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2015/16 Federal Budget

If you have been asleep for the last year and just woke up, you could be forgiven for thinking that you have woken up on a different planet, in a different country with a different Treasurer. Budget 2015 could not be more different to Budget 2014. Budget 2014 was about the Budget crisis, with a grim Treasurer heralding the end of entitlement and the start of an era of slashing and savings. Budget 2015 is about fairness, families and small business, with a smiling Treasurer encouraging Australia to ‘get out there and have a go’.

Many of the big savings measures had already been announced, but with a nod to the Government’s new god of ‘fairness’, invariably these changes are accompanied by a spoonful (or two) of sugar to help the medicine go down (so the Senate will swallow the changes). As already announced, the Government will reverse the Howard Government’s 2007 changes to the Centrelink assets test taper from 1 January 2017, bringing savings of nearly $1 billion a year. However the Government will make sure those who lose their entitlements will receive the Commonwealth Seniors Health card (or Health Care card for those under age pension age). Further, the Government won’t go ahead with the unpopular changes to pension indexation, income test free areas and the deeming thresholds announced last year.

There was a collective sigh of relief when our new smiling Treasurer announced no new taxes on superannuation (but the super funds will be slugged another $11.6 million each year in additional APRA supervisory levies). Self-managed super funds also dodged a bullet with no mention of implementing proposed changes to limited recourse borrowing arrangements. While there are no new super taxes in this Budget, super and tax reform will remain on the agenda for later this year and 2016, with the Tax white paper and the Government’s response to the Financial Systems Inquiry due.

The Government appears to be banking on small business to lead the recovery and has set out a series of generous new tax concessions for businesses with turnovers of less than $2 million. These include:

- a drop in the corporate tax rate to 28.5 per cent
- immediate tax deductions of up to $20,000 for capital expenses, and
- FBT exemptions.

Primary producers also do well, regardless of their size with generous depreciation concessions for fencing, water rights and fodder.

For financial planners, small business will be a key area for strategic advice as the reforms include tax incentives to restructure unincorporated small business into companies.

So where is the sting in this Budget? The Government has been careful in its targets. Rather than increasing taxes, the Government has focussed on loop holes where there is a clear argument for fairness. Multi-national companies who avoid paying tax on business profits in Australia are in the firing line. Also GST will be extended to imported digital products and services. Financial planners should take particular note that fly-in fly-out (drive-in drive-out) clients may lose the zone tax offset and caps will apply to salary sacrificed meal and entertainment expenses for employees of charities, hospitals and public benevolent institutions.

So with the image of our new smiling Treasurer in our minds (wearing the traditional blue tie of course), below is a summary of the key issues in Budget 2015 for financial planners.

Thank you for reading our Budget analysis. The contents can be found on the following pages:

Small business

Immediate deductibility for professional expenses

From 1 July 2015, new business start-ups will be allowed an immediate deduction for a range of professional services such as professional, legal and accounting expenses associated with starting a new business.

Currently, some professional costs associated with a new business start-up are deducted over a five year period.

Work-related electronic devices

From 1 April 2016, there will be a fringe benefits tax (FBT) exemption for small businesses with an aggregated annual turnover of less than $2 million that provide employees with more than one qualifying work-related portable electronic device, even where the items have substantially similar functions.

Currently, an FBT exemption can apply to more than one portable electronic device used primarily for work purposes, but only where the devices perform substantially different functions.

Capital gains tax roll-over relief for changes to entity structure

From 1 July 2016, small businesses with an aggregated annual turnover of less than $2 million will be able to change legal structure without attracting a capital gains tax (CGT) liability at that point.

CGT roll-over relief is currently available for individuals who incorporate, but all other entity type changes have the potential to trigger a CGT liability. This measure recognises that new small businesses might choose an initial legal structure that they later find does not suit them when the business is more established.

Expanding accelerated depreciation for small businesses

Small businesses with aggregated annual turnover of less than $2 million may immediately deduct assets they start to use or install ready for use, provided the asset costs less than $20,000.

