Financial Navigator

Newsletter May 2014

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Federal Budget 2014

Joe Hockey delivered the Federal Budget speech on 13 May 2014. See the changes announced and how they will affect you.

Tax time approaching

30 June is fast approaching – now is the right time **to plan to save**!

Tax planning is about looking for opportunities

What opportunities are there for you to save tax?

Federal Budget 2014

Temporary Budget Repair Levy

From 1 July 2014 until 30 June 2017, a 2 percent levy will be imposed on individuals' taxable income above $180,000.

This means that:

- Individuals with a taxable income of $18,000 or below will not pay the levy;
- Individuals with a taxable income of $200,000 will pay 2% of $20,000, or $400 of levy; and
- Individuals with a taxable income of $300,000 will pay 2% of $120,000, or $2,400 of levy.

Tax rates

Taxable thresholds from 1/7/ 2014:

Resident Thresholds	Marginal rate (%)
Up to 18,200	0
18,201 to 37,000	19
37,001 to 80,000	32.5
80,001 to 180,000	37
180,001 plus	**47**

The above rates do not include the Medicare levy of 2%.

Taxable thresholds for non-residents from 1 July 2014:

Non-resident thresholds	Marginal rate (%)
Up to 80,000	32.5
80,001 to 180,000	37
180,001 plus	**47**

The Medicare levy is not payable by non-residents.

The only change is to the $180k+ tax bracket. The marginal rate increases from 45% to 47% from 1 July 2014 if the **Temporary Budget Repair Levy** is implemented as proposed.

A number of other tax rates that are currently based on calculations that include the top personal tax rate will also be increased. These tax rates will be increased for the same period that the Temporary Budget Repair Levy is in place.

Fringe Benefits Tax (FBT)

To prevent high income earners from utilizing fringe benefits to avoid the levy (e.g., through salary packaging), the FBT rate will be increased from 47% to 49% from 1 April 2015 until 31 March 2017 to align with the FBT 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-exempt entities, will be protected by increasing the annual FBT caps. In addition, the fringe benefits rebate rate will be aligned with the FBT rate from 1 April 2015.

Changes to Family Tax Benefits

The Govt has announced various measures to the existing family payments system. Some of the main measures include the following:

a) **New supplement for single parents** – From 1 July 2015, single parents who receive the maximum rate of FTB Part A, but are no longer receiving FTB Part B as a result of changes to eligibility, will have access to a new $750 annual supplement for each child aged 6 – 12 years.

b) **FTB Part B for children under 6 years of age** – From 1 July 2015, families eligible for FTB Part B will only receive the payment while their youngest child is under 6 years of age. Families already receiving FTB

Part B with a youngest child at least 6 years of age on 1 July 2015 will continue to receive FTB Part B until 30 June 2017.

c) **FTB part B primary earner income limit –** From 1 July 2015, the primary earner income limit for families to become eligible for FTB Part B will be reduced from $150,000 to $100,000 per annum.

d) **FTB end-of-year supplements** – From 1 July 2015, the FTB Parts A and B end-of-year supplements will be returned to their original amounts of $600 and $300, and will remain at that amount without further indexation.

e) **FTB Part a higher-income free are per child add-on** – From 1 July 2015, the FTB Part A per child add-on amount used to calculate a family's higher income-free area will no longer apply.

f) **Paid Parental Leave** – From 1 July 2015, The Abbott government will deliver Australia's first Paid Parental Leave scheme, which will provide six months paid leave (with an income cap of $100,000 per annum) and will include superannuation. This will support women to remain engaged with their employers, and will help boost their retirement income.

g) **FTB Rates** – The government will maintain current FTB payment rates for two years commencing from 1 July 2014. Under this measure, indexation of the maximum and base rates for FTB Part A and the rate of FTB Part B will be paused until 1 July 2016.

Restart Programme for mature aged job seekers

From 1 July 2014, the government will abolish the Mature Age Worker Tax Offset (MAWTO).

Currently, the MAWTO is only available in respect of a resident individual who was born before 1 July 1957 and who has an amount of net income from working of less than $63,000 for an income year.

Encouraging mature age workers to participate in the workforce can be done more effectively through direct payments or incentives. In particular, from 1 July 2014, under the government's new **Restart Programme**, a payment of up to $10,000 may be available (over a 24-month period – refer below) to employers who hire a full-time mature aged job seeker (aged 50 years or over) who has been unemployed for at least six months (including those receiving the Disability Support Pension).

Specifically, under the *Restart Programme*, payments will commence after the worker has been employed (with an employer) for at least six months, and will be paid in the following instalments:

- $3,000 will be paid after the first six months of employment;
- $3,000 will be paid after 12 months of employment;
- $2,000 will be paid after 18 months employment; and
- $2,000 will be paid after 24 months of employment.
- To be eligible, employers will need to demonstrate that the job they are offering is "sustainable and ongoing", and that they are not displacing existing workers with subsidized job seekers.

Increasing the age pension age to 70 years of age

Building on the former government's move to increase the pension age to 67 by 1 July 2023, new legislation will continue this process to increase the age pension age from 1 July 2025, until it reaches the age of 70 in July 2035. This measure will not affect Australians born before 1 July 1958.

