2015/16 Federal Budget Summary

Key announcements included in this year's Budget were:

- reforms to the age pension assets test
- a families support package with a focus on child care and
- a suite of measures to support small business, including tax cuts and increased depreciation allowances.

However, the Budget also held a few minor surprises including an important change to the assessment of rental income from the former home under the age care means test.

It is important to note that the Budget announcements are still only proposals at this stage.

Superannuation

Early access to superannuation for people with terminal illness

The Government intends to amend the superannuation conditions of release to make it easier for people suffering a terminal illness to access their superannuation benefits from 1 July 2015.

Under the current rules, a person with a terminal illness can only access their preserved super benefits where they are diagnosed as having less than 12 months to live.

The Government plans to amend the relevant regulations to change the life expectancy period to 24 months. This change will provide people with access to their super savings earlier, which may assist with the payment of treatment costs and allow them to make the most of time with their family.

Lost and unclaimed superannuation

The Government has announced it will implement a package of measures from 1 July 2016 to reduce red tape for superannuation funds and individuals. The changes include removing redundant reporting obligations and streamlining lost and unclaimed superannuation administrative arrangements.

The government says the changes aim to make it easier for individuals to be reunited with their lost and unclaimed superannuation.

Cost recovery of superannuation activities

The Government has announced that from 1 July 2015 supervisory levies paid by financial institutions will be increased to recover the cost of superannuation activities undertaken by the ATO and the Department of Human Services. This will apply from 1 July 2015.

Personal taxation

Employee Share Schemes - further changes to tax treatment

The Government will make further amendments to the proposed changes to taxation of Employee Share Schemes (ESS) from 1 July 2016. The aim is to make ESS more accessible for Australian businesses and their employees, especially start-ups. This measure addresses:

- Excluding eligible venture capital investments from the aggregated turnover test and grouping rules (for the start-up concession).
- Providing the CGT discount to ESS interests that are subject to the start-up concession, where options are converted into shares and the resulting shares are sold within 12 months of exercise.
- Allowing the Commissioner of Taxation to exercise discretion in relation to the minimum three-year holding period where there are circumstances outside the employee's control that make it impossible for them to meet this criterion. ESS interests provided at a small discount by eligible start-up companies will not be subject to up-front taxation if they are held by the employee for at least three years.

Fly-in fly-out workers ineligible to the Zone Tax Offset

Fly-in fly-out (FIFO) workers whose normal place of residence is outside the remote ‘zone’ will be ineligible for the Zone Tax Offset (ZTO). Currently, workers whose normal place of residence is outside the ‘zone’ can benefit from the offset by working in a specified remote area for more than 183 days in an income year.

The Government says this measure is designed to better target the ZTO to people who have taken up genuine residence in remote zones.

Higher Education Loan Programme – recovery of repayment from overseas debtors

The Government will extend the Higher Education Loan Programme (HELP) repayment framework to debtors residing overseas for six months or more. People with a HELP debt will be required to make repayments if their worldwide income exceeds the minimum repayment threshold at the same repayment rates as debtors in Australia.

Increasing the Medicare levy low-income thresholds

The Government will increase the Medicare levy low-income thresholds for singles, families and single seniors and pensioners to take into account movements in the Consumer Price Index. Taxpayers with taxable income below this threshold are exempt from paying Medicare Levy. These changes are to apply from 2014-15.

Medicare low income thresholds

	Current	Proposed
Individuals	$20,542	$20,896
Married sole parent	$34,367	$35,261
For each dependent child or student, add:	$3,156	$3,238

Medicare low income thresholds – people entitled to seniors and pensioner tax offset

	Current	Proposed
Individuals	$32,279	$33,044
Married sole parent	$46,000	$46,000[1]
For each dependent child or student, add:	$3,156	$3,238

[1] Assume no change to this threshold as it is not mentioned in the Budget papers.

Changes to tax residency rules for temporary working holiday makers

People who are temporarily in Australia for a working holiday will be treated as non-residents for tax purposes, regardless of how long they are here. This means they will be taxed at 32.5% from their first dollar of income. This measure is proposed to apply from 1 July 2016.

Currently, a working holiday maker is treated as a resident for tax purposes if they satisfy the tax residency rules, typically that they are in Australia for more than six months. This means they are able to access the tax-free threshold, the low income tax offset (LITO) and the lower tax rate of 19% for income above the tax free threshold up to $37,000.

