financial **snapshot**

What does it mean for you?

FEDERAL BUDGET 2014/15

The lead-up to the Federal Budget was dominated by talk of cutbacks, with the National Commission of Audit helping to build the case for introducing measures to bring long-term spending growth under control.

Now the waiting is over, what does it all mean for your hip pocket?

When it comes to accessing Government benefits, not to mention tax, paying the bills and saving for retirement, how could the Budget proposals change the way you live, work and pay for services on a practical day-to-day level?

Here's a round-up of what the 2014-15 Federal Budget could mean for your family finances.

But don't forget, the proposals may change as the legislation passes through parliament.

1. Superannuation

1.1 Superannuation Guarantee (SG) rate – Change to increase schedule

Proposed effective date 1 July 2014

The Government will change the schedule for increasing the SG rate. SG contributions are the compulsory super contributions made by employers into the super accounts of eligible employees. The current SG rate is 9.25%.

The SG rate will increase from 9.25% to 9.5% from 1 July 2014 as currently legislated. The 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 as per the following table:

Year	SG Rate (%)
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

1.2 Superannuation preservation age

Unless you meet an earlier condition of release, your preservation age is the minimum age you can draw on your super.

The preservation age is currently 55, rising to 60 depending on when you were born.

While no change to the preservation age for super benefits was announced in the Budget, the Government has indicated that this will be considered by future Government enquiries.

1.3 Excess non-concessional contributions (NCCs)

Proposed effective date 1 July 2013

NCCs are generally the after-tax contributions you make to your super. There is a limit (or cap) on the amount of NCCs you can make to your super each year.

Currently, superannuation contributions that exceed the NCC cap are taxed at 46.5%.

The Government proposes to change this treatment for any excess NCCs made from 1 July 2013. You will be allowed to withdraw those excess contributions and associated earnings.

If you choose this option, no excess contributions tax will be payable and the associated earnings will be taxed at your marginal tax rate.

Final details of the proposal, including the calculation of associated earnings, will be determined following consultation with the superannuation industry.

2. Taxation

2.1 Personal marginal tax rates in 2014-15

Proposed effective date 1 July 2014

Income	Residents Marginal Tax Rate (%)
0-18,200	0
18,201-37,00	19
37,001-80,000	32.5
80,001-180,000	37
>180,000	47

2.2 Temporary budget repair levy ('deficit levy')

Proposed effective date 1 July 2014

Previously announced in the media as the 'deficit levy', an additional 2% levy is proposed to apply to high income earners. The levy will be applied to taxable income in excess of $180,000 pa from 1 July 2014 for a period of three years expiring at 30 June 2017. This will effectively raise the top marginal tax rate from 45% to 47%.

What does it mean for you?

- With the legislated rise in the Medicare levy (see below) and this proposed deficit levy, you might consider deferring tax deductible expenses to next tax year or bringing forward income to the current tax year where possible.
- With liability to both the Medicare levy and this proposed new deficit levy based on your taxable income, any tax deductions (eg investment loan interest) will reduce your potential liability to these levies. So, for example, while contribution caps apply, salary sacrifice to super (or making personal tax deductible contributions where eligible) will reduce your liability to these levies.

As everyone's circumstances are different, you should speak to your financial adviser to help you decide whether these strategies are suitable for you.

2.3 Temporary increase in fringe benefits tax (FBT) rate

Proposed effective date 1 April 2015

The FBT rate has already risen to 47% as a consequence of the increase in the Medicare levy and an additional rise to a total of 49% is now proposed. This proposal aims to broadly prevent anyone liable for the proposed deficit levy from swapping taxable income (taxed at 49%) for fringe benefits taxed at the lower rate of 47%. The increase in the FBT rate to 49% will occur from 1 April 2015 to 31 March 2017 (aligning with the FBT years).

2.4 Medicare levy rises

Effective date 1 July 2014

Medicare levy will rise to 2% on 1 July 2014 (currently 1.5%). This was announced and legislated by the previous government, to assist with funding the Disability Care Australia Fund (previously known as the National Disability Insurance Scheme).

2.5 Abolition of certain tax offsets

Proposed effective date 1 July 2014

The Government proposes to abolish the following tax offsets from 1 July 2014:

- Dependent Spouse Tax Offset. Currently this tax offset applies to dependent spouses born before 1 July 1952.
- Mature Age Worker Tax Offset. Currently this tax offset is limited to taxpayers born before 1 July 1957. This tax offset is $500 and is assessed on 'net income from working'.