From September 2017, the government will also reset the deeming thresholds for the income test to $30,000 for single pensioners and $50,000 for pensioner couples combined (or $25,000 per member of an allowee couple). Furthermore, for a period of three years from July 2017, the Government will pause the indexation of the income and assets test free areas for the pension (i.e., the amount of income and assets that individuals and couples can have before the pension begins to be reduced).

Other measures

Other measures announced include:

- Individuals will have the opportunity to withdraw excess non-concessional superannuation contributions rather than pay additional tax for contributions from 1 July 2013.
- The superannuation guarantee rate will increase to 9.5% effective 1 July 2014. No further increases to superannuation guarantee will occur until 1 July 2018.
- The Dependent Spouse Tax Offset will be removed from 1 July 2014.
- Changes to Higher Education Loan Program repayment scheme.
- Govt confirmed intention to reduce the corporate tax rate to 28.5% from 1 July 2015.

Don't forget the Medicare levy increase to 2% on 1 July 2014 and its flow-on effects

The Medicare levy will increase from 1.5% to 2% from 1 July 2014. That was announced in last year's Budget and has been legislated. The intention of the increase is to help fund the proposed National Disability Insurance Scheme (NDIS), now renamed DisabilityCare Australia. This would mean that, coupled with the proposed new budget deficit levy, the effective top marginal tax rate would become 49% from that date.

Increasing the Medicare levy also affects other tax rates that are linked to the top personal marginal rate and the Medicare levy e.g. FBT, excess contributions tax and the tax withheld on bank accounts when the account holder has not provided their tax file number. The FBT rate is 47% for the 2014-15 FBT year.

Section 29 of the *Income Tax Rates Act 1986* specifies the rate of tax payable by trustees of complying and non-complying Super funds and retirement savings account providers in respect of no-TFN contributions income. The rate of tax is calculated in accordance with s 29(2) of the *Income Tax Rates Act 1986*. The component of the rate of tax calculation, which incorporates the Medicare levy rate, increases to 2% from 1 July 2014.

Medicare levy surcharge and private health insurance offset thresholds to be frozen

The income thresholds for the private health insurance offset and the Medicare levy surcharge will be frozen for 3 years from 1 July 2015. The 2013-14 thresholds are set out in the tables below. The private health insurance offset table includes the rebate percentages that apply from 1 April 2014. The rebate percentages were adjusted down in accordance with the simplification of the rebate adjustment.

	Income for surcharge purposes 2013-14		**Private health insurance rebate percentages from 1 July 2014**		
Tier	**Singles $**	**Families $**	**Under 65 %**	**Age 65-69 %**	**Age 70+ %**
Base	0 – 88,000	0 – 176,000	**29.040** (30)	**33.880** (35)	**38.720** (40)
Tier 1	88,001 – 102,000	176,001 – 204,000	**19.360** (20)	**24.200** (35)	**29.040** (30)
Tier 2	102,001 – 136,000	204,001 – 272,000	**9.680** (10)	**14.520** (15)	**19.360** (20)
Tier 3	136,001+	272,001+	0	0	0

Notes: The rebate percentage applying for the period 1 July 2013 to 31March 2014 are shown in brackets after the rebate percentage (in bold) applying from 1 April 2014. The income thresholds will be indexed from 1 July 2014. For families, the income thresholds are increased by $1,500 for each child after the first.

	Income for surcharge purposes 2013-14		Medicare levy surcharge
Tier	**Singles $**	**Families $**	
Base	0 – 88,000	0 – 176,000	Nil
Tier 1	88,001 – 102,000	176,001 – 204,000	1%
Tier 2	102,001 – 136,000	204,001 – 272,000	1.25%
Tier 3	136,001+	272,001+	1.5%

Note : For families, the income thresholds are increased by $1,500 for each child after the first

Tax time is approaching

30 June is just around the corner. Don't wait till after 30 June to think about your tax. Contact Antree now to discuss your personal tax affairs. We can discuss how the proposed changes will affect your particular circumstances. Taking action now might just save you some tax Dollars.

Tax planning is about looking for opportunities

The 2% debt levy on incomes above $180,000 is expected to affect a relatively small number of people, around 400,000 taxpayers.

For those affected, the tax increase proposed to apply from 1 July 2014 (on top of the already legislated increase in the Medicare levy to 2%) would bring into play the traditional tax planning measures of bring forward revenue where possible (to be taxed at a lower rate) and deferring deduction(which will be worth more after 1 July 2014). An uncertainty however exists given the opposition to the deficit debt levy by Labor and the Greens (the Greens apparently want to see a permanent levy on high income earners), meaning it is highly unlikely to pass through Parliament by 30 June 2014. The chances of the debt levy passing Parliament would seem to hinge on its support in the post-1 July Senate. That will make some tax planning for the year ending 30 June 2014 difficult.

Negatively geared investments will become even more attractive to high income earners as the tax savings will be amplified by the higher top marginal rate.

Contact Antree to discuss what tax strategies are best for you.

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