Federal Budget Summary

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1 Economics Report - Some Thoughts on the Federal Budget 2015/16

“A year has passed and nothing is as it was the year before” (as Cat Stevens didn’t say).

Last year’s Budget was described by the Government as “tough but fair”. It was designed to address both a non-existent fiscal emergency and a very real medium-term fiscal problem, of which more below. Despite the Government’s description, the Budget was widely described as unfair. What many missed, however, was that it was not particularly tough either. The degree of fiscal tightening in the early years was only minor; limited mainly to the indexation of the fuel excise tax, a shameful cut to foreign aid, and the high-income (temporary) tax levy.

Given the shellacking that the Government took last year, and given the continued soft economic picture, it was always likely that this year’s Budget would be little more than a circuit-breaker; essentially a press of the “reset” button and light on major new initiatives. The Government would lay out the current state of play, show a gentle glide path back in the direction of surplus, and leave any heavy lifting for another day. In particular, the recent tax reform discussion paper meant that nothing major would be done to the tax side (eg superannuation tax concessions or negative gearing). You can’t invite national participation in the tax reform process and then pre-empt the results of that process.

The last systematic look at the Budget, the Mid-Year Economic and Fiscal Outlook (MYEFO), in December 2014, projected a deficit of $40.4 billion in the current fiscal year, falling to $31.2 billion in 2015/16. Over the period of the forward estimates—the four fiscal years to 2017/18-- the deficit was expected to total $103.9 billion, $43.6 billion higher than in the 2014/15 Budget brought down just seven months earlier, thus continuing a long pattern of increased forecast deficits. Slower economic growth, both real and nominal, was the main reason for the deterioration. This has been a depressingly familiar tale in recent years. In this case, the collapsing iron ore price played a disproportionate role in the deterioration; as a rough rule of thumb, a sustained $1 movement in the ore price moves the Budget bottom line by about $280 million per year.

2 Key points on Superannuation

2.1 Access under Terminal Medical Condition extended to 2 years

Effective Date: 1 July 2015

The Government intends to provide those suffering from a terminal medical condition earlier access to their superannuation.

Currently, to allow a person early access to their super benefits on the grounds of having a terminal medical condition, two registered medical practitioners must certify that the person suffers from an illness, or has incurred an injury, that is likely to result in the death of the person within 12 months. At least one of the medical practitioners must be a specialist practising in an area related to the illness or injury suffered by the person.

From 1 July 2015, the timeframe will be extended from 12 months to 24 months.

While the proposed changes will allow those suffering a terminal medical condition early access to their super benefits it may not provide earlier access to terminal illness insurance benefits. Terminal illness insurance benefits are generally linked to death cover and are usually payable to those suffering from a terminal illness likely to result in death within 12 months.

2.2 Lost and unclaimed super

Effective Date: 1 July 2016

From 1 July 2016 the Government will remove redundant reporting obligations and streamline lost and unclaimed superannuation administrative arrangements. The changes will make it easier for individuals to be reunited with their lost and unclaimed superannuation.

The media is reporting that the proposed changes include:

- removing the requirement for super funds to report lost members to the ATO twice yearly as the ATO can derive sufficient data from the annual Member Contributions Statement
- updating the definition of 'lost member' to account for online communication when determining if a member is uncontactable and to remove the inactive arm of the definition which currently applies to employer-sponsored super accounts
- improving the ability of Eligible Rollover Funds to reunite members with their lost super
- allowing the ATO to pay unclaimed superannuation directly to a person who is suffering from a terminal medical condition
- working with the New Zealand Government to investigate whether it is possible for the ATO to pay unclaimed superannuation directly into a KiwiSaver account

2.3 Increased Supervisory Levies for financial institutions

Effective Date: 1 July 2015

Supervisory levies paid by financial institutions will be increased from 2015/16 to recover the cost of superannuation activities undertaken by the Australian Taxation Office and the Department of Human Services.

