Federal Budget Analysis (14 May 2013)

The 2013 Federal Budget only contained a few surprises as many of the measures had already been announced. Please note that these measures are proposals only and may or may not be made law.

Summary

- The Medicare levy will increase by 0.5% to 2% pa from 1 July 2014.

- The $5,000 Baby Bonus will be removed from 1 March 2014. Instead, families eligible for Family Tax Benefit (Part A) will receive $2,000 following the birth of their first child, and $1,000 for each subsequent child.

- The superannuation concessional contribution cap will increase from $25,000 pa to $35,000 pa from:
  - 1 July 2013 for people 60 and over, and
  - 1 July 2014 for people 50 and over.

- From 1 July 2014, all pension asset earnings above $100,000 will be taxed at 15%.

The key measures are as follows…

Personal tax changes

No changes to tax rates

The proposed changes to the marginal tax rates and income thresholds, which were due to take effect from 1 July 2015, will no longer be going ahead.

The table below summarises the thresholds and taxation rates that will continue to apply.

Current income thresholds	Marginal tax rates
$0 - $18,200	0%
$18,201 - $37,000	19%
$37,001 - $80,000	32.5%
$80,001 - $180,000	37%
$180,001 +	45%

Introduction of DisabilityCare Australia

Date of effect: 1 July 2014

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

The Medicare 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.

Baby bonus to be replaced with new Family Tax Benefit payment

Date of effect: 1 March 2014

The Baby Bonus, which currently pays $5,000 to eligible parents for each new born or newly adopted child, will be replaced from 1 March 2014.

Instead, families who are eligible for the Family Tax Benefit Part A (FTB(A)) will receive $2,000 following the birth of their first child, and $1,000 for each subsequent child. This benefit will be paid as part of their usual FTB(A) payment, instead of a cash bonus payment.

Medicare levy low-income threshold

Date of effect: 1 July 2012

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

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

Changes to self-education expense deductions

Date of effect: 1 July 2014

From 1 July 2014, tax deductions for self-education expenses will be capped at $2,000 pa for individuals.

Early HECS-HELP repayments removed

Date of effect: 1 July 2014

Up-front and voluntary early repayments under the HELP program will be removed in 2014. University and other eligible students will no longer receive a discount if they pay fees up-front or repay their HELP debt early.

Net Medical Expenses Tax Offset phase out

Date of effect: 1 July 2019

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

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

Superannuation

Recent super reforms confirmed

Date of effect: various

The proposed reforms to Australia's superannuation system that were announced on 5 April 2013 have been confirmed.

The key superannuation measures include:

1. Higher concessional contribution cap

The concessional contribution (CC) cap will increase to $35,000 pa from:

- 1 July 2013 for people 60 and over, and
- 1 July 2014 for people 50 and over.

The cap will remain at $25,000 pa for all other ages.

The table below outlines the proposed caps that will be available over the coming years.

Age	2012/13	2013/14	2014/15
Under 50	$25,000	$25,000	$30,000
50 – 59	$25,000	$25,000	$35,000
60 and over	$25,000	$35,000	$35,000

2. Excess contributions tax reforms

From 1 July 2013, individuals will be allowed to withdraw any excess concessional contributions made from their super fund.

In these instances, excess concessional contributions will be taxed at the individual's marginal tax rate, plus an amount for interest.

Reduced tax concessions for high-earners

Date of effect: 1 July 2012

In the 2012 Federal Budget, the Government announced that individuals with incomes above $300,000 pa will pay an additional 15% tax on their concessional super contributions. Draft legislation for this measure was recently released and was confirmed in the 2013 Budget.

Retirement incomes

Changes to tax on pension asset income

Date of effect: 1 July 2014

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.

Minimum Pension Payments

Date of effect: 1 July 2013

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	2012-13	2013-14
Under 65	3%	4%
65-74	3.75%	5%
75-79	4.5%	6%
80-84	5.25%	7%
85-89	6.75%	9%
90-94	8.25%	11%
95 or more	10.5%	14%

Social security changes

Income free area for allowance recipients

Date of effect: 20 March 2014

The income free area for certain allowance recipients will increase from $62 per fortnight to $100 per fortnight. This means, from 20 March 2014, an individual can earn up to $100 per fortnight before their maximum allowance is reduced.

This change will apply to:

- Newstart Allowance
- Sickness Allowance
- Parenting Payment (partnered)
- Widow Allowance
- Partner Allowance Payment, and
- Partner Allowance Pension.

Family payments

There have been a number of changes to family payments. In some cases, this will mean fewer families will receive benefits and others will see their payments reduce as their income grows.

Some key changes include:

- **Changes to age eligibility from 1 January 2014**: A family will only be eligible for FTB(A) until a child who is 16 years or older completes school.
- **Reduction in time to claim FTB and Child Care Assistance from 1 July 2012**: When claiming FTB or Child Care Assistance, families will now only have 12 months from the end of the financial year to finalise their claim and determine if they're eligible for an end of year supplement.

Deeming super account based income streams

Date of effect: 1 January 2015

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

This concession will continue indefinitely 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.

Housing help for Seniors

Date of effect: 1 July 2014

The Government will trial a program from 1 July 2014 to help older Australians move to more age-appropriate housing.

The program will apply an assets test exemption to Age Pension recipients who downsize their family home. To be eligible, the family home needs to have been owned for at least 25 years and at least 80% of the excess sale proceeds (up to $200,000) need to be deposited with an authorised institution.

The exemption also applies to people moving into a retirement village or granny flat, but not residential aged care.

Any questions?

If you have any questions, please call us on **9382 8885** between 9am and 5pm (WST), Monday to Friday.