Apogee Financial Planning

Guide To...

Federal Budget 2014

The Treasurer Joe Hockey delivered his first budget speech last night, containing few surprises. The Budget measures announced include increased 'taxes' in the form of a temporary levy for high income earners, tighter welfare rules, and wider cuts to education and spending.

Please remember that, at this time, these measures are proposals only and require the passage of legislation to become effective. These measures may be subject to change through the implementation process.

More information?

Below is a summary of key announcements that may affect you from a financial advice perspective. Please give us a call on 02 9279 2001 if you wish to discuss any of these in detail.

Overview

A budget is always about balance and Australia does have a budget problem. After the biggest boom in our history, the budget should be in far better shape. Comparing ourselves to a bad bunch is not necessarily wise. In 2006 Ireland's net public debt was close to where Australia's is now and yet it skyrocketed when its boom turned to bust. Given our (albeit shorter) resources boom but 20 plus years with no recession we should be much closer to Norway which is running huge surpluses and negative net public debt (-205% of GDP). This was a major and valid criticism of the last few years' budgets.

Against this backdrop, the 2014-15 Budget is a step in the right direction with the measures put in place to control spending growth over the medium to long term likely to put it on to a sustainable path. The Budget also gets a tick in terms of its focus on boosting infrastructure, reducing public sector duplication and renewed privatisation – all of which should help boost productivity over the long term.

There are three main risks though. First, the tax hikes and welfare cutbacks could drag on consumer spending. Fortunately, the Government has not front-loaded its savings and partly offset them initially by infrastructure spending.

Second, taking the top marginal tax rate to 49% (which will put it as the world's 15th highest and way above our neighbours, eg NZ 33%, Singapore 20%, HK 15%) is a backward step in terms of incentive and trying to discourage tax minimisation efforts.

Finally, there is a big risk that many of the budget measures will not pass through the Senate.

Implications for interest rates

While the fiscal tightening in the year ahead is less than feared at about 0.1% of GDP, it comes on top of 0.3% of tightening already in train from the previous Government (mainly the 0.5% NDIS levy). In addition, the scaling back of welfare access and the public sector could negatively impact confidence. So while we still see the RBA raising interest rates around September/October, there is some risk that rate hikes may be delayed into next year.

Implications for Australian assets

Cash and term deposits – the ongoing fiscal tightening means that interest rates will remain pretty low (even when they do eventually start to rise). Expect term deposit rates to remain at 4% or below in the months ahead.

Bonds – the measures to bring spending under control and provide confidence the budget will be returned to surplus will help ensure Australia's AAA rating remains secure. This, plus additional fiscal tightening, albeit spread over time, and the risk rate hikes will be delayed till next year should help ensure bond yields remain low. But with five year bond yields at 3.2% it's hard to see great returns from Australian sovereign bonds over the next few years.

Shares – the fiscal austerity in the Budget is only a minor headwind for profits. And against this, the increase in infrastructure spending, the reform inherent in public sector downsizing and privatisation and putting the budget on a sounder footing are long term positives and the Budget will help keep interest rates down. Overall, its impact is unlikely to be huge. Construction and building material stocks are likely to benefit, whereas it's a slight drag for retailers.

Property – property prices are likely to continue gaining on the back of low interest rates, although momentum may slow a bit from last year's surge in Sydney and Melbourne.

The $A – the announcements in the Budget alone are not radical enough to have much of an impact on the Australian dollar. Affirmation of the AAA rating is a positive while the dampening impact on long term growth from fiscal austerity is a drag. Not much in it really though. With the commodity price boom fading, the interest rate differential in favour of Australia having fallen and the Australian dollar overvalued on a purchasing power parity basis, the trend in the Australian dollar is likely to remain down.

Budget 2014

Tax

Temporary Budget Repair Levy

A new levy (the Temporary Budget Repair Levy) will apply to high-income earners from 1 July 2014 until 30 June 2017. The 2% levy will apply on individual taxable income over $180,000pa.

A number of other tax rates are worked out based on the top personal tax rate. These will also be increased for the period of the levy. The fringe benefits tax (FBT) rate will be increased to 49% for the period 1 April 2015 to 31 March 2017 to align with the FBT year.

The annual FBT caps for 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 increased to protect the cash value of benefits. In addition, the fringe benefits rebate rate will be aligned with the FBT rate from 1 April 2015.

Implications for our clients
Opportunities to reduce taxable income, such as salary sacrifice arrangements, will be even more attractive to high-income earners.

Abolition of Dependent Spouse Tax Offset

The Dependent Spouse Tax Offset (DSTO) will be abolished from 1 July 2014. However, the Dependent (Invalid and Carer) Tax Offset (DICTO) may be available to taxpayers with a dependant who is genuinely unable to work because of a carer obligation or a disability.

