hw one chartered accountants
inspire • focus • support

tax alert

## 2014 Federal Budget Synopsis

Federal Treasurer Joe Hockey delivered his first budget under the new coalition government last night and whilst much has been discussed in the media regarding spending cuts, we wish to highlight the key tax changes as was announced in the fine print of last night's budget papers.

It is interesting to note that the budget was focussed predominantly on the spending measures of the government and relatively little change was announced with respect to taxation policy.

We expect the government will use the forthcoming Taxation Whitepaper to deliver a substantiative change to taxation policy in the next couple of years, but only after receiving a mandate for change at the next federal election in 2016.

We detail below a summary of the key issues which will directly impact Small and Medium Businesses, Self Managed Superannuation Funds and Individuals.

**The majority of measures announced will require legislation to be introduced and passed in both houses of parliment, so the final version of the changes may differ to the announcements made in the Budget.**

We encourage you to read this synopsis and please feel free to contact us should you wish to discuss these measures in more detail as they apply to your particular business/personal situation.

### Business Taxation

#### FBT exempt benefit caps for PBI/NFP employees to be increased; FBT rate to go to 49%

In an announcement associated with the 2% Temporary Budget Repair Levy, the Government said that 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 to align with the FBT income year.

The cash value of benefits received by employees of public benevolent institutions and health promotion charities, public and not-for-profit hospitals, public ambulance services and certain other tax-exempt entities will be protected by increasing the annual FBT caps (currently $17,000 and $30,000).

**SME instant asset write-off: businesses still in limbo over $6,500 threshold**

The mining tax legislation as originally passed contained associated income tax measures, one of which was increasing the instant asset write-off (ie the outright deduction for low value assets) for small business entities (ie generally, those with aggregated turnover of less than $2m) to $6,500.

However, the Government's Minerals Resource Rent Tax Repea l and Other Meas ures Bill 2013 to abolish the mining tax also proposed to abolish this small business measure and scale the write-off back to $1,000 with effect from 1 January 2014.

The defeat in the  Senate  on 25 March 2014  of that bill means the proposed amendment to cut the $6,500 write-off back to $1,000 has not been passed.

The current $6,500 write-off therefore still stands despite the Government's intention that it be scaled back to $1,000 from 1 January 2014.

This places SMEs in something of a quandary. Many will have purchased relevant assets and installed them ready for use before 1 January 2014 to ensure the $6,500 threshold can be utilised. Others may not have done so, or not been able to do so in time.

If the mining tax and this associated amendment are passed after 1 July 2014 by the incoming Senate, will the 1 January 2014 application date still apply?

**Reduction in R&D offset rates**

The rates of the refundable and non-refundable R&D tax offsets will be reduced by 1.5 percentage points, with effect from 1 July 2014.

This means that the refundable offset will be reduced to 43.5% and the non-refundable offset will be reduced to 38.5%

**Fuel excise to rise (except aviation) – indexation to be re-established**

The Government said it would secure funding for additional road infrastructure projects by re-introducing biannual indexation by the CPI of excise and excise-equivalent customs duty for all fuels except aviation fuels .

This will commence from 1 August 2014.

**New subsidy for employers hiring Australians 50 years or over**

The Government has announced that employers can receive up to $10,000 in Government assistance if they hire a job-seeker aged 50 or older under its new “Restart” program. The program will replace the Seniors Employment Incentive Payment.

Under the program, eligible employers will receive $3,000 if they hire a full-time mature-age job seeker who was previously unemployed for a period of 6 months and employ that person for at least 6 months. Further, once that jobseeker has been working for the same employer for 12 months, the employer will receive another payment of $3,000.

Finally, the employer will then receive a further $2,000 once the same job seeker has been with them for 18 months, and $2,000 again at 24 months.

This program will commence as of 1 July 2014.

**Superannuation**

**Option to withdraw excess non-concessional contributions**

The Government will allow individuals the option of withdrawing superannuation contributions in excess of the non-concessional contributions cap made from 1 July 2013 and any associated earnings, with these earnings to instead be taxed at the individual’s marginal tax rate.

The measure will seek to provide a process to address all inadvertent breaches of the superannuation contribution caps where the error would result in a disproportionate tax penalty.

Currently, superannuation contributions that exceed the non-concessional contributions cap are taxed punitively at 46.5% (equivalent to the top marginal tax rate plus Medicare levy).

Given that non-concessional contributions come from income that has already previously been taxed, the Government has acknowledged that an overall tax rate of up to 93% can apply to excess non-concessional contributions.

Non-concessional contributions include contributions which are not included in the assessable income of the receiving superannuation fund, eg non-deductible personal contributions made from the member’s after-tax income (formerly known as undeducted contributions).