Business taxation

Tax incentives for small business

The Government announced a range of tax concessions to assist small business entities. Generally, a business is a small business entity if it has business turnover (aggregated turnover) of less than $2 million.

Company tax cuts

A tax cut of 1.5% is proposed to apply to all incorporated small business entities from the 2015-16 financial year. If implemented, this measure will reduce the company tax rate for small business entities to 28.5%.

Importantly, the Government has confirmed the current maximum franking credit rate of 30% will remain unchanged for all companies, maintaining the existing arrangements for investors, such as self-funded retirees.

Unincorporated small business tax cuts

Individual taxpayers with business income from an unincorporated small business will be eligible for a 5% tax discount on income tax payable on business income received from the 2015-16 financial year. The discount will be capped at $1,000 per individual for each income year.

Expansion of accelerated depreciation

Small businesses will be able to claim an immediate deduction on assets that cost less than $20,000 that they start to use or install ready for use, between Budget night and 30 June 2017. Assets valued at $20,000 or more can continue to be placed in the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter.

The Government will also suspend the current ‘lock out’ laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) until 30 June 2017.

From 1 July 2017, the thresholds for the immediate depreciation of assets and the value of the pool will revert back to existing arrangements.

Deduction on professional advice fees relating to establishment of a business

New businesses will be able to claim an immediate deduction on a range of professional expenses associated with starting a business, such as professional, legal and accounting advice. This measure is proposed to apply from 2015-16.

Expenditures on commencement of a business are currently not eligible for immediate deduction as it is considered an outgoing of a capital nature. Instead, they are currently written off over five years i.e. 'blackhole expenditure' under section 40-880 of ITAA 1997. This measure will allow more money to be invested in the growth of new businesses.

Capital gains tax roll-over relief for changes to entity structure

From the 2016-17 financial year the Government proposes to allow small businesses to change legal structure without attracting a capital gains tax (CGT) liability at that point. Currently, CGT roll-over relief is available only for individuals who incorporate but all other entity type changes have the potential to trigger a CGT liability.

Fringe benefit tax change for work-related electronic devices

From 1 April 2016 a fringe benefit tax (FBT) exemption will be available to small businesses that provide employees with more than one qualifying work-related portable electronic device, even where the item has substantially similar functions.

This removes confusion in relation to the current rules where an exemption is only provided for one work-related portable electronic device of each type.

Accelerated depreciation for primary producers

From 1 July 2016, the Government will allow all primary producers to immediately deduct capital expenditure on fencing and water facilities, as well as allow primary producers to depreciate over three years all capital expenditure on fodder storage assets such as silos and tanks used to store grain and other animal feed.

Measures to encourage business start-ups and entrepreneurship

In order to encourage business start-ups and entrepreneurship, from 2014-15 the Government will:

- Provide funding to develop a single online portal for business and company registration.
- Publish new computer code to enable developers to build new registration software.
- Reduce the number of business identifiers.
- Provide funding to ASIC to implement and monitor a regulatory framework to facilitate the use of crowd-source equity funding, including simplified reporting and disclosure requirements. This is proposed to apply from 2015-16.

Strengthening of multinational anti-avoidance laws

The Government has announced it will strengthen the multinational anti-avoidance tax laws in an attempt to stop large multinational companies diverting profits earned in Australia away from Australia by using contrived or artificial tax arrangements.

The new law will apply to tax benefits obtained from 1 January 2016 (under both new and existing schemes).

It is proposed that the Commissioner of Taxation will have the power to recover unpaid taxes and issue a fine of an additional 100% of unpaid taxes plus interest. The increase in administrative penalty will apply for the income year commencing on or after 1 July 2015.

Apply GST to off-shore suppliers of digital products and services in Australia

The Government has announced GST will apply to off-shore supplies of digital products and services imported by consumers from 1 July 2017. Currently GST doesn't apply to cross border supplies and all revenues raised from this measure will go to the States.

Pensions, allowances and concession cards

Pension asset test changes

From 1 January 2017, the following changes to the pension asset test have been proposed:

- increase the 'asset free areas' for both homeowners and non-homeowners
- increase the asset test taper from $1.50pf to $3pf per $1,000 of assets over the lower threshold.