Abolition of Mature Age Worker Tax Offset

From 1 July 2014, the Mature Age Worker Tax Offset (MAWTO) will be abolished; and a payment of up to $10,000 will be available to employers who hire a mature aged job seeker, aged 50 years or over who has been receiving income support for at least six months.

Increasing the Medicare levy low-income threshold for families

The Medicare levy low income threshold for families will be increased from the 2013-14 financial year, with the threshold for couples with no children increasing to $34,367. A further $3,156 will be added to the threshold for each dependent child or student.

Family situation	No levy payable 2013/14 if taxable income is below:
Couples/families	$34,367
Additional amount for each dependent child or student	$3,156

Family Tax Benefit

The Government announced a range of measures that will impact families in receipt of Family Tax Benefit (FTB), including

- The primary earner income limit for Family Tax Benefit Part B (FTP-B) will be reduced from $150,000pa to $100,000pa from 1 July 2015;
- The income threshold for the dependent (invalid and carer) tax offset (linked to the FTB-B) will be reduced to $100,000;
- FTB-B will be limited to families whose youngest child is under age 6, from 1 July 2015;
- Families with a youngest child age six and over on 30 June 2015 will remain eligible for FTB-B for two years;
- FTB-A large family supplement (currently $313.90 per child pa) will be limited to families with 4 or more children, from 1 July 2015. The supplement will be paid in respect of the 4th and each subsequent child;
- The current FTB payment rates will be paused for 2 years from 1 July 2014, i.e. indexation of the maximum and base rates of FTB-A and the rate of FTB-B will be paused until 1 July 2016;
- A new allowance will be provided for single parents on the maximum rate of FTB-A whose youngest child is age 6-12 when they become ineligible for FTB-B. An allowance of $750 for each child age 6-12 from 1 July 2015;
- The FTB-A add-on per child to the higher income free threshold for each additional child will be removed from 1 July 2015;
- FTB end-of-year supplements will be revised to their original values and indexation will cease from 1 July 2015. The revised supplements will provide $600 pa per FTB-A child and $300 per family pa for each FTB-B family; and
- Eligibility thresholds will remain unchanged for 3 years for FTB, Child Care Benefit, Child Care Rebate and Parenting payment.

Income thresholds for Medicare levy surcharge and private health insurance offset

The income thresholds for the private health insurance offset and the Medicare levy surcharge will be frozen for 3 years from 1 July 2015.

Superannuation

Option to withdraw excess non-concessional contributions

Individuals will be able to withdraw superannuation contributions in excess of the non-concessional contributions cap made from 1 July 2013 and any associated earnings, with these earnings to be taxed at the individual's marginal tax rate.

Where this option is chosen, no excess contributions tax will be payable. Individuals who leave their excess contributions in the fund will still be taxed on these contributions at the top marginal rate.

The details of the policy will be finalised after consultation with stakeholders.

Implications for our clients
Individuals who breach their non-concessional cap from 1 July 2013 will effectively be able to reverse the effects of making the excess contribution.

Superannuation Guarantee (SG) rate

The SG rate will increase as legislated from 9.25% to 9.5% from 1 July 2014, and will then increase in 0.5% increments to reach 12% by 1 July 2022. This is to occur despite the defeat of the repeal of the Mineral Resources Rent tax in the Senate (the SG increase is a related measure).

Period	SG rate:
1 July 2013 – 30 June 2014	9.25%
1 July 2014 – 30 June 2018	9.5%
1 July 2018 – 30 June 2019	10%
1 July 2019 – 30 June 2020	10.5%
1 July 2020 – 30 June 2021	11%
1 July 2021 – 30 June 2022	11.5%
1 July 2022 and later	12%

Implications for our clients
This removes the uncertainty surrounding the proposed deferral of the increase in the SG rate to 9.5% by 2 years.

Social Security

Pre-election commitments regarding the Age Pension

The Government confirmed its pre-election commitment to Age Pension recipients that it would make no changes to the Age Pension in this term of Government. The Government did, however, announce a range of other changes to the Age Pension that it intends to apply beyond this current term.

Increasing the Age Pension age

The Government confirmed its intent to legislate an increase in the eligibility age for the receipt of the Age Pension. Continuing on from the previously legislated increase in the Age Pension age to 67 by 1 July 2023, the Government intends to legislate to increase the Age Pension age to 70 by 1 July 2035.