This will apply for assets acquired and installed, ready for use between 7.30pm (AEST) 12 May 2015 and 30 June 2017.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed in the small business simplified depreciation pool (the pool) and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

The current ‘lock out’ laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) will be suspended until 30 June 2017.

From 1 July 2017, the thresholds for the immediate depreciation of assets and the value of the pool will revert to existing arrangements.

Corporate tax rate reduction for small business (incorporated and unincorporated)

From 1 July 2015, for small companies with an aggregated turnover of less than $2 million, the company tax rate will reduce to 28.5 per cent and a five per cent tax discount on income from unincorporated small business activity.

Companies with an aggregated annual turnover of $2 million or above will continue to be subject to the current 30 per cent rate on all their taxable income.

The current maximum franking credit rate for a distribution will remain unchanged at 30 per cent for all companies, maintaining the existing arrangements for investors, such as self-funded retirees.

Individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than $2 million will be eligible for a small business tax discount. The discount will be five per cent of the income tax payable on the business income received from an unincorporated small business entity.

The discount will be capped at $1,000 per individual for each income year, and delivered as a tax offset.

Small business employment initiatives

From 1 July 2015, the Government will enhance youth employment activities over four years. The measures include:

- engaging early school leavers, including an activity test from 1 January 2016
- community based intensive support services for young people at high risk of long term unemployment and welfare dependency
- strengthened compliance arrangements including increased penalties for failure to meet mutual obligation requirements
- extending the 'no show no pay' principle to missed appointments and work for the dole from 1 July 2016
- potential suspension of income support payments
- implementing a single wage subsidy pool replacing four existing subsidy programmes (Youth, Long term, Restart and Tasmanian) and enhancing the subsidy arrangements from 1 July 2015
- extending the National Work Experience Programme
- delaying the implementation of the age increase for Newstart and Sickness allowances from 22 to 25 years of age until 1 July 2016.

Taxation

Salary sacrificed meal and entertainment expenses

From 1 April 2016, the Government will introduce a separate single grossed-up cap of $5,000 for salary sacrificed meal and entertainment expenses (meal entertainment benefits) for employees.

Meal entertainment benefits exceeding the separate grossed-up cap of $5,000 can also be counted in calculating whether an employee exceeds their existing fringe benefits tax (FBT) exemption or rebate cap. All use of meal entertainment benefits will become reportable.

Currently, employees of public benevolent institutions and health promotion charities have a standard $30,000 FBT exemption cap (this will be $31,177 for the first year of the measure due to the Temporary Budget Repair Levy) and employees of public and not-for-profit hospitals and public ambulance services have a standard $17,000 FBT exemption cap (this will be $17,667 for the first year).

TechConnect comment

This measure is a significant tightening of a long standing loophole.

Write-offs for primary producers

The Government is prepared to spend $70 million over the next four years bringing forward tax deductions available for farmers. These measures will be effective from 1 July 2016.

Improved write-off provisions for primary producers will bring forward depreciation periods of up to 50 years down to between one and three years for fences, water facilities and fodder storage assets.

Item	Current	Proposed
Fences	Up to 30 years	1 year
Water facilities	3 years	1 year
Fodder storage assets	Up to 50 years	3 years

TechConnect comment

This very generous increase in concessions could have provided well needed and immediate relief to those areas in drought such as Queensland and northern New South Wales. However, the concessions do not apply immediately nor even next year and thus cannot alleviate the current stresses faced.

Car related expenses

There are currently four different methods used to calculate car related expenses which will be simplified to two:

- Cents per kilometre – to be retained.
- Logbook method – to be retained.
- 12 per cent of value method – to be abolished.
- One-third of actual expenses – to be abolished.

The cents per kilometre method will be able to be used up to a maximum of 5,000 kilometres pa and will be a flat rate of 66 cents per kilometre. This replaces the current three different rates for large, medium and small cars.

TechConnect comment

Sensible simplification measure, particularly given the very small number of people who used the two methods being abolished.

HELP and HECS repayments by overseas tax residents

Currently, graduates who chose to go and work overseas have been able to defer paying their HECS/HELP debt until they return to Australia and commence earning income here. This has meant that their debt has continued to accrue at the rate of CPI until such time that they do (if at all).