According to the government the proposed changes will result in some people either completely losing their age pension entitlement or having their entitlement to a part pension reduced. Conversely, other people may see a small increase to their entitlement. For example, the government has forecasted approximately:

- 91,000 will lose entitlement to the pension
- 235,000 will have their pension reduced
- 170,000 will receive a pension increase.

Asset free area changes

The proposed changes to the asset free area (the lower assets test threshold) are:

- For homeowners – the asset free area is proposed to increase from $202,000 to $250,000 for singles and from $286,500 to $375,000 for couples. This represents an increase in the lower assets test threshold of $48,000 and $88,500 for singles and couples respectively.
- For non-homeowners – the asset free area is increasing from $348,500 to $450,000 for singles and from $433,000 to $575,000 for couples. This represents an increase in the lower assets test threshold of $101,500 and $142,000 for singles and couples respectively.

For those with lower levels of assets, these changes may result in an increased rate of age pension.

The government has also confirmed the comparatively larger increase in the lower assets test level for non-homeowners is in recognition of higher living costs.

Asset test taper

The asset test taper rate (the amount by which a person's pension entitlement decreases under the assets test) is proposed to increase from $1.50pf to $3pf per $1,000 of assets over the lower threshold.

Under these proposed changes the asset test taper rate will return to 2007 levels and will result in a substantial reduction in the upper assets test threshold.

This table sets out the current and proposed asset test thresholds:

PENSION ASSET TEST

	Current – Lower threshold	Proposed – Lower threshold	Current - Cut-off limit	Proposed – Cut-off limit[2]
Single Homeowner	$202,000	$250,000	$755,500	$547,000
Single Non-Homeowner	$348,500	$450,000	$922,000	$747,000
Couple Homeowner	$286,500	$375,000	$1,151,500	$823,000
Couple Non-Homeowner	$433,000	$575,000	$1,298,000	$1,023,000

Concession cards

The government estimates that approximately 12% of pensioners will lose entitlement to the pension as a result of the changes to the asset test.

These people will automatically be issued with a Commonwealth Seniors Health Card, or a Health Care Card for those under pension age.

Previously announced changes to income test free areas and deeming thresholds

Due to the changes in the pension asset test, the government will not proceed with changes to the pension income test free areas and deeming thresholds that were announced in the 2014 Federal Budget.

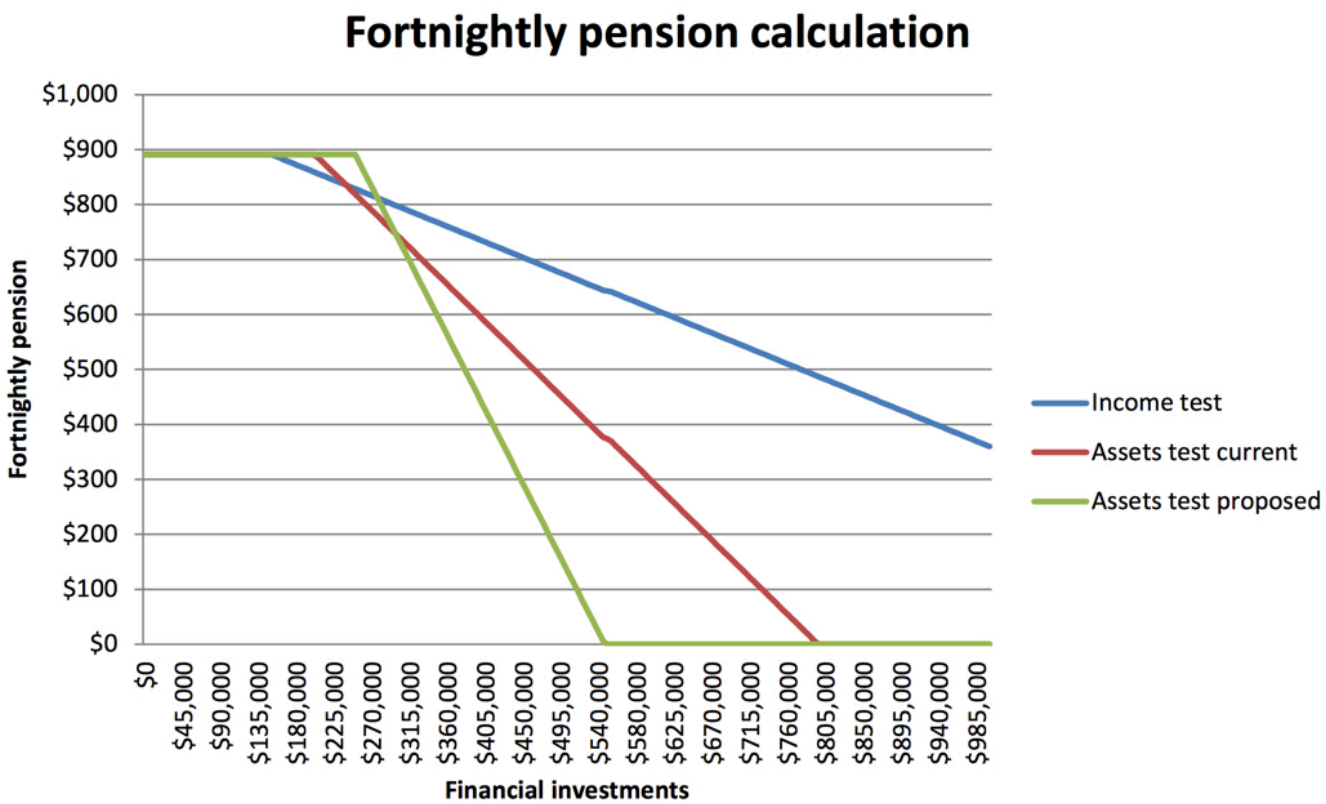
It was previously announced that the Government would freeze indexation of the pension income test free area for 3 years from 1 July 2017. In addition, deeming thresholds were proposed to be reset from 20 September 2017 to $30,000 for singles and $50,000 for couples.

