2014-15 Federal Budget

The Federal Treasurer Joe Hockey handed down his first Federal Budget last night. Coalition members had been on a media campaign for the weeks leading up to Budget night, preparing Australians for the worst, which meant that in accordance with standard practice over recent years, there were very few surprises when the Budget was actually delivered - particularly from a tax and business point of view. Furthermore the new measures were, for the most part, reasonably light on in terms of their impact on those in business, which is welcome news. Unfortunately the same can't be said for those on lower incomes, who will bear much of the burden despite the introduction of a so-called 'Budget Repair Levy' on wealthier Australians.

Here's a few of the highlights.

- Temporary Budget Repair Levy
- Increase in the rate of FBT payable
- Increase in FBT caps for employees of tax-exempt organisations
- Offsets to be abolished
- Company tax rate to be cut to 28.5%
- R&D Tax Incentive to fall by 1.5%
- Superannuation Guarantee rate to increase to 9.5%
- Individuals permitted to withdraw excess non-concessional super contributions without penalty
- HELP repayment thresholds to drop
- Changes to Family Tax Benefits
- Medicare Levy thresholds to increase
- Seniors Health Card income limits to be indexed
- Fuel excise indexation to be reintroduced
- First Home Saver Accounts to be abolished
- No news on the repeal of measures linked to the Carbon and Mining Taxes

Tax

- **Temporary Budget Repair Levy** - The big news from this budget is the introduction of the Temporary Budget Repair Levy. This was perhaps the most talked about measure leading up to the Budget announcement, and while no new tax is ever welcome, the final form of the measure means that its impact will be relatively low. From 1st July 2014, individuals with taxable incomes over $180,000 will pay an extra levy of 2%. Significantly however, the levy will only apply to the portion of income over $180,000, not to the entire income amount. For example, a taxpayer earning $200,000 will pay 2% of $20,000 - that's $400 in total, or an extra $7.70 per week. The levy will only apply for a three year period, ending on 30th June 2017. It is estimated that around 400,000 taxpayers will be affected.

If you are likely to be affected by this levy, it may be worthwhile looking at measures now to bring forward income to this financial year, and defer deductions to next year when they will be worth extra.

- **Increase in the rate of FBT payable** - The Fringe Benefits Tax (FBT) rate was scheduled to increase for the upcoming FBT year, from 46.5% to 47%, to account for the increase in the Medicare Levy to 2%. To prevent high income earners from shifting income to fringe benefits in order to escape the Budget Repair Levy, the FBT rate will increase further from 1st April 2015 to 49%. This higher rate will apply until 31st March 2017. This also means that those on incomes of less than $180,000, who salary package into fringe benefits, will effectively also be subject to the budget levy for some of their remuneration.

- **Increase in FBT caps for employees of tax-exempt organisations** - The effective remuneration of employees of public benevolent institutions, not-for-profit hospitals, charities and other tax-exempt entities will be improved through increases to the annual FBT caps for payment of benefits.

- **Offsets to be abolished** - Some tax offsets will be abolished from 1st July 2014, including the Dependent Spouse Offset and the Mature Age Worker offset. The latter will be replaced with a subsidy payable to employers who hire a worker who is aged 50 years or older and has been on income support for longer than 6 months.

- **Company tax rate to be cut to 28.5%** - The Government will proceed with its proposal to cut the rate of company tax from 30% to 28.5% from 1st July 2015. For large companies however (those earning more than $5 million in taxable income), the Paid Parental Scheme Levy will also kick in at 1.5%, which will effectively mean no change to the company tax rate in these cases.

- **R&D Tax Incentive to fall by 1.5%** - The Research and Development (R&D) Tax Incentive will also decrease by 1.5%, although the Government's connection of this adjustment to the same reduction in the company tax rate is tenuous, since the R&D incentive reduction will apply from 1st July 2014 rather than 1st July 2015. In addition, a number of Government R&D grant programs will but cut and replaced by a single business service, intended to cut costs and more finely tune the efforts of entrepreneurs.

Superannuation

- **Superannuation Guarantee rate to increase to 9.5%** - The Government had previously proposed to defer the next increase in the compulsory employer superannuation rate, from 9.25% to 9.5%. This delay was, however, connected to the repeal of the so-called 'Mining Tax', which failed to pass through the Senate. It was therefore announced that the increase will now proceed from 1st July 2014. If you're an employer, it's probably best to make a diary note now to ensure that your payroll systems and/or software reflect this increase when the new financial year begins.

- **Individuals permitted to withdraw excess non-concessional super contributions without penalty** - The Government will allow excess non-concessional superannuation contributions, and any earnings on them, to be withdrawn from a super fund without any additional tax penalty. 'Non-concessional' contributions are those amounts paid to superannuation from after-tax income. Up to certain capped limits, these contributions are untaxed in the super fund. However previously, if the limits were exceeded, the tax penalty was quite punitive - potentially up to 93%! This measure addresses cases where inadvertent breaches of these caps occur, providing a mechanism to remedy the situation. For excess contributions made after 1st July 2013, the excess contributions can be withdrawn with no tax payable, while any earnings on them will be subject to tax at the individual's marginal rate. If the excess contributions are left in the fund, however, they will continue to be taxed at the top marginal rate, so it's a great incentive to fix any problems with excess non-concessional contributions.

