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Federal Budget 2014

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2014/2015 Federal Budget Update

The Abbott Liberal Government hands down its first Federal Budget, which it hopes will assist in getting the Australian economy back to surplus

After weeks of speculation, the Federal Treasurer Joe Hockey handed down the Government's first Budget which confirmed a number of previously announced measures. These included the introduction of a Temporary Budget Repair Levy on high income earners and an increase in the pension age to 70. However, the Budget also included a number of other significant savings measures which could impact a range of people across all income levels. These include:

- indexing the age pension to CPI
- changing eligibility to the Commonwealth Seniors Health Card
- tightening eligibility to family tax benefit payments
- abolishing a number of tax offsets, and
- pausing indexation of a number of payments and programs, including the Medicare Levy Surcharge and Private Health Insurance Rebate.

In addition, the Government also announced a number of important changes to superannuation, including changing the schedule for increasing the superannuation guarantee to 12% and allowing people to withdraw any excess non-concessional contributions made after 1 July 2013.

It is important to note the Budget announcements are still only proposed at this stage and that, to be legislated under the new Senate, the Government will need the support of six of the record 18 crossbench Senators.

Top five Budget proposals

1. Temporary Budget Repair Levy on income over $180,000

Applies from 1 July 2014 to 30 June 2017

A levy of 2% will apply to an individual's taxable income over $180,000 per annum for three years from 1 July 2014. In addition, the rate of Fringe Benefits Tax (FBT) will also increase to 49% to prevent high income earners from using fringe benefits to avoid the levy. The increase in the FBT rate will be from 1 April 2015 to 31 March 2017 to align with the FBT year.

A range of other tax rates that align with the top marginal rate are also expected to increase.

Lifestyle Thought: This Levy may impact on people with lower taxable incomes if they sell an asset and make a capital gain or if they receive an untaxed superannuation ETP prior to age 60. Lifestyle can help you plan to minimise the impact of this levy.

2. Option to withdraw excess non-concessional contributions made since 1 July 2013 from super

The Government has proposed that individuals will have the option to withdraw contributions made from 1 July 2013 that exceed their non-concessional contributions cap.

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Under this measure, associated earnings are also able to be withdrawn and taxed at the individual's marginal tax rate.

It is understood that individuals who do not withdraw their excess non concessional contributions will be subject to excess contribution tax at the top marginal tax rate on the amount of the excess.

Lifestyle Thought: Hooray! This was just a ridiculous tax grab which impacted people who, predominantly, had just made a genuine mistake.

3. Age pension age to increase to 70 by 2035

The Budget confirmed the Treasurer's earlier announcement that the age pension age will increase to age 70 by the year 2035. This means that those born on or after 1 January 1966 (currently 48 years of age or younger) will have to wait until they are 70 before they are eligible for the age pension.

While the current pension age for both men and women is 65, it has been legislated that from 1 July 2017, the qualifying age for Age Pension will increase from 65 years to 65½ years for both men and women. The qualifying age will then rise by six months every two years, reaching 67 by 1 July 2023.

Lifestyle Thought: The age pension was originally intended to be a safety net, for people who lived beyond their life expectancy. This change will make retirement planning and, potentially, additional super contributions or other investments even more important for those born in or after 1966.

4. Changes to the Commonwealth Seniors Health Card (CSHC)

The Government has announced a number of changes to the Commonwealth Seniors Health Card (CSHC). The CSHC allows self-funded retirees to gain access to medicines listed on the Pharmaceuticals Benefits Scheme at a concessional rate as well as other concessions.

To be eligible, a person must have an adjusted taxable income (ATI) of:

- $50,000 (singles)
- $80,000 (couples, combined), or
- $100,000 (couples, combined, for couples separated by illness or respite care)

The proposed changes include:

- Annual indexation of the income thresholds to Consumer Price Index from September 2014.
- Account based pensions (ABP) that are subject to deeming will be included in the CSHC income test from 1 January 2015. Grandfathering applies to holders of a CSHC on 1 January 2015 with an ABP commenced prior to that date.
- Holders of the CSHC will cease to receive the Seniors Supplement beyond the June 2014 quarter. The Seniors Supplement is currently $876.20 p.a. (singles or couples separated due to illness) or $660.40 (couples, each). CSHC holders will still receive the Clean Energy Supplement.