Westmount technical comment:

What would be the impact on pensioners?

When considering the impact of the proposed asset test changes, it is important to consider the interaction of both the asset and income tests.

The graph below assumes a single homeowner has financial investments subject to deeming at current rates. The graph illustrates the rate of fortnightly age pension payable at various levels of financial investments under the income test, current asset test and proposed asset test.



Assumes deeming rates of 1.75% and 3.25%

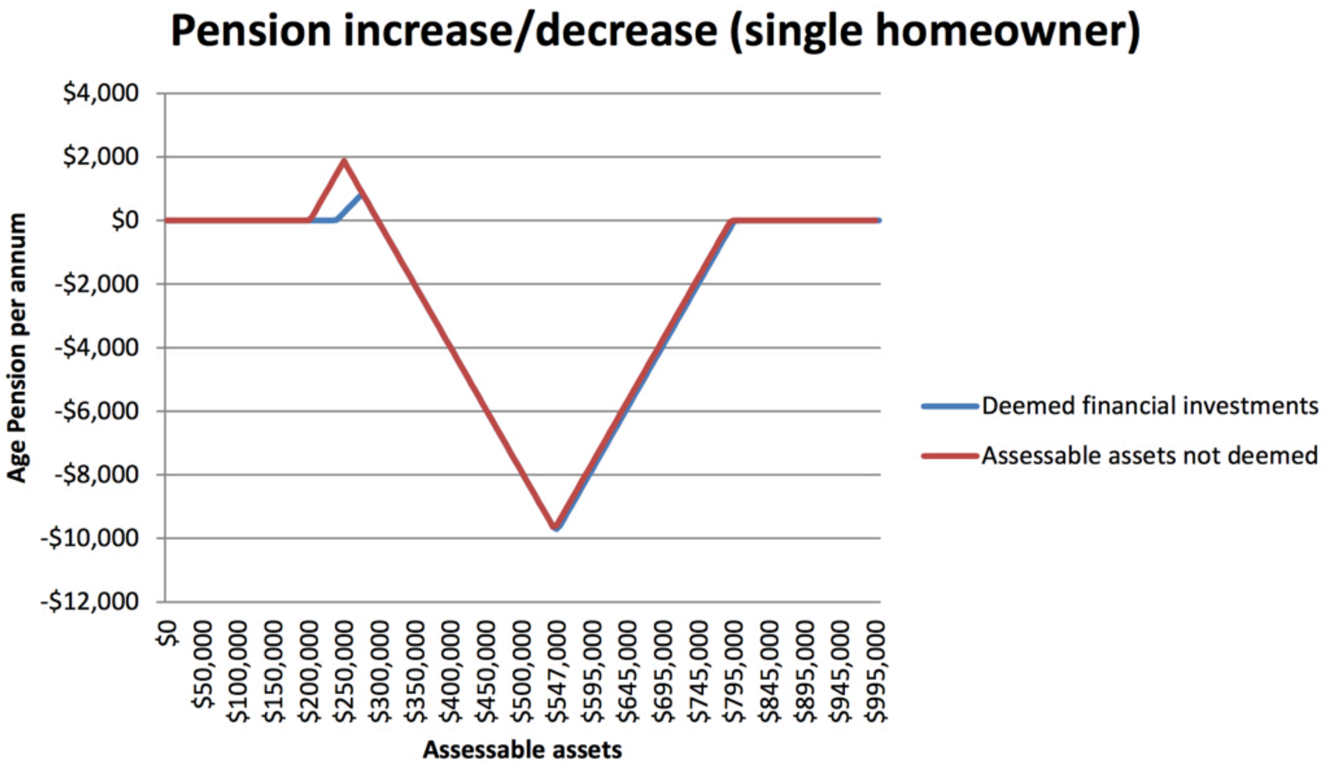
The graph demonstrates that at lower levels of assets it is the income test that reduces a person's pension entitlement, rather than the asset test.

