Warringal Financial Services

PROFESSIONAL PRACTICE
FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

Budget Wrap 2014

Tuesday 13th May 2014

warringalfs.com.au

Suite 2/17 Burgundy Street
Heidelberg Victoria 3084
Telephone 03 9459 2966
Facsimile 03 9459 0487
Email advice@warringalfs.com.au

Warringal Financial Services is the
trading name of NICA Group Pty Ltd
ACN 145 861 132 ATF The Englezos Trust
ABN 40 439 274 113 Authorised
Representative GWM Adviser Services Limited

GWM Adviser Services Limited ABN 96 002 071 749
Australian Financial Services Licensee registered office
105-153 Miller Street North Sydney NSW 2060
A member of the National group of companies

Budget Overview

The Treasurer last night handed down his first Budget and a first Budget since the change of Government in the last election.

There was much speculation and conjecture regarding this Budget with a clear warning that all Australians will need to contribute to the pain of fixing the Budget.

To that end the Government also held firm on its commitment not to make adverse changes to superannuation but there are some welcome amendments that will benefit financial planning clients.

Overall, the Budget deficit will fall from its current $49.9 billion to $29.8 billion next year. It will then fall to a deficit of $2.8 billion in 2017-18.

A centrepiece of the Budget is a $11.6 billion infrastructure growth package but for many financial planning clients the changes to social security and the temporary budget levy will provide the most impact.

Of particular interest to you our clients will be the following:

- increase of the pension age to 70
- increase in the superannuation guarantee to 9.5% from 1 July 2014 and to 12% by 2022-23
- abolishment of the Dependent Spouse Tax Offset and the Mature Age Tax Offset,
- increase in the Medicare Levy, and
- changes to the non-concessional excess contributions tax

The Government has also confirmed its 2% temporary budget levy will apply to incomes over $180,000. Funding cuts to ASIC were announced, as well as changes to the AUSTRAC industry levy.

Personal Income Tax

With the exception of the Budget repair levy, the personal income tax rates and thresholds remain unchanged from 1 July 2014.

The Government is going to introduce a new initiative by providing a tax receipt for all individuals on where and how their taxes were used.

The tax rates for 2014-15

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

Temporary Budget Repair Levy

The Government will introduce a three year temporary levy on high income individuals from 1 July 2014 until 30 June 2017.

This will impact those respective individuals in the 2014-15, 2015-16 and 2016-17 financial years.

The levy will apply at a rate of 2% on individuals' taxable income in excess of $180,000 per annum.

To prevent high income earners from utilising FBT to avoid the levy, the FBT rate will be increased from 47% to 49% from 1 April 2015 until 31 March 2017 to align with the FBT income year.

The cash value of benefits received by employees of public benevolent institutions and health promotion charities, public and not-for-profit hospitals, public ambulance services and certain other tax-exmept entities will be protected by increasing the annual FBT caps. In addition the FBT rebate rate will be aligned with the FBT rate from 1 April 2015.

Who is impacted?

- Individuals with taxable income of $180,000 or below will pay NO levy
- Individuals with taxable income greater that $180,000 will pay a 2% levy for every dollar exceeding $180,000.

Example of how the levy will work:

- someone with taxable income of $200,000 will pay the 2% levy on $20,000 or $400
- Someone with taxable income of $300,000 will pay 2% of $120,000 or $2,400.

Taxable Income	Levy 2014-15	Levy 2015-16	Levy 2016-17	Levy 2017-18
$180,000 or less	$0	$0	$0	$0
$200,000	$400	$400	$400	$0
$250,000	$1,400	$1,400	$1,400	$0
$300,000	$2,400	$2,400	$2,400	$0
$500,000	$6,400	$6,400	$6,400	$0

Dependent Spouse Tax Offset

The Government will abolish the Dependent Spouse Tax Offset for all taxpayers from 1 July 2014.

Mature Age Worker Tax Offset and Restart

The Government will abolish the Mature Age Tax Offsett from 1 July 2014. Previously this measure was limited to those tax payers born before 1 July 1957.