From 1 July 2017, the Government intends to make these graduates repay their HELP debt as if they were earning that foreign income in Australia. The repayment rate will be exactly the same as if they were in Australia commencing at 4 per cent of earnings on income of $53,345 and above rising to a high of 8 per cent of all earnings over $99,070.

The finer details of how the Government will ensure compliance with this measure are yet to be finalised.

TechConnect comment

Given the difficulties faced in enforcing this measure, we hope that the effort is worth the reward.

Goods and services tax (GST)

GST will begin to apply to cross-border supplies of digital products imported by consumers. Digital products extends to movies, music, apps, games, e-books and other services in consultancy and professional services. In the interests of efficiency, sometimes it will be the operator of the electronic distribution who will be liable to collect the GST rather than the supplier. The broader GST will apply from 1 July 2017 and is estimated to raise $350 million over four years.

The Government is also set to provide $265.5 million to the Australian Taxation Office (ATO) to promote GST compliance. This expenditure is to be over three years from 1 July 2016.

TechConnect comment

Businesses located here in Australia delivering these supplies will breathe a sigh of welcome relief now they can be on a level playing field with their overseas counterparts. Whilst the GST was meant to apply to everything except food, health and education there were always cracks through which some operators escaped.

Zone tax offset

Currently the zone tax offset (ZTO) applies to anyone who works or resides in specified remote areas for more than 183 days per year. This has meant that fly-in fly-out workers have also benefitted from the use of the offset even though their normal place of residence is not in those zones. It is estimated that this could be around 20 per cent of the beneficiaries. Therefore, the Government has elected to change the entitlement to only those whose normal residence in one of those zones. These changes will apply from 1 July 2015 and are estimated to save $325 million over four years.

TechConnect comment

While not generous, the offset was an unnecessary ‘perk’ for fly-in fly-out workers. For a very small amount of pain the nation is able to save a very modest $325 million which can be better spent elsewhere.

Increasing the Medicare levy low-income thresholds

From 1 July 2015, the Medicare levy low-income threshold will increase in line with inflation to allow low-income taxpayers to continue to be exempted from paying the Medicare levy.

Working holiday makers

Currently working holiday makers who are here for more than six months are entitled to access normal tax resident treatment. That means they access concessional tax rates including the tax free threshold up to $18,200, the 19 per cent tax rate up to $37,000 plus the low income earner tax offset.

From 1 July 2016 they will be subject to tax as if they were a non-tax resident. Non-residents are taxed at 32.5 per cent on all earnings up to $80,000 and the same tax rates as residents on income above this threshold.

TechConnect comment

Whilst a nice little saving for the Government, it’s hard to tell if this will exactly encourage young travellers to come to Australia. A strange measure when viewed in the context of recent media critical of employers exploiting overseas workers here in Australia.

Centrelink

Removing double-dipping from Parental Leave Pay

From 1 July 2016, the Government will remove the ability for individuals to double dip when applying for the existing Parental Leave Pay (PLP) scheme. Currently, individuals are able to access Government assistance in the form of PLP, in addition to any employer-provided parental leave entitlements. The Government will ensure that all primary carers would have access to parental leave payments that are at least equal to the maximum PLP benefit (currently 18 weeks at the national minimum wage).

Tightening pension portability rules

From 1 January 2017, the absence period that some recipients of the age pension, wife pension, widow B pension and the disability support pension can be paid their full basic means-tested rate while absent from Australia will be reduced from 26 weeks to just six weeks. This means that, after being absent from Australia for six weeks, pensioners who have lived in Australia for less than 35 years will be paid at a reduced rate proportional to their period of Australian Working Life Residence (AWLR). Importantly, pensioners with an AWLR of 35 years or more, or who are exempt from proportionality rules, will not be affected.

Defined benefit schemes – change to income test assessment

From 1 January 2016, the amount of defined benefit superannuation income that can be excluded from the Centrelink income test will be capped at ten per cent of the total pension amount.

Recipients of Veterans' Affairs pensions and/or defined benefit income streams paid by military superannuation funds are exempt from this measure.

