



FEDERAL BUDGET UPDATE

May 2014

KEY MEASURES

- Introduction of Temporary Budget Repair Levy
- Refund of excess Non-Concessional Contributions without penalty
- Age Pension age increasing to age 70
- Freezing of many thresholds around social security and other tax benefits

OVERVIEW

The 2014 Federal Budget was the first delivered by the Coalition since being elected to form Government in 2013. Many of the announcements made on 13 May 2014 had been rumoured or confirmed in the lead up to this night, but some of the finer detail was finally provided.

From low income earners to high income earners, from the young to the old, everyone is potentially impacted by the 2014 Budget.

Whilst the Government had promised no negative and unexpected changes to superannuation, there have been some changes to the gradual move to a 12% superannuation guarantee (SG) rate, with a further one year delay until that level is reached.

Surprisingly, and most welcomingly, the Government has announced that the ability for excess contributions to be refunded will be extended to Non-Concessional (or after tax) Contributions, in respect of Non-Concessional Contributions made from 1 July 2013.

Arguably, that is where the good news ended. A new "temporary budget repair levy" (otherwise known as a deficits tax) will apply at the rate of 2% to taxable income over \$180,000, and will be in place for three years from 1 July 2014. If you don't have an income at this level, you could still be impacted by the proposed removal of the Dependent Spouse Tax Offset and the Mature Age Worker Tax Offset from 1 July 2014.

There has been a freeze to many thresholds that apply to social security payments and also other tax related items. They take effect at different times and have different durations, but there are impacts to the Medicare Levy Surcharge, Private Health Insurance Rebates, Family Tax Benefits and virtually all Centrelink payments.

Overall, it was a Budget that had been largely expected – full of austerity measures representing a fiscal tightening of the Budget. And for many of us it will be the same. How do we tighten our own budgets to deal with increased medical costs, levy impacts, loss of rebates and so on.

It's always important to remember that virtually all measures announced will still need legislation to be introduced, and will have to pass through Parliament, so the final version of the measures may differ to the announcements made in the Budget.

With a multitude of announcements made and the uncertainty around the process of when these may become law, it has never been more important to seek expert advice that is specific to your situation. This is the only way to have confidence in the decisions you make about your financial future.

TAXATION MEASURES

Introduction of a Temporary Budget Repair Levy (TBRL)

Effective date: 1 July 2014 (for a period of 3 years)

As speculated in the lead up to the Budget announcements, the Government has introduced a temporary 2% TBRL applying to high income earners. For a period of three years from 1 July 2014, the highest marginal tax rate of 45% will be increased to 47%.

The Government has also confirmed that a number of other tax rates that are currently based on calculations referencing the highest marginal tax rate will also be increased over the same period, such as the fringe benefits tax (FBT) rate.

The TBRL will only apply to you if you have taxable income exceeding \$180,000 and is only payable on the amount in excess of \$180,000.

For example, if you had taxable income of \$230,000, the additional 2% TBRL only applies to \$50,000 (the amount above \$180,000) resulting in an increase in tax payable (ignoring Medicare levy) of \$1,000.

Removal of Dependant Spouse Tax Offset and Mature Age Workers Tax Offset

Effective date: 1 July 2014

Effective 1 July 2014, the Dependant Spouse Tax Offset (DSTO) and the Mature Age Workers Tax Offset (MAWTO) will be abolished.

The DSTO is currently income tested and only available where, amongst other things, your adjusted taxable income is below \$150,000. For the year ended 30 June 2013, the maximum DSTO was \$2,423.

As a result of prior year Budget changes, the MAWTO is only available to those born before 1 July 1957 and has a maximum value of \$500. The maximum offset was available for an income below \$53,000.

Increase in the Medicare levy low income thresholds for families

Effective date: 1 July 2013

The Government has announced an increase in the new Medicare levy thresholds that are applicable for the current financial year (ending 30 June 2014), but for families only. The new threshold is \$34,367 (previously \$33,693). The threshold increases by \$3,156 for each dependent child or student (the previous increase was \$3,094).

Thresholds for individuals and Pensioners will remain at their 2012/13 levels, being \$20,542 and \$32,279 respectively.

Pausing indexation of Medicare Levy Surcharge and Private Health Insurance Rebate Thresholds

Effective date: 1 July 2015 for a period of two years

The Government has announced that it intends to freeze the indexation of the thresholds used to determine your ability to claim a Private Health Insurance Rebate or be liable for the Medicare Levy Surcharge. The same threshold (based on an adjusted taxable income calculation) is used for determining both. This freeze will last for two years, with indexation due to recommence from 1 July 2017.