The savings from this measure will be re-directed to the Government's expanded seniors employment incentive payment called *Restart* to support mature age job seekers to re-enter the workforce.

From 1 July 2014, a payment of up to $10,000 will be available to employers who hire a mature aged job seeker, aged 50 years or over who has been receiving income support for at least six months.

Medicare Levy low-income threshold for families

The government will increase the Medicare Levy low-income threshold for families from $33,693 (2012-13) to $34,367 for the 2013-14 financial year with effect from 1 July 2013.

The additional amount of the threshold for each dependant child or student will also increase from $3,094 (2012-13) to $3,156 for the 2013-14 financial year.

Medicare Levy
In last years budget there was the introduction of Disability Care 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 Disability Care.

Medicare Levy Surcharge & GP visits
From 1 July 2015 to 30 June 2018 the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds will not be indexed.

From 1 July 2015 there will be a $7 charge for each currently bulk-billed service. This will be capped at 10 services per calendar year for concessional patients and children under 16.

Taxation and Small Business

The Government will provide $8 million over four years to establish the Small business and Family Enterprise Ombudsman. The policy intention is to allow small business to get the same protections as consumers when it comes to unfair contracts imposed by big business.

Company tax rates
The government will cut the company tax rate by 1.5% from 1 July 2015. For large companies the reductio will offset the paid parental leave scheme.

Superannuation

Super Guarantee Increase to 12%

The Government is changing the original proposal in how the superannuation guarantee will be increased to 12%.

Originally the Government was going to pause the increase that was due to occur from 1 Jylu 2014. They have now decided that the increase to 9.5% will proceed from 1 July 2014 aand will pause at 9.5% until 30 June 2018.

The Super Guarantee will then increase by 0.5% each year until it reaches 12% in 2022-23. One year later than previously proposed.

Financial Year	SG Rate
2014-15	9.5%
2015-16	9.5%
2016-17	9.5%
2017-18	9.5%
2018-19	10%
2019-20	10.5%
2020-21	11%
2021-22	11.5%
2022-23	12%

Non-Concessional Excess Contribution Tax

For any excess contributions made after 1 July 2013, breaching the non-concessional cap, the Government will allow individuals to withdraw those excess contributions and associated earnings.

If any individual chooses this option, no excess contributions tax will be payable and any related earnings will be taxed at the individual's marginal tax rate.

Individuals who leave their excess contributions in the fund will continue to be taxed on these contributions at the top marginal rate.

First Home Savers Account

The First Home Savers Account is being abolished with a phase out approach starting from 13 May 2014. The Government will make regulations to ensure that all new accounts opened from 13 May 2014 will be informed of these changes by their account provider.

Existing account holders will continue to receive the Government co-contribution and all tax and social security concessions associated with these accounts for the 2013-14 financial year.

The Government co-contribution will cease from 1 July 2014 and the tax and social security concessions associated with these accounts will be withdrawn from 1 July 2015. As of 1 July 2015, account holders will be able to withdraw their account balances without restriction.

Once the First Home Savers Accounts scheme is abolished from 1 July 2015, these accounts will be treated like any other account held with the product provider.

Defence Force Retirement Benefits and Military Superannuation

From 1 July 2014, DFRB and DFRDB superannuation scheme members aged 55 and over will have their superannuation benefits indexed by the better of the Consumer Price Index and the Pensioner and Beneficiary Living Cost Index, with reference also to a benchmark level of Male Total Average Weekly Earnings.

Additionally, the Government will exempt DFRB and DFRDB members from any Division 293 tax liability for the one-off increase in the capitalised value of the benefit arising from the new indexation arrangements.

The Division 293 tax is imposed under the Income Tax Assessment Act 1997 on concessional contributions made by individuals whose income and relevant concessionally taxed contributions exceed $300,000. This measure delivers on the Government's election commitment.

The Government will allow ADF members to choose which superannuation fund they belong to and, for the first time, give those members the ability to transfer their accumulated benefits to a new fund if they leave the ADF.

