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The 2014-15 Federal Budget

The 2014-15 Federal Budget was handed down on 13 May 2014. This Budget is intended to reduce the deficit from the current level of $49.9 billion to $29.8 billion. The Treasurer, the Hon. Joe Hockey MP, stated that the budget is about the “national interest” and that there is no easy way to repair the Budget.

The main focus of the Budget is on the expenditure side, which is only half of the equation; the other half of the equation being about revenue.

Some sectors of society will be affected by the measures proposed in the Budget more than others. The main measures likely to affect you are outlined below. To ensure you know precisely how you may be affected by one or more of these measures, you should consult your tax adviser.

Budget measures affecting individuals and families

Temporary Budget Repair Levy

Over the next three years, starting from 1 July 2014 and ending on 30 June 2017, individuals who have a taxable income greater than $180,000 will have to pay the budget repair levy of 2%.

This levy will flow through and affect a number of other tax rates that factor in the top personal marginal tax rate for the same three year period. The fringe benefits tax rate will also be increased from 47% to 49% from 1 April 2015 until 31 March 2017 to ensure that high income earners are not able to avoid the levy by utilising fringe benefits.
** *Other FBT changes*
If you receive fringe benefits, you should also note that 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.

Dependent spouse tax offset to be abolished

From 1 July 2014, the dependent spouse tax offset (DSTO) will be abolished for all taxpayers.

From 1 July 2012, access to the DSTO was limited to individuals with spouses born before 1 July 1952. Taxpayers who were eligible for the Zone Tax Offset, Overseas Civilians Tax Offset or Overseas Forces Tax Offset were exempt from the phase-out and can currently receive the DSTO regardless of the age of their dependent spouse. These taxpayers are also eligible to claim eight other dependency tax offsets that were consolidated into a single, streamlined and non-refundable offset, the Dependent (Invalid and Carer) Tax Offset (DICTO). The offsets that were consolidated are the invalid spouse, carer spouse, housekeeper, housekeeper (with child), child-housekeeper, child-housekeeper (with child), invalid relative and parent/parent-in-law tax offsets.

From 1 July 2014, the eight dependency tax offsets will be replaced with the DICTO for individuals eligible for the Zone Tax Offset, Overseas Civilians Tax Offset or Overseas Forces Tax Offset

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

Fuel excise

Biannual indexation to CPI of excise and excise-equivalent customs duty for all fuels except aviation fuels will be reintroduced. The purpose of this is to secure funding for additional road infrastructure projects. The change is to take effect from 1 August 2014.

Mature age worker tax offset abolished

The mature age worker tax offset (MAWTO) will be abolished from 1 July 2014.

The reason for this change is that the government considers that encouraging mature age workers to participate in the workforce can be achieved more effectively through direct payments or incentives.

The mature age worker tax offset (MAWTO) began to be phased out from 1 July 2012 for taxpayers born on or after 1 July 1957. This did not affect any person who received MAWTO. Access to the MAWTO was maintained for taxpayers who were aged 55 years or older in the 2011-12 income year.

Savings from this measure will be redirected to the government's expanded seniors employment incentive payment called Restart to support mature age job seekers in re-entering the workforce. Under that measure, from 1 July 2014, 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.

Medicare levy low-income threshold for families increased

The increase to the Medicare levy low-income threshold for families applies to the 2013-14 income year.

The threshold for couples with no children will be increased to $34,367, and the additional amount of threshold for each dependent child or student will be increased to $3,156 for the 2013/14 income year.

This increase takes into account movements in the consumer price index (CPI) and ensures that low-income families who were not liable to pay the Medicare levy in 2012/13 will continue to be exempt, unless their incomes have increased by more than the CPI.

No change to the Medicare levy low-income thresholds for individuals and pensioners will occur as they have already been increased by more than the growth in the CPI so no further increase is required.

