Federal Budget 2014 – "Lifters not leaners"

An old proverb says "people unite over problems but divide over solutions".

The weight of expectation lies heavily on Joe Hockey's first Federal Budget to solve many many long standing fiscal problems without creating a war in the voter base over the solutions. The budget sell is an appeal to a vision of a national ideal that Australians are "lifters not leaners". It is a sales pitch with modest increases in taxation and significant cost reduction measures including significant welfare reductions. In return, the budget deficit will reduce from a projected $49.9 billion in 2014 to $29.8 billion in 2015.

Almost all the tax increase measures had been leaked prior to the budget. Of 235 pages of budget measures, only 14 pages are devoted to revenue measures. The headline revenue measure is the 3 year "Temporary Budget Repair Levy" of 2% which applies to income in excess of $180,000. This increases the personal income tax rate to 49% from 1 July 2014. To match the personal tax increase, the FBT rate increases to 49% from 1 April 2015. Interestingly this means that there is a 2% benefit to packaging taxable fringe benefits for people on more than $180,000 between 1 July 2014 and 31 March 2015. Will we see a salary packaging frenzy in the short term? The same opportunity arises from 31 March 2017 to the end of the 3 year levy on 30 June 2017. Indexation of the fuel excise is set to recommence ½ yearly by indexation to movements in customs duty rates on other fuels. This will hit people at the bowser.

The balance of the budget is devoted to expense measures directed at cost management and reductions and which affects various forms of welfare. In particular, the reduction in the income limit on primary earners for Family Tax Benefit B from $150,000 to $100,000 will sting the middle class from 1 July 2015 and apply only to children under 6 with a 3 year phasing out for older children. From 1 July 2015 the Medicare rebate for a standard consultation will reduce by $5 with a doctor entitled to collect a patient contribution which would appear to create a $2 per visit windfall to doctors who choose to collect $7. Patients on concession cards and with children under 16 return to the current rebate after 10 visits each year.

Gens X, Y and late blooming boomers (born after 1 July 1958) will be hit by the increase in the qualifying age for the aged pension to age 70 by 1 July 2035. Pension income and assets threshold increases will be paused for 3 years from 1 July 2017. The increase in the SGC rate to 12% will be slowed rising to 9.5% from 1 July 2014, remaining static to 30 June 2018 before rising over 5 years to 2023 to 12% and excess super contributions will become refundable.

Students will be affected from 1 July 2016 by a requirement to repay HELP debt at a lower starting income level set at 90% of the threshold that would currently apply, being in the order of $50,638. However, the rate of repayment will reduce from 4% to 2% of income above the threshold. The "cost of finance" on unpaid HELP debt will also be increased to a rate matched to the 10 year bond yield capped at 6%. Deregulation of fees for higher education will also shake up the cost of higher education.

What about small to medium enterprises? Not much. $10,000 per employee to employ a worker over 50 who has been on benefits for 6 months. A modest reduction in the refundable R&D tax offset of 1.5% applies from 1 July 2014 in anticipation of the drop in the company tax rate to 28.5% from 1July 2015.

All of these measures are of course subject to approval in a post 1 July hostile Senate which would appear to require cooperation with the Palmer United Party. Early theatrics suggest that this could, at least, be entertaining.

Individuals & families

As a result of the need to improve the budgets bottom line, this years budget has focused heavily on individuals and families.

We note in particular that the changes to the family tax benefit part B will have a significant impact on many family budgets.

Deficit levy of 2% (Temporary Budget Repair Levy)

From 1 July 2014 to 30 June 2017, a temporary three-year deficit levy of 2% will be imposed on individuals with taxable income over $180,000.

A number of other tax rates that are currently based on calculations that include the top personal tax rate will also be increased accordingly (except the Fringe Benefits Tax rate) for the relevant 3 income years. However to prevent high-income earners from utilising fringe benefits to avoid the levy, the FBT rate will be increased from 47% to 49% from 1 April 2015 until 31 March 2017 (see also companies section on FBT).

Example. For a taxpayer with a taxable income of $200,000 per year, this results in an additional tax impost of $400 per year or $1,200 in total over three years.

Indexation of fuel tax excise reintroduced

From 1 August 2014, fuel tax will once again be indexed to the Consumer Price Index (“CPI”).

Abolish – Dependent Spouse Tax Offset (“DSTO”)

From 1 July 2014, the Government will abolish the Dependent Spouse Tax Offset. Currently, the DSTO is only available to individuals whose dependent spouse was born before 1 July 1952.

Additionally, from 1 July 2014, the Dependent (Invalid and Carer) Tax Offset (“DICTO”) will replace the Zone Tax Offset, Overseas Civilians Tax Offset and Overseas Forces Tax offset. Taxpayers with a dependant who is genuinely unable to work due to a carer obligation or a disability may be eligible for the DICTO.

