

2014/15 Budget

1. Changes effective 1 July 2013 (i.e., 2013/14 income year)

1.1 Medicare levy low income thresholds

For 2013/14, the Medicare Levy low income thresholds will be as follows:

- Individuals \$20,542 (no increase from 2012/13)
- Families \$34,367 (previously \$33,693)

The families income threshold (i.e., \$34,367) will be increased by \$3,156 (previously \$3,094) for each dependent child or student.

1.2 Superannuation – a fairer excess contributions tax system

Currently, superannuation contributions that exceed the non-concessional contributions cap (i.e., \$150,000 per annum or \$450,000 over a 3-year period for individuals under the age of 65) are basically subject to excess contributions tax at the rate of 46.5%. In contrast, excess concessional contributions may be taxed more concessional under new rules that apply from the 2014 income year (e.g., excess concessional contributions are now effectively taxed at an individual's marginal tax rates, and an individual can elect to have up to 85% of their excess contributions withdrawn from their fund).

For contributions made from 1 July 2013 which exceed the non-concessional contributions cap, the government will allow individuals the option of withdrawing the excess contributions and any associated earnings, with these earnings to be taxed at the individual's marginal tax rate. Final details of the policy will be settled following consultation with key stakeholders in the superannuation industry.

This ensures the consistent treatment of excess concessional and non-concessional contributions.

2. Changes effective 1 July 2014 (i.e., 2014/15 income year)

2.1 Temporary Budget Repair Levy (increase in top marginal tax rate)

From 1 July 2014, the government will introduce a 3-year temporary levy ('the Temporary Budget Repair Levy') on individuals with taxable incomes in excess of \$180,000 per annum (and, therefore paying tax at the top marginal rate – currently, 47%, including the Medicare Levy), until 30 June 2017.

From 1 July 2014 until 30 June 2017, the Temporary Budget Repair Levy will apply at a rate of 2% on an individual's taxable income in excess of \$180,000 per annum.

This means that:

- individuals with a taxable income of \$180,000 or below will **not** pay the levy;
- individuals with a taxable income of \$200,000 will pay 2% of \$20,000, or \$400 of levy; and
- individuals with a taxable income of \$300,000 will pay 2% of \$120,000, or \$2,400 of levy.

A number of other tax rates that are currently based on calculations that include the top personal tax rate will also be increased. These tax rates will be increased for the same period that the Temporary Budget Repair Levy is in place.

Furthermore, to prevent high income earners from utilising fringe benefits to avoid the levy (e.g., through salary packaging), the FBT rate will be increased from 47% to 49% from 1 April 2015 until 31 March 2017 to align with the FBT 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. In addition, the fringe benefits rebate rate will be aligned with the FBT rate from 1 April 2015.

2.1.1 Tax rates and thresholds – resident individuals

The following table sets out the income tax rates that apply to resident individuals for **2013/14**.

Taxable income \$	Tax payable ^❶
0 - 18,200	Nil
18,201 - 37,000	Nil + 19% of excess over \$18,200
37,001 - 80,000	\$3,572 + 32.5% of excess over \$37,000
80,001 - 180,000	\$17,547 + 37% of excess over \$80,000
180,001+	\$54,547 + 45% of excess over \$180,000

❶ The above rates do not include the Medicare levy of 1.5%.

The following table sets out the income tax rates that will apply to resident individuals for **2014/15**, if the Temporary Budget Repair Levy is implemented as proposed.

Taxable income \$	Tax payable ^❶
0 - 18,200	Nil
18,201 - 37,000	Nil + 19% of excess over \$18,200
37,001 - 80,000	\$3,572 + 32.5% of excess over \$37,000
80,001 - 180,000	\$17,547 + 37% of excess over \$80,000
180,001+	\$54,547 + 47% of excess over \$180,000

❶ The above rates do not include the Medicare levy of 2% which applies from 1 July 2014.