2.6 First Home Saver Accounts (FHSAs) scheme is ending

Proposed effective date 1 July 2014

The Government proposes to abolish the FHSA scheme.

- New accounts opened from Budget night will not be eligible for concessions.
- For existing accounts, the Government co-contribution will cease from 1 July 2014.
- Tax concessions and the income and asset test exemptions for government benefits associated with these accounts will cease from 1 July 2015.
- From 1 July 2015, account holders will be able to withdraw their account balances without restriction.

3. Social Security

3.1 Age Pension – Increasing eligibility age

Proposed effective date 1 July 2025

From 1 July 2025, the Age Pension qualifying age will continue to rise by six months every two years, from the qualifying age of 67 years that will apply by that time, to gradually reach a qualifying age of 70 years by 1 July 2035.

People born before 1 July 1958 will not be affected by this measure.

People born between	Eligible for Age Pension at age
1 July 1952 and 31 December 1953	65.5
1 January 1954 and 30 June 1955	66
1 July 1955 and 31 December 1956	66.5
1 January 1957 and 30 June 1958	67
1 July 1958 and 31 December 1959	67.5
1 January 1960 and 30 June 1961	68
1 July 1961 and 31 December 1962	68.5
January 1963 and 30 June 1964	69
1 July 1964 and 31 December 1965	69.5
1 January 1966 and later	70

3.2 Resetting the deeming rate thresholds on financial investments

Proposed effective date 20 September 2017

Currently, the deeming thresholds are $46,600 for singles, $77,400 for pensioner couples and $38,700 for members of allowee couples.

From 20 September 2017, the deeming thresholds for means tested payments will be reset to $30,000 for singles and $50,000 for couples (for both pensioners and allowees).

What does it mean for you?

The lower deeming thresholds will result in a higher level of deemed income (assuming current deeming rates) being counted under the social security income test. This may have negative impacts for strategies affected by deemed income, such as the assessment of account based pensions started from 1 January 2015 and eligibility for the Commonwealth Seniors Health Care Card (CSHC) from that date.

3.3 Other changes that could affect older Australians and families

Proposed effective date – various

- The family home will continue to be exempt as an asset regardless of its value.
- Concessions for pensioners and Seniors Card holders may reduce due to Government withdrawing state and territory funding in provision of state and territory concessions for eligible pensioners and seniors.
- The minimum age to qualify for Newstart Allowance and Sickness Allowance will increase to 25 years for new applicants from 1 January 2015.
- Currently, many social security related payments are indexed in line with the higher of the increases in the Consumer Price Index (CPI), Male Total Average Weekly Earnings or the Pensioner and Beneficiary Living Cost Index.
- From 1 September 2017, certain social security payments will be indexed by the CPI. These payments include:
  - Bereavement Allowance
  - Age Pension
  - Disability Support Pension
  - Carer Payment
  - Certain Department of Veterans' Affairs pensions.

What does it mean for you?

The proposed new indexation arrangements will lead to a comparative reduction in the growth of the above entitlements. So to maintain your standard of living, you may need to rely more on your own capital and closely monitor your cash flow needs.

4. Older Australians – Self-funded

4.1 Commonwealth Seniors Health Card (CSHC) eligibility test changes

Proposed effective date 1 January 2015

Untaxed superannuation income will be included in the assessment of income to determine eligibility for the CSHC from 1 January 2015.

The assessment of superannuation income will be the same for CSHC holders as for Age Pension recipients and will align with the 2013-14 Budget measure – that is, it will deem the balances of account-based superannuation of pensioners from 1 January 2015.

All superannuation account-based income streams held by CSHC holders as of 1 January 2015 will be grandfathered and any income/lump sums from these income streams will not be assessed.

What does it mean for you?

Currently, tax free income payments or lump sums received by those over age 60 are exempt from assessment for the CSHC. This proposal appears to change the eligibility test for CSHC from a 'taxable income' test to a Centrelink income test. But if you start receiving a super account-based income stream before 1 January 2015 you won't come under the new deeming rules.

4.2 Wage subsidy for employers hiring job seekers age 50 and over

Proposed effective date 1 July 2014

Under a new program named Restart, a payment of up to $10,000 over two years will be available to employers who hire an eligible mature age job seeker aged 50 years or over on a full-time basis.