First Home Saver Accounts scheme to be abolished

The First Home Saver Accounts (FHSA) scheme will be abolished from 1 July 2015. The Government has made this decision due to lower than forecast take-up rates of these accounts. After this scheme is abolished, FHSA accounts will be treated like any other account held with a relevant provider.

From 1 July 2014

- The government co-contribution that was provided to individuals who made personal contributions to their FHSA to assist them to save for their first home will cease.

From 1 July 2015

- Tax concessions and the income and asset test exemptions for government benefits associated with FHSA will cease.
- Account holders will be able to withdraw their account balances without restriction.

Also, new accounts opened from Budget night 2014 (13 May 2014) will not be eligible for concessions. Regulations will be made to ensure that anyone seeking to open a new account from Budget night 2014 is informed of these changes by the account provider. Existing account holders will continue to receive the government co-contribution, and all tax and social security concessions associated with these accounts, for the 2013 -14 year.

Tax receipts for individuals

From 1 July 2014, taxpayers will receive a “tax receipt” from the ATO that will show taxpayers in dollar terms how their taxes were spent on each budget area. In most circumstances, the tax receipt will be issued together with a taxpayer's notice of assessment. The government has indicated that the purpose of this initiative is to help ensure that pressure is maintained on governments to spend taxation revenues wisely.

Changes to HELP repayment thresholds, indexation, and loan fees

The following changes will be made to the Higher Education Loan Programme (HELP).

1. There will be a **new reduced minimum repayment threshold** that applies from 1 July 2016 set at 90% of the threshold that would have otherwise applied for the 2016-17 income year. This is estimated to be $50,638 in 2016-17. The repayment rate will be reduced to 2% for people with debts and their income is above the new minimum threshold. No other rates will change. (To compare, the minimum repayment threshold for 2013-14 is $51,309 and the minimum repayment rate is 4%.)
2. The **annual indexation** that applies to HELP debts will be adjusted from CPI to a rate equivalent to the yield on 10-year bonds issued by the Australian Government (capped at 6% per annum) from 1 June 2016.

3. The **loan fee** of 25% that applies to FEE-HELP loans for fee-paying undergraduate courses and the loan fee of 20% that applies to VET FEE-HELP loans for eligible full fee-paying students in higher level vocational education and training courses will be removed for the 2015-16 income year.

Increased Newstart eligibility age

The eligibility age for the Newstart Allowance and Sickness Allowance will increase from 22 to 24 years from 1 January 2015. Current recipients of these allowances aged 22 to 24 on 31 December 2014 will remain on those allowances. The eligibility thresholds for the Newstart Allowance will also be maintained for three years from 1 July 2014.

Family Tax Benefit reforms and new single parent benefit

A number of changes are being made to the Family Tax Benefit and New Single Parent Benefit. These are:

From 1 July 2014

- FTB payment rates will be maintained for two years by pausing the indexation of the maximum and base rates of FTB Part A and the rate of FTB Part B from 1 July 2014 until 1 July 2016.
- Income thresholds for the FTB Part A lower income free area and maintenance income free area and the FTB Part B secondary earner income free area will remain unchanged for three years from 1 July 2014 as a result of an indexation pause.

From 1 July 2015

- The Family Tax Benefit (FTB) Part B primary earner income limit will be reduced from the current $150,000 pa to $100,000 pa. This measure will also reduce the income threshold for the Dependent (Invalid and Carer) Tax Offset (DICTO) to $100,000.
- The FTB Part B payments will be limited to families whose youngest child is younger than six years of age. A transitional arrangement will ensure families with a youngest child aged six and over on 30 June 2015 remain eligible for the payments for two years.
- A new allowance of $750 per child aged between six and 12 years will be introduced for single parents on the maximum rate of FTB Part A whose youngest child is between six and 12 years of age from the point when they become ineligible for the FTB Part B.
- The FTB Part A Large Family Supplement (currently $313.90 per child pa) will be limited to families with four or more children and will be paid in respect of the fourth and each subsequent child in the family.
- The FTB Part A per child add-on to the higher income free threshold for each additional child will be removed.

