Federal Budget Analysis 2015

On 12th May 2015, Joe Hockey handed down the Coalition Government's second Federal Budget. The Budget contained relatively few surprises with a number of announcements made in the previous weeks. A $5.5 billion dollar small business boost to help more than two million small businesses along with childcare changes set to cost $3.5 billion dollars headline the announcements. A crackdown on welfare, a tax system focused on "fairness" and mounting deficits were also laid out.

Please note, the announcements outlined in the Federal Budget are still only proposals at this stage. There have been a number of measures outlined in last year's Federal Budget, like the GP government co-payment and gradually increasing the age pension age to 70, which the Coalition Government have been unable to pass through the Senate. With the rise of the cross bench senators, the Coalition Government may have similar trouble this year.

Summary

- Many lower income young families will benefit from greater childcare subsidies
- Families choosing not to vaccinate their children will miss out on childcare subsidies and family benefits
- Pension assets test changes will benefit lower net worth retirees, however, higher net worth retirees may receive reduced entitlements
- The company tax rate for eligible small businesses will be reduced by 1.5%
- Unincorporated small businesses will receive a 5% tax discount
- Small businesses will be able to fully deduct capital expenses of up to $20,000 per annum
- Farmers' capital expenditure on fencing and water facilities will be fully deductible

Pension, allowances and concession cards

Pension asset test changes

From 1st 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 $1.50 pf to $3 pf per $1,000 of assets over the lower threshold.

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

- 91,000 people will lose entitlement to the pension
- 235,000 people will have their pension reduced
- 170,000 people 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 proposed to increase from $348,500 to $451,500 for singles and from $433,000 to $575,000 for couples. This represents an increase in the lower assets test threshold of $103,000 and $142,000 for singles and couples respectively.

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 $1.50 pf to $3 pf 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:

Assets test threshold - now

	Homeowner full pension	Homeowner cut-out	Non-homeowner full pension	Non-homeowner cut-out
Single	$202,000	$775,000	$348,500	$922,000
Couple	$286,500	$1,151,000	$433,000	$1,298,000

Proposed assets test threshold from 1 January 2017

	Homeowner full pension	**Homeowner cut-out (estimated)**	**Non-homeowner full pension**	**Non-homeowner cut-out (estimated)**
Single	$250,000	$547,000	$451,500	$747,000
Couple	$375,000	$830,000	$575,000	$1,023,000

Please note**:** It is important to remember that both the income and assets tests are applied. The test which calculates the lowest entitlement determines the age pension payable.

Commonwealth Seniors Health Care Card

The Commonwealth Seniors Health Care Card (CSHC) is designed to assist older Australians by providing a range of concessions, including:

- discounts on Pharmaceutical Benefits Scheme (PBS) prescription medicines
- bulk billed doctor appointments (at the doctor's discretion)
- lower out-of-hospital medical expenses through the Medicare Safety Net, and
- certain state, territory and local government concessions - such as transport or concessions from private business that vary between each state and territory.

The Government estimates that approximately 12% of pensioners will lose entitlement to the age pension as a result of the changes to the asset test. The Government will ensure age pensioners who lose entitlement due to the above changes will be entitled to the CSHC from 1st January 2017.

Pension portability

The Government permits certain recipients to continue to receive their pension payments while overseas for up to 26 weeks. However, from 1st January 2017, it is proposed to reduce this time to six weeks. This will apply to pensioners who have lived in Australia for less than 35 years. Their payments will be paid at a reduced rate proportional to their period of Australian Working Life Residence. Impacted payments are the Age Pension, Wife Pension, Widow B Pension and Disability Support Pension.

Previous income test proposals

Due to the changes in the pension asset test, the Government will not proceed with the income test changes announced in the 2014/15 Federal Budget.

Superannuation

Few superannuation measures were announced in this year's Budget, in line with the Government's 2013 election commitment to not make changes during its first term.

The only proposed superannuation change of significance is to extend the maximum life expectancy from 1 to 2 years to allow a terminally ill patient access to their superannuation. This should make it easier for people suffering a terminal illness to access their superannuation benefits from 1st July 2015.

In 2015/16, the minimum amount of super contributions employers must make to eligible employees' accounts under the Superannuation Guarantee (SG) will remain at 9.5% per annum.

The table below summarises the caps that will apply to super contributions in 2015/16.

Contribution type	Contributions included	Cap applying in 2015/16	
Concessional	All employer contributions (including SG and salary sacrifice), personal contributions claimed as a tax deduction and certain other amounts	Aged 49 + on 30/06/2015	$35,000
		Aged < 49 on 30/06/2015	$30,000
Non-concessional	Personal after-tax contributions, spouse contributions and certain other amounts	$180,000 or $540,000 provided you are aged 64 or under on 1/07/2015, don't exceed this amount over a three-year period and meet certain other conditions	

Business Announcements

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 of less than $2 million dollars.

Company tax rate for small businesses

It is proposed from the 1st July 2015, the rate of company tax for eligible small businesses will be reduced by 1.5% to 28.5%. These companies will continue to frank their dividends at up to 30% which is important for investors receiving franking credits.

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.

CGT roll-over relief

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.

Accelerated depreciation

Small businesses will be able to claim an immediate deduction on assets that cost less than $20,000 they start to use or install ready for use between Budget night and 30th June 2017. The concession can apply to more than one asset purchased in the same year.

Taxation

It is proposed that GST will be payable on overseas supplied digital products from 1st July 2017 which some people are referring to as "Netflix" tax.

Most people who are temporarily in Australia for a working holiday are to be treated as 'non-residents' for tax purposes, regardless of how long they are here. As a result, they will be taxed at 32.5% from the first dollar of income earned.

Government Payments – Families

From 1st July 2017, a new Child Care Subsidy (CSS) will be introduced to replace:

- Child Care Benefit
- Child Care Rebate, and
- Jobs, Education and Training Child Care Fee Assistance.

CSS will be available 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 such as working, studying or other recognised activity. The subsidy will be determined by the amount of work or study and family income.

Paid parental leave

The Government will remove the ability for individuals to access payments from both the Government scheme and employer provided parental leave entitlements.

If the payment from an employer is greater than the Government scheme, which is paid at the minimum wage for 18 weeks, no Government payment will be available. If an employer payment is less, individuals will receive a Government top up.

Family Tax Benefit – Part A

From 1st January 2016, families will only be eligible to receive Family Tax Benefit – Part A (FTB-A) for six weeks in a 12 month period, whilst overseas. Currently for temporary overseas absences, the standard rate is payable for the first six weeks which then reduces to the base rate for a further 50 weeks.

From 1st July 2016, the Government will no longer pay the large family supplement for FTB-A. This supplement is paid for third and subsequent children and is currently $12.32 per fortnight per child.

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 1st 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 1st July 2015.

Aged Care

Aged care means testing arrangements

If you enter a residential aged care facility from 1st January 2016, any rental income generated by your former home will be assessed when determining your aged care fees, regardless of how you pay the accommodation costs. Under the existing rules, any rental income received from your former home is exempt from the means-tested fee if you pay at least part of your accommodation payment as a daily payment. The change will not impact means testing for Centrelink or DVA purposes.

Changes to Home Care Packages

From 1st 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 clients' 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 1st July 2018 home care arrangements and the Commonwealth Home Support Programme will be consolidated into a single home based care programme.

Any questions?

I hope you have found this useful. If you have any questions, or wish to discuss anything please call me on 03 9544 1004.

All the best,

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