The following table sets out the income tax rates that will apply to resident individuals for **2015/16 and 2016/17**, if the Temporary Budget Repair Levy is implemented as proposed. The table also incorporates changes to the personal tax rates that were enacted by the former government, but which are proposed to be repealed as part of the abolition of the carbon tax (note that the carbon tax repeal Bills were defeated in the Senate on 20 March 2014).

Taxable income \$	Tax payable ^❶
0 - 19,400	Nil
19,401 - 37,000	Nil + 19% of excess over \$19,401
37,001 - 80,000	\$3,344 + 33% of excess over \$37,000
80,001 - 180,000	\$17,534 + 37% of excess over \$80,000
180,001+	\$54,534 + 47% of excess over \$180,000

❶ The above rates do not include the Medicare levy of 2% which applies from 1 July 2014.

2.1.2 Tax rates and thresholds – non-resident individuals

The following table sets out the income tax rates that apply to non-resident individuals for **2013/14**.

Taxable income \$	Tax payable ^❶
0 - 80,000	32.5%
80,001 - 180,000	\$26,000 + 37% of excess over \$80,000
180,001+	\$63,000 + 45% of excess over \$180,000

❶ The Medicare levy is not payable by non-residents.

The following table sets out the income tax rates that will apply to non-resident individuals for **2014/15**, if the Temporary Budget Repair Levy is implemented as proposed.

Taxable income \$	Tax payable ^❶
0 - 80,000	32.5%
80,001 - 180,000	\$26,000 + 37% of excess over \$80,000
180,001+	\$63,000 + 47% of excess over \$180,000

❶ The Medicare levy is not payable by non-residents.

The following table sets out the income tax rates that will apply to non-resident individuals for **2015/16 and 2016/17**, if the Temporary Budget Repair Levy is implemented as proposed. The table also incorporates changes to the personal tax rates that were enacted by the former government, but which are proposed to be repealed as part of the abolition of the carbon tax (note that the carbon tax repeal Bills were defeated in the Senate on 20 March 2014).

Taxable income \$	Tax payable ^❶
0 - 80,000	33%
80,001 - 180,000	\$26,400 + 37% of excess over \$80,000
180,001+	\$63,400 + 47% of excess over \$180,000

❶ The Medicare levy is not payable by non-residents.

2.2 Abolishing the Dependant Spouse Tax Offset ('DSTO')

From 1 July 2014, the government will abolish the DSTO for all individual taxpayers.

Currently, the DSTO is only available in respect of a dependent spouse born before 1 July 1952. However, taxpayers entitled to claim the Zone Tax Offset ('ZTO'), the Overseas Forces Tax Offset ('OFTO') and the Overseas Civilians Tax Offset ('OCTO') are still able to claim their full notional entitlement to the DSTO (i.e., irrespective of the spouse's age) as part of these tax offsets.

Furthermore, taxpayers eligible for the ZTO, OFTO and OCTO can currently claim eight other dependant-related tax offsets (e.g., invalid relative tax offset, the parent/parent-in-law tax offset and the child-housekeeper tax offset) which were replaced by the Dependent (Invalid and Carer) Tax Offset ('DICTO'), effective from 1 July 2012. Broadly, taxpayers with a dependant who is genuinely unable to work due to carer obligations or a disability may be eligible for the DICTO.

As part of the proposed measure to abolish the dependant spouse tax offset, these eight other dependant-related tax offsets will be replaced by the DICTO from 1 July 2014, for those individuals entitled to claim the ZTO, OCTO and OFTO.

2.3 Abolishing the Mature Age Worker Tax Offset ('MAWTO') – savings redirected to new *Restart Programme* for mature aged job seekers

From 1 July 2014, the government will abolish the MAWTO.

Currently, the MAWTO is only available in respect of a resident individual who was born before 1 July 1957 and who has an amount of net income from working of less than \$63,000 for an income year.