TechConnect comment

This will impact members of certain defined benefit super schemes, such as CSS/PSS who have made significant after-tax super contributions.Recall that defined benefit pensions were not impacted by the 1 January 2015 deeming changes.

For residential aged care members who receive a reduced age pension, this could translate to potentially lower means tested care fees.

Age pension – asset test changes

From 1 January 2017, the Government will increase the Centrelink lower asset test thresholds and the withdrawal rate at which pensions are reduced once that threshold is exceeded.

Also the Government will not proceed with the 2014/15 Budget measure to index pension and pension equivalent payments by the consumer price index.

Summary of impacts:*

Asset test threshold	Singles (H/O**)	Impact on single pensioners- increase (decrease)	Couples (H/O**)	Impact on combined pensioners – increase (decrease)
Proposed lower threshold [current threshold]	$250,000 [$202,000]	$72 pf or $1,872 pa	$375,000 [$286,500]	$132 pf or $3,432 pa
Proposed cut-off threshold [current threshold]	$547,000 [$775,500]	($342) pf or ($8,892) pa	$823,000 [$1,151,500]	($492) pf or ($12,792) pa
Clients with assets in the following asset range will be better off under proposal	$202,000 - $301,000	n/a	$286,500 - $452,000	

* calculations are based on current pension rates
** H/O – homeowners.

- Couples (H/O) who stand to lose $12,792 pa from the pension, would have to drawdown on their capital at a rate of at least 1.6 per cent ($12,792/$823,000) to make up for the loss of the part age pension.
- Clients who lose their age pension will apparently be guaranteed eligibility for the Commonwealth Seniors Health Card (CSHC), which provides concessions similar to the Pension Concession Card. Note the CSHC income test is based on taxable income concepts and is therefore fundamentally different to the age pension income test.
- Some of your clients may have locked in grandfathered account based pensions prior to 1 January 2015. For these clients, any cancellation of part age pension entitlements will forego the grandfathered status of their account based pensions (ABP). This means that the ABP will be deemed at prevailing deeming rates for CSHC income test purposes (and indeed for age pension means testing purposes should they reapply for the age pension at a later time).

  At present, deeming rates are at all-time lows, however, they are anticipated to increase over time. These clients will, therefore, be vulnerable to rising deeming rates (which is what they were originally immune from by virtue of their grandfathered ABP). Therefore make sure you are quantifying CSHC eligibility for these clients in light of prevailing (and future) deeming rates as well as existing taxable income items such as non-super investment income, foreign pensions and defined benefit pensions.
- Similarly, a surviving spouse who inherits a reversionary grandfathered ABP may be impacted by the proposed upper asset test threshold, meaning the grandfathered status of the inherited ABP is foregone and potentially impacting on future eligibility to the CSHC.
- There does not appear to be any grandfathering for existing eligible pensioners.
- It is not clear how these proposed asset thresholds will impact allowees and recipients of the transitional age pension.
- For residents in residential/ home care, receiving a lower age pension may translate to lower care fees.
- Residential aged care members with available assets could look towards paying a lump sum refundable deposit (RAD) or increasing their RAD, rather than paying periodic accommodation payments/contributions. RADs are exempt from Centrelink asset testing but may increase the means tested fees.
- Clients who have previously registered in time for the Pension Bonus Scheme should consider applying for their bonus (where eligible) sooner rather than later if their level of assets preclude them from the pension.
- The Government has not changed the asset exemption on the principal home.

Further reform of the aged pension system is needed to stop penalising older Australians who want to move into smaller, more appropriate housing and use the equity in their family home to better support themselves.

Child Care Subsidy

The Government will establish a new and simpler Child Care Subsidy from 1 July 2017 through:

- the abolition of the current Child Care Benefit, Child Care Rebate and Jobs, Education and Training Child Care Fee Assistance programmes.
- the introduction of a single means tested Child Care Subsidy for all families, subject to a new activity test for up to 100 hours of subsidised care per child per fortnight.