From 1 July 2016, the Government will also establish a modern fully funded, accumulation superannuation scheme called ADF Super for new members of the Australian Defence Force (ADF). The existing Military Superannuation and Benefits Scheme (MSBS) will be closed to new members from this date.

There will be no change to the superannuation arrangements for existing MSBS members, but they may elect to be covered by the new arrangements. Under the new arrangements, the Government will pay a 15.4 per cent contribution to a member's chosen superannuation fund, or 18 per cent in periods of warlike service.

Social Security and Family Payments

One-Week Ordinary Waiting Period

The Government will commence applying the One-Week Ordinary Waiting Period (OWP) to all Working Age Payments from 1 October 2014.

All claimants of Newstart Allowance and Sickness Allowance are required to wait one-week before receiving payment, unless the claimant is exempt or the waiting period is waived. This measure will extend the OWP to claimants of Parenting Payment, Widow Allowance and Youth Allowance (other).

This measure will also remove the current rule that enables the OWP to be served concurrently with other applicable waiting periods.

Commonwealth Seniors Health Card

Annual indexation of income thresholds
The Government will index current income limits for the Commonwealth Seniors Health Card by the Consumer Price Index from September 2014.

This will allow more retirees access to medicines listed on the Pharmaceuticals Benefits Scheme at a concessional rate.

Include untaxed superannuation income in the eligibility assessment
From 1 January 2015 the Government will commence including untaxed superannuation income in the assessment of income to determine eligibility for the Commonwealth Seniors Health Card (CSHC).

The assessment of superannuation income will be the same for CSHC holders as for Age Pension recipients and will align with the 2013-14 Budget measure to deem the balances of account-based superannuation of pensioners from 1 January 2015.

All superannuation account-based income streams held by CSHC holders before the implementation date will be grandfathered under the existing rules.

Cessation of the Seniors Supplement
From 20 September 2014 the Government will cease the Seniors Supplement for holders of the Commonwealth Seniors Health Card (CSHC).

Eligible seniors who do not receive a pension will continue to be eligible for a concession card. CSHC holders will still receive the Clean Energy Supplement and a range of concessional benefits including lower co-payments for medicines on the Pharmaceutical Benefits Scheme and access to the lower threshold for the extended Medicare Safety Net.

Disability Support Pension

The Government will introduce compulsory activities for Disability Support Pension (DSP) recipients under 35 years of age with an assessed work capacity of eight hours or more a week and have a participation plan.

These activities will vary depending on a person's circumstances and will focus on obtaining employment. Sanctions for non-compliance will be introduced.

DSP recipients with a severe impairment and an assessed work capacity of less than eight hours a week will be exempt.

The Government will also reduce the amount of time Disability Support Pension (DSP) recipients can leave Australia and still receive DSP. Recipients will receive DSP for a maximum of four weeks in a 12 month period should they travel overseas. All DSP recipients who leave Australia on or after 1 January 2015 will be subject to the new rules.
The Government will review, against current eligibility criteria, Disability Support Pension (DSP) recipients aged less than 35 years who were granted DSP between 1 January 2008 and 31 December 2011.

Recipients who are granted continued eligibility following this review will be required to complete a programme of activities to build their work capacity. The measure will terminate on 30 June 2019.

Recipients granted DSP before 1 January 2008 or who have a severe impairment with work capacity assessment of less than eight hours a week will be exempt.

Family Payment Reform

Better targeting of Family Tax Benefit Part B
The Government will reduce the Family Tax Benefit Part B (FTB-B) primary earner income limit from $150,000 per annum to $100,000 per annum, from 1 July 2015.

The income threshold for the Dependent (Invalid and Carer) Tax Offset will also be reduced to $100,000 as it is linked to the FTB primary income earner limit.

Limit Family Tax Benefit Part B to families with children under six years of age
The Government will limit Family Tax Benefit Part B (FTB-B) to families whose youngest child is younger than six years of age from 1 July 2015.

As a transitional arrangement, families with a youngest child aged six and over on 30 June 2015 will remain eligible for FTB-B for two years. This measure encourages increased workforce participation by primary carers when their youngest child reaches primary school age.