People born between:	Eligible for Age Pension at age:
1 July 1952 - 31 December 1953	65.5
1 January 1954 - 30 June 1955	66
1 July 1955 - 31 December 1956	66.5
1 January 1957 - 30 June 1958	67
1 July 1958 - 31 December 1959	67.5
1 January 1960 - 30 June 1961	68
1 July 1961 - 31 December 1962	68.5
1 January 1963 - 30 June 1964	69
1 July 1964 - 31 December 1965	69.5
1 January 1966 and later	70

Pausing indexation of income and assets test free areas

The Government has proposed a three year pause in indexation of the income and asset test thresholds.

Thresholds for non-pension payments will be frozen for three years from 1 July 2014.

Thresholds for pensions and pension related payments will be frozen for three years from 1 July 2017.

Implications for our clients
The effect of this proposal would be a reduction in the benefit that would have otherwise been payable to a benefit recipient impacted by either means test during this period and thereafter.

Indexation of Pensions

The Government has announced that from September 2017 Pension indexation (including Age Pension, Disability Support Pension, Veterans' Affairs Pensions and others) will be linked to the Consumer Price Index (CPI) rather than the current indexation by the higher of the increase in the CPI, Male Total Average Weekly Earnings or the Pensioner and Beneficiary Living Cost Index.

Deeming thresholds to be reset

The Government has proposed to reset (i.e. lower) the deeming thresholds for the income test from September 2017. The deeming thresholds are proposed to reduce to $30,000 for single pensioners, $50,000 for pensioner couples (combined) and $25,000 per member of an allowed couple.

Implications for our clients

The effect of this proposal for benefit recipients with assets above the new deeming thresholds would be that more assets would be deemed at the higher deeming rate with more income counted under the income test as a consequence which may result (depending on other income and assets) in a reduced benefit being payable.

Indexation of income thresholds for Commonwealth Seniors Health Card

The Government has announced that the income thresholds for the Commonwealth Seniors Health Card will be indexed annually from 20 September 2014 allowing additional people to retain or qualify for the card.

Superannuation income to be included in assessment for Commonwealth Seniors Health Card

The Government has announced that it will seek to include deemed income from superannuation pensions in the assessment of income to determine eligibility for the Commonwealth Seniors Health Card from 1 January 2015. This will align the treatment of superannuation income for Age Pension recipients and CSHC holders. All superannuation income streams held by CSHC holders before 1 January 2015 will be grandfathered under the existing rules.

Seniors Supplement abolished

The Government will abolish the payment of the Seniors Supplement to recipients of the Commonwealth Seniors Health Card from 20 September 2014.

Government abandons trial means test exemption for seniors downsizing the family home

The Government has announced that it will abandon the previous Government's Housing Help for Seniors trial which was due to run from 1 July 2014 to 1 July 2017. This trial would have allowed an exemption from means testing for certain proceeds from the sale of a family home owned for at least 25 years.

Disability Support Pension changes

The Government will reduce the amount of time that Disability Support Pension (DSP) recipients can leave Australia and still receive DSP. From 1 January 2015 recipients will receive DSP for a maximum of four weeks in a 12 month period should they travel overseas, Some portability extension and exceptions provisions will continue to apply.

The Government has announced compulsory participation requirements (focussing on obtaining employment) for DSP recipients aged under 35 years with an assessed work capacity of eight hours or more per week who have a participation plan. Some exemptions will apply.

The Government has also announced that DSP recipients aged under 35 years who were granted DSP between 1 January 2008 and 31 December 2011 will have their DSP eligibility reviewed against current eligibility criteria. Some exemptions will apply.

Other

First Home Saver Accounts

First home saver accounts will be abolished from 1 July 2015. New accounts opened from Budget night 2014 will not be eligible for concessions. The government co-contribution will cease from 1 July 2014.

Tax concessions, and the income and asset test exemptions for government benefits associated with these accounts, will cease from 1 July 2015. Account holders will be able to withdraw their account balances without restriction from 1 July 2015.

Higher Education Loan Program (HELP)

The income threshold for repayment of HELP debts will reduce from 1 July 2016 and the indexation of HELP debts will be adjusted from 1 June 2016.

A new minimum threshold, set at 90% of the minimum threshold that would have otherwise applied in 2016/17 (estimated to be $50,638) will apply for the repayment of HELP debts.

A 2% repayment rate will apply to debtors with incomes above the new minimum threshold.

The annual indexation applied to HELP debts will be adjusted from the Consumer Price Index to a rate equivalent to the yields on 10 year bonds issued by the Australian Government, capped at 6% pa, from 1 June 2016.

Concluding comments

The 2014-15 Budget goes a fair way to getting the budget heading back towards surplus without going overboard with fiscal austerity for the next financial year. Better to start down the path though before any crisis hits, so when it does we will have greater fiscal flexibility.

(This paper has been prepared by input from various financial planning research houses and fund managers and adapted for clients of WCA. Please call us on 02 9279 2001 to discuss any of these issues)