Encouraging mature age workers to participate in the workforce can be done more effectively through direct payments or incentives. In particular, from 1 July 2014, under the government's new **Restart Programme**, a payment of up to \$10,000 may be available (over a 24-month period – refer below) to employers who hire a full-time mature aged job seeker (aged 50 years or over) who has been unemployed for at least six months (including those receiving the Disability Support Pension).

Specifically, under the *Restart Programme*, payments will commence after the worker has been employed (with an employer) for at least six months, and will be paid in the following instalments:

- \$3,000 will be paid after the first six months of employment;
- \$3,000 will be paid after 12 months of employment;
- \$2,000 will be paid after 18 months of employment; and
- \$2,000 will be paid after 24 months of employment.

To be eligible, employers will need to demonstrate that the job they are offering is “sustainable and ongoing”, and that they are not displacing existing workers with subsidised job seekers.

2.4 Abolishing the First Home Saver Accounts (‘FHSA’) scheme

The government will abolish the FHSA scheme due to lower than forecast take-up rates.

New accounts opened from Budget night (13 May 2014) 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.

As of 1 July 2015, account holders will be able to withdraw their account balances without restriction. Furthermore, once the FHSA scheme is abolished, these accounts will be treated like any other account held with a relevant provider.

2.5 Family Payment Reform – maintain family tax benefit (‘FTB’) rates for two years

The government will maintain current FTB payment rates for two years commencing from 1 July 2014. Under this measure, indexation of the maximum and base rates for FTB Part A and the rate of FTB Part B will be paused until 1 July 2016.

3. Other Budget announcements

3.1 New schedule for increasing the Superannuation Guarantee (‘SG’)

The government will change the schedule for increasing the SG rate from 9.25% to 12%, to provide businesses with certainty, as follows:

- Instead of pausing the SG rate at 9.25% (as previously announced), the SG rate will increase from 9.25% to 9.5% from 1 July 2014 as currently legislated, to give certainty to employers and employees (given the *Minerals Resource Rent Tax Repeal and Other Measures Bill 2013* was rejected in the Senate).
- The SG rate will remain at 9.5% until 30 June 2018 and then increase by 0.5% each year until it reaches 12% in 2022/23 (one year later than previously proposed).

This rescheduling of the SG rate will make it clear to businesses that are currently uncertain whether they should pay superannuation at 9.25% (as announced) or at 9.5% (as legislated) from 1 July 2014.

Editor: By announcing this change now, business will be able to meet their SG obligations from 1 July 2014 by paying superannuation at the rate currently set out in the law.

3.2 Private Health Insurance (‘PHI’) Rebate and Medicare Levy Surcharge (‘MLS’) income thresholds – pausing indexation

The PHI rebate is currently income tested against three income tiers which were first introduced on 1 July 2012. The rebate may be available to those eligible individuals who are covered by a complying private health insurance policy.

The MLS is levied upon individual taxpayers who are not covered by a complying private health insurance policy, and whose income exceeds certain income thresholds.

From 1 July 2015 to 30 June 2018, the PHI and MLS income thresholds will not be indexed. In relation to the PHI rebate (for example), this means that if an individual’s income or a family’s income increases enough for them to move into a higher income tier, they may end up receiving a lower or no PHI rebate.

3.3 Higher Education Loan Programme ('HELP') – cessation of HECS-HELP benefit and changes to repayment thresholds and indexation

The government will continue to make HELP loans so that eligible students do not have to pay their fees up-front. However, the HECS-HELP benefit that was intended to provide an incentive for graduates of particular courses to take up related occupations or work in specified locations will be abolished from 2015/16.

Further, commencing from 2016/17, a new minimum threshold will be established for the repayment of HELP debts, currently estimated to be \$50,638. A new repayment rate of 2% of repayment income will also be applied to debtors with incomes above the new minimum threshold. Indexation of HELP debts will also be adjusted from 1 July 2016.