For example, a single homeowner with financial investments of $220,000 would receive the maximum age pension under the proposed asset test changes; however under the income test they receive a reduced age pension of $847pf. Therefore the proposed increase to the asset free area would not, in this example, result in an increase in age pension.

In fact, under the current deeming rates the proposed asset test would not take over from the income test until financial investments reach $280,000.

The following graph illustrates the increase/decrease in age pension at various levels of assessable assets. It compares the effect of deemed financial investments to assessable assets with no assessable income, such as a 'grandfathered' account based pension.

For example, the graph shows that when we assume all assets are subject to deeming, an increase in age pension applies to a very narrow band of asset levels….



Assumes deeming rates of 1.75% and 3.25%

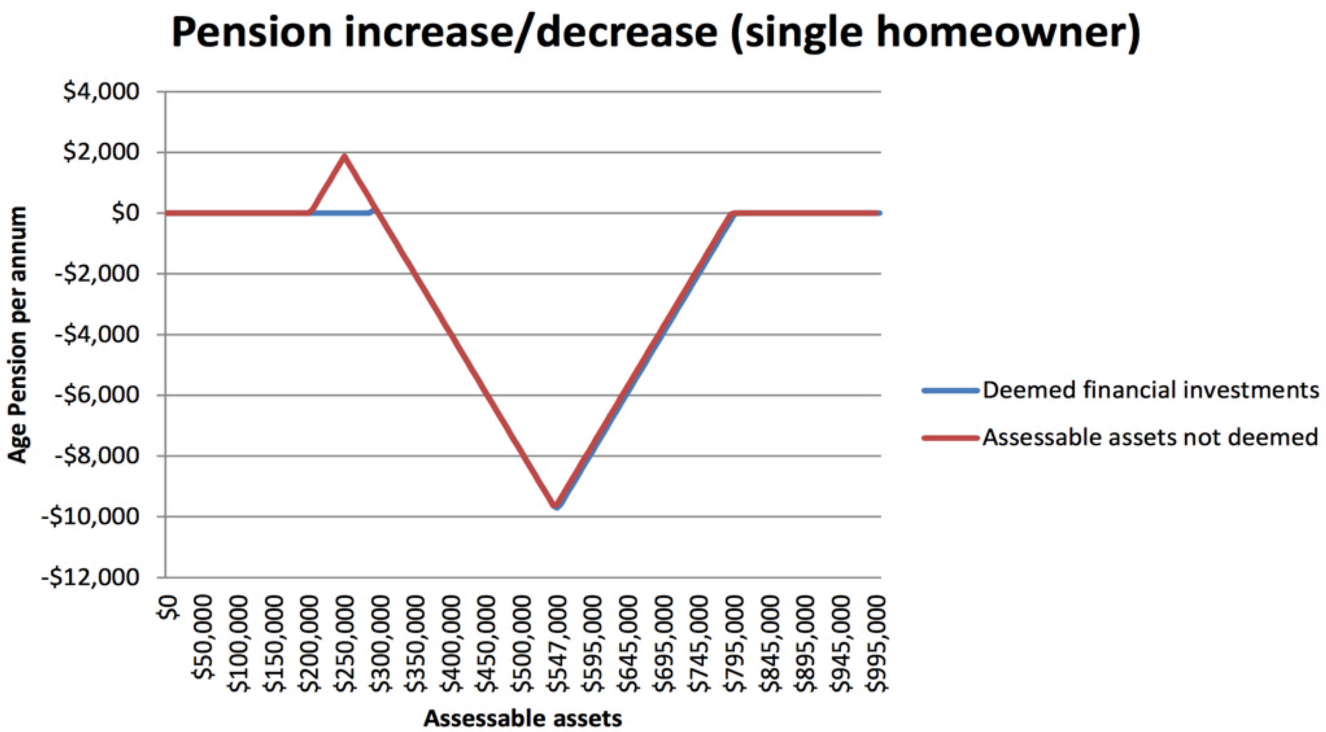
For example, the blue line on the graph demonstrates that for single homeowners, only those with financial investments between $240,000 and $295,000 receive an increase in age pension. Those with financial investments between $202,000 and $240,000 who might be expected to receive an increase due to the higher asset free area miss out as they are income tested.