SUPERANNUATION MEASURES

Future superannuation guarantee (SG) rate increases

Effective date: 1 July 2014

The Government has proposed to amend the schedule for increasing the SG rate to 12%. The SG rate will rise to 9.5% from 1 July 2014 and will remain at this level until 30 June 2018. The rate of SG will then increase by 0.5% each year from 1 July 2018 until it reaches 12% in the 2022/23 financial year.

| Financial Year | Superannuation Guarantee Rate |
|-------------------|-------------------------------|
| 2013/14 | 9.25% |
| 2014/15 – 2017/18 | Frozen at 9.5% |
| 2018/19 | 10% |
| 2019/20 | 10.5% |
| 2020/21 | 11% |
| 2021/22 | 11.5% |
| 2022/23 | 12% |

Refunding excess Non-Concessional Contributions

Effective date: 1 July 2013

The Government has announced that superannuation members who exceed their Non-Concessional Contribution Cap will have the ability to withdraw the excess Contribution plus any associated earnings without having excess Contributions tax levied on the amount. The earnings will be taxed at the individual's marginal tax rate. If however you choose to retain these within the fund, the Contributions will continue to be taxed at the top marginal tax rate.

SOCIAL SECURITY MEASURES

Increasing the Age Pension qualifying age to 70

Effective date: 1 July 2025

Under current legislation the Age Pension qualifying age increases by 6 months every 2 years commencing 1 July 2017 until it reaches age 67 on 1 July 2023. The Government proposes to continue this rate of increase as per the following table until the qualifying age reaches age 70 on 1 July 2035.

| Proposed Increase to Age Pension Age | | |
|---|---------------------------------|------------------------------|
| <i>Date</i> | <i>Date of birth</i> | <i>Age Pension age</i> |
| 01/07/2017 | 01/07/1952 to 31/12/1953 | 65 years and 6 months |
| 01/07/2019 | 01/01/1954 to 30/06/1955 | 66 years |
| 01/07/2021 | 01/07/1955 to 31/12/1956 | 66 years and 6 months |
| 01/07/2023 | 01/01/1957 to 30/06/1958 | 67 years |
| 01/07/2025 | 01/07/1958 to 31/12/1959 | 67 years and 6 months |
| 01/07/2027 | 01/01/1960 to 30/06/1961 | 68 years |
| 01/07/2029 | 01/07/1961 to 31/12/1962 | 68 years and 6 months |
| 01/07/2031 | 01/01/1963 to 30/06/1964 | 69 years |
| 01/07/2033 | 01/07/1964 to 31/12/1965 | 69 years and 6 months |
| 01/07/2035 | On or after 01/01/1966 | 70 years |

If you were born before 1 July 1958, you will not be affected by this announcement.

Indexing Pension and other payments by CPI

Effective date: 1 July 2014 for Parenting Payment Single recipients and 1 September 2017 for Bereavement Allowance and Pension payments such as Age Pension, Disability Support Pension; Carer Payment and Veteran's Affairs Pension

Currently these payments are indexed in line with the higher of the increases in the CPI, Male Total Average Weekly Earnings or the Pensioners and Beneficiary Living Cost Index. The CPI is normally lower than the other two measures which will result in a reduction in the rate of increase of these Pensions over time.

Pausing eligibility thresholds for Australian Government Payments for three years

Effective date: 1 July 2014 for Non-Pension payments and 1 July 2017 for Pension payments

The Government proposes to freeze the income and asset eligibility thresholds for three years. Non-Pension payments include Family Tax Benefit, Child Care Benefit, Child Care Rebate, Newstart Allowance, Parenting Payments and Youth Allowance. Major Pension related payments include the Age Pension, Carer Payment, Disability Support Pension and the Veteran's Service Pension.

Resetting the Assets test Deeming Rate Thresholds

Effective date: 20 September 2017

The Government proposes to reset the deeming thresholds used for measurement of income from financial products when assessing eligibility for welfare payments to \$30,000 for singles and \$50,000 for couples. Currently for singles financial assets up to \$46,600 are deemed at 2% and above this level at 3.5% whilst for a couple the threshold is \$77,400.

Termination of Federal funding of certain State and Territory Pensioner and Seniors Concessions

Effective date: 1 July 2014

The Government has proposed the termination of the National Partnership Agreement on certain concessions for Pensioners Concession Card and Seniors Card Holders. Concessions that could be affected include rebates made available to Pensioners for council/land and water rates, utilities including energy and sewerage, motor vehicle registration and public transport.

