Budget Wrap 2013

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Budget Overview

The 2013/14 Federal Budget will be not be the most memorable.

However, there are $43 billion worth of savings to drive the Budget into surplus by 2016/17.

The superannuation tinkering did not extend any further in this Budget but re-enforced the announcements made on 5 April 2013.

Government announced a new initiative for seniors – a $112 million pilot to assist age pensioners to downsize their homes by providing a means test exemption of up to $200,000 for ten years.

The significant reform of Disability Care Australia and the increase in the Medicare Levy from 1.5% to 2% was confirmed.

The government also confirmed its commitment to the Gonski reforms with $9.8 billion over six years.

Added to infrastructure investment, bringing the government's total investment to around $60 billion from 2008/09 to 2018/19.

$99.4 million investment in a new Farm Household Allowance to support farmers in hardship.

Health care measures including:

- $226million to improve cancer prevention, detection, treatment and research, and improve patient care and support.

- $33.8 million investment into the General Practice Rural Incentive program in 2013/14 to encourage medical practitioners to move to regional and remote communities.

- $691 million over five years in new listings or amendments to the Pharmaceutical Benefits Scheme.

From a financial planning perspective, the Budget also delivered some amendments to the social security and family benefit payments that may impact on some of our clients.

Personal Income Tax

Deferral of the 2015-16 tax cuts. The Government will defer tax cuts until the carbon price is projected to be above $25.40 in the Budget. This is essentially estimated to be in 2018-19.

The tax rates for 2013-14

Taxable Income	Tax Payable / Marginal Rate
Up to $18,000	Nil
$18,201 - $37,000	Nil + 19% of each dollar over $18,200
$37,001 - $80,000	$3,572 + 32.5% of each dollar over $37,000
$80,001 - $180,000	$17,547 + 37% of each dollar over $80,000
Over $180,000	$54,547 + 45% of each dollar over $180,000

Introduction of DisabilityCare Australia

The significant reform is the introduction of DisabilityCare and the increase in the Medicare Levy by half a percentage to help fund it.

The Medical Levy will increase from 1.5% to 2.0% from 1 July 2014.

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 exemptions from Medicare will also remain and apply to DisabilityCare.

Medicare Levy low-income threshold

The government will increase the Medicare Levy low-income threshold for families to $33,693 for the 2012-13 income year with effect from 1 July 2012.

The additional amount of threshold for each dependant child or student will also increase to $3,094.

Net Medical Expenses Tax Offset phase out

The government will phase out the net medical expenses tax offset (NMETO) with transition arrangements for those currently claiming the offset.

The offset (NMETO) will be available for out of pocket medical expenses relating disability aids, attendant care or aged care expenses until 1 July 2019.

Reforms to work-related self-education expenses

Deductions for work-related self-education expenses will now be capped at $2,000 per annum from 1 July 2014.

Superannuation

The Budget confirmed measures previously announced by the government, increased contributions tax for high income earners, and clarified minimum pension payments.

Contributions tax on Super Guarantee

Draft legislation introducing a higher contributions tax on Super Guarantee contributions for those earning over $300,000.

Minimum Pension Payments

In response to the downturn in global financial markets, the government provided pension drawdown relief in 2008-09, 2009-10 and 2010-11 by halving the minimum payment amounts. This relief was extended in 2011-12 and 2012-13 by reducing the minimum payment amounts by 25 per cent.

As a result of the Budget being silent, it is expected that the minimum payment amount is to return to normal in 2013-14.

Age	Percentage of account balance			
	2007-08	2008-09 2009-10 2010-11	2011-12 2012-13	2013-14
Under 65	4%	2%	3%	4%
65-74	5%	2.5%	3.75%	5%
75-79	6%	3%	4.5%	6%
80-84	7%	3.5%	5.25%	7%
85-89	9%	4.5%	6.75%	9%
90-94	11%	5.5%	8.25%	11%
95 or more	14%	7%	10.5%	14%

Superannuation Income Streams

The tax free status of retirement phase earnings will be retained, but capped at $100,000 (indexed by CPI) attributed to each individual member. Annual earnings above $100,000 will be taxed at a concessional rate of 15 per cent, in the hands of the fund.

Similar treatment will apply to (notional) earnings for those in defined benefit schemes (this includes defined benefit schemes for politicians).

Capital gains tax will apply to assets (in pension phase) if purchased after 1 July 2014. Special arrangements will apply for capital gains on assets purchased before 1 July 2014:

- For assets that were purchased before 5 April 2013, the reform will only apply to capital gains that accrue after 1 July 2024;
- For assets that are purchased from 5 April 2013 to 30 June 2014, individuals will have the choice of applying the reform to the entire capital gain, or only that part that accrues after 1 July 2014; and
- For assets that are purchased from 1 July 2014, the reform will apply to the entire capital gain.

This reform will not affect the tax treatment of withdrawals. Withdrawals will continue to remain tax-free for those aged 60 and over, and face the existing tax rates for those aged under 60.

Concessional Contribution Caps

The Government has decided to scrap the $50,000 concessional cap linked to super balances under $500,000. This will be replaced with an unindexed $35,000 concessional cap. From 1 July 2013, this will apply to all individuals aged 60 and over. From 1 July 2014 this will apply to individuals aged 50 and over. Legislation for this measure is expected to be tabled in Parliament this week.

Excess Contributions Tax

Reforms to the operation of excess contributions tax with excess concessional contributions to be included in an individual's taxable income and will be taxed at the individual's marginal tax rate regardless of their income or the cause of the breach. The individual will be able to choose to pay the tax bill from their own sources, or use their superannuation monies to pay for this change in tax, or fully release the after-tax excess concessional contribution from superannuation. Legislation for this measure is expected to be tabled in Parliament this week.