Limit the Large Family Supplement to families with four or more children
The Government will limit the Family Tax Benefit Part A Large Family Supplement (currently $313.90 per child per annum) to families with four or more children from 1 July 2015. The Large Family Supplement will be paid in respect of the fourth and each subsequent child in a family.

Maintain Family Tax Benefit payment rates for two years
The Government will maintain current Family Tax Benefit (FTB) payment rates for two years from 1 July 2014. Under this measure, indexation of the maximum and base rates of FTB Part A, and the rate of FTB Part B will be paused until 1 July 2016.

New Family Tax Benefit allowance
The Government will introduce a new allowance for single parents on the maximum rate of Family Tax Benefit (FTB) Part A whose youngest child is aged between six and 12 years old from the point when they become ineligible for FTB Part B. This allowance will provide $750 for each child aged between six and 12 years old in an eligible family from 1 July 2015.

Remove the Family Tax Benefit Part A per child add-on
The Government will remove the Family Tax Benefit Part A per child add-on to the higher income free threshold for each additional child from 1 July 2015.

Revise Family Tax Benefit end-of-year supplements
The Government will revise the Family Tax Benefit (FTB) end-of-year supplements to their original values and ceasing indexation from 1 July 2015.

The revised supplements will provide $600 per annum per FTB Part A child and $300 per family per annum for each FTB Part B family.

Trial Measure – Supporting Seniors who downsize their home

The Government has decided to not proceed with the *Supporting Senior Australians — Housing Help for Seniors — pilot* measure, announced in the 2013-14 Budget, and due to commence on 1 July 2014.

The previous government was going to run a trail to support Age Pensions 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.

Increase the Age Pension qualifying age to 70 years

From 1 July 2025, the Age Pension qualifying age will continue to rise by six months every two years, from the qualifying age of 67 years that will apply by that time, to gradually reach a qualifying age of 70 years by 1 July 2035.

Date of Birth	Retirement Age
1 July 1952 and 31 December 1953	65 ½
1 January 1954 and 30 June 1955	66
1 July 1955 and 31 December 1956	66 ½
1 January 1957 and 30 June 1958	67
1 July 1958 and 31 December 1959	67 ½
1 January 1960 and 30 June 1961	68
1 July 1961 and 31 December 1962	68 ½
1 January 1963 and 30 June 1964	69
1 July 1964 and 31 December 1965	69 ½
1 January 1966 and later	70

Index Pension and Pension Equivalent Payments by the Consumer Price Index

The Government will commence indexing pension and equivalent payments and Parenting Payment Single by the Consumer Price Index (CPI).

This measure will commence on 1 July 2014 for Parenting Payment Single recipients and from 1 September 2017 for Bereavement Allowance and pension payments such as:

- Age Pension;
- Disability Support Pension;
- Carer Payment and
- Veterans' Affairs pensions.

Currently, these payments are indexed in line with the higher of the increases in the CPI, Male Total Average Weekly Earnings or the Pensioner and Beneficiary Living Cost Index.

Assets Test Deeming Rate Thresholds

From 20 September 2017, the Government will reset the deeming thresholds used in the pension assets test:

- For singles, from $46,000 to $30,000; and
- For couples, from $77,400 to $50,000.

Increasing the age of eligibility for Newstart Allowance and Sickness Allowance

The Government will achieve savings of $508.1 million over five years by increasing the age of eligibility for Newstart Allowance and Sickness Allowance from 22 to 24 years of age. This measure starts from 1 January 2015. Current recipients of Newstart Allowance and Sickness Allowance, aged 22 to 24 years of age on 31 December 2014, will remain on those allowances.

Maintain eligibility thresholds for Australian Government payments for three years

The Government will achieve savings of $1.5 billion over four years by maintaining eligibility thresholds for the Australian Government payments for three years.

