



2015 Federal Budget Update

The Government last night released the 2015/16 Federal Budget. This Budget contains a number of proposed measures that may impact you which are outlined below.

Tax

Tax cuts for small business

For companies with annual turnover under \$2 million from 1 July 2015, the company tax rate for these businesses will be reduced by 1.5 percentage points to 28.5 per cent. The franking credit rate will be unchanged at 30 per cent, which also provides certainty for investors.

Sole Traders, Partnerships and trusts with annual turnover less than \$2 million will receive a 5 per cent tax discount. Individual taxpayers will still calculate their business and personal income in the same way, and then they get a 5 per cent discount on the tax payable on their **business income**. The discount will be capped at \$1,000 per individual in an income year, and it will be delivered as a tax credit in their tax return.

Accelerated depreciation for small business

From Budget night until the end of June 2017 all small businesses will get an immediate tax deduction for every asset they buy costing less than \$20,000. Currently, the threshold sits at \$1,000. This \$20,000 limit applies to each individual item. Small businesses can apply this \$20,000 rule to as many individual items as they like.

Other tax concessions for small business

From 1 July 2016 small businesses will also benefit from Capital Gains Tax rollover relief when changing their legal structures but keeping the same owners (for example, upon restructure of a business from sole trader to a trust structure).

Start-up small businesses will also be allowed to immediately deduct professional expenses incurred when they start a business such as legal expenses on establishing a company, trust or partnership, rather than writing them off over five years

Employee Share Schemes

From 1 July 2015 the default taxing point for options will be changed so that employees will not generally have to pay income tax until they can realise a benefit from their options. This will benefit employees of all companies. Eligible start-up companies will also be able to offer shares or options to their employees at a small discount and have tax deferred until sale (for options) or the small discount exempt from tax (for shares).

Work-related car expense deductions

From 1 July 2015 the "12 per cent of original value method" and the "one-third of actual expenses method" (used by less than two per cent of those who claim work-related car expenses), will be removed. The "cents per kilometre method" will be modernised by replacing the three current rates based on engine size with one rate set at 66 cents per kilometre to apply for all motor vehicles, with the Commissioner of Taxation responsible for updating the rate in following years. The "logbook method" of calculating expenses will be retained. These changes will not affect leasing and salary sacrifice arrangements.



Social Security

Age Pension

The Government has announced that the plan to index the age pension to inflation will no longer proceed. The age pension will continue to be indexed by the greater of the movement in the CPI or the Pensioner and Beneficiary Living Cost Index (PBLCI), benchmarked against a percentage of Male Total Average Weekly Earnings (MTAWE).

The level of assets in addition to the family home that can be held to qualify for the full age pension will be increased from 1 January 2017.

The maximum level of assets that can be held to qualify for a part pension will be reduced. However, those affected individuals who lose their pension will be automatically **guaranteed a Commonwealth Seniors Health Card (CSHC)** or a Health Care Card (HCC) which give cardholders access to less expensive medicines under the Pharmaceutical Benefits Scheme (PBS) as well as other concessions from state and local government authorities and private businesses. Assets test threshold from 1 January 2017:

Family situation	Pension rate (20 March 2015)	Homeowner status	Assets test limit for full pension		For part pension assets must be less than:	
			Current	Proposed	Current	Proposed
Single	\$860.20	Homeowner	\$202,000	\$250,000	\$775,500	\$547,000
		Non-homeowner	\$348,500	\$450,000	\$922,000	\$747,000
Couple	\$648.40 ea.	Homeowner	\$286,500	\$375,000	\$1,151,500	\$823,000
		Non-homeowner	\$433,000	\$575,000	\$1,298,000	\$1,023,000

The age pension will decrease by \$3 (currently \$1.50) for every \$1,000 in assets above the thresholds for the full pension.