Abolish – Mature Age Worker Tax Offset (“MAWTO”)

From 1 July 2014, the Mature Age Worker Tax Offset will be abolished by the Government. Currently, the MAWTO is only available to taxpayers born before 1 July 1957.

Savings from this measure will be redirected to the seniors employment incentive payment called “Restart”, which is a payment to employers to support the re-entry of mature age job seekers into the workforce. Restart is proposed to commence on 1 July 2014, and will see the government providing a payment of up to $10,000 to employers who hire a mature aged job seeker aged 50 years or more who has been receiving income support for at least six months. (See also companies section)

Medicare levy low-income threshold increase

From the 2014 income year, the Medicare levy low-income threshold for families will be increased. The threshold for couples with no children will be increased to $34,367 from the current threshold of $33,693, and the additional amount of threshold for each dependent child or student will be increased to $3,156 from the current $3,094 for each dependent child or student.

The increase in these thresholds takes into account movements in the CPI and ensures that low-income families who were not liable to pay the Medicare levy in 2012/13 will continue to be exempt, unless their incomes have increased by more than the CPI.

The Medicare levy low-income thresholds for individuals and pensioners have already been increased by more than the growth in the CPI and therefore do not need to be further increased at this time.

Cessation of First Home Saver Accounts ("FHSA") scheme

From 1 July 2015, the First Home Saver Accounts scheme will be abolished and any new accounts that are opened from Budget night 2014 will not be eligible for concessions.

Additionally, the government co-contribution will cease from 1 July 2014. The government co-contribution was a measure to assist individuals who were saving up for their first home. These were in the form of co-contribution payments provided by the government to individuals who made personal contributions to their FHSA.

In addition, tax concessions, and the income and asset test exemptions for government benefits associated with these FHSA, will also cease from 1 July 2015.

From 1 July 2015, account holders will be able to withdraw their FHSA account balances without restriction.

Existing account holders will continue to receive the government co-contribution, and all tax and social security concessions associated with these accounts, for the 2013/14 year. However, regulations will be made to ensure that anyone seeking to open a new account from Budget night 2014, will be informed of these changes by the account provider.

Once the FHSA scheme is abolished from 1 July 2015, FHSA accounts will be treated like any other account held with a relevant provider.

Family tax benefits ("FTB") Part B changes

Eligibility for the FTB Part B will be tightened. From 1 July 2015, the FTB Part B primary earner income limit will be reduced from the current $150,000 pa to $100,000 pa.

Additionally, the income threshold for the Dependent (Invalid and Carer) Tax Offset (DICTO) will also be reduced to $100,000. The reduced limits will apply from 1 July 2015.

From 1 July 2015, the FTB Part B payments will be limited to families whose youngest child is younger than six years of age to encourage workforce participation amongst parents. A transitional arrangement will be in place to ensure that families with a youngest child aged six and over on 30 June 2015 will remain eligible for the payments for two years.

In the 2012-13 year the maximum benefit payable under the family benefit part B was $4,117.20.

Family tax benefits Part A changes

From 1 July 2015, the FTB Part A per child add-on to the higher income free threshold for each additional child will be removed.

New single parent benefit

From 1 July 2015, a new allowance of $750 per child aged between six and twelve years will be introduced for single parents on the maximum rate of FTB Part A. This allowance will kick in from the point when they become ineligible for the FTB Part B.

Additionally The FTB Part A Large Family Supplement (currently $313.90 per child pa) will be limited to families with four or more children, and will be paid in respect of the fourth and each subsequent child in the family. This change will apply from 1 July 2015.

Family tax benefits indexation

From 1 July 2014 to 1 July 2016, FTB payment rates will be constant for two years by pausing the indexation of the maximum and base rates of FTB Part A and the rate of FTB Part B.

Accordingly, income thresholds for the FTB Part A lower income free area and maintenance income free area and the FTB Part B secondary earner income free area will remain unchanged for three years from 1 July 2014 as a result of an indexation pause.

From 1 July 2015, the FTB Part A and FTB Part B end-of-year supplements will return to their original amounts of $600 pa for each FTB Part A child and $300 pa for each FTB Part B family and cease indexation.

Repayment of Higher Education Loan Programme ("HELP") debts

From 1 July 2016, the minimum income threshold of when students commence repayment of their HELP debts will be reduced by10% of the current minimum threshold set for the 2016/17 year (the new threshold is estimated to be $50,638).

A new repayment rate is 2% of repayment income and will be applied to HELP debtors with incomes above the new minimum threshold. There will be no other change to current repayment rates. For comparison purposes, the minimum repayment threshold for the 2013/14 income year is $51,309 and the minimum repayment rate is 4%.

