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Lifestyle Newsflash

www.lifestyle.au.com

Lifestyle Financial Services Pty Ltd
Authorised Representative 243030 of
Financial Wisdom Limited
ABN 70 006 646 108
Australian Financial Services Licence No 231138

Lifestyle

Suite 9 Level 10, 809 Pacific Highway
PO Box 5245 Chatswood West NSW 1515
t 02 9410 6000 f 02 9410 6010 invest@lifestyle.au.com

May 2013 Budget

There were few surprises when Federal Treasurer Wayne Swan handed down his sixth Budget, as most of the budget announcements were leaked prior to the night.

The Budget confirmed a range of recently announced proposed changes to superannuation, income tax and the Medicare Levy. It also announced a range of proposed changes to the social security and tax systems.

Superannuation

The Government reconfirmed its intention to implement superannuation reforms as outlined below.

Earnings taxed in pension phase

From 1 July 2014 the Government proposes that future earnings, including interest and dividends, on assets supporting an income stream will be tax free up to $100,000 a year for each individual. Earnings above the $100,000 threshold are proposed to be taxed at the 15% tax rate that applies to earnings in the accumulation phase of super. Currently all income received by a superannuation fund from assets supporting an income stream is completely tax free.

The Government has also announced:

- The proposed $100,000 threshold will be indexed to the Consumer Price Index (CPI), and will be increased in increments of $10,000.
- Special rules will apply to the taxation of capital gains on assets purchased before 1 July 2014 to allow people time to restructure their superannuation arrangements where desired.
- Capital gains that are subject to tax will receive a 33 per cent discount and will therefore be taxed at 10 per cent.
- The proposed changes will also apply to members of defined benefit funds in the same way that they apply to members of accumulation funds.

It is important to note that this proposed tax only applies to earnings within the fund, not to the actual income received from the fund as pension payments.

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Reduced tax concessions for high-earners

In the 2012 Federal Budget, the Government announced that individuals with incomes above $300,000 pa will pay an additional 15% tax on their concessional super contributions. Draft legislation for this measure was recently released and was confirmed in the 2013 Budget. It will take effect from 1 July 2012.

Refunding excess concessional contributions

The Government proposes allowing all individuals to withdraw any excess concessional contributions made from 1 July 2013 from their superannuation fund to avoid the additional penalty tax. If not withdrawn, the Government will tax excess concessional contributions at the individual's marginal tax rate, plus an interest charge (instead of the current penalty tax charged at the top marginal tax rate) recognising that excess contributions tax is collected later than personal income tax.

Increase in the concessional contributions cap

The Government proposes to introduce a higher concessional contributions cap, initially for those aged 60 or more, and then for those aged 50 or more. This higher cap will be $35,000 per year, unindexed. The table below illustrates the concessional caps that will apply for the 2012-13 to 2014-15 financial years.

The Government has confirmed that it will not proceed with earlier proposals to limit the new higher cap to those aged 50 or more with superannuation balances below $500,000.

Deeming on account based income streams under the Social Security income test

The Government proposes extending the Centrelink deeming rules that currently apply to financial investments such as bank deposits, shares and managed funds to account based income streams. Currently, the first $45,400 for a single pensioner and $75,600 for a pensioner couple of financial investments is deemed at 2.5% pa. Any financial investments over these thresholds are deemed at 4% pa. Under the announced change, these standard Centrelink deeming rules would apply to superannuation account based income streams from 1 January 2015. However, all such products held before 1 January 2015 will be grandfathered and continue to be assessed under the existing deductible amount rules indefinitely, unless the pensioner chooses to change to another product.

Proposed concessional contribution limits			
Financial year	2012-13	2013-14	2014-15
Standard concessional cap	$25,000	$25,000	$30,000*
Concessional cap – aged 50 to 59	$25,000	$25,000	$35,000
Concessional cap – aged 60 or more	$25,000	$35,000	$35,000

** Estimate only. Indexation of the standard concessional cap has been paused until 1 July 2014 and is expected to recommence at this level*

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Deferred annuities to receive earnings tax concessions

The Government will encourage the take-up of deferred lifetime annuities by providing these products with the same concessional tax treatment as superannuation assets supporting income streams.

