Westmount | Financial Solutions

2013-14 Mid-Year Economic & Fiscal Outlook.

Announcements linked to the Mineral Resource Rent Tax…

Abolishing the low income super contribution

The Government will abolish the low-income super contribution for any contributions made on or after 1 July 2013.

Westmount comment: This proposed change may impact clients who have already made concessional contributions in the 2013-14 financial year. It will also change the optimal mix of contributions that should be made by many existing clients earning less than $37,000 pa.

Maintaining the super guarantee rate at 9.25% until 30 June 2016

The Government will effectively pause the existing gradual increase in the super guarantee (SG) rate at 9.25% for two additional years until 30 June 2016.

Westmount comment: It is unclear from this announcement whether future SG rates will also reduce or will remain at existing levels. For example, on 1 July 2016, it is unclear whether the SG rate will increase from 9.25% to 9.5%, or from 9.25% to 10.5% (10.5% being the existing legislated rate for the 2016-17 financial year).

Changing small business depreciation concessions

The Government will unwind previous increases in the small business instant asset write-off so that it reduces back to its previous level of $1,000 from 1 January 2014. This write-off had increased to $5,000 under the previous Government's MRRT package of legislation and to $6,500 under its Clean Energy legislation.

The instant tax write-off available to small businesses for the first $5,000 of eligible motor vehicle purchases will also be discontinued from 1 January 2014.

Discontinuing the company loss carry-back

The Government will remove the ability for companies to carry-back losses effective from the start of the 2013-14 financial year. The loss carry-back measures currently allow eligible companies to carry-back revenue losses and offset them against tax paid in certain previous years.

Abolishing the Schoolkids Bonus and Income Support Bonus

The Government will immediately cease the following two assistance payments:

1. Schoolkids Bonus – a yearly payment of $820 for each child in secondary school and $410 for each child in primary school.

2. Income Support Bonus – a twice-yearly tax free payment of $105.80 for singles and $88.20 for members of a couple paid to recipients of Newstart Allowance, Youth Allowance, Parenting Payment, Sickness Allowance and other eligible benefits.

Other announcements…

Job commitment bonus

From 1 July 2014, job seekers aged 18 to 30 who have been unemployed for 12 months or more and receiving Newstart Allowance or Youth Allowance (Other) will be eligible for a $2,500 payment if they become employed and remain off Newstart Allowance or Youth Allowance (Other) for a continuous period of 12 months.

Where such job seekers then remain employed (and not in receipt of the above allowances) for a further continuous period of 12 months, a further $4,000 payment will be made.

Relocation Assistance to Take up a Job programme

From 1 July 2014, eligible job seekers willing to relocate for employment can participate in the Relocation Assistance to Take up a Job programme. The programme will cover the cost (eg, air travel, removalists) of relocating to a regional area (up to $6,000) or relocating to a metropolitan area (up to $3,000). An additional $3,000 applies for families with dependent children.

To be eligible, job seekers must:

1. have been unemployed for 12 months or more

2. be receiving Newstart Allowance, Youth Allowance (Other) or Parenting Payment, and

3. be participating in Job Services Australia or be eligible for Disability Employment Services or Remote Jobs and Communities Programme Services.

Job seekers who leave employment within the first 6 months of relocating will not be eligible to receive unemployment benefits for a 26 week period.

Seniors employment incentive payment

From 1 July 2014, the Government will introduce a payment of $3,250 to employers who hire a job seeker aged 50 or over who has been receiving income support for at least 6 months. Payments will only commence after the employee has been employed for at least 6 months, and will then be paid in fortnightly instalments over a further period of 6 months.

Changing overseas eligibility period for Family and Parental Payments

From 1 July 2014, the Government will increase the period of time a recipient of certain family and parental payments can be temporarily overseas while still receiving payment to 56 weeks. This amends a proposal in the 2013-14 Federal Budget that reduced this period of time from three years to one year. Affected payments include Family Tax Benefit and Paid Parental Leave. Australian defence force and Federal Police deployed overseas are not impacted by this measure or the 2013-14 Federal Budget measure, meaning they can continue to access these payments while overseas for up to 3 years.

Paid Parental Leave – employers not required to administer payments

From 1 March 2014, employers will no longer have to make Government funded Paid Parental Leave payments to eligible employees. Payments will instead be made by the Department of Human Services. Employers and employees can still agree for payments to continue to be paid by the employer.

Tax and superannuation measures proceeding…

Net Medical Expenses Tax Offset (NMETO) phase out

The Government will phase out the net medical expenses tax offset (NMETO), with transitional arrangements for those currently claiming the offset until the 2014-15 financial year.

From 1 July 2013 those taxpayers who claimed the NMETO for the 2012-13 income year will continue to be eligible for the NMETO for the 2013-14 income year if they have eligible out of pocket medical expenses above the relevant thresholds. Similarly, those who claim the NMETO in 2013-14 will continue to be eligible for the NMETO in 2014-15.

This change will not apply to all taxpayers - the offset will continue to be available for taxpayers for out-of-pocket medical expenses relating to disability aids, attendant care or aged care until 1 July 2019.