3 Key points on Taxation

3.1 Small business assistance

Effective Date: various – 1 July 2015, 12 May 2015, 1 July 2016

The Government intends to introduce the following measures to assist small businesses with an aggregated annual turnover of less than $2 million:

- A 1.5% reduction in the company tax rate to 28.5% from 1 July 2015. The maximum franking credit rate for distributions will remain at 30% for all companies.
- Individuals with business income from an unincorporated small business will be eligible for a tax offset of 5% of the income tax payable on the business income received. The tax offset will be capped at $1,000 p.a.
- Extend accelerated depreciation to allow instant write off for assets costing up to $20,000 that are acquired and installed ready for use between 7.30pm (AEST) 12 May 2015 and 30 June 2017. From 1 July 2017, the threshold will revert back to $1,000.
- 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 following income year. This pool (including existing pools) can be immediately deducted if the balance is less than $20,000 between 7.30pm (AEST) 12 May 2015 and 30 June 2017. The 'lock out' laws which prevent small businesses from re−entering the simplified depreciation regime for five

years if they opt out, will also be suspended until 30 June 2017. From 1 July 2017, the rules will revert back to existing arrangements.

- Professional costs associated with starting a new business will be deductible immediately from the 2015/16 income year. Currently a start up business can deduct some of these costs over five years.

- The ability to change the legal structure of their business without incurring a CGT liability at the time of the change. This measure will apply for entity type changes made from the 2016/17 financial year.

- A fringe benefits tax (FBT) exemption will be available for providing employees with multiple qualifying work-related portable electronic devices even where these have a similar function (such as a laptop and tablet). Currently, an FBT exemption is only available for multiple devices if they perform substantially different functions.

3.2 Multinational anti-avoidance law

Effective Date: 1 January 2016

The Government has identified 30 multinational companies currently diverting profits earned in Australia away from Australia to no-tax or low-tax jurisdictions.

Following investigation into these companies, the Government has now released for consultation draft legislation to strengthen Australia's anti-avoidance regime.

Broadly, the draft legislation achieves this by targeting tax benefits (or reduced tax liabilities) gained on income derived in Australia by non-resident entities where that entity is connected with a low or no corporate tax jurisdiction. To reduce compliance costs and provider certainty, only non-resident entitles with annual global revenue exceeding AU$1 billion are captured under the legislation.

Under the proposed changes, the ATO will have the power to recover unpaid taxes and issue a fine of an additional 100% of the value of the unpaid taxes (ie, double tax) plus interest.
In its Mid-year Economic and Fiscal Outlook 2014/15, the Government announced that it will implement the OECD Common Reporting Standard for the automatic exchange of financial account information from 1 January 2017, with the first exchange of information in 2018.

The OECD Common Reporting Standard will require banks and other financial institutions to collect and report to the ATO financial account information on non-residents. The ATO will exchange this information with the foreign tax authorities of the non-residents. In parallel, the ATO will receive financial account information on relevant entities from other countries' tax authorities. This will help ensure that multinational entities with financial accounts in other countries are complying with Australian tax law and act as a deterrent to tax evasion.

3.3 GST extended to overseas suppliers of digital products

Effective Date: 1 July 2017

Currently domestic suppliers of digital products in Australia are required to charge Goods and Services Tax (GST) however off-shore suppliers are not.

The Government has issued draft legislation to extend the GST to those supplying digital services to an Australian resident who are not otherwise registered to pay GST. This will result in overseas suppliers of digital services having to charge 10% GST on movie downloads, games and ebooks, etc. In some cases, the electronic distribution service rather than the overseas supplier may be responsible for the GST liability.

3.4 FBT changes for not-for-profit organisations

Effective Date: 1 April 2016

Currently not-for-profit workers are able to salary package up meal and entertainment items such as meals, alcohol, entertainment, weddings and holidays without any limit applying. As not-for-profit organisations don't pay FBT, the packaged items are often tax free to the employee. From 1 April 2016, a $5,000 cap will apply to salary packaged meal and entertainment benefits.

The existing FBT exemption cap which limits salary packaged benefits such as school fees and mortgages will remain unchanged. This exemption cap is $30,000 for employees of public benevolent institutions and health promotion charities and $17,000 for employees of public and not-for-profit hospitals and public ambulance services.

Impact:

- Charity workers and hospital employees such as doctors and nurses may have to reduce the amount they currently salary package which may result in an increased income tax liability.

3.5 Zone Tax Offset to exclude 'fly-in fly-out'

Effective Date: 1 July 2015

The Government will exclude 'fly-in fly-out' and 'drive-in drive-out' (FIFO) workers from the Zone Tax Offset (ZTO) where their normal residence is not within a specified remote area.

Currently, to be eligible for the ZTO, a taxpayer must reside or work in a specified remote area for more than 183 days in an income year. The Government estimates that around 20% of all ZTO claimants do not actually permanently reside in a specified remote area.