The FTB Part A and FTB Part B end-of-year supplements will return to their original amounts of $600 pa for each FTB Part A child and $300 pa for each FTB Part B family and cease indexation.

Changes to the Medicare system

There are a variety of changes being made to the Medicare system that will affect patient contributions, indexation of fees and thresholds and Medicare safety net arrangements.

1. *Patient contributions*

From 1 July 2015, the Medicare Benefits Schedule (MBS) rebates will be reduced by $5 for standard general practitioner consultations and out-of-hospital pathology and diagnostic imaging services, while providers of these services will be allowed to collect a patient contribution of $7 per service.

For patients with concession cards and children under 16 years of age, the MBS rebate will only be reduced for the first 10 services in each year, after which it will return to current benefit levels.

A new Low Gap Incentive will replace bulk billing incentives for providers of these services. The Low Gap Incentive will be paid to providers where they provide services to patients with concession cards or children under 16 years of age and only charge the $7 patient contribution — for the first 10 services in a year, or where they charge no patient contribution — for additional services in that year.

The measure will also remove the restriction on State and Territory governments from charging patients presenting to hospital emergency departments for general practitioner-like attendances.

2. *Pausing of indexation*

- The indexation of some MBS fees will be paused for two years from 1 July 2014.
- The indexation for income thresholds for the Medicare Levy Surcharge and Private Health Insurance Rebate will be paused for three years from 1 July 2015.

Note that general practice MBS fees will be excluded from this. MBS fees which are not currently indexed, such as pathology and diagnostic imaging services, will not be affected.

3. *Medicare safety net arrangements*

From 1 January 2016, the existing Original Medicare Safety Net, Extended Medicare Safety Net and Greatest Permissible Gap will be **replaced by the new Medicare Safety Net**. There will be new safety net thresholds of $400 for concessional singles and concessional families, $700 for non-concessional Family Tax Benefit Part A (FTB-A) families and non-concessional singles, and $1,000 for non-concessional families who do not receive FTB-A.

The Medicare Safety Net assists families and singles by contributing towards out-of-pocket costs for Medicare eligible out-of-hospital services. Once the annual thresholds have been reached in a calendar year, Medicare will pay 80% of any subsequent out-of-pocket costs, capped at 150% of the MBS fee. The out-of-pocket costs that accumulate in reaching the safety net thresholds will also be capped at 150% of the MBS fee.

Pension age increase and other pension reforms

There are a variety of changes occurring that will affect the pension.

1. *Qualifying Age Pension age increases*

In the 2009-10 Budget, the then government proposed to increase the Age Pension qualifying age from 1 July 2017 to ensure it reached 67 by 1 July 2023. In the 2014-15 Budget, this government will further increase the Age Pension qualifying age to ensure it reaches 70 by 1 July 2035. This ensures the qualifying age will continue to rise by 6 months every two years consistent with the original proposal.

Table 1 sets out the qualifying ages at which the new Age Pension qualifying age applies for the income years impacted by this measure and the range of birth dates which apply.

Table 1

Income Year	Range of Birth Dates	Age at which eligible for Age Pension
Up to 30 June 2017	Before 1 July 1952	65
2017 - 18	1 July 1952 to 31 December 1953	65 1/2
2018-19	1 July 1952 to 31 December 1953	65 1/2
2019-20	1 January 1954 to 30 June 1955	66
2020-21	1 January 1954 to 30 June 1955	66
2021-22	1 July 1955 to 31 December 1956	66 1/2
2022-23	1 July 1955 to 31 December 1956	66 1/2
2023-24	1 January 1957 to 30 June 1958	67
2024-25	1 January 1957 to 30 June 1958	67
2025-26	1 July 1958 to 31 December 1959	67 1/2
2026-27	1 July 1958 to 31 December 1959	67 1/2
2027-28	1 January 1960 – 30 June 1961	68
2028-29	1 January 1960 – 30 June 1961	68
2029-30	1 July 1961 to 31 December 1962	68 1/2
2030-31	1 July 1961 to 31 December 1962	68 1/2
2031-32	1 January 1963 to 30 June 1964	69
2032-33	1 January 1963 to 30 June 1964	69
2033-34	1 July 1964 to 31 December 1965	69 1/2
2034-35	1 July 1964 to 31 December 1965	69 1/2
2035-36	From 1 January 1966	70

