1 July 2013

The Government intends to legislate to close an existing loophole in the dividend imputation rules that may currently be targeted by “sophisticated” investors. The intent is to prevent a “dividend washing” arrangement whereby an investor sells a parcel of shares ex-dividend and then immediately purchasing an identical parcel of shares cum-dividend (i.e. still carrying the right to a dividend). This practice currently enables some investors to qualify for a doubling of their franking credit entitlements. Under the proposed measure, only one set of franking credit entitlements may arise.

Whilst intended to only apply to “sophisticated” investors, the actual qualification criteria indicated by the Government is that it will apply to investors with franking credit entitlements in excess of \$5,000 on a single stock parcel. As a result, its application may be wider than first anticipated.

## Removal of discount for early HELP payments

Effective from 1 January 2014

Currently discounts are available for up-front and voluntary payments made under the Higher Education Loan Program. These discounts currently are:

- 10% for students electing to pay their student contribution up-front; and
- 5% on voluntary payments to the ATO of \$500 or more.

From 1 January 2014, these discount arrangements will be removed.

## Superannuation

### No extension of draw-down relief for income streams

Effective from 1 July 2013

Conspicuous by its absence, the Government has not announced any further extension of the minimum draw down relief for superannuation income streams. In recognition of the constrained markets at the time, over the last few years the Government has granted relief on minimum pension payment drawdowns, with a 25% reduction applying to the current financial year. In the absence of any subsequent announcements, minimum pension drawdowns will return to their standard level from 1 July 2013 as shown in the following table:

Age of beneficiary at 1 July	Current minimum percentage	Minimum percentage from 1 July 2013
Under 65	3	4
65 - 74	3.75	5
75 -79	4.5	6
80 – 84	5.25	7
85 – 89	6.75	9
90 – 94	8.25	11
95 or more	10.5	14

## Higher tax on concessional contributions for high income earners

Effective 1 July 2012

Previously announced in the 2012 Budget and recently the subject of draft legislation released for consultation, individuals with “total income” in excess of \$300,000 will be subject to an additional 15% tax on their concessional contributions to super up to their relevant concessional contribution cap limit.

The draft legislation released for comment has also confirmed that this additional tax will be collected via a mechanism similar to that currently applying to excess contributions tax. It will also be important to be aware that the potential for this additional tax will also apply to the higher concessional cap of \$35,000 proposed for those aged 60 and above from 1 July 2013 and those aged 50 and above from 1 July 2014.

## Changes to tax free treatment of superannuation in pension phase

Effective from 1 July 2014

As previously announced on 5 April 2013, the existing tax free treatment applying to assets supporting a superannuation income stream will be limited to the first \$100,000 of earnings on those assets. Any earnings above that limit will be subject to the standard 15% tax rate applying to complying superannuation funds. The \$100,000 threshold will be indexed to CPI and increase in \$10,000 increments. Transitional rules will apply in respect of capital gains that accrue on assets acquired before the commencement of this measure (ie pre 1 July 2014).

Whilst not providing details on how this tax will be collected when it applies, the Budget announcements have confirmed that the \$100,000 threshold applies across all pension accounts held by an individual – not per pension account.

## Changes to concessional contribution caps

Effective from 1 July 2013

As announced on 5 April 2013, from 1 July 2013 a higher concessional contribution cap of \$35,000 will apply to people aged 60 and over. This higher cap will then become available to people aged 50 and over from 1 July 2014.

This cap will not be indexed in future years, and it is projected that the existing \$25,000 concessional cap will reach \$35,000 in July 2018. At that time, the same cap will again apply to everyone regardless of age.

Whilst this higher cap is less than that previously due to come into effect from 1 July 2014 (being \$50,000), the requirement to have less than \$500,000 in total superannuation savings has been removed.

## Changes to excess concessional contributions

Applies to excess concessional contributions made from 1 July 2013

From 1 July 2013, individuals will have the ability to withdraw any excess concessional contributions and have them taxed personally at their marginal tax rate. An interest charge would also apply to the excess amount, reflecting the delay in the collection of the relevant tax by the Australian Taxation Office (ATO).

This will replace the current limited withdrawal option which is only available where clients exceed their cap by less than \$10,000 and is only available once. The new measure can be used each time a client exceeds their concessional contributions cap.

## Social Security and welfare payments

### Deeming superannuation account based income streams

Effective for new income streams commencing from 1 January 2015

For Centrelink income test purposes, superannuation income streams are concessionally treated as a result of the calculation of a “deductible amount” that reduces the income amount assessed for benefit calculation purposes.

This concession will continue indefinitely for existing income streams. However, new superannuation account-based income streams starting on or after 1 January 2015 will be assessed under deeming arrangements applying to other financial investments.

This change is in line with a recommendation from the previous Australia’s Future Tax System Review (Henry review), and was previously announced on 5 April 2013.

### Continued pausing of indexation of Child Care Rebate

Effective from 1 July 2013

For a further three years, the Government will freeze any indexation of the Child Care Rebate. The maximum level of rebate that can be paid in a year will remain at \$7,500 until 30 June 2017. This won’t reduce the level of payment currently available, nor change the method of calculation, but correspondingly won’t lead to an increase in entitlements.