3.6 Tax residency rules for temporary working holiday makers

Effective Date: 1 July 2016

Currently, a working tourist is typically treated as a resident for tax purposes if they are in Australia for more than six months. This means they are able to access resident tax treatment, including the tax-free threshold, the lower tax rate of 19% on income above the tax free threshold up to $37,000 and the low income tax offset.

From 1 July 2016, the Government will change the tax residency rules to treat most people temporarily in Australia for a working holiday as non-residents for tax purposes, regardless of the length of their stay in Australia. As non-residents, such individuals will not be able to access the tax-free threshold and will be taxed at 32.5% from their first dollar of income.

3.7 Transition period for the new MIT tax system

Effective Date: 1 July 2015

On 9 April 2015, Treasury released for consultation draft legislation to introduce a new tax system for certain managed investment trust (MITs). The proposed changes were intended to apply from 1 July 2015 to 'attribution MITs, generally MITs whose members have clearly defined interests in relation to the income and capital of the trust.

The Government has now announced that a 12 month transition period will apply for the implementation of the new tax system. This means the new tax rules will apply from 1 July 2016 however MITs can choose to apply the new rules from the earlier start date of 1 July 2015.

Further details on these changes were included in the May edition of TechWrap.

3.8 Employee share scheme – changes to tax treatment

Effective Date: 1 July 2015

In the 2014/15 Mid Year Economic Fiscal Outlook the Government announced changes to the tax treatment of employee share schemes to make them more accessible for Australian businesses and their employees.

Legislation is currently before the House of Representatives to enact the following changes to the taxation of employee share schemes from 1 July 2015:

- reversing of some of the changes made in 2009 to the taxing point of rights so that broadly, tax applies at the point at which the right is actually exercised (rather than the point at which the right is allowed to be exercised)
- increasing the maximum deferral period from 7 years to 15 years for employee share scheme interests subject to deferred taxation
- subject to certain conditions, including holding the interest for a minimum 3 year period, employees of small start-up companies will receive:
  – an income tax exemption for the discount received on certain shares in their employer, or a holding company of their employer

  – the deferral of income tax on the discount received on certain rights which are instead taxed under the capital gains tax rules
- allowing the ATO to work with industry to develop safe harbour valuation methods, supported by standardised documentation, which will streamline the process of establishing and maintaining an employee share scheme

The Government has announced the following additional minor technical changes which are also intended to apply from 1 July 2015:

- excluding eligible venture capital investments from the aggregated turnover test and grouping rules (for the start-up concession)
- providing the CGT discount to employee share scheme 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 ATO 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

3.9 Accelerated depreciation for primary producers

Effective Date: 1 July 2016

The Government intends to introduce measures to assist primary producers. From 1 July 2016, all primary producers will be able to:

- immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills
- depreciate over three years all capital expenditure on fodder storage assets such as silos and tanks used to store grain and other animal feed

3.10 Changes to calculating work-related car expense deductions

Effective Date: 1 July 2015

The Government will modernise the methods of calculating work-related car expense deductions from the 2015/16 income year as follows:

- Both the ‘12% of original value method’ and the ‘one-third of actual expenses method’ will be removed; and

- The three different rates applying (based on the vehicle's engine size) under the 'cents per kilometre method', will be replaced with one rate set at 66 cents per kilometre to apply for all vehicles. The ATO will be responsible for updating the rate in future financial years.

There will be no changes to the 'logbook method' of calculating expenses. Further, these changes will not affect vehicles under leasing and salary sacrifice arrangements.

3.11 Increase in the Medicare Levy low income thresholds

Effective Date: 1 July 2014

The Government has announced indexed Medicare Levy low income thresholds for the 2014/15 financial year. The low income threshold for families will be increased to $35,261 (previously $34,367). The additional threshold for each dependent child or student will be increased to $3,238 (up from $3,156).

Other Medicare Levy low income thresholds will also be increased as follows:

- $20,896 for individuals (previously $20,542); and
- $33,044 for pensioners eligible for the Seniors and Pensioners tax offset (previously $32,279)

4 Key points on Social Security

4.1 Age pension changes

Effective Date: Various from May 2015 to July 2017

The Government confirmed it will **not** proceed with the following proposed 2014-15 Budget changes relating to the Age Pension:

- changes to pension indexation (so the current pension indexation methodology will remain unchanged).
- Freezing for three years certain thresholds that relate to the pension income test such as income test free areas and deeming thresholds. These will continue to be indexed annually by the Consumer Price Index.
- resetting the income test deeming rate thresholds from 20 September 2017.