Lifestyle Thought: With income from superannuation pensions that are commenced after 1 January 2015 being deemed income, it is important to ensure you are invested in a pension fund that is right for you for the long term and is commenced prior to this date; if deeming is going to negatively impact you.

5. Superannuation guarantee rate to increase to 9.5%

Change to schedule for increase to 12%

The Government has announced that the superannuation guarantee (SG) rate will increase from 9.25% to 9.5% from 1 July 2014, as currently legislated, given the defeat of the *Minerals Resource Rent Tax (MRRT) Repeal and Other Measures Bill 2013* in the Senate. 6

However, the Government proposes to amend the schedule for SG to increase to 12% by freezing the SG rate at 9.5% from 1 July 2014 until 30 June 2018, and

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subsequently increasing the SG rate every year by 0.5% until it reaches 12% from 1 July 2022.

Taxation

Reduction in company tax rate

The company tax rate will be reduced by 1.5% to 28.5% from 1 July 2015. For companies earning more than $5,000,000 in taxable income, this reduction will be offset by the 1.5% levy to fund the paid parental leave scheme which also commences from 1 July 2015.

Lifestyle Thought: Shareholders in small companies earning less than $5 million may receive greater dividends but less franking credits, leaving them in the same net after tax position. However, for shareholders of companies with taxable income of more than $5 million, the 1.5% reduction in tax will be offset by the 1.5% levy for the paid parental leave scheme. As a result, shareholders may receive the same level of dividends but less franking credits (assuming the levy is not franked), leaving them worse off.

Pausing indexation of the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds

The Government will pause indexation of the Medicare Levy Surcharge and Private Health Insurance Rebate income thresholds for three years from 1 July 2015.

Increase the Medicare levy low-income thresholds for families

The Government will increase the Medicare levy low-income phase-in threshold for families. The threshold for couples with no children will be increased to $34,367 (from $33,693 in 2012-13), the additional amount of threshold for each dependent child or student will also be increased to $3,156 (from $3,094 in 2012-13).

There will be no increase in the Medicare levy low-income thresholds for individuals ($20,542) and pensioners ($32,279 individual / $46,000 married or sole parent) which will remain at 2012-13 levels.

Dependent Spouse Tax Offset (DSTO) to be abolished

The Government will abolish the dependent spouse tax offset for all taxpayers from 1 July 2014.

Therefore, the limited access to the DSTO to those whose dependent spouse was born before 1 July 1952 will no longer be available.

Taxpayers that qualified for the Zone Tax Offset, the Overseas Civilians Tax Offset or Overseas Forces Tax Offset and that qualified for the DSTO may instead now qualify for the Dependent (Invalid and Carer) Tax Offset (DICTO) where eligible.

Taxpayers with a dependant who is genuinely unable to work due to a care obligation or a disability may be eligible for the DICTO. 9

Social security and aged care

Resetting the asset test deeming rate thresholds

The deeming thresholds will be reset to $30,000 for singles and $50,000 for couples from 20 September 2017 (for both pensioners and allowees). Current thresholds are $46,600 for singles, $77,400 for couples and $38,700 for members of allowee couples.

Indexing pensions and pension equivalent payments by CPI

The Government will index a number of pensions (and equivalent payments) by the Consumer Price Index (CPI). This measure will standardise the indexation arrangement for these payments which are currently indexed in line with the higher of the increase in the CPI, Male Total Average Weekly Earnings or the Pension and Beneficiary Living Cost Index.
This measure will commence on 1 July 2014 for Parenting Payment Single recipients and from 1 September 2017 for pension payments including Age Pension, Disability Support Pension, Carer Payment, Bereavement Allowance and Veterans' Affairs pensions.