## **Increased level of income before allowance payments reduced**

Effective from 20 March 2014

Currently, allowance recipients can earn \$62 per fortnight before there is reduction in the amount of the allowance payment they can receive. For the first time in over ten years, this threshold will be lifted. With effect from 20 March 2014, the threshold will increase by \$38 per fortnight to \$100 per fortnight. This equates to an annual increase in income under the income free threshold of \$988.

In addition, from 1 July 2015, this new \$100 threshold will also be indexed annually in line with movements in the CPI. The payments impacted by these changes are Newstart Allowance, Sickness Allowance, Parenting Payment Partnered, Widow Allowance, Partner Allowance Benefit and Partner Allowance Pension.

## **Reduction in time overseas before payments are impacted**

Effective from 1 July 2014

Currently, it is possible for certain benefit recipients to be temporarily absent from Australia for up to three years before benefit payments cease. From 1 July 2014, this will be reduced to one year for certain payments, including Family Tax Benefit Part A, Schoolkids Bonus and Paid Parental Leave.

## **Continued indexation pausing on certain benefit thresholds**

Effective from 1 July 2013

For a further three years (until 30 June 2017), the Government will pause any further indexation of the higher income thresholds for family payments and supplement amounts.

The existing \$150,000 upper income test limit for Family Tax Benefit Part B, dependency tax offsets, Paid Parental Leave Scheme and Dad and Partner Pay will remain. The Family Tax Benefit Part A upper income free area will remain at \$94,316 plus an additional \$3,796 for each child after the first.

## **Replacement of existing Baby Bonus**

Effective from 1 July 2014

From 1 July 2014, the existing Baby Bonus scheme will be removed. Instead, for families eligible for Family Tax Benefit Part A, increased benefits of \$2,000 will be paid in the year following the birth (or adoption) of a child, and a \$1,000 increase for second or subsequent children. The additional amounts will be paid as an upfront payment of \$500 with the remainder to be spread over the next seven fortnightly payments.

The increase in Family Tax Benefit Part A will not be available for parents who have taken up the Paid Parental Leave option, but they will qualify for improved access to the Paid Parental Leave for subsequent children.

As an additional measure to make it easier for working mums with children born in close succession to qualify for Paid Parental Leave for subsequent children, the government will allow parents to count periods of government paid parental leave as work under the work test.

## **Changes to age eligibility for Family Tax Benefit Part A**

Effective from 1 January 2014

From 1 January 2014, the age at which Family Tax Benefit Part A payments will cease in respect of children aged 16 and over will change. Payments will cease at the end of the year when the child completes schooling. Individuals who no longer qualify may instead be eligible to receive the Youth Allowance.

## **Family Tax Benefit and Child Care Assistance tax claims.**

Effective from the 2012/13 income year.

Family Tax Benefit and Child Care Assistance can be claimed through the income tax return process. From the 2012/13 financial year, families will have 12 months from the end of the financial year to file their claim rather than the current 24 months.

## Pilot programme for Age Pension recipients downsizing their principal residence

Effective from 1 July 2014 to 1 July 2017

The Government will implement a 3 year pilot programme aimed at removing the Social Security disincentive for Age Pension recipients to downsize their principal residence. Under this measure, up to \$200,000 of the proceeds from a principal residence sale may be deposited into a 'special account' (providers must be an authorised deposit taking institution, but other details are currently unknown). These accounts (including future earnings) will receive an exemption from Age Pension income and assets tests for up to 10 years.

To obtain access to the scheme, the following requirements must be met:

- At least 80% of the 'excess' sale proceeds (up to \$200,000) must be deposited into a 'special account'
- The principal residence sold must have been owned by the Age Pension recipient for at least 25 years
- The Age Pension recipient must move into a new principal home, granny flat, or retirement village (i.e. it is not available to those who move into residential aged care)
- The means test exemption ceases if the account holder makes any withdrawals from the account.

## Extension of the Pensioner Education Supplement for single parents

Effective from 1 January 2014

The Government announced an extension of the Pensioner Education Supplement (PES) of up to \$62.40 per fortnight to all Newstart Allowance (NSA) single principal carer recipients. This measure expands on the current arrangement that limits access to the PES to single principal carer recipients of NSA who were receiving the supplement prior to transitioning off Parent Payment single.

## Extended Pensioner Concession Card entitlements for single parents

Effective from 1 January 2014

Single parents who become ineligible for parenting payment due to the age of their youngest child and who do not qualify for any other income support payment due to employment income will no longer immediately lose access to the Pensioner Concession Card. The budget measures allow eligible single parents to retain eligibility for a period of 12 weeks.

**If you have any queries relating to the Budget Announcements, please contact your Adviser.**

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### Source: BT Financial Group

It has also been devised from the 2013 Federal Budget Papers, Ministerial statements, associated materials, and our interpretation of them. Current as at 15 May 2013. This information is provided only as a summary of the points which have been announced. The legislation of these announcements is not guaranteed.

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