

Federal Budget May 2014



On 13 May 2014 Joe Hockey delivered his first Budget as Federal Treasurer, with a theme of building a strong and prosperous economy and repairing the budget deficit. All Australians are being asked to pitch in to repair the deficit, with a projected surplus in 2024/2025.

In terms of increased taxes, there are very few, however the Government has announced tightening to Centrelink and other Welfare concessions (including the freezing of thresholds and payments), with expected savings into the $Billions over the forward estimate period.

Key Budget Measures

Individuals

Å Those individual taxpayers whose taxable income exceeds $180,000 will be required to pay an additional 2% Temporary Budget Repair Levy (ñTBRLò). This Levy will be imposed only on the income that exceeds $180,000, and will apply over a three year period from 1 July 2014. This measure is only expected to affect 400,000 taxpayers, and may struggle to pass through Parliament, depending upon the new post 1 July 2014 Senate supporting the measure.

Å A number of other taxes that are based on individual tax rates will also be increased, like family trust distribution tax and excess contributions tax. Further, to prevent high income earners from utilising fringe benefits to avoid the TBRL, 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.

Å With some previous Government personal tax rate changes not actually being legislated, combined with the proposed TBRL, the personal tax rates for the coming years are as follows (excluding the 2% Medicare levy):

Personal income tax rates and thresholds						
	2013-14		2014-15		2015-16 and 2016-17	
	Threshold	Rate	Threshold	Rate	Threshold	Rate
1st rate	$18,201	19.0%	$18,201	19.0%	$19,401	19.0%
2nd rate	$37,001	32.5%	$37,001	32.5%	$37,001	33.0%
3rd rate	$80,001	37.0%	$80,001	37.0%	$80,001	37.0%
4th rate	$180,001	45.0%	$180,001	47.0%	$180,001	47.0%

- In effect, the top marginal tax rate including the Medicare levy will be 49%.
- The TBRL would also flow across to non-residents from 1 July 2014 where their income exceeds the $180,000 threshold.
- The income thresholds for the private health insurance offset and the Medicare levy surcharge will be frozen for 3 years from 1 July 2015.

Superannuation / Retirement

- In a positive move, the Government has proposed to enable taxpayers to withdraw excess non-concessional contributions from superannuation, with any earnings on the excess to be taxed at the individualôs marginal tax rate. This would apply from 1 July 2013.
- The super guarantee rate would be lifted to 9.5% on 1 July 2014, which would apply until 1 July 2018, whereby it would increase by 0.5% per annum until reaching 12% by 2022/2023. This would result in the rate attaining 12% one year later than originally expected.
- When assessing eligibility under the Commonwealth Seniors Health Care Card, untaxed income received from superannuation funds will be included in the income test from 1 January 2015. Income streams held by members prior to this date will be eligible for grandfathering.
- The Age Pension age will be increased to age 70 by July 2035 (following on from the increase already imposed by the prior government to age 67 by 2023).
- The eligibility tests for Centrelink pension payments (Age Pension, Disability Support Pension etc) will be frozen for three years from 1 July 2017.
- From 1 September 2017 Centrelink pensions will be indexed at CPI (currently indexed at the higher of CPI, and the male average weekly ordinary times earnings or pension and beneficiary living cost index).

Business Taxation

- The Government confirmed that the Company tax rate will be reduced by 1.5% resulting in 28.5% tax rate from 1 July 2015 as previously announced. For large companies (earning more than $5m in taxable income), the reduction will offset the cost of the Governmentôs 1.5% Paid Parental Leave Levy.
- The Government announced it would not proceed with the prior measure with respect to only allowing tax concessions to charities and other not-for-profits with respect to activities that further the entityôs altruistic purpose. Alternatively, they would explore simpler measures to address revenue risks.
- The Government will defer the implementation of a new tax regime for managed investment trusts to 1 July 2015. This is intended to provide more consultation time and allow both industry and the Tax Office additional time to make necessary systems changes. The law will also be amended to allow MITs to continue to disregard the trust streaming provisions for the 2014-15 income year. This is intended to allow the interim arrangements to continue until the new system is implemented.
- It was expected that there would be reform of employee share scheme tax rules as they have been widely criticised since their introduction in 2009 as being too complex, however the Budget was silent on this matter.
- The Government will not proceed with changes that would have applied to Multiple entry consolidated (ñMECò) groups, as it was considered unfeasible to review inconsistencies without "a reconsideration of broader international tax policy issuesò Accordingly, Treasury will start consultation on unrealised loss rules as well as other measures regarding MEC groups.
- The Government intends to "refine" the consolidation integrity package announced in the 2013-14 Budget as follows:
  - A new measure will clarify that accounting liabilities relating to securitised assets held by a subsidiary will be disregarded in certain situations where the subsidiary leaves a consolidated group and/or joins a consolidated group. This change will apply to arrangements that commence on or after 7:30pm on 13 May 2014. Transitional rules will apply to arrangements that commence before this time.
  - The double deductions measure, the churning measure and the deductible liabilities measure will be amended so that they apply to arrangements that commence on or after the date of announcement of the original measure (ie 14 May 2013), rather than to the exit or entry of a subsidiary that takes place on or after the date of announcement.

- The deductible liabilities measure will also be amended so that retirement villages' residential loan liabilities are excluded.