The Government intends to make the following changes relating to the Age Pension over the next two years:

- From 1 January 2016, limit the deductible amount that can be used to reduce the income assessed from defined benefit income streams to a maximum of 10%. This change is expected to impact around 48,000 pensioners from some public sector and large corporate defined benefits superannuation schemes. Recipients of Veterans' Affairs pensions and/or defined benefit income streams paid by military super funds are exempt from this change.
- From January 2017:
  – Increasing the lower asset test threshold (see table over page).

  – Increasing the 'taper rate' to the pre 2007 level of $3 for every $1,000 of assets above the lower limit (assets free area) rather than the $1.50 per $1,000 rate that currently applies.

  – Guaranteed eligibility for the Commonwealth Seniors Health Card (CSHC) or Health Care Card (HCC) for all individuals who lose their pension entitlement following the implementation of the above change. These cards provide the same concessional access to pharmaceuticals as given to those on the pension.

– Reducing from 26 weeks to six weeks the period that some recipients of the Age Pension, Wife Pension, Widow B Pension and the Disability Support Pension can be paid their full basic means-tested rate while absent from Australia. After six weeks absence from Australia, pensioners who have lived in Australia for less than 35 years will be paid at a reduced rate proportional to their period of Australian Working Life Residence (AWLR). Pensioners overseas on the date of implementation will not be affected by this change unless they return to Australia and make a subsequent trip overseas. Pensioners with an AWLR of 35 years or more, or who are exempt from proportionality rules, such as recipients of the Disability Support Pension who are terminally ill or severely impaired and certain Widow B Pension and Wife Pension recipients, will not be affected.

- From 1 July 2017, abolishing the Low Income Supplement (a $300 annual payment provided to low income households).

The proposed January 2017 changes to the Asset test thresholds and taper rates are illustrated below:

	Assets test threshold for full age pension		Assets test cut off threshold	
	Current	Proposed	Current	Proposed*
Single Homeowner	$202,000	$250,000	$775,500	$547,000
Couple Homeowner	$286,500	$375,000	$1,150,000	$823,000
Single Non-homeowner	$348,500	$450,000	$922,000	$747,000
Couple Non-homeowner	$433,000	$575,000	$1,298,000	$1,023,000

*These figures include an assumption that the maximum age pension will be indexed between now and January 2017.

Impact:

- Restoring the taper rate to the pre 2007 level means wealthier retirees may lose access to their part age pension.

- Pensioners who travel overseas for more than 6 weeks may have their benefits reduced.

- Retired public servants in receipt of defined benefit income streams from some public sector and large corporate defined benefits superannuation schemes may lose part or all of their age pension entitlement from January 2016 once their deductible amount is limited to 10%.

- The Government has stated

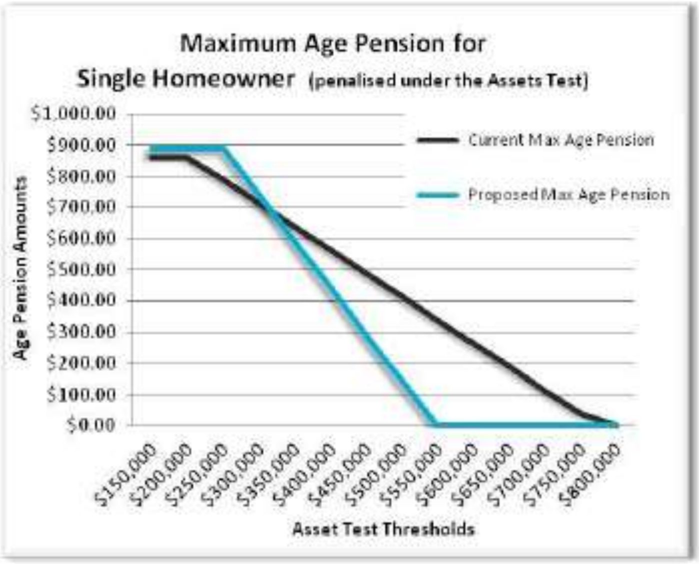
  – more than 90% or 3.7 million pensioners and other Australians who receive pension linked payments will either be better off or will not be affected under the new proposals. This is in part because around 1.3 million pensioners are currently receiving the full age pension and in part due to the fact that some pensioners have their pension entitlement calculated under the income test rather than the assets test.

  – approximately 91,000 of pensioners will lose the part pension and a further 235,000 pensioners will experience a decrease in their part pension.

