# Federal Budget 2013

**14 May 2013**

Centaurus Wealth

## Key Highlights

- **Deficit of $19.4bn in 2012/13 (after budgeting for a $1.5bn surplus)**
- **Increase in Medicare levy from 1.5% to 2.0% to pay for the NDIS**
- **Net medical expenses tax offset (NMETO) will phase out from 1 July 2013**
- **Work-related self-education expense deductions capped at $2,000 from 1 July 2014**
- **Baby bonus to be cut from 1 March 2014**
- **Pension assets earnings above $100,000 will be taxed at 15%**

## Overview

The Federal Treasurer, Wayne Swan, announced a **budget deficit of $19.4bn for 2012-13** (after budgeting for a $1.5bn surplus), with the budget not returning to surplus until 2015-16.

| | Actual | Estimates | | | Projections | |
|---|---|---|---|---|---|---|
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
| **Underlying cash balance ($b)(a)** | **-43.4** | **-19.4** | **-18.0** | **-10.9** | **0.8** | **6.6** |
| Per cent of GDP | -2.9 | -1.3 | -1.1 | -0.6 | 0.0 | 0.4 |
| **Fiscal balance ($b)** | **-44.5** | **-20.3** | **-13.5** | **-6.3** | **6.0** | **10.8** |
| Per cent of GDP | -3.0 | -1.3 | -0.8 | -0.4 | 0.3 | 0.6 |

(a) Excludes net Future Fund earnings

The Government announced the following spending initiatives, including:

- $19.3 billion for disability care (funded by Medicare levy increase of 0.5 per cent)
- $9.8 billion in new school funding
- $24 billion for new road and rail infrastructure
- $6.2 billion over five years for disaster relief
- Defence spending increase to $113 billion over four years

These spending initiatives will be paid for by a range of measures, including: increasing the Medicare levy increase from 1.5% to 2.0% (to pay for disability care), reversing corporate tax cuts in the previous budget, closing loopholes in the corporate tax system, scrapping the increase to family payments/baby bonus, and reducing university funding (to pay for school funding program).

# Taxation

### Deferral of the 2015-16 tax cuts

The table below summarises the thresholds and taxation rates that will continue to apply.

| Current income thresholds | Marginal tax rates |
|---|---|
| $0 - $18,200 | 0% |
| $18,201 - $37,000 | 19% |
| $37,001 - $80,000 | 32.5% |
| $80,001 - $180,000 | 37% |
| $180,001 + | 45% |

The personal income tax cuts which involved increasing the tax-free threshold to $19,400, scheduled to commence on 1 July 2015, are to be deferred.

### Increase in the Medicare levy

The Medicare levy will be increased by half a percentage point from 1.5 to 2 per cent from 1 July 2014 to provide funding for DisabilityCare Australia.

### Medicare levy low-income threshold

The Medicare levy low-income threshold for families will increase to $33,693 for the 2012-13 income year, with effect from 1 July 2012.

For 2012-13, the Medicare levy low-income thresholds have increased to $20,542 for individuals and $32,279 for pensioners eligible for the Seniors Australians and Pensioners Tax Offset.

### Net medical expenses tax offset phase out

The net medical expenses tax offset (NMETO) will phase out from 1 July 2013, with transitional arrangements for those currently claiming the offset.

### Reforms to work-related self-education expenses

Work-related self-education expense deductions are to be restricted through an annual $2,000 cap on these expenses from 1 July 2014.

### Early HECS-HELP repayments removed

Up-front and voluntary early repayments under the HELP program will be removed in 2014. University and other eligible students will no longer receive a discount if they pay fees up-front or repay their HELP debt early.

### Baby bonus to be replaced with new Family Tax Benefit payment

The Baby Bonus, which currently pays $5,000 to eligible parents for each new born or newly adopted child, will be replaced from 1 March 2014.

Instead, families who are eligible for the Family Tax Benefit Part A (FTB(A)) will receive $2,000 following the birth of their first child, and $1,000 for each subsequent child. This benefit will be paid as part of their usual FTB(A) payment, instead of a cash bonus payment.

## Superannuation

The proposed reforms to Australia's superannuation system that were announced on 5 April 2013 have been confirmed. The key superannuation measures include:

### Higher concessional contribution cap

The concessional contribution (CC) cap will increase to $35,000 pa from:

- 1 July 2013 for people 60 and over, and
- 1 July 2014 for people 50 and over.

The cap will remain at $25,000 pa for all other ages.

The table below outlines the proposed caps that will be available over the coming years.

| Age | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|
| **Under 50** | $25,000 | $25,000 | $30,000 |
| **50 – 59** | $25,000 | $25,000 | $35,000 |
| **60 and over** | $25,000 | $35,000 | $35,000 |

### Excess contributions tax reforms

From 1 July 2013, individuals will be allowed to withdraw any excess concessional contributions made from their super fund.

In these instances, excess concessional contributions will be taxed at the individual's marginal tax rate, plus an amount for interest.

### Reduced tax concessions for high-earners

In the 2012 Federal Budget, the Government announced that individuals with incomes above $300,000 pa will pay an additional 15% tax on their concessional super contributions. Draft legislation for this measure was recently released and was confirmed in the 2013 Budget.

## Retirement incomes

On 5 April 2013, the Government announced changes to the taxation of earnings in super pensions. These proposed changes have been confirmed and are due to apply from 1 July 2014:

- all earnings on assets that support superannuation income streams will only be tax-free up to the first $100,000 per member, and
- earnings above $100,000 will be treated as income and taxed at 15%.

Capital gains will be included in the $100,000 limit (subject to transitional arrangements).

When assessing capital gains that are subject to this tax, a 33 per cent discount will apply (where applicable), to effectively tax the gain at a rate of 10 per cent.

It is important to note that this reform will not affect the tax treatment of withdrawals (both lump sums and pensions) made from a superannuation fund. Withdrawals will continue to remain tax-free for those aged 60 and over, and be subject to the existing tax rates for those aged under 60.

## Social security changes

### Deeming rules to apply to account-based pensions

The Government proposes that these normal deeming rules will apply to new superannuation account-based income streams commenced after 1 January 2015. All account based pensions held by pensioners before 1 January 2015 will be grandfathered and the existing rules (e.g. access to the non-assessable portion under the income test) will continue to apply, unless the product is changed on or after 1 January 2015.

### Income free area for allowance recipients

The income free area for certain allowance recipients (i.e. Newstart, Parenting Payment etc) will increase from $62 per fortnight to $100 per fortnight. This means, from 20 March 2014, an individual can earn up to $100 per fortnight before their maximum allowance is reduced.

### Family payments

There have been a number of changes to family payments. In some cases, this will mean fewer families will receive benefits and others will see their payments reduce as their income grows.

Some key changes include:

- **Changes to age eligibility from 1 January 2014**: A family will only be eligible for FTB(A) until a child who is 16 years or older completes school.
- **Reduction in time to claim FTB and Child Care Assistance from 1 July 2012**: When claiming FTB or Child Care Assistance, families will now only have 12 months from the end of the financial year to finalise their claim and determine if they're eligible for an end of year supplement.

### Housing help for Seniors

The Government will trial a program from 1 July 2014 to help older Australians move to more age-appropriate housing.

The program will apply an assets test exemption to Age Pension recipients who downsize their family home. To be eligible, the family home needs to have been owned for at least 25 years and at least 80% of the excess sale proceeds (up to $200,000) need to be deposited with an authorised institution.

The exemption also applies to people moving into a retirement village or granny flat, but not residential aged care.

## Any questions?

If you have any questions about how this applies to you, please call us on 5585 2150.