Lost super – increased account balance threshold

The Government proposes increasing the account balance threshold where the superannuation balances of inactive and uncontactable members must be sent to the ATO.

The account balance threshold is proposed to increase from $2,000 to $4,000 from 31 December 2015 and $6,000 from 31 December 2016.

Increased income threshold for Farm Management Deposits

The Farm Management Deposit scheme (FMD), encourages farmers to set aside pre-tax income in good years for use in low-income years.

Currently, FMDs are available to primary producers with taxable non-primary production income of no more than $65,000 in the year of deposit. Under the proposed reforms, the threshold will increase from $65,000 to $100,000 on 1 July 2014.

CGT – broadening the exemptions for certain compensation and insurance payments

The Government will proceed with the former Government's 2012-13 Federal Budget proposal to confirm that certain compensation payments and insurance proceeds (eg, TPD) receive the same CGT exemptions where received through a trust / complying super fund as if they had been received directly. This change will be effective from 1 July 2005.

SMSF administrative directions and penalties

The Government will, from 1 July 2014, proceed with the former Government's proposal to provide the ATO with a range of more flexible and cost-effective penalty options in respect of SMSF trustees, including the ability to:

> issue administrative penalties on a sliding scale

> issue directions to rectify issues within certain timeframes

> enforce mandatory education for trustees

Look through treatment for earnout arrangements

The Government will proceed with implementing look-through treatment for the CGT treatment of earnout arrangements. An earnout arrangement is one where the terms of the sale contract requires either the buyer or the seller to make payments that are contingent on the performance of the business.

By treating payments from the arrangement as relating to the underlying asset, this change ensures that clients are not disadvantaged for small business CGT concession purposes where they dispose of business assets under these arrangements.

Penalties for promoters of superannuation illegal early release schemes

The Government will proceed with the 2010 Stronger Super proposal that introduces criminal and civil penalties for promoters of schemes designed to obtain the illegal early release of superannuation benefits.

Tax and superannuation measures not proceeding…

Tax on superannuation pensions

The Government will not proceed with the proposal to tax earnings on assets that support a pension over $100,000 at 15%. The current rules, which exempt all earnings on assets that support a pension from taxation, will continue.

Reasons cited for not going ahead with the proposal include complexity and compliance costs.

Concessional taxation for deferred annuities

The Government will not immediately proceed with providing deferred annuities with the same concessional tax treatment that superannuation assets supporting retirement income streams receive.

However, the Government announced it will consider the unnecessary barriers to the development of longevity insurance products as part of a broader regulatory review of retirement income streams.

Self-education expenses cap

The Government will not proceed with the Budget proposal to cap the tax deduction for self-education expenses to $2,000.

Reasons cited for not going ahead with the proposal include no credible evidence of substantial abuse of the deduction and the highest number of claims over $2,000 for self-education expenses were made by people earning less than $80,000.

Establish a council of superannuation guardians

The Government will no longer proceed with establishing a council of superannuation guardians / custodians, which the former Government had proposed to assess future super changes against a charter of superannuation adequacy and sustainability.

Superstream measures abandoned

The Government will not proceed with a number of Superstream measures announced by the former Government in its response to the Cooper Review into Australia's super system, including:

> requiring the ATO to initiate the auto-consolidation of certain superannuation accounts into a member's active fund unless the member opts out

> requiring funds to report contributions either quarterly or every six months

> making rollovers to SMSFs a 'designated service' under the Anti-Money Laundering and Counter Terrorism-Financing Act 2006

> requiring super funds to transfer contributions with no associated tax file number to the ATO as unclaimed money.

SMSFs – acquisitions and disposals between related parties

The Government will not proceed with the former Government's Stronger Super proposal requiring acquisitions and disposals between SMSF trustees and their related parties to be:

> conducted on-market where a market exists, or

> supported by a valuation from a suitably qualified independent valuer where a market does not exist

Taxation of superannuation benefits received through illegal early release

The Government will not proceed with the former Government's Stronger Super proposal to effectively tax illegal early super withdrawals at 45% plus Medicare levy. Instead, such withdrawals will maintain their existing treatment of being taxed at the member's normal marginal income tax rates.

Better targeting of not-for-profit tax concessions

The Government will not proceed with the proposal to ensure that tax concessions provided to not-for-profit entities are targeted only at activities that further the entity's altruistic purposes. The Government will instead explore simpler alternatives.

Deed clauses preventing excess amounts being treated as contributions

The Government will not proceed with the 2011 proposal to make ineffective any clauses in a super fund's trust deed that seek to prevent excess contributions received from counting towards a member's contributions caps.

The information contained in this briefing is based on the understanding Westmount Securities Pty Ltd ABN 42 090 595 289 AFS Licence 225715 (Westmount) has of the relevant laws and Government announcements as at 17 December 2013. This briefing should not be taken to indicate if, when or the extent to which, announcements will become law. While all care has been taken in the preparation of this briefing (using sources believed to be reliable and accurate), no person, including Westmount, accepts responsibility for any loss suffered by any person arising from reliance on the information. This briefing does not take into account any individual's objectives, financial situation or needs.