The graph also shows that single pensioners with financial investments exceeding $295,000 receive a reduced age pension under the proposed changes with the biggest reduction peaking at $547,000 of assessable assets, where they lose $9,711pa.

What if deeming rates were higher?

If deeming rates return to more historically normal levels of say 2.5% and 4%, the result is quite different.

In the graph below, the blue line demonstrates no increase in age pension at lower levels of assets as the income test results in the lower rate of pension. The result is that the increase in the asset free area is not providing any age pension benefit….



Assumes deeming rates of 2.5% and 4%

Strategy implications

The changes to the pension asset test have a number of important implications for retirement planning:

- Additional retirement savings may be required to fund the shortfall created by reduced pension entitlements.

  Contribution levels should be reviewed to ensure there will be sufficient retirement savings to meet income needs in retirement, taking into account the reduction in pension entitlements.

- Strategies that reduce assessable assets will become more effective.

  Currently, for every $1,000 reduction in assessable assets, asset tested pensioners receive an additional $1.50pf of pension. As a result of the changes, for every $1,000 reduction in assessable assets pensioners will receive an additional $3.00pf of pension.

  Going forward, some possible asset test reduction strategies may include:

  - \- contributing to superannuation in the name of a spouse under age pension age
  - \- improving the principal home
  - \- gifting within allowable limits
  - \- gifting five years prior to age pension age
  - \- long term annuities with a depleting asset value.

End of Westmount technical comment.

Defined benefits scheme income test treatment

From 1 January 2016, the level of income that can be excluded from the pension income test will be capped at 10%.

The Government claims an anomaly was unintentionally created in 2007 which allowed some people to exclude a large percentage of their defined benefit income stream from the pension income test.

The Government states that around 65% of income support recipients with payments from defined benefit schemes have deductible amounts of 10% or less and will not be affected by this measure.

Department of Veterans Affairs pensions and defined benefit pensions paid by military superannuation funds are proposed to be exempt from this measure.

Pension portability

From 1 January 2017, those affected by proportional pension portability will have their rate of pension reduced after six weeks from leaving Australia rather than the current 26 week period.

Affected payments include Age Pension, Wife Pension, Widow B Pension and the Disability Support Pension.

People affected by proportional pension portability include those who have less than 35 years Australian Working Life Residence. Australian Working Life Residence refers to the period of time a person has resided in Australia between the ages of 16 and age pension age.

Pensioners overseas at the date of implementation are not affected unless they return to Australia and make a subsequent overseas trip.

Cessation of low income supplement

From 1 July 2017, the low income supplement will no longer be available.

The low income supplement is a $300 tax exempt payment to assist people in low income households. The supplement is available to people who do not receive the Clean Energy assistance through tax reforms or other Household Assistance Package payments.

Aged care

Rental income to be included in aged care means tests

New aged care residents who enter aged care from 1 January 2016 will have their rental income from renting out their former home included in the calculation of their means tested amount.

