Federal Budget 2014

13 May 2014

Key Highlights

- **Budget repair levy of 2% for incomes over $180,000 p.a. over the next 3 years**
- **Tightening of Family Tax Benefit (FTB) eligibility and payments for families**
- **Age Pension age will increase to 70 years by 2035**
- **Medical appointment co-payment of $7 to visit the doctor**
- **Fuel excise will be indexed bi-annually from 1 August 2014**
- **Wage subsidy of $10,000 for employing over-50's**
- **Trade Support Loans up to $20,000 over apprentices (replaces tool allowance)**

Overview

The Federal Treasurer, Joe Hockey, announced a **budget deficit of $29.8bn for 2014-15** (compared to a deficit of $49.9bn in 2013-14), falling to $2.8bn in 2017-18.

	Actual	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Underlying cash balance ($b)(a)	-18.8	-49.9	-29.8	-17.1	-10.6	-2.8
Per cent of GDP	-1.2	-3.1	-1.8	-1.0	-0.6	-0.2
Fiscal balance ($b)	-23.5	-45.1	-25.9	-12.2	-6.6	1.0
Per cent of GDP	-1.5	-2.8	-1.6	-0.7	-0.4	0.1

(a) Excludes net Future Fund earnings

	Outcomes	Forecasts			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Real GDP	2.6	2 3/4	2 1/2	3	3 1/2	3 1/2
Employment	1.2	3/4	1 1/2	1 1/2	2 1/4	2
Unemployment rate	5.6	6	6 1/4	6 1/4	6	5 3/4
Consumer Price Index	2.4	3 1/4	2 1/4	2 1/2	2 1/2	2 1/2
Nominal GDP	2.5	4	3	4 3/4	5	5

(a) Year average unless otherwise stated. In 2013-14, 2014-15 and 2015-16 employment, wages and the consumer price index are through the year growth to the June quarter and the unemployment rate is the rate for the June quarter.
Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

The budget is a tough budget for families (by tightening FTB and medical co-payment) and social security (tightening eligibility thresholds). **But in reality the government could not keep racking up deficits of $50bn a year, increasing government debt, and defer making the hard decisions**.

Taxation

Temporary budget repair levy

The only change to income tax rates is the **temporary budget repair levy of 2%** on taxable income above $180,000. This will increase the top marginal tax rate to 47% for the next 3 years.

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 +	**47%**

Medicare levy rises

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

This will result in most people paying an extra 2% and increase the **top marginal tax rate to 49%.**

Fringe Benefits Tax

The **FBT rate will also increase to 49%** over the next 3 years (to reflect the increase in top tax rate as a result of the temporary budget repair levy). This will prevent people liable for the TBRL from swapping taxable income (taxed at 49%) for fringe benefits taxed at the lower rate of 47%.

Abolition of certain tax offsets

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

- Dependent Spouse Tax Offset
- Mature Age Worker Tax Offset
- Seafarers Tax Offset (they always pick on the poor seafarers!)

Increase the Medicare levy low-income thresholds for families

The Medicare levy low-income threshold for couples with no children will increase to $34,367 and the additional amount for each child will increase to $3,156.

The Medicare levy low-income thresholds for singles and pensioners has already increased by more than the Consumer Price Index (CPI) increase, so will not be further increased at this time.

Reduction in company tax rate

The company tax rate will be reduced by 1.5% to 28.5% from 1 July 2015. For companies earning more than $5 million in taxable income, this reduction will be offset by the 1.5% levy to fund the paid parental leave scheme which also commences from 1 July 2015.

Fuel excise indexation

The Government will re-introduce bi-annual indexation by the CPI of excise and excise-equivalent customs duty for all fuels except aviation fuels from 1 August 2014. This will secure funding for additional spending to build new and upgrade existing road infrastructure.

Families

Paid Parental Leave

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.

Family Tax Benefit (Changes)

A number of amendments have been announced in relation to eligibility and payment rates for the Family Tax Benefit (FTB), and associated supplements and allowances.

<u>Payment rates</u>

From 1 July 2014, the payment rates for FTB Part A and B will be frozen until 1 July 2016.