Summary of changes (values as at 2017/18):

Income (combined)	Child Care Subsidy	Activity test
Less than $65,710	85% of actual fee or benchmark (whichever is lower)	Up to 24 hours per fortnight exempt from the activity test
$65,710 - $170,710	85% of actual fee or benchmark (whichever is lower)	applicable
$170,710 - $185,710	50% (no cap)	applicable
More than $185,710	50% ($10,000 cap per child)	applicable

Based on new activity test:

Parent's activity test (pf)	Number of hours of subsidy (per fortnight)
8 – 16 hours	Up to 36 hours
17 – 48 hours	Up to 72 hours
49 hours	Up to 100 hours

The benchmark 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 hourly fee caps will be indexed by CPI.

TechConnect comment

- Income definition is based on adjusted taxable income (not Centrelink's ordinary income definition).
- Example: comparison of old rules with proposed rules

  Child attends long day care 10 days in the fortnight for 10 hours per day @ $10 per hour

		Out of the 5 days of child care in the week, how many days are subsided by the Government?	
Parent's activity (combined)	**Parent's income (combined)**	**Current system**	**Proposed system**
More than 50 hours	**More than $185,710**	2.8 days	3.8 days

Family Tax Benefit Part A – reduced portability

From 1 January 2016, families will only be able to receive FTB Part A for six weeks in a 12 month period while they are overseas. Currently, FTB Part A recipients who are overseas are able to receive their usual rate of payment for six weeks and then the base rate for a further 50 weeks.

Newstart and Sickness Allowance – delay in increase of age of eligibility

The Government will delay implementation of the 2014/15 Budget measure increasing the age of eligibility for Newstart Allowance and Sickness Allowance until 1 July 2016.

The age of eligibility for Newstart Allowance and Sickness Allowance will increase from 22 to 25 years of age, from 1 July 2016. Current recipients of Newstart Allowance and Sickness Allowance, aged 22 to 24 years of age on 30 June 2016, will remain on those allowances.

Aged care

Residential care – alignment of means testing

From 1 January 2016, the Government will align aged care means testing arrangements for residents who pay their accommodation costs by periodic payments with the arrangements that currently apply to those residents who pay via a lump sum.

TechConnect comment

- This will remove the rental income exemption under the aged care means test for aged care residents who are renting out their former home and paying their aged care accommodation costs by periodic payments.
- It is not clear if the Centrelink concessions will also be removed.
- Existing residential care members will be grandfathered from this measure.
- For residents who want to maintain their age pension, in light of the proposed reduction in the aged pension asset test, there may still be incentive to maintain the former home rather than sell it (particularly within the first two years of entering into care, when the home remains an exempt asset). If the resident was to sell their home after the two years, they may consider contributing a larger lump sum (RAD) rather than paying periodic accommodation payments/contribution. RADs are exempt from Centrelink assets testing but may increase the means tested care fees.

Superannuation

Terminal medical illness

From 1 July 2015, early release of superannuation on the grounds of terminal medical illness will be extended to clients who have a life expectancy of two years or less, up from the current 12 months.

TechConnect comment

This measure can assist in relieving the financial burden associated with treatment costs and help those who want to make the most of their time with their family.

Lost and unclaimed superannuation

From 1 July 2016,consistent with the Government's policy of cutting red tape, there will streamlining of lost and unclaimed superannuation reporting and administrative arrangements. The changes will make it easier for individuals to be reunited with their lost and unclaimed superannuation.

Cost recovery

The supervisory levies paid by financial institutions will be increased from 2015/16 with the intention of ensuring that the cost of activities undertaken by Government authorities are fully recovered.

TechConnect comment

The Government has largely stuck with their promise that there will be no adverse changes to superannuation in their first term.

Other

Reversal of banking and life insurance unclaimed provisions

From 31 December 2015, the time after which inactive bank accounts will be paid to the Government as unclaimed monies, will be restored from the current three years back to seven years. The reduction from seven years to three was implemented in 2012. Children's bank accounts will be exempt.

The Government will also address identity theft and privacy concerns that have arisen from the requirement for ASIC to publish personal details in the Unclaimed Money Gazette.

TechConnect comment

This measure will reduce the administrative burden and inconvenience of having monies that are not truly unclaimed being transferred to the Government.