This differs from current rules, where residents who pay some or all of their accommodation payments as periodic payments are entitled to an exemption on the rental income from their former home when calculating their means tested amount for aged care fee purposes.

The Government claims this measure aligns the aged care means testing arrangements between those that pay their accommodation payments as lump sums and those that pay periodic payments.

Changes to Home Care Packages

From 1 February 2017, Home Care packages will be allocated directly to consumers by the My Aged Care Gateway rather than to service providers through the Aged Care Approvals round.

The My Aged Care Gateway will be responsible for prioritising access to packages at a regional level. This will allow aged care recipients to receive services from a provider of their choice.

In addition, from 1 July 2018 home care arrangements and the Commonwealth Home Support Programme will be consolidated into a single home-based care programme.

Family payments

New child care subsidy

From 1 July 2017, a new single Child Care Subsidy (CCS) will be introduced. CCS will replace the existing:

- Child care benefit and
- Child care rebate.

CCS will be payable to families who use an approved child care service for a child who is under 13 years old. In addition, they need to meet an activity test (working, studying, training or other recognised activity). Child Care Subsidy payments will be paid directly to approved child care service providers. Families will pay the gap between the level of subsidy they receive and the actual fee charged by the service.

The amount of Child Care Subsidy payable is determined by:

- amount of work, study, training or other recognised activity undertaken
- hourly caps depending on the type of care
- family income

Amount of work, study and training

Step	Hours of activity (pf)	Hours of subsidy (pf)
1	8 - 16	Up to 36
2	17 – 48	Up to 72
3	49 or more	Up to 100

Hourly caps

Type of care	Hourly cap
Centre based long day care	$11.55
Family day care	$10.70
Outside school hours care	$10.10

Family income

- families earning less than $65,710 will be eligible for 85% of the actual fee paid up to an hourly cap
- families earning $170,710 or higher, will be eligible for 50%
- families earning $185,710 or higher, an annual cap of $10,000 for assistance per child will apply each year.

New child care safety net

From 1 July 2017, the Child Care Safety Net will provide support to disadvantaged or vulnerable families. The Child Care Safety Net has three key components:

- additional Child Care Subsidy to provide access to early learning
- Community Child Care Fund which is a competitive grants programme for approved child care services to reduce barriers to access child care
- Inclusion Support Programme which assists approved child care services provide access for children with additional needs.

Cessation of the Large Family Supplement of Family Tax Benefit Part A

Currently the Large Family Supplement is paid as part of Family Tax Benefit Part A to families with three or more children. The Government has proposed the following changes:

- From 1 July 2015 to 30 June 2016, the Large Family Supplement will only be paid to families with four or more children.
- From 1 July 2016, the Government will cease to pay the Large Family Supplement.

Family Tax Benefit (FTB) Part A — reduced portability

From 1 January 2016, the Government will reduce the portability of Family Tax Benefit Part A. Families will only be able to receive FTB Part A for six weeks in a 12 month period whilst overseas.

Currently FTB Part A recipients who are overseas are able to receive their usual rate of payment for six weeks and then the base rate for a further 50 weeks.

'No Jab No Pay' policy

From 1 January 2016, families will no longer be eligible for subsidised child care or the Family Tax Benefit Part A end-of-year supplement (up to $726.35 for each child) unless their child is up-to-date with all childhood immunisations.

Exemptions will only apply for medical reasons.

Paid parental leave

The Government will remove the ability for individuals to double dip when applying for the existing Parental Leave Pay (PLP) scheme, from 1 July 2016.

Currently, individuals are able to access payments from both the Government PLP scheme in addition to any employer-provided parental leave entitlements.

However, the Government has confirmed it will ensure that all primary carers would have access to parental leave payments that are at least equal to the maximum PLP benefit (currently 18 weeks at the national minimum wage).

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Other announcements

Increase in value of Commonwealth penalty units

The Government has announced it will increase the value of all Commonwealth penalty units from $170 to $180, with effect from 31 July 2015 and will also start indexing the value of penalty units by CPI on 1 July every three years commencing 1 July 2018.

Westmount technical comment:

While this announcement is not specifically related to superannuation it effectively increases the maximum fine payable by a Self-Managed Super Fund (SMSF) trustee for a breach of an ATO administrative penalty from $10,200 to $10,800.

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