Employers that hire mature-aged job seekers on a part-time basis (12-29 hours per week) will be eligible for a pro-rated subsidy based on hours worked.

To be eligible for a payment, employers must employ job-seekers over age 50 that were previously unemployed for a minimum of six months, plus they must employ that person for at least six months.

Payments will be paid in the following instalments:

Period worked – Months	Payment to employer
6	3,000
12	3,000
18	2,000
24	2,000

To be eligible for Restart, 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.

4.3 Removal of Seniors Supplement

Proposed effective date 20 September 2014

The Government will remove the Seniors Supplement for holders of the CSHC. This measure will also apply to veterans who hold a CSHC or Gold Card. The Seniors Supplement is currently paid at the rate of $876.20 pa for a single person and $660.40 pa for each member of a couple.

Eligible seniors who do not receive a pension will continue to be eligible for the CSHC.

5. Families

5.1 Paid Parental Leave

Proposed effective date 1 July 2015

The Government has restated its plan to revamp the paid parental leave scheme.

The scheme will provide paid parental leave for 26 weeks based on pre-birth earnings up to an annual cap of $100,000 including superannuation payments, a payment of up to $50,000 including super over the 26 week period.

5.2 Changes to Family Tax Benefit (FTB) Part A and B

- Indexation of FTB payment rates will be frozen for two years until 1 July 2016. This will affect the maximum and base rates of FTB Part A and FTB Part B.
- The end of year supplement for both FTB Part A and Part B will decrease. The Part A supplement will fall from $726.35 to $600.00 per child pa whilst the Part B supplement will fall from $354.05 to $300.00 per family pa. Indexation of these supplements will also cease from 1 July 2015
- Currently, families do not receive a reduction below the base rate of FTB Part A until annual family income reaches $94,316 plus $3,796 per child. From 1 July 2015 the $3,796 per child add-on to the allowed income will cease.
- Currently, FTB Part A families receive a large family supplement which is payable for their third and each subsequent child. This is currently $313.90 per child pa. From 1 July 2015, this payment will apply for the fourth and subsequent children in a family.

- The current primary income earner limit of $150,000 pa will reduce to $100,000 pa. FTB Part B will also cease to be paid to families from 1 July 2015 once their youngest child reaches six years of age. Transitional arrangements will apply which allow families receiving FTB Part B on 1 July 2015 for a child six years of age or over to remain eligible for a further two years.
- Single parent families on the maximum rate of FTB Part A will receive $750 pa for each child aged between six and 12. The payment will start when the family becomes ineligible for FTB Part B due to their youngest child turning six.

What does it mean for you?

1. The changes to the FTB Part A income thresholds will mean that you may need to look at the income estimates you provide to Human Services to receive this payment. If this estimate is miscalculated and you receive fortnightly payments throughout the year, you may incur a debt at the end of the financial year. A potentially safer option if you're close to the upper threshold is to wait until the end of the financial year and receive an annual payment when you lodge your tax return.
2. For parents with young families, the FTB Part B changes could mean you need to plan for the extra cashflow required if one of you wants to stay at home or only work part time after your youngest child turns six.

6. Other

6.1 Medical appointment co-payment

Proposed effective date 1 July 2015

A patient contribution of $7 is proposed for each visit to a doctor (GP), out-of-hospital pathology and diagnostic imagery services (even from those who currently bulk-bill). This co-payment would also be able to be applied to those attending a hospital emergency department for services usually supplied by a GP. The co-payment is proposed to apply from 1 July 2015. Patients who hold concession cards and children under age 16 will generally only pay the contribution for the first ten visits in a year.

6.2 Fuel excise

Proposed effective date 1 August 2014

The Government is reintroducing indexation of fuel excise from 1 August 2014 with the goal of securing more stable funding for additional road infrastructure projects.

Twice-yearly indexation by the CPI of excise and excise-equivalent customs duty will be reintroduced for all fuels except aviation fuels.

Need more information

For more information on how the Federal Budget 2014/15 will affect your personal financial situation, please contact us today.

Note: Any advice contained in this document is general in nature and does not consider your particular situation. Please do not act on this advice until its appropriateness has been determined by a qualified financial adviser. Whilst the tax implications have been considered we are not, nor do we purport to be a registered tax agent. We strongly recommend you seek detailed tax advice from an appropriately qualified tax agent before proceeding.

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