Annual indexation charges on HELP debts

From 1 June 2016, HELP debts will be indexed at a rate equal to the yield on 10-year government bonds (capped at a maximum of 6%) instead of using the Consumer Price Index.

Fee-HELP and VET FEE-HELP

From 2015/2016 income year, the 25% loan fee applied to undergraduate FEE-HELP loans and 20% loan fee applied to VET FEE-HELP loans will be abolished.

Pension age to increase to 70

The qualifying age for the Age Pension currently at 65 will gradually increase to 70. The qualifying age is proposed to increase gradually by six months every two years from 1 July 2015, reaching 70 by 1 July 2035

Pension income test

From 1 September 2017, the government will change how it deems the return from a person's financial assets for the purposes of the pension income test. The deeming thresholds will be reset from $46,600 to $30,000 for single pensioners and from $77,400 to $50,000 for pensioner couples from 1 September 2017.

Pension indexation changes

From 1 July 2017, the indexation of income and assets test free areas for the pension will be paused for three years.

From 1 September 2017, pension increases will be linked only to the CPI.

Other changes

- Taxpayers will receive a tax receipt showing how and where their tax dollars were used from 1 July 2014
- Eligibility for the Youth Allowance and Sickness Allowance will increase from 22 to 24 years from 1 January 2015. However current recipients of these allowances aged 22 to 24 on 31 December 2014 will remain on these allowances.
- Unemployed people aged 25 and over will receive Newstart Allowance from 1 January 2015
- Under new changes, people seeking payments for both Youth Allowance and Newstart Allowance will need to demonstrate that they have been trying to find work for at least six months before payments will be approved
- Income thresholds for the Commonwealth Seniors Health Card will be indexed annually to the CPI from 20 September 2014
- Payments of the Senior Supplement will cease after the June 2014 payment

Superannuation and Retirement

No significant changes have been made to the way the superannuation provisions operate. The most significant change for older Australians is the changes that are being made to the age pension.

Older Australians working longer

As part of the budget the government has announced a couple of significant measures that will mean that older Australians will be staying in the workforce longer. These changes include the following:

- As expected in the build up to the budget, the government has announced that he pension age will gradually be increase so that by 2035 the qualify age will be 70.
- In addition to the above the government will be providing a payment of $10,000 to businesses that employ someone who is over the age of 50 and has broadly been out of work for 6 months or more.
- Both of the above measures will mean that Australians stay in the workforce until later in life. It also means that businesses will need to be able to cater for workers that may not be able to perform the same functions they could when they were younger.

Superannuation Guarantee Increases Delayed

Regarding the superannuation guarantee, once the rate has been increased to 9.5% on 1 July 2014, it will remain at 9.5% until 30 June 2018. It will then gradually increase to desired top rate of 12% in 2022/23. This is one year later than previously proposed.

Superannuation Excess Contributions

For any excess superannuation contributions made after 1 July 2013 that breach the non-concessional contribution cap, the government will allow individuals to withdraw those excess contributions and associated earnings. If this option is taken the excess contributions will not be taxed and any related earning will be taxed at the individuals marginal rate.

Medical

A significant number of measures have been announced in the 2014 Federal Budget within the medical spectrum and is a testimony to the medical industry being a significant contributor to the Australian economy going forward. This is apparent in the Government’s plan to invest in medical research through the Medical Research Future Fund mentioned below.

Medical Research Future Fund ("MRFF")

From 1 January 2015, the Government will establish the MRFF to provide additional funding for medical research including through payments to the National Health and Medical Research Council. The MRFF is expected to reach a targeted capital level of $20 billion by 2019-20 and is expected to be the largest medical research fund in the world.

The Government will be raising funds for the MRFF through the $1 billion in uncommitted funds in the existing Health and Hospitals Fund (which will cease operations on 31 December 2014) and health savings measures announced in the 2014-15 Budget (see below).

Additionally, the Government will provide $276.2 million over three years from the MRFF to fund critical medical research in the medium and long-term. The MRFF is expected to provide a sustained funding stream for medical research and payments from the MRFF is expected to reach around $1 billion per year from 2022-23.

Patient contributions – General practitioner, pathology & diagnostic imaging services

From 1 July 2015, the Medicare Benefits Schedule ("MBS") rebates will be reduced by $5 for standard general practitioner consultations and out-of-hospital pathology and diagnostic imaging services, however a patient contribution of $7 per service may be charged in the provision of these services.

For patients with concession cards and children under 16 years of age, the MBS rebate will be reduced for the first 10 services in each year. Additional services thereafter will return to the current benefit levels.

Savings from this measure is to be invested by the Government into the MRFF mentioned above.

Increase co-payments – Pharmaceutical Benefits scheme

From 1 January 2015, the Pharmaceutical Benefits Scheme ("PBS") co-payments and safety net thresholds will be increased.