2. *Income test*

From 20 September 2017, the government will change how it deems the return from a person's financial assets for the purposes of the pension income test. This involves resetting the deeming thresholds:

- single pensioners – from $46,600 to $30,000; and
- pensioner couples – from $77,400 to $50,000.

3. *Indexation changes*

- The indexation of income and assets test free areas for the pension will be paused for three years from 1 July 2017.
- From 1 September 2017, pension increases will be linked only to CPI.

4. *Commonwealth Seniors Health Card changes*

The income thresholds for the Commonwealth Seniors Health Card will be indexed annually to the CPI from September 2014. Payments of the Senior Supplement will also cease from 20 September 2014.

Changes to Superannuation

SUPERANNUATION EXCESS CONTRIBUTIONS TAX

For contributions made after 1 July 2013, the government will allow individuals to withdraw excess contributions and associated earnings that breach the non-concessional cap.

If an individual chooses this option, no excess contributions tax will be payable and any related earnings will be taxed at the individual's marginal tax rate.

Individuals who leave their excess contributions in the fund will continue to be taxed on these contributions at the top marginal rate. However, the final details of the policy will be ironed out following consultation with key stakeholders in the superannuation industry.

RESCHEDULING THE INCREASE IN SUPERANNUATION GUARANTEE RATE

The scheduled increase to the superannuation guarantee rate is changing and will no longer be paused at 9.25% for another two years. Instead, it will increase to 9.5% from 1 July 2014, will pause at this level until 30 June 2018 and will then start to rise by 0.5% reaching 12% in the 2022-13 income year, one year later than previously proposed. See Table 2.

Table 2

Year	Superannuation guarantee rate
From 1 July 2013	9.25%
From 1 July 2014	9.50%
From 1 July 2015	9.50%
From 1 July 2016	9.50%
From 1 July 2017	9.50%
From 1 July 2018	10%
From 1 July 2019	10.50%
From 1 July 2020	11%
From 1 July 2021	11.50%
From 1 July 2022	12%

Changes to tax administration

Tax compliance through third party reporting and data matching: start date deferred

Last year's Budget saw the introduction of an initiative to strengthen third party reporting and data matching to assist the ATO with its compliance work and revenue collection. Per this year's Budget, the start date for the legislative elements of this initiative will be deferred from 1 July 2014 to 1 July 2016.

The legislative elements of the measure that are being deferred involve the creation of new third party reporting regimes relating to:

- taxable government grants and other specified government payment;
- sales of real property, shares (including options and warrants) and units in managed funds; and
- sales through merchant debit and credit services.

Minor amendments to tax laws

A series of minor amendments to the tax and superannuation laws will be made to correct technical defects, remove anomalies and address unintended outcomes which have recently been identified, including technical corrections to the uniform penalty rules that prevent certain penalties that are levied under the law from being collected, and a number of amendments to address issues raised by industry in relation to the consolidation regime.

Inspector-General of Taxation to manage certain tax complaints

From 1 July 2014, the Commonwealth Ombudsman's case management of tax complaints will be transferred to the Inspector-General of Taxation (IGT). This measure will enhance the IGT's systematic review role, and provide taxpayers with more specialised and focused complaint handling of their tax matters.

This initiative strengthens the IGT's role as an independent reviewer of systemic tax administration and to report to the Government with recommendations to improve tax administration for the benefit of all taxpayers.