The annual non-concessional contributions cap is currently $150,000 (but rising to $180,000 from 2014-15). The bring-forward rule currently allows a one-off non-concessional contribution up to $450,000 over 3 years (or $540,000 over 3 years from 2014-15).

**Comment**

***This is both a welcome and common sense approach to a taxation policy which historically impose a disproportionate tax penalty.***

**Super Guarantee rate of 9.5% from 1 July 2014**

Instead of pausing the superannuation guarantee rate at 9.25%, as previously announced, the Government will now increase the SG rate to 9.5% on 1 July 2014 (as currently legislated) and leave it at this level until 30 June 2018. The SG charge percentage will then increase by 0.5% each year until it reaches 12% from 2022-23, a year later than previously proposed. As such, employers are required to increase their superannuation contributions on behalf of employees to 9.5% of ordinary time earnings from 1 July 2014 (as currently legislated).

**Comment**

***Employers please note that you will need to increase your superannuation contribution for employees to 9.5% as of 1 July 2014. Please ensure that your software is updated to reflect this change prior to your first pay roll processing post 1 July 2014.***

**Personal Taxation**

**Budget deficit levy (tax) of 2% to apply for 3 years from 1 July 2014 for incomes over $180,000**

As foreshadowed before the Budget, the Government announced the introduction of a Budget deficit levy (tax), to apply for 3 years commencing on 1 July 2014. It is formally known as the Temporary Budget Repair Levy. The temporary levy will apply at 2% for incomes over $180,000 ie 2% on taxable income in excess of $180,000.

**Personal Taxation Rates**

Please find below a summary of the personal taxation rates including the proposed Budget Deficit Levy but excluding the Medicare Levy:

| | 2013-14 | | 2014-15 | | 2015-16 and 2016-17 | |
|---|---|---|---|---|---|---|
| | Thresholds | Tax Rate | Thresholds | Tax Rate | Thresholds | Tax Rate |
| 1st Tier | $0-$18,200 | 0% | $0-$18,200 | 0% | $0-$19,400 | 0% |
| 2nd Tier | $18,201 - $37,000 | 19% | $18,201 - $37,000 | 19% | $19,401 - $37,000 | 19% |
| 3rd Tier | $37,001 - $80,000 | 32.5% | $37,001 - $80,000 | 32.5% | $37,001 - $80,000 | 33% |
| 4th Tier | $80,001 - $180,000 | 37% | $80,001 - $180,000 | 37% | $80,001 - $180,000 | 37% |
| 5th Tier | $180,000+ | 45% | $180,000+ | 47% | $180,000+ | 47% |

**Comment**

***Employers please note that you will need to ensure that your software is updated to reflect the changes to persona  taxation rates and the Medicare Levy prior to your first pay roll processing post 1 July 2014.***

**REMINDER - Medicare levy increase to 2% to fund Disability Care**

With effect from 1 July 2014, the Medicare levy will increase to 2% to help fund DisabilityCare Australia.

**Seniors Health Card - income test**

The Government will include untaxed superannuation income in the assessment of income to determine eligibility for the Commonwealth Seniors Health Card (CSHC) from 1 January 2015.

All superannuation account-based income streams held by CSHC holders before the implementation date will be grandfathered under the existing rules.

**Comment**

***It would be prudent to review your entitlement to the CSHC prior to 1 January 2015 to take advantage of the grand fathering provisions with respect to superannuation account based income streams.***

**Most dependant offsets to be abolished**

The Government will abolish nearly all of the dependant tax offsets, including the dependent spouse tax offset, for all taxpayers from 1 July 2014.

**Mature age worker offset to be abolished**

The mature age worker tax offset will be abolished from 1 July 2014.

**First Home Saver Accounts scheme abolished**

The First Home Saver Accounts (FHSA) scheme will be abolished. New accounts opened from Budget night will not be eligible for concessions, with the Government co-contribution to cease from 1 July 2014 and tax concessions and the income and asset test exemptions for Government benefits associated with these accounts to cease from 1 July 2015.

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 income year.

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

**National Rental Affordability Scheme to end**

The Government announced that it would not proceed with the final round of the National Rental Affordability Scheme (NRAS).

The Government said incentives already allocated through the Scheme would continue to be paid for up to 10 Years, as long as eligibility requirements are met and homes in the construction pipeline are built in the agreed locations according to agreed timeframes.

The Scheme will be reviewed to addressed ongoing issues and ensure remaining incentives meet the Scheme's original aim.

**For more information contact either Brendan Podevin or Cameron Wilson on 07 3360 9600 or visit hwone.com.au**