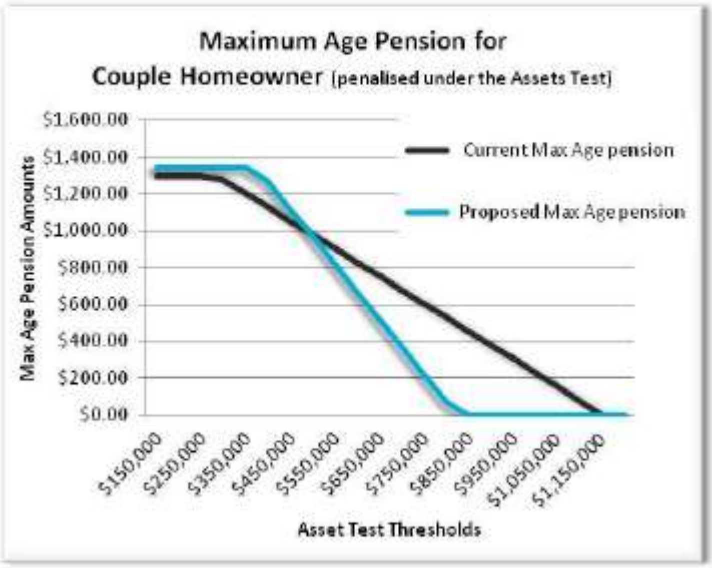
  – around 170,000 pensioners should experience an increase in pension payments, of which 50,000 will qualify for the full pension under the new rules.

The following graphs show the impact of the proposed changes to the assets test thresholds and taper rate.

Single Homeowner (indexed pension rates)



Couple Homeowner (indexed pension rates)



The above graphs contain a number of assumptions including:

– the income test is not considered ie, calculations assume the asset test provides the member with the least pension entitlement

– The "current Max Age pension" is based on the Age pension rates, thresholds and taper rate as at 12 May 2015

The "Max Age pension" includes maximum basic rate plus maximum pension supplement and energy supplement

– An assumed indexation rate applies for the Age pension entitlement from Jan 2017

4.2 Aged care

Effective Date: Various

The changes proposed include:

- for new residents from 1 January 2016 the rental income exemption under the aged care means test for aged care residents who are renting out their former home and paying their aged care accommodation costs by periodic payments will be removed. This will align aged care means testing arrangements for residents who pay their accommodation costs by periodic payments those currently applying to residents who pay via a lump sum. Existing protections such as annual fee caps and lifetime fee caps will remain.
- 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. To be eligible for a package, a consumer would be assessed by an Aged Care Assessment Team to determine the appropriate level of assistance and their care needs.
- an increase in the number of short term restorative aged care places to support older Australians regain mobility and confidence to live safely at home after a period of hospitalisation and reduce the number of premature admissions into permanent residential care from 1 July 2016.
- transferring the responsibility for the administration of the Aged Care Complaints Scheme from the Secretary of the Department of Social Services to the Aged Care Commissioner from 1 January 2016.
- redesigning the Aged Care Service Improvement and Healthy Ageing Grants (ACSIHAG) Fund to support more appropriate care services for frail older Australians and people with dementia. From 1 July 2015, the ACSIHAG Fund will be renamed the Dementia and Aged Care Services Fund.
- providing funds to establish Severe Behaviour Response Teams to provide advice to residential aged care providers to address the care needs of people with the most severe behavioural and psychological symptoms of dementia.
- redesigning the Aged Care Workforce Fund (ACWF) to support more targeted training and skilling opportunities for the aged care workforce to better meet the increasing complexity of older people's care needs. From 1 January 2016, the ACWF will be renamed the Aged Care Workforce Development Fund.

Impact:

- New residents entering care from 1 January 2016 who are renting out their former home and paying their aged care accommodation costs by periodic payments, may need to pay more for their aged care compared with a resident who entered care before that date.
- Additional assistance for people with dementia.
- A more independent process for the handling of aged care complaints.

4.3 Child care package

Effective Date: 1 July 2017

On 7 May 2015, the Minister for Social Services Scott Morrison announced that the Government will introduce a measure titled "Jobs for Families Child Care Package".

This package will eliminate the Child Care Benefit (CCB), Child Care Rebate (CCR) and Jobs Education and Training Child Care Fee Assistance (JETCCFA) payments to families and incorporate them into a single means tested Child Care Subsidy.