3.4 Backlog of tax and superannuation measures – further decisions

The government has made further decisions in relation to the backlog of taxation and superannuation measures that were announced by former governments but not yet legislated. Additional consultation with stakeholders and the ATO has demonstrated that it is not possible to implement a number of these measures as initially announced, and that other measures need to be extended to achieve their policy intent. Accordingly, the government has decided to:

- not proceed with changes that would have applied to multiple entry consolidated groups;
- modify integrity measures in relation to the foreign resident CGT regime;
- modify integrity measures in relation to the consolidation regime;
- defer the start date of the new tax system for managed investment trusts by 12 months to 1 July 2015;
- defer the start date of reforms to the offshore banking unit regime to income years commencing on or after 1 July 2015; and
- defer the start date of the legislative elements of the measure to improve tax compliance through third party reporting and data matching to 1 July 2016.

Editor: Further information on each of the above measures can be found in the Acting Assistant Treasurer's Press Release (the Minister for Finance) of 13 May 2014.

3.5 Research and Development Tax Incentive – reducing the rates of the refundable and non-refundable tax offsets

Consistent with the government's commitment to cut the company tax rate from 1 July 2015, the government will preserve the relative value of the Research and Development Tax Incentive by reducing the rates of the refundable and non-refundable offsets by 1.5%, effective from 1 July 2014.

3.6 Exempting FMDs from the unclaimed moneys scheme

The government will amend the unclaimed moneys scheme in the *Banking Act 1959* to protect Farm Management Deposits from being transferred to the Commonwealth. This measure will have effect from the date of Royal Assent of the enabling legislation.

3.7 Measures for a more sustainable family payments system

The government has announced various measures to the existing family payments system. Some of the main measures include the following:

- (a) **New supplement for single parents** – From 1 July 2015, single parents who receive the maximum rate of FTB Part A, but are no longer receiving FTB Part B as a result of changes to eligibility, will have access to a new \$750 annual supplement for each child aged 6-12 years.
- (b) **FTB Part B for children under 6 years of age** – From 1 July 2015, families eligible for FTB Part B will only receive the payment while their youngest child is under 6 years of age. Families already receiving FTB Part B with a youngest child at least 6 years of age on 1 July 2015 will continue to receive FTB Part B until 30 June 2017.

- (c) **FTB Part B primary earner income limit** – From 1 July 2015, the primary earner income limit for families to become eligible for FTB Part B will be reduced from \$150,000 to \$100,000 per annum.
- (d) **FTB end-of-year supplements** – From 1 July 2015, the FTB Parts A and B end-of-year supplements will be returned to their original amounts of \$600 and \$300, and will remain at that amount without further indexation.
- (e) **FTB Part A higher-income free area per child add-on** – From 1 July 2015, the FTB Part A per child add-on amount used to calculate a family's higher income free area will no longer apply.
- (f) **Paid Parental Leave** – From 1 July 2015, the Abbott government will deliver Australia's first Paid Parental Leave scheme, which will provide six months paid leave (with an income cap of \$100,000 per annum) and will include superannuation. This will support women to remain engaged with their employers, and will help boost their retirement income.

3.8 Reduction in the income threshold for the DICTO

From 1 July 2015, the eligibility income threshold for the DICTO will also be reduced to \$100,000 (from \$150,000) as it is linked to the FTB primary income earner limit.

3.9 Increasing the age pension age to 70 years of age

Building on the former government's move to increase the pension age to 67 by 1 July 2023, new legislation will continue this process to increase the age pension age from 1 July 2025, until it reaches the age of 70 in July 2035. This measure will not affect Australians born before 1 July 1958.

From September 2017, the government will also reset the deeming thresholds for the income test to \$30,000 for single pensioners and \$50,000 for pensioner couples combined (or \$25,000 per member of an allowee couple). Furthermore, for a period of three years from July 2017, the Government will pause the indexation of the income and assets test free areas for the pension (i.e., the amount of income and assets that individuals and couples can have before the pension begins to be reduced).