Thresholds

- **HELP repayment thresholds to drop** - Commencing for the 2016-17 year, the taxable income threshold at which Higher Education Loan Programme (HELP) debts must have repayments made against them will fall to an estimated $50,638 (depending on indexation between now and then). The minimum repayment rate will also be changed to 2%, while the ongoing indexation method applied to the outstanding debt will be changed from the Consumer Price Index (CPI) to the 10 year Government Bond Rate, which is capped at 6% from 1st June 2016.

- **Changes to Family Tax Benefits** - The primary earner income limit for Family Tax Benefit (FTB) Part B will be reduced to $100,000 (from $150,000) from 1st July 2015. This threshold determines a person's eligibility for FTB Part B. Further, FTB Part B will only be available for families where the youngest child is under six years of age. In addition, indexation of the rates of FTB Parts A and B will be paused until 1st July 2016. In effect, this means that there will be no increases in the amounts of FTB received, all other things being equal, for two years. There are a number of other adjustments to Family Tax Benefits intended to reap further savings.

- **Medicare Levy thresholds to increase** - For 2013-14, the level of taxable income at which Medicare becomes payable for families will increase from $33,693 to $34,367. The additional amount of threshold for each dependent child will also increase from $3,094 to $3,156. The income thresholds for the Private Health Insurance Offset will, however, be frozen for three years.

- **Seniors Health Card income limits to be indexed** - The Government will index the income thresholds that determine eligibility for the Seniors Health Card from 2013-14, allowing greater access for retirees to subsidised medicines. In an ominous sign of possible things to come however, untaxed superannuation income will be included in the income test. Up until this point, superannuation income has been almost entirely off the radar for tax and eligibility for benefits purposes.

Other measures

- **Fuel excise indexation to be reintroduced** - No surprises here, as this measure was publicly flagged a number of weeks before last night's budget announcement. From 1st August 2014, bi-annual indexing of the excise on fuel will be reintroduced for all fuels, except aviation fuels. The rate of excise had been frozen by the former Howard Government 13 years ago. Significantly, the Government will amend the relevant act to ensure that amounts spent on road infrastructure will be greater than the net revenue from the increased excise. From a business perspective, and the economy more generally, the additional investment in roads is welcome news. Practically speaking though, it's difficult to determine the effective distinction between a Carbon Tax and an increase in the cost of fuel through additional excise.

- **First Home Saver Accounts to be abolished** - A scheme introduced by the former Labor Government to assist with the purchase of a first home, the First Home Saver Accounts (FHSA) scheme, will be abolished from Budget night. No new accounts can be set up from today onwards, and no contributions will be made by the Government to existing accounts from 1st July 2014. There were also certain concessions and exemptions that applied to these accounts, which will cease from 1st July 2015. As at that point in time, these accounts will simply revert to being regular bank accounts and funds can be withdrawn for any purpose.

Also worth noting

- **No news on the repeal of measures linked to the Carbon and Mining Taxes** -Frustratingly, last night's Budget announcement was silent on the reversal of measures connected with the repeal of the Carbon and Mining Taxes. The Government's attempts to abolish both of these Labor initiatives were knocked back in the Senate. Unfortunately, attached to these were the repeal of business and tax measures, such as the $6,500 instant asset write-off and the company loss carry-back provisions. This has left taxpayers in limbo as to how to proceed in a number of cases. For example, the reduction in the instant asset write-off from $6,500 to $1,000 was to take effect from 1st January 2014, some 5 months ago! Yet the legislation has not passed and there has been no announcement as to what businesses should do for assets purchased after this date. Hopefully some clarity will be provided soon. Perhaps the Government is waiting until 1st July to reintroduce the legislation, when Senate numbers will shift. However the makeup of the new Senate provides no reassurance that this legislation, or indeed any of last night's Budget announcements, will be passed.

Our take...

The effective message for this Budget is that it is the one that Australia has to have. Only yesterday morning the Treasurer pre-empted some of the painful content that was to be contained in his announcement by saying *"I would say to the Australian people, if you're only looking in the budget for your own interests, then you may be disappointed, but if you're looking for the national interests you will be cheered."* Certainly those looking for leadership on infrastructure spending will find some joy, and indeed overall this should be good for business. It does come at a significant cost for lower income earners, particularly when taking the impact of the $7 co-contribution for visits to the doctor into account. There may be solace for some however, from a national perspective, in that savings here will be invested into a $20 billion Medical Research Future Fund.

Sadly though, what Australian businesses really need is tax reform, including significant reductions in Government red tape and bureaucracy, and this budget has not addressed this issue at all. In fact, the continual tinkering around the edges by successive Governments, through small adjustments here and there, only adds to the administrative burden for business. The Abbott Government has indicated that tax reform is on the agenda. It seems we must wait a little longer to find out how this will look.

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