Tax treatment of deferred lifetime annuities.

Revised tax treatment of deferred annuity pensions. From 1 July 2014, deferred lifetime annuities will be given status as superannuation pensions and will receive the concessional tax treatment applying to investment earnings on assets supporting pensions.

Deeming superannuation account based income streams

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

This concession will continue indefintiely 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.

Transfer of lost super accounts

An extension to the transfer of small lost accounts to the ATO as unclaimed monies. The threshold will be increased from $2,000 to $2,500 from 31 December 2015, and then from $2,500 to $3,000 from 31 December 2016.

Low income superannuation contribution – technical amendment

The government will amend the LISC to now pay individuals with an entitlement below $20. Entitlements under $10 will now be rounded to $10.

Superannuation Complaints Tribunal (SCT)

The government will provide $2.6 million over four years to support the operations of the SCT. The cost will be offset with an increase in the levy on APRA regulated super funds.

Social Security and Family Payments

Change to the Pension Bonus Scheme

Late registrations for the closed Pension Bonus Scheme will end from 1 March 2014.

The Pension Bonus Scheme was closed on 20 September 2009 and people who were eligible for the scheme at the time but had not yet registered are currently still able to register. This will now end on 1 March 2014.

Trial measure – Supporting seniors who downsize their home

The government is running a trial to support Age Pensioners who want to downsize their home, without it immediately affecting their Age Pension.

Under the current rules, the value of the family home is not assessed and does not affect a person's pension. This means that many seniors may not sell the home as a result of it impacting on their Age Pension.

The trial will allow eligible pensions who have lived in their home for at least 25 years and want to downsize to put a minimum of 80% of the excess sale proceeds from the sale of their former home into a special account, up to a maximum of $200,000 (plus earned interest).

The funds (and earnings) in this account will not be counted under the pension income and assets test for up to 10 years or until a withdrawal is made from the accounts.

The trial will commence on 1 July 2014 and will run for three years. The government will work with industry to establish these types of accounts.

Abolishing the Baby Bonus

New family payment arrangements will replace the Baby Bonus from 1 March 2014. The Baby Bonus will no longer be available.

From 1 March 2014, families eligible for the Family Tax Benefit (FTB) Part A will receive an additional loading on their family payments when they have a new baby to help with upfront costs (if they are not accessing the Paid Parental Leave Scheme).

The extra FTB Part A payments for families will total $2,000 for their first child and $1,000 for subsequent children. It will be paid as an initial instalment of $500, with the rest rolled into normal fortnightly payments over a three-month period.

Continuing Indexation Pauses

Indexation pauses will be extended on higher income limits for a further three years until 30 June 2017 in the following areas:

- the FTB Part B primary earner income limit will remain at $150,000;
- the income limit for receiving dependency tax offsets will remain at $150,000;
- the paid prental leave and Dad and Partner Pay individual income limits will remain at $150,000 in the financial year before the birth of the child; and
- the current higher income free area of the FTB Part A will also remain at current levels. For example, the cut-out for family with two children will remain at around $113,000. Each family's income limit depends on the number and age of their children.

The FTB Part A lower income threshold (currently $47,815) and the FTB Part B secondary earner income threshold (currently $5,037) will continue to be indexed, providing support to low and middle income households.

The current supplement amounts will remain the same for the next three years, that is $726 per child for FTB Part A and $354 per family for FTB Part B.

Change to age of eligibility for FTB Part A

From 1 January 2014, FTB Part A will only be paid to families up to the end of the calender year that their teenager is completing school.

Reducing the claim period for family assistance lump sum claims

Families that choose to wait until the end of the financial year to claim their FTB entitlement or Child Care Benefit (CCB) will now have a grace period of one year instead of two years.

This change will start for the 2012-13 entitlement year, meaning families will have 12 months at the end of the year (until 30 June 2014) to claim their payments.

Families will also have one year to lodge their tax returns in order to receive the end-of-year FTB supplements.

Changes to the rules for receiveing payments overseas

From 1 July 2014, the length of time that families can be temporarily overseas and continue to receive family payments will reduce from three years to one year.

Newstart Allowance

Australians on Parenting Payment Partnered, Newstart Allowance, and Widow, Sickness or Partner Allowance will be able to earn $100 per fortnight, up from $62, before their income support is reduced.

This income free area will, for the first time, be indexed by CPI from 1 July 2015.

Corporate Tax

Tax Agent Services Act (TASA)

The government will provide $1.4 million over four years to provide for a single online registration for financial advisers registered with ASIC that also need to be registered with the Tax Practitioners Board (TPB) from 1 July 2013.

The cost of the measure will be offset by fees charged (registration fees) by the ATO for registering financial advisers from 1 July 2015. The proposed fee is $400 (business) and $200 (individual) for three years for a financial adviser.

Protecting the corporate tax base from erosion and closing loopholes

The government is making changes to protecting the corporate tax base from loopholes. In particular, some measures include:

- Clarifying Australia's taxing rights over indirect Australian real property interests
- Implementing a withholding regime for foreign residents disposing of assets that give rise to an Australian tax liability
- Preventing 'dividend washing'

Targeting trust tax avoidance

The Government will provide the ATO with $67.9 million to investigate and audit the use of complex trust structures by high wealth individuals to avoid and evade tax.

For further information on the 2013 Federal Budget measures, please visit www.budget.gov.au

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