



Key Impacts of the Federal Budget 2014

Our view is that this was the tougher budget we had to have, but it wasn't nearly as bad as it could have been. The good news is that there is very little change to superannuation and the bad news is the potential impact on holders of the Commonwealth Seniors Health Care card.

Importantly, the changes proposed in the budget cannot be put in place until they pass through legislation, and given that the Coalition does not control the Senate, you can expect that there may be numerous changes before the final budget proposals are passed into law.

Our summary below focuses only on those areas of the budget which relate to specific financial planning issues:

What is the Economic Impact of the Budget? A reduction in government outlays should weigh on Australian Economic growth – likely to cause a reduction in GDP of between 0.2% and 0.4%. The impact of this may be lessened by the RBA maintaining lower interest rates for longer and a falling Australian dollar. Time will tell...

Temporary Budget Repair Levy on income over \$180,000

A levy of 2% will apply to an individual's taxable income over \$180,000 per annum for three years from 1 July 2014. In addition, the rate of Fringe Benefits Tax (FBT) will also increase to 49% to prevent high income earners from using fringe benefits to avoid the levy. The increase in the FBT rate will be from 1 April 2015 to 31 March 2017 to align with the FBT year. Applies from 1 July 2014 to 30 June 2017

Implications

This levy will apply to taxable income, so strategies which reduce taxable income will result in a reduction in the amount of levy payable. Of course if you make a capital gain through sale of an asset like an investment property this may push you into this tax bracket, meaning you will pay a top marginal rate of 49%.

Option to withdraw excess non-concessional contributions from super

The Government has proposed that individuals will have the option to withdraw contributions made from 1 July 2013 that exceed their non-concessional contributions cap. It is understood that individuals who do not withdraw their excess non concessional contributions will be subject to excess contribution tax at the top marginal tax rate on the amount of the excess.

Implications

This proposal is good news as it will mean that clients who inadvertently exceed their non-concessional cap will have the ability to withdraw the excess amount rather than have it taxed at the top marginal rate. It also ensures the treatment of excess non-concessional contributions will be broadly consistent with the rules that apply to excess concessional contributions.



Age pension age to increase to 70 by 2035

The Budget confirmed the Treasurer's earlier announcement that the age pension age will increase to age 70 by the year 2035. This means that those born on or after 1 January 1966 (currently 48 years of age or younger) will have to wait until they are 70 before they are eligible for the age pension.

While the current pension age for both men and women is 65, it has been legislated that from 1 July 2017, the qualifying age for Age Pension will increase from 65 years to 65½ years for both men and women. The qualifying age will then rise by six months every two years, reaching 67 by 1 July 2023.

Implications

Whilst the policy intention is to encourage people to continue working until age 70, the reality is many people may be unable to continue working. This means there will likely be a gap between when someone retires and when they qualify for the age pension. How much additional superannuation will be required to fund this gap? It has been shown that this could be approximately \$5,000 per annum additional contributions required to fund this gap.

Changes to the Commonwealth Seniors Health Card (CSHC)

The Government has announced a number of changes to the Commonwealth Seniors Health Card (CSHC). The CSHC allows self-funded retirees to gain access to medicines listed on the Pharmaceuticals Benefits Scheme at a concessional rate as well as other concessions.

To be eligible, a person must have an adjusted taxable income of:

- \$50,000 (singles)
- \$80,000 (couples, combined), or
- \$100,000 (couples, combined, for couples separated by illness or respite care)

The proposed changes include:

- Annual indexation of the income thresholds to Consumer Price Index from September 2014.
- Account based pensions that are subject to deeming will be included in the CSHC income test from 1 January 2015. Grandfathering applies to holders of a CSHC on 1 January 2015 with an ABP commenced prior to that date.
- Holders of the card will cease to receive the Seniors Supplement beyond the June 2014 quarter. The Seniors Supplement is currently \$876.20 p.a. (singles or couples separated due to illness) or \$660.40 (couples, each). CSHC holders will still receive the Clean Energy Supplement.