Families will be subject to a new activity test for up to 100 hours of subsidised care per child per fortnight and the child must attend an approved child care service and meet the immunisation requirements. The Child Care Subsidy is paid directly to the approved care service provider.

Families with income up to $65,000 will receive 85% subsidy per child of the actual fee or the benchmark price, whichever is lower. Families earning $170,000 or more will receive 50% subsidy.

The new Child Care Subsidy will increase the cap from $7,500 per child to $10,000 per child for families earning $185,000 or more. No cap applies for families earning less than $185,000.

The table below shows the new hourly benchmark prices will be set at from 1 July 2017.

Service Provided	Hourly prices
Long Day Care	$11.55
Family Day Care	$10.70
Outside School Hours Care	$10.10
Home Care Nannies Pilot	$7.00

An additional subsidy will be available from 1 July 2016 to assist children who are in disadvantaged communities and children who are at risk of serious abuse or neglect and children who require additional needs from 1 July 2017.

- **Home-based Care (Nannies) Pilot**

The Nannies Trial will commence on 1 January 2016 and run until 31 December 2017. The Nanny Trial programme will provide eligible families such as shift workers, nurses, police, fire fighters, ambulance officers or families in remote and rural areas who have difficulty accessing mainstream child care services.

The Nanny trial will subsidise an hourly fee cap rate of $7.00 per child based on the family income under similar parameters to the Child Care Subsidy.

This subsidy is only available to families on incomes below $250,000 per year.

- **Pre-school Programmes**

For the 2016 and 2017 calendar years, additional funding to provide children the year before school, access to a preschool programme for up to 15 hours a week or for 600 hours a year by a degree-qualified early childhood teacher. This is under the National Partnership Agreement on Universal Access to Early Childhood Education.

Child Vaccinations

From 1 January 2016, children who are not vaccinated, excluding those for medical reasons will no longer have access to Family Tax Benefits Part A. This is referred to as “No Jab No Pay” policy.

- **Alignment for Family Tax Benefit Part A & Youth Income Support payments**

From 1 January 2016 the eligibility criteria will align both tests by removing the Family Assets Test and the Family Actual Means Test.

Families who receive both Youth Allowance and Family Tax Benefit Part A will be subject to a single Parental Income Test. This will provide assistance to working families to support children in regional and remote areas who often need to move away from home to continue further study and face higher costs.

- **Paid Parental Leave**

Effective 1 July 2016, individuals will no longer to be able to access both the Government provided Paid Parental Leave and employer-provided parental leave entitlements. This will remove the ability for individuals to "double dip" by taking payments from both their employer and the government.

4.4 Wage subsidies

Effective Date: Various

The Government intends to make the following changes:

- From 1 November 2015, expand eligibility for the Youth Wage Subsidy to include eligible job seekers aged 15 to 29 years of age after six months in 'jobactive'.
- Restart Subsidy ($10,000), available for employing older Australians, will be paid to employers progressively over 12 months, rather than the current 24 months.
- A new wage subsidy stream with payments of up to $6,500 will be introduced for certain parents after six months in 'jobactive'.
- From 13 May 2015, the wage subsidy under the Tasmanian Jobs Programme will be doubled to $6,500.

5 Other measures

5.1 Banking and life insurance unclaimed money

Effective Date: 31 December 2015

The Government will extend the period before unclaimed money in savings accounts and life insurance policies are transferred to ASIC, from three years to seven years.

In addition, children's bank accounts will be exempt from the requirements to transfer to ASIC, in recognition of the long term nature of these accounts.

The Government will also make changes to protect the privacy of individuals who have the proceeds of their inactive accounts transferred to ASIC, to address concerns around identity theft.

Requirements for ASIC to publish the Unclaimed Money Gazette will be removed and restrictions introduced to generally limit freedom of information requests to an individual's own details.

5.2 Increased penalty units

Effective Date: 31 July 2015

From 31 July 2015, the Government will increase the value of the 'penalty units' prescribed in all Commonwealth legislation from $170 to $180.

Examples of fines that refer to penalty units include:

- individual trustees and directors of corporate trustees are personally liable to pay an administrative penalty for a range of breaches of the *Superannuation Industry (Supervision) Act 1993*, including operating standards (20 penalty units) or lending to members or relatives (60 penalty units)
- failure to keep records under the Superannuation Guarantee (Administration) Act 1992 by an employer can result in a fine not exceeding 30 penalty units

Source: BT Funds Management Ltd, Adviser Update 12 May 2015