The FTB Part A and B end of year supplements will be returned to their original values and indexation will cease from 1 July 2015. The supplements will reduce from:

- $726.35 to $600 for FTB Part A, and
- $354.05 to $300 for FTB Part B.

<u>Eligibility thresholds</u>

FTB-A high income-free area will be $94,316 per annum for all families.

The FTB Part A per child add-on, which currently increases the higher income free threshold for each additional child, will be removed from 1 July 2015.

Under existing arrangements, a family may qualify for FTB Part B if the primary income earner has income up to $150,000 pa. This will be reduced to $100,000 pa from 1 July 2015.

<u>Eligibility</u>

From 1 July 2015, payment of FTB Part B will be limited to families whose youngest child is under the age of six. Families already in receipt of FTB Part B, whose youngest child is aged six or over on 30 June 2015 will remain eligible for FTB Part B under the transitional measures for an additional two years.

<u>Other changes</u>

From 1 July 2015, a new allowance of $750 per child for single parents on the maximum rate of FTB-A whose youngest child is aged between six and 12 years old from the point when they become ineligible for FTB-B will be introduced.

Medical appointment co-payment

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 10 visits in a year.

Pharmaceutical Benefits Scheme (PBS) – increase in co-payments

From 1 January 2015, the PBS co-payments will increase for:

- general patients by $5 from $37.70 to $42.70
- concessional patients by $0.80 from $6.10 to $6.90.

PBS safety net thresholds will increase each year for 4 years from 1 January 2015 as follows:

- general safety net thresholds will increase by 10% each year; and
- concessional safety nets will increase by the cost of 2 prescriptions each year (from 60 prescriptions to 62 from 1 January 2015 and to 68 from 1 January 2018).

These increases are in addition to the existing annual indexation of co-payments and safety net thresholds, in line with CPI.

Medicare Safety Net

From 1 July 2016, a new Medicare Safety Net will replace the existing safety nets as follows:

Concessional singles and concessional families:	$ 400
Non-concessional singles and non-concessional FTB Part A families:	$ 700
Non-concessional families who do not receive FTB Part A:	$1,000

The Medicare Safety Net provides financial assistance towards out-of-pocket costs for Medicare eligible out-of-hospital services. Once the thresholds are reached in a calendar year, Medicare will pay 80% of any subsequent out-of-pocket costs, capped at 150% of the Medicare Benefits Schedule (MBS) fee. The out-of-pocket costs that accumulate to reaching those safety net thresholds will also be capped at 150% of the MBS fee.

Education

Higher education providers able to set own tuition fees

From 1 January 2016 higher education providers in Australia will be able to set their own tuition fees for the courses that they offer. This could increase or decrease the fees for some courses as these institutions compete for local and overseas students.

Changes to higher education and the Higher Education Loan Programme (HELP) system

From 1 July 2016, a new lower minimum income repayment threshold will be used to determine when students must repay HELP debts. This new threshold will be set at 90% of the minimum threshold that would otherwise have applied in 2016-17. The new minimum threshold is currently estimated to be $50,638 in 2016-17.

A new repayment rate of 2 per cent of repayment income will be applied to debtors with incomes above the new minimum threshold. There will be no other change to current repayment rates.

HELP loans assist eligible students with the cost of their tertiary education fees.

Interest costs on HELP debts

From 1 June 2016 the annual indexation applied to HELP debts will be adjusted from CPI to a rate equivalent to the yield on 10-year bonds, or 6%, whichever is the lessor. This change is intended to ensure the annual indexation rate is reflective of the Governments cost of borrowing.

Superannuation

SG contributions to be paused at 9.5% for three years from 1 July 2014

The increase in the superannuation guarantee (SG) has been frozen at 9.5% for four years. This means the increase to 12% by 1 July 2019 will be deferred until 1 July 2022 as follows.