- The Government will clarify the treatment of realignments of interests between joint venture partners in the minerals and petroleum industry.

- The instant asset write-off for small business entities (ie generally, those with aggregated turnover of less than $2m) was previously increased to $6,500 as part of the prior Government's mining tax legislation. When the current Government proposed the abolition of the mining tax, they also proposed this measure be reduced to $1,000 with effect from 1 January 2014. As the mining tax repeal did not progress, this area is currently in limbo. The Budget was silent on this matter and as such, small business entities are facing some uncertainty as to whether this measure will be retained, or may subsequently be repealed retrospectively.

Grants and Incentives

- The rates of the refundable and non-refundable R&D tax offsets will be reduced by 1.5 percentage points, with effect from 1 July 2014. This means that the refundable offset will be reduced to 43.5% (available to those entities with $20M or less aggregated turnover) and the non-refundable offset (available to those entities who are not eligible for the refundable offset) will be reduced to 38.5%.

- The above R&D reduction is consistent with the Government's commitment to reducing the company tax rate by 1.5% from 1 July 2015, but will be introduced in the year prior to the company tax rate reduction.

- The Government has confirmed their plan to discontinue both the Innovation Investment Fund and Commercialisation Australia. The abolishment of these programs means that Australian Industry Participation, Enterprise Solutions, Industry Innovation Councils, Enterprise Connect, National ICT Australia and the Industry Innovation Precincts will also be scrapped. These programs will be replaced by a single business service named Entrepreneur Infrastructure Program that will refocus effort on entrepreneurs with a view to commercialise home grown ideas and equip small to medium enterprises with the management and business skills to lead change and expansion.

- The Government has announced that as of 1 July 2014 it will provide small exploration companies with a refundable tax offset for "greenfields" exploration costs under the "Exploration Development Incentive" program to fund exploration for new mineral deposits. The "Incentive" program will target junior exploration companies and will be capped at $100m. The program is aimed towards small mineral exploration companies with no taxable income to provide exploration credits, paid as a refundable offset to their Australian shareholders for greenfield mining exploration.

Other Centrelink Measures

- The eligibility tests for Centrelink non-pension payments (Family Tax Benefit, Newstart Allowance, Youth Allowance etc) will be frozen for three years from 1 July 2014.

- From 1 January 2015, individuals under age 30 receiving Newstart or Youth Allowance will be required to be "earning, learning or participating in Work for the Dole". This will require a six months waiting period demonstrating appropriate job search prior to receiving any payments. After the six months, claimants will be required to participate in 25 hours per week of Work for the Dole to continue to receive payments.

- The Government will freeze the current Family Tax Benefit (FTB) payment rates for three years from 1 July 2014. Further, indexation of the maximum and base rates of FTB A and the rate of FTB B will be paused until 1 July 2016.

- The Government will reset the deeming thresholds used in the pension assets test to $30,000 for singles and $50,000 for couples from 20 September 2017. Savings of $32.7m over 5 years are expected.

Other Measures

Further measures to boost the bottom line include:

- Bringing forward staff restrictions at the Australian Taxation Office.

- Reducing funding to the Australian Securities and Investment Commission.

- Re-introducing bi-annual CPI indexation of excise and excise equivalent duty for all fuels (except aviation fuels) from 1 August 2014.

- Ending the National Rental Affordability Scheme (NRAS). Existing arrangements would remain provided eligibility requirements are met.

- A Small Business and Family Enterprise Ombudsman is to be established to act as an advocate to government, a ñconciergeòfor dispute resolution, as well as contribute to the development of laws and regulations that affect small businesses and family enterprises.

- The income threshold will be reduced for repayment of HECS and HELP debts commencing in 2016/2017.

- The indexation of HELP debts will be adjusted from 1 June 2016 from CPI to the 10 year bond rate, capped at 6%.

- First home saver accounts to be abolished from 1 July 2015, with existing account holders able to withdraw their account balances from then without restriction.

- A $10,000 subsidy will be provided where a business employs a job seeker aged 50 or older. The job seeker must have been unemployed for 6 months, and be employed on a full-time basis for at least 6 months. The $10,000 would be paid based on the time the individual was employed.

6 months	**$3,000**
12 months	**$3,000**
18 months	**$2,000**
24 Months	**$2,000**

Our View

There are several positive measures in the Budget, with a practical approach being taken on the release of excess non-concessional contributions. However, we will wait to see whether any of the measures that propose to increase tax on high income earners proceed through Parliament, particularly given the opposition to any such measures from the Labor Party, Greens and the Palmer United Party.

Further, some of the proposals will make tax planning for the 2013/2014 and 2014/2015 year incredibly important to ensure that all of the above issues (and those existing tax issues) are addressed in your personal circumstances. For example, be aware that if you have a one-off spike in income after 1 July 2014, say by way of the sale of an investment, rental property or sale of a business, the TBRL is likely to impact on this increase in personal income.

The Government has now introduced into Parliament 15 Income Tax related Bills in relation to raising the TBRL and other associated matters. The opposition parties will now have the opportunity to respond to the Bills in the short term. We will keep you up to date as more information comes to light in this regard.

For more information on any aspect of the above, please contact Michelle Saunders, Marissa Bechta or Jemma Sanderson on (08) 6311 6900

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