The co-payments will increase by $5.00 (from $37.70 to $42.70) for general patients and by $0.80 (from $6.10 to $6.90) for concessional patients.

The safety net thresholds will increase each year for four years commencing on 1 January 2015, with general safety net thresholds to increase by 10% each year and concessional safety nets to increase by the cost of two prescriptions each year.

Savings from this measure is to be invested by the Government into the MRFF mentioned above.

Doubling the Practice Incentives Programme Teaching Payment

The Government will double the Practice Incentives Programme ("PIP") Teaching Payment for general practices who provide teaching opportunities to graduate and under-graduate medical students. The PIP payment will increase to $200 from $100 for each three hour session to encourage general practices to provide teaching sessions.

Other medical changes

The Government has also introduced other measures that may impact the medical industry. Broadly, these include:

- Provision of $9.9million over five years to develop a consistent way clinical research trials are overseen, and streamline the National Health and Medical Research Council grant application & assessment processes
- Provision of $52.5 million over three years for infrastructure grants for existing general practices in rural and remote settings
- From 1 January 2016, the existing Original Medicare Safety Net, Extended Medicare Safety Net and Greatest Permissible Cap will be replaced by the simplified Medicare Safety Net

- Paperless claiming for Pharmaceutical Benefits Scheme medicines dispensed from medication charts in public and private hospitals
- From 1 January 2015, revised capital sensitivity provisions for diagnostic imaging equipment will be extended to all angiography services, and the period for which the full Medical Benefits Schedule fee applies will be extended for computed tomography and MRI services.
- Provision of $13.4 million over three years to fund additional nursing and allied health scholarships targeted at shortages in rural and remote areas
- Provision of additional $35.4 million over two years to encourage medical practitioners to work in underserviced rural, regional and remote areas
- Provision of $200 million over five years to boost research in improving the treatment of dementia through increasing the number of research grants, scholarships and fellowships for dementia related research.
- Increase in Commonwealth GP training places from 1,200 to 1,500 in 2015.
- Deferral of the dental health reform under the National Partnership Agreement for adult public dental services from 2014-15 to 2015-16.
- Ceasing reward funding under the National Partnership Agreement on Improving Public Hospital Services
- Ceasing funding under the National Partnership Agreement on Preventative Health

Corporate and Business

For the business community it has been a very quiet year in relation to tax changes that affect businesses generally.

Corporate Tax Rate Changes

As previously announced the government has committed itself to reducing the company tax rate from 30% to 28.5%. However for companies that have a taxable income of greater than $5 million it is anticipated that the imposition of a paid parental leave levy of 1.5% ultimately means that the same amount of tax will be paid by those entities. We note however that this measure was not detailed in the budget papers and therefore some uncertainty does exist surrounding this part of the measures.

It is expected that the corporate tax rate reduction will occur from 1 July 2015.

To ensure that taxpayers are not able to manipulate their circumstances to keep taxable income underneath the threshold it is expected that these changes will be implemented with various anti-avoidance provisions to ensure that groups do not split income into other entities to avoid the additional tax liability.

Example. If a company derives taxable income of $5 million the additional tax of 1.5% is $75,000. If close to this threshold, up to $75,000 can be save by keeping taxable income less than $5 million.

For those businesses that have taxable income less than this threshold, they will receive a tax cut that makes Australia more competitive internationally. It is also the government’s intention that this tax rate reduction along with the other measures that have been announced act to stimulate and expand the Australian economy.

For larger corporate entities payment of the 1.5% levy instead of paying the same company tax could present a hidden sting when dividends are paid to shareholders. If this levy is not a tax for the purposes of franking credits, then all other things being equal shareholders will be receiving the same dividend payments but with less franking credits attached.

Further information is therefore required from the government in relation to the above measures.

Fringe Benefits Tax

In line with the introduction of the debt levy to high wealth individuals the FBT rate will be increased from 47% to 49%. This rate change will apply from 1 April 2015 to 31 March 2017. While this rate change is in line with the debt levy imposed on high wealth individuals it will apply to benefits provided to all employees irrespective of income level and is therefore an increase in tax for all businesses that provide benefits to employees.

Research and Development

In line with the reduction in the company tax rate the government has confirmed that the R&D incentives will also be reduced in line with the 1.5% reduction in the company tax rate.

Other Measures

The other measures that have been announced by the government are largely technical amendments designed to ensure legislation operates as intended and modifications to integrity measures. These changes include the following:

- Changes to integrity measures relating to the foreign resident CGT regime.
- Tax consolidation integrity measures. These changes were largely already announced and understood however some new modifications have been highlighted.
- The government will not proceed with proposed changes to the way MEC consolidated groups are treated.

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