Eligibility thresholds for non-pension payments will be maintained for three years from 1 July 2014. Major non-pension payments include Family Tax Benefit, Child Care Benefit, Child Care Rebate, Newstart Allowance, Parenting Payments and Youth Allowance.
Eligibility thresholds for pension and pension related payments will be maintained for three years from 1 July 2017. Major pension related payments include the Aged Pension, Carer Payment, Disability Support Pension and the Veterans' Service Pension.

Stronger Participation Incentives for Job Seekers under 30

The Government will achieve savings of $1.2 billion over four years by changing access to income support for people under 30 years of age. The policy intent of this measure is to encourage young people with full work capacity to be earning, learning or participating in Work for the Dole.

From 1 January 2015, all new claimants of Newstart Allowance and Youth Allowance (Other) who are under 30 years of age must demonstrate appropriate job search and participation in employment services support for six months before receiving payments. Prior workforce participation may reduce the waiting period. After six months, claimants will be required to participate in Work for the Dole for 25 hours per week in order to receive income support, and following this may continue to access employment services for a further six month period, including access to a wage subsidy in lieu of income support.

From 1 July 2015, existing recipients of Newstart Allowance and Youth Allowance (Other) who are under 30 years of age will also become subject to these new arrangements. These people will have already served six months on Work for the Dole.

Payment recipients who have a partial capacity to work, are the principal carer of a child, are part-time apprentices, are in education or are job seekers in Disability Employment Services or Job Services Australia Streams 3 and 4 will be exempt.

Paid Parental Leave

From 1 July 2015 the Government will deliver the paid parental leave scheme which will provide six months paid leave and will include superannuation.

Government Agencies

Australian Securities and Investment Commission (ASIC)

The Government will achieve savings of $120.1 million over five years by reducing funding to the Australian Securities and Investments Commission (ASIC).

ASIC will adjust its priorities to ensure it continues to meet its statutory objectives.

The Government will provide $11.7 million for 2014-15 for scoping studies into future ownership options for several Government assets, including the registry function of ASIC.

Australian Taxation Office

The Government will achieve savings of $142.8 million over three years from 2015-16 by reducing the Australian Taxation Office's (ATO) departmental resourcing.

The ATO will bring forward staff reductions that were already planned in response to efficiency dividends and decisions of the former Government. Under the former Government total staffing reductions of 4,700 were to occur over the forward estimates period to 2017-18.

This included a reduction of 900 in 2013-14, 500 in 2014-15, 1,600 in 2015-16, 1,200 in 2016-17, and 500 in 2017-18.

The Government will bring forward the reduction in staffing numbers that were due to occur in 2015-16. As these staff reductions have already been factored into the forward estimates, there will be no net increase to the total staff reductions planned. Staffing reductions do not include the impact of the additional 0.25 per cent efficiency dividend announced by the Government in the 2013 Federal Election.

Australian Transaction Reports and Analysis Centre

The Government will increase revenue by $79.1 million over four years, through a phased increase in the Australian Transaction Reports and Analysis Centre's (AUSTRAC) industry levy.

The fiscal intention is to recover 100 per cent of AUSTRAC's funding through industry contributions. Under this measure, industry contributions will increase to 70 per cent in 2014-15, 90 per cent in 2015-16 and 2016-17, and 100 per cent in 2017-18.

The Government will also remove the $300 base component fee for AUSTRAC's smallest regulated entities. Under the new arrangements, only the largest (around 1,029) reporting entities will be required to pay the AUSTRAC industry levy.

Tribunals

The government has announced the merger of five merit review tribunals into a single organisation. The merged tribunals include:

- the Administrative Appeals Tribunal (the AAT is the appeals body for decisions of ASIC and the TPB)
- the Classification Review Board
- the Migration Review Tribunal
- the Refugee Review Tribunal, and
- the Social Security Appeals Tribunal.

For further information on the 2014 Federal Budget measures, please visit www.budget.gov.au

Warringal Financial Services

Suite 2 / 17 Burgundy Street
Heidelberg Victoria 3084

T 03 9459 2966
F 03 9459 0487

E advice@warringalfs.com.au
W www.warringalfs.com.au