Implications

Many of our self funded retiree clients will be affected by this. Under the proposed change, based on the current deeming rates and thresholds and assuming no other income, **a new applicant** will not qualify for a health care card if their Account Based Pension is greater than \$1,448,543 (singles) or \$2,318,886 (couple, combined).

However, if you receive income from other sources (investment property, shares held outside of super), you increase the likelihood that you may not qualify for the card.

The grandfathering provision also means that if you change your pension provider (BT, SOLAR, Colonial etc) after 1st January 2015, you effectively fall out of the grandfathering provision, and may lose your card.

Super Guarantee to rise to 9.5%

The Government has announced that the superannuation guarantee (SG) rate will increase from 9.25% to 9.5% from 1 July 2014, as currently legislated.

However, the Government proposes to amend the schedule for SG to increase to 12% by freezing the SG rate at 9.5% from 1 July 2014 until 30 June 2018, and subsequently increasing the SG rate every year by 0.5% until it reaches 12% from 1 July 2022.

Financial year	Proposed SG rate 2014/15 Federal Budget
2012/13	9%
2013/14	9.25%
2014/15	9.5%
2015/16	9.5%
2016/17	9.5%
2017/18	9.5%
2018/19	10%
2019/20	10.5%
2020/21	11%
2021/22	11.5%
2022/23	12%

Reduction in company tax rate

The company tax rate will be reduced by 1.5% to 28.5% from 1 July 2015. For companies earning more than \$5,000,000 in taxable income, this reduction will be offset by the 1.5% levy to fund the paid parental leave scheme which also commences from 1 July 2015.

Implications

With the reduction in the company tax rate, investors in companies earning less than \$5 million may receive greater dividends but less franking credits, leaving them in the same net after tax position. However, for shareholders of companies with income of more than \$5 million, the 1.5% reduction in tax will be offset by the 1.5% levy for the paid parental leave scheme. As a result, shareholders may receive the same level of dividends but less franking credits (assuming the levy is not franked), leaving them worse off.



Paid parental leave to commence

The government will proceed with the paid parental leave scheme from 1 July 2015. Under the scheme mothers will receive up to 26 weeks of salary up to a cap of \$100,000 per annum. This translates into a maximum payment of \$50,000 over the 26 week period. Women earning over \$100,000 a year will receive paid parental leave but it will be capped at an equivalent of \$100,000 per annum. This scheme will be funded via a 1.5% levy on companies earning taxable income over \$5 million.

Dependent Spouse Tax Offset (DSTO) to be abolished

The Government will abolish the dependent spouse tax offset for all taxpayers from 1 July 2014. Therefore, the limited access to the DSTO to those whose dependent spouse was born before 1 July 1952 will no longer be available. Taxpayers that qualified for the Zone Tax Offset, the Overseas Civilians Tax Offset or Overseas Forces Tax Offset and that qualified for the DSTO may instead now qualify for the Dependent (Invalid and Carer) Tax Offset (DICTO) where eligible.

Taxpayers with a dependant who is genuinely unable to work due to a care obligation or a disability may be eligible for the DICTO.

Mature Age Worker Tax Offset (MAWTO) to be abolished

From 1 July 2014, the Government will abolish the MAWTO. The phase out that was introduced from 1 July 2012, limiting it to taxpayers born before 1 July 1957, will no longer apply. The Government believes that encouraging mature age workers to participate in the workforce can be done more effectively through incentive payments such as Restart.

Reminder: Increase in the Medicare Levy from 1 July 2014

As per the 2013 Budget, the Medicare Levy will increase from 1.5% to 2.0% from 1 July 2014 to provide funding for DisabilityCare Australia. This measure has already been legislated. Low income earners will continue to receive relief from the Medicare Levy through the low income thresholds for singles, families, seniors and pensioners. The current exemptions from the Medicare Levy will also remain in place, including for blind pensioners and sickness allowance recipients.

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