Year commencing	Legislated SG contributions	Budget 2014 proposed SG contributions
1 July 2014	9.5%	9.5%
1 July 2015	10%	9.5%
1 July 2016	10.5%	9.5%
1 July 2017	11%	9.5%
1 July 2018	11.5%	10%
1 July 2019	12%	10.5%
1 July 2020	12%	11%
1 July 2021	12%	11.5%
1 July 2022	12%	12%

This is a positive for small and medium business as it reduces their already high wage costs. This means any real wage increases will flow directly to the employer (rather than their super fund).

Superannuation Excess Contributions Tax

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. Individuals will be allowed to withdraw those excess contributions and associated earnings.

If an individual chooses this option, no excess contributions tax will be payable and the associated 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 tax rate and Medicare levy.

Social Security

Increase the Age Pension qualifying age to 70 years

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 as follows.

People born between	Eligible for Age Pension at age
1 July 1952 and 31 December 1953	65½
1 January 1954 and 30 June 1955	66
1 July 1955 and 31 December 1956	66½
1 January 1957 and 30 June 1958	67
1 July 1958 and 31 December 1959	67½
1 January 1960 and 30 June 1961	68
1 July 1961 and 31 December 1962	68½
1 January 1963 and 30 June 1964	69
1 July 1964 and 31 December 1965	69½
1 January 1966 and later	70

This was an expected measure and not surprising considering increasing life expectancies. This will only start to kick in from 1 July 2025 and will need to be planned for by clients.

Index pension and pension-equivalent payments by the Consumer Price Index

From 1 September 2017, the Government will link pension increases to CPI. This will apply to:

- Age Pension
- Disability Support Pension
- Carer Payment and
- Bereavement Allowance
- Certain Department of Veterans' Affairs pensions

Currently, pension payments are indexed in line with the higher of the increases in the CPI, Male Total Average Weekly Earnings (MTAWE) or the Pensioner and Beneficiary Living Cost Index.

For recipients of Parenting Payment Single, this measure will commence on 1 July 2014.

Freezing indexation on eligibility thresholds under the relevant assets and income test

Relevant eligibility thresholds for non-pension payments will not be indexed for three years starting from 1 July 2014. These payments include: Family Tax Benefit, Child Care Benefit and Rebate, Newstart Allowance, Parenting Payment and Youth Allowance.

Similarly, relevant eligibility thresholds for pension related payments will not be indexed for three years starting from 1 July 2017. These payments include: Age Pension, Carer Payment, Disability Support Pension and Department of Veterans' Affairs Service Pension.

Resetting the deeming rate thresholds on financial investments

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).

Self-Funded Retirees

Commonwealth Seniors Health Card (CSHC)

The Government will tighten eligibility for the Commonwealth Seniors Health Card (CSHC).

The current adjusted taxable income thresholds are:

- $50,000 (singles)
- $80,000 (couples, combined), or

From 1 January 2015, the Government will commence including untaxed superannuation income in the assessment of income to determine eligibility for the Commonwealth Seniors. The untaxed superannuation income will be deemed in the same way as other income tests.

The only good news is that all superannuation account-based income streams held by CSHC holders before 1 January 2015 will be grandfathered under the existing rules.

Removal of Senior's Supplement

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 p.a. for a single person and $660.40 p.a. for each member of a couple.

Wage subsidy for mature aged workers

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 worker over 50 on a full-time basis.

Payments will commence after the worker has been employed for at least six months and will be paid in the following instalments:

- $3,000 after 6 months of employment
- $3,000 after 12 months of employment
- $2,000 after 18 months of employment, and
- $2,000 after 24 months of employment.

To be eligible for a payment, employers must employ workers over 50 that were previously unemployed for a minimum of six months, and also employ that person for at least six months.

Financial assistance for apprentices

Trade Support Loans provides up to $20,000 to apprentices over a four year apprenticeship.

They will be available to apprentices undertaking a Certificate III or IV qualification that leads to an occupation on the National Skills Needs List. Apprentices will be required to commence repaying the loans when their income exceeds a minimum income repayment threshold that is consistent with those applying to university students under HELP ($53,345 in 2014/15). Apprentices who successfully complete their training will receive a 20% discount on the amount to be repaid.

This is effective 1 July 2014 and replaces the former Tools for your Trade payments.