Example:

Jason, a single homeowner, has assessable assets of \$500,000. His age pension entitlement is calculated as:

Current :

$$\$860.20 - [(\$500,000 - \$202,000) \times 1.5/1000] = \$413.20$$

Proposed:

$$\$860.20 - [(\$500,000 - \$250,000) \times 3/1000] = \$110.20$$

As a consequence, pension entitlements will reduce for single homeowners with assessable assets over \$298,000 and homeowner couples with assessable assets over \$463,500.

Defined benefit pensions – Income test assessment

The amount of income paid from certain defined benefit superannuation pensions that can be excluded from the pension income test (the deductible amount) will be capped at 10%, from 1 January 2016.



Portability of Centrelink benefits

From 1 January 2017, age pensioners, disability support pensioners and certain other pensioners will be required to have been permanent Australian residents for 35 years during their working life (from age 16 to age pension age) to receive their full means-tested pension after 6 weeks (currently 26 weeks) absence from Australia. Pensioners who have lived in Australia for less than 35 years will be paid at a reduced rate proportional to their period of working life residence in Australia. Pensioners overseas on 1 January 2017 will not be affected unless they return to Australia and subsequently travel overseas.

Cessation of low income supplement

The low income supplement (an annual \$300 payment for low-income families) will cease from 1 July 2017.

Immunisation requirement

From 1 January 2016, families will no longer be eligible for subsidised child care or Family Tax Benefit Part A end-of-year supplement unless their child is up-to-date with all childhood immunisations. Exemptions will only apply on medical grounds.

Other

Childcare subsidy

It is proposed that the Child Care Benefit (CCB), Child Care Rebate (CCR) and jobs, education and training child care fee assistance (for parents who qualify for the maximum rate of CCB) will be combined into a single means-tested Child Care Subsidy (CCS), paid directly to providers, from 1 July 2017.

Annual family income (2017/18)	Subsidy payment	Cap on subsidy
Under \$65,710	85% of actual fee up to hourly fee cap*	No cap
Over \$170,710	50% of actual fee up to hourly fee cap*	No cap
Over \$185,710	50% of actual fee up to hourly fee cap*	\$10,000 cap per child (indexed from 1 July 2018)

* The hourly fee cap in 2017/18 will be set at: \$11.55 for long day care; \$10.70 for family day care, and \$10.10 for outside school hours care.

The income thresholds and hourly fee caps will be indexed by CPI. Additional assistance will be provided for eligible disadvantaged or vulnerable families.

To be eligible for CCS, parents must satisfy an activity test (eligible activities include work, training, study or any other recognised activity such as volunteering). Families earning less than \$65,710 a year will get up to 24 hours per fortnight of childcare without meeting an activity test. Parents with family income greater than \$65,710 must meet an activity test to qualify for the CCS:



Hours of eligible activity per fortnight	Number of hours of subsidy per fortnight
Between 8 and 16 hours	Up to 36 hours
17 to 48 hours	Up to 72 hours
49+ hours	Up to 100 hours

Double dip on parental leave

Individuals who receive generous parental leave payments from their employers will not be permitted to also claim Government parental leave payments, from 1 July 2016. Government parental leave pay is currently \$641.05 gross per week for a maximum of 18 weeks for primary care givers earning up to \$150,000 pa. Parents can currently claim parental leave payments from both the government and their employers. Parents receiving employer-provided paid parental leave payments more than the maximum government payment will no longer receive payments under the government scheme. However, those receiving less than the maximum government payment will be topped up so they receive the maximum benefit of around \$11,500.

Banking and Life Insurance unclaimed monies

The Government has announced changes to the way that unclaimed money in savings accounts and life insurance policies are managed. The government will restore the time before they are transferred to the government from three years to seven years, reversing the changes made by the previous government in 2012. Children's bank accounts will also be exempt to ensure funds put aside in these accounts will never be transferred to the government. These changes will take effect from 31 December 2015.

Notes

Please remember that, at this time, these measures are **proposals only** and **require Senate to approve this legislation** for it to become effective. The start dates for some of these measures are after the next federal election. And of course these measures may be subject to change through the implementation process.

Should you have any questions about these changes, please don't hesitate to contact us on (02) 9580 7966.