Other Tax Related Proposals

Medicare Levy increase

The Government has confirmed that it will increase the Medicare Levy by half a percentage point from 1.5% to 2% from 1 July 2014 to provide funding for DisabilityCare Australia. Draft legislation to give effect to this change has already been released. Low income earners will continue to receive relief from the Medicare Levy through the low income thresholds for singles, families, seniors and pensioners. The current exemption from the Medicare Levy will also remain in place, including blind pensioners and sickness allowance recipients.

It is important to note that this levy increase will increase a number of other taxes, such as fringe benefits tax which will increase from 46.5% to 47%. Some superannuation taxes, including the tax on lump sum death benefits paid to non-dependants, will increase.

Strategies such as salary sacrificing or making personal concessional contributions to superannuation will become more attractive as the levy does not apply to these amounts.

Net medical expenses tax offset (NMETO) phase out

The Government will phase out the net medical expenses tax offset (NMETO), with transitional arrangements for those currently claiming the offset. However, the offset will continue to be available for taxpayers for out-of-pocket medical expenses relating to disability aids, attendant care or aged care until 1 July 2019. From 1 July 2013 those taxpayers who claimed the NMETO for the 2012-13 income year will continue to be eligible for the NMETO for the 2013-14 income year if they have eligible out of pocket medical expenses above the relevant thresholds. Similarly, those who claim the NMETO in 2013-14 will continue to be eligible for the NMETO in 2014-15.

Reforms to deductions for work-related self-education expenses

The Government confirmed in the budget the Treasury's announcement on 13 April 2013 that a $2,000 cap on tax deduction claims for work-related self-education expenses per individual will be introduced. Education expenses include formal qualifications and associated tuition fees, textbooks, stationery and travel expenses and also conferences, seminars and self-organised study tours. There will be no change to employers receiving exemptions on fringe benefits tax for eligible education and training that they provide or fund for their employees, unless an employee decides to salary sacrifice in order to obtain these benefits.

Deferral of 1 July 2015 tax cuts

The Government has announced it will defer the tax cuts that were due to come into effect from 1 July 2015. As a result, the marginal tax rates are proposed to remain at their current settings.

Marginal tax rates that were legislated to apply from 1 July 2015 (now proposed to be deferred).

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As a result taxpayers earning up to $35,000 will have the maximum tax cut of $228 deferred until some future date yet to be announced. Taxpayers earning $80,000 or over will be unaffected by this change.

The table below summarises the thresholds and taxation rates that will continue to apply.

Current income thresholds	Marginal tax rates
$0 - $18,200	0%
$18,201 - $37,000	19%
$37,001 - $80,000	32.5%
$80,001 - $180,000	37%
$180,001 +	45%

Various changes to Government family payments

The Government has announced a number of changes to the eligibility and payment rules for Family Tax Benefit (FTB) Part A as well as other family payments. These are summarised as follows:

- From 1 January 2014, eligibility for FTB Part A for children aged 16 years and over will change so that FTB part A will only be paid until the end of the calendar year a child completes school.

- The indexation of the upper income test limit of $150,000 for FTB Part B, the dependency tax offsets, the Paid Parental Leave Scheme and Dad and Partner Pay will be paused until 1 July 2017. The upper income free area for FTB Part A and FTB supplements will also remain at current levels until 1 July 2017.

- From 1 March 2014, the Baby Bonus will be abolished. The Baby Bonus will be replaced with an additional payment for families eligible for FTB Part A. The additional payment is $2,000 in the year following the birth or adoption of a first child or each child in multiple births, and $1,000 for the second or subsequent children.

- The allowed period of temporary absence from Australia while remaining eligible for FTB Part A will reduce from three years to one year from 1 July 2014. This change also applies to the Schoolkids Bonus and Paid Parental Leave.

- The Government will not go ahead with the planned increase to FTB Part A as announced in last year's Federal Budget. The pledged increases were to take effect from 1 July 2013, where the maximum rate of Family Tax Benefit Part A was going to be increased by $300 per year for families with one child and $600 per year for families with two or more children.

Please note that all announcements mentioned are proposed only at this stage, and may change prior to being legislated.