Changes around the Commonwealth Seniors Health Card (CSHC)

The Government has proposed a number of changes around the CSHC, including:

- annual indexation to CPI of the income limits for CSHC eligibility from 20 September 2014,
- abolishing the Seniors Supplement for CSHC holders from 20 September 2014,
- the inclusion of untaxed superannuation income in the measurement of income to determine eligibility for the CSHC from 1 January 2015.

OTHER MEASURES

Family Tax Benefit changes

The Government has proposed a number of changes around Family Tax Benefits, including:

- maintaining the 1 July 2014 maximum and base rates of Family Tax Benefit (FTB) Part A and the rate of FTB Part B for two years. These payment rates would resume indexation on 1 July 2016.
- tightening eligibility around the number of children that can increase the upper threshold for payments of FTB Part A from 1 July 2015.
- reducing the primary earner income limit from the current \$150,000 per annum to \$100,000 per annum from 1 July 2015.

Disability Support Pension proposals

Date to take of effect: Immediately and 1 January 2015

The Government has proposed over the next 5 years to review Disability Support Pension (DSP) recipients under the age of 35 and granted the benefit between 1 January 2008 and 31 December 2011. These recipients will be assessed against the current rules.

Recipients who are deemed to be eligible to continue to receive DSP will be obligated to “complete a programme of activities to build their work capacity” unless they are deemed to be severely disabled, defined as having a capacity to work of less than 8 hours a week. Where the claimant does not complete the programme of activities, they will be subject to sanctions.

Reduced eligibility to Newstart Allowance and Sickness Allowance

Date to take of effect: Immediately and 1 January 2015

In the Budget, the Government has proposed increasing the eligibility age for Newstart Allowance and Sickness Allowance from age 22 to age 24 for new claimants from 1 January 2015.

In addition, from 1 January 2015 all new claimants of Newstart Allowance (and Youth Allowance (Other)) who are under 30 years of age must undertake appropriate job search and participate in employment services support for six months before receiving payments. The six month period may be reduced where the claimant has prior workforce participation.

After six months, they will be required to undertake Work for the Dole for 25 hours per week to receive income support unless they are the principal carer of a child, are a part-time apprentice or are in education.

Introducing patient contributions for general practitioners, pathology and diagnostic imaging services and reducing rebates

Effective date: 1 July 2015

The Government proposes to reduce Medicare Benefits Schedule (MBS) rebates by \$5 for standard general practitioner consultations and out-of-hospital pathology and diagnostic imaging services and allowing the providers of these services to collect a patient contribution payment of \$7 per service. For concession card holders and children under 16 the MBS rebate will only be reduced for the first 10 services per year.

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.

Increasing co-payments and safety net thresholds under the Pharmaceutical Benefits Scheme (PBS)

Effective date: 1 January 2015

The Government proposes to increase PBS co-payments for general patients by \$5.00 (from \$37.70 to \$42.70) and for concessional patients by \$0.80 (from \$6.10 to \$6.90) in 2015.

PBS safety net thresholds will increase each year for four years from 1 January 2015, with general safety net thresholds to increase by 10 per cent each year and concessional safety nets to increase by the cost of two prescriptions each year.

These are user pay measures which will force people to start saving or budgeting for future medical contingencies.

Repeal of the Mineral Resource Rent Tax (MRRT)

Effective date: 1 July 2013

The Mineral Resource Rent Tax Repeal and other Measures Bill was rejected in the Senate on 25 March 2014. A number of key commitments from the previous Government were to be funded by the MRRT. The Tax repeal legislation removed a number of measures that were to be funded by the MRRT. Specially, the Bill included a proposal to repeal the low income superannuation contribution from 1 July 2013 as well as the removal of the school kids bonus. The Government reaffirmed their position on the removal of both the Carbon Tax and the Mineral Resources and as these measures are linked, it's assumed that both are likely to disappear when and if the Tax Repeal legislation becomes law.

Medicare Levy to rise to fund National Disability Insurance Scheme

Effective date: 1 July 2014

As announced in the 2013 Budget, the Medicare Levy will increase by 0.5% to 2.0% of taxable income. This measure will commence on 1 July 2014.

Company Tax Rate reduction

Effective date: 1 July 2015

The Government announced their commitment to reducing the company tax rate from its existing level of 30% to 28.5% from 1 July 2015.

Paid Parental Leave

Effective date: 1 July 2015

The Government re-affirmed their commitment to a paid parental leave. They announced that they will proceed with a comprehensive scheme that will encourage and assist women to be able to have a family and to remain connected to the workforce. The budget did not contain details of what this scheme will look like.

If you have any queries relating to the Budget Announcements, please don't hesitate to contact us.

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