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Federal Budget 2013-14

The budget delivered by Federal Treasurer Wayne Swan could be reasonably described as anti-climactic in many respects. It comes as no surprise therefore that the budget was devoid of any attempt to genuinely work towards true reform of the overall tax system (rather than periodic band-aid measures) to adequately meet the challenges facing Australia.

Many key announcements were made pre-budget and confirmed by the government in the budget papers, including:

- wide-ranging changes to superannuation such as the 15% tax on certain earnings in pension phase, the increase in the concessional contribution cap to $35,000 for older Australians and the changes to the excess contributions tax regime;
- the deferral of tax cuts due for the 2015-16 year which were to be funded out of carbon tax receipts;
- an increase in the Medicare levy of 0.5% to contribute to the cost of the proposed National Disability Insurance (NDIS) scheme.*

Announcements which were unexpected and which will have a significant impact on middle-Australia were:

- the removal of the Baby Bonus, to be replaced by a significantly reduced payment which will only be available to taxpayers who qualify for Family Tax Benefit Part A; and
- the phase out of the Net Medical Expense Offset (which will in fact be immediate for some taxpayers).

About this newsletter

Welcome to our client information newsletter, your monthly tax and super update keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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An announcement of interest from the Assistant Treasurer was titled "ATO taskforce to target trust misuse". It is to be hoped that the activity undertaken by the taskforce is targeted at what would be considered by a reasonable person as "misuse" (which should not be tolerated) and not merely the use of trusts as part of ordinary family or commercial dealings.

**** Note that for all other taxation imposts that are tied to the Medicare levy, the costs of that impost will also increase by 0.5%.***

Individuals, families

Carbon tax-funded tax cuts "deferred"

Changes to the personal tax-free threshold announced in the 2012-13 budget as part of the carbon tax compensation package will not proceed (see table on page 2). As a result, the proposed 2015-16 increase in the tax-free threshold from $18,200 to $19,400 has been deferred. The tax-free threshold, which was raised from $6,000 to $18,200 from July 1, 2012 as part of the carbon tax compensation package, is not affected by the government's announcement. This measure is part of the variations to the *Clean Energy Future* package due to the lower than projected carbon price estimates.

Continued – page 2

Personal income tax rates

The 2013-14 budget confirmed the income tax cuts for the 2012-13 income year, however the government has decided to defer the subsequent tax rate changes contained in this legislation that were to commence on July 1, 2015. A summary of how the resident personal rates will apply is set out in the table below.

Baby Bonus abolished, family payment boost abandoned and "work test" under the Paid Parental Leave scheme extended

The Baby Bonus will be abolished from March 1, 2014 in favour of new support for families of newborns through the Family Tax Benefit Part A (FTB Part A). The government will increase these payments by $2,000, to be paid in the year following the birth or adoption of a first child or each child in multiple births, and $1,000 for second or subsequent children. The additional FTB Part A will be paid as an initial payment of $500, with the remainder to be paid in seven fortnightly instalments.

The measure will save $1.1 billion over five years, in addition to the $1.8 billion generated by the decision not to proceed with the increase in FTB Part A. The increase to the FTB Part A was to be funded by the mining tax and was detailed in the 2012-13 budget. The payment increase would have gone to 1.5 million families, with families with one child receiving the maximum rate of FTB Part A, an extra $300 a year, and those with two or more children to receive $600.

The Baby Bonus currently cuts out at an earnings threshold of $150,000, but the earnings cut-off for FTB Part A is $94,316 so the government's move effectively limits a high proportion of top earners' access to the financial assistance for newborns.

Families accessing the government's Paid Parental Leave (PPL) scheme, which remains unchanged, will not be eligible for the additional FTB Part A component. However, the work test under the PPL scheme will be extended so that parents will be able to count periods of government PPL as "work", just like employer-funded PPL.

Investments to improve childcare quality

Although the maximum amount of the Child Care Rebate will be frozen at $7,500 a year until June 30, 2017 – saving the government $105.8 million – the government will provide up to $300 million in a two-year program to allow day care centres to pay workers with Certificate III qualifications an extra $3 an hour. The government will also provide $12.9 million over three years to trial flexible child care arrangements for families who require care outside standard operating hours.

Price of cigarettes to rise

The indexation of excise and excise-equivalent customs duty for tobacco and tobacco products will be charged to average weekly ordinary time earnings (AWOTE), instead of the consumer price index (CPI). The duty rates will be indexed bi-annually, on March 1 and September 1 each year. This measure will apply from March 1, 2014.

Based on the average historical difference between annual AWOTE and CPI movements, this measure would result in the cost of a typical packet of 25 cigarettes increasing by an additional 7 cents in the first half of 2014. Indexing tobacco excise and excise-equivalent customs duty to wages will ensure that tobacco excise keeps pace with incomes.

Work concessions for Newstart Allowance recipients

From July 1, 2015, people on Parenting Payment Partnered, Newstart Allowance and Widow, Sickness or Partner Allowance will be able to earn $100 a fortnight, up from $62, before their income support starts to fall. The government said about 150,000 people on income support who are earning more than $62 a fortnight are expected to benefit immediately, with an average increase of $19 a fortnight to their payments.

The benefit is available to a further 650,000 people on income support if they take up work. The income-free area will be indexed by annual percentage changes in the consumer price index from July 1, 2015.

INDIVIDUAL RESIDENT TAX RATES PER BUDGET

Taxable Income		RATES	
		2012-13, 2013-14 & 2014-15	
LOWER THRESHOLD	UPPER THRESHOLD	Tax on income up to lower threshold	Rate of tax for each $1 over lower threshold
-	18,200	-	0%
18,201	37,000	-	19%
37,001	80,000	3,572	32.5%
80,001	180,000	17,547	37%
180,001	-	54,547	45%

From January 1, 2014, single parents studying while on the Newstart Allowance will also receive up to $62.40 a fortnight or $31.20 a fortnight for a concessional study load under the Pensioner Education Supplement (PES), to help with the costs of study while they gain an additional qualification to assist them to re-enter the workforce.

Single parents who are no longer eligible for the Parenting Payment because their youngest child has turned eight nor qualify for income support due to their earnings will have their eligibility for the Pensioner Concession Card extended from two to 12 weeks.

Exempting certain disaster payments from income tax

Disaster Income Recovery Subsidy (DIRS) payments provided between January 3, 2013 and September 30, 2013 are to be exempted from income tax. The DIRS provides financial assistance to employees, small business persons and farmers who experience a loss of income as a direct consequence of a natural disaster occurring in Australia. This measure is estimated to have no revenue impact over the forward estimates period.

Ex-gratia payments to New Zealand non-protected Special Category Visa holders affected by natural disasters that occurred in 2012-13 will also be exempted from income tax. These ex-gratia payments are equivalent to the tax-exempt Australian Government Disaster Recovery Payment (AGDRP) and assist New Zealanders who would otherwise have been eligible for the AGDRP if it were not for their visa status.

Help for seniors

The government will invest another $127 million in supporting senior Australians to continue their active engagement in society – including $9.9 million to extend their broadband support, $4.6 million for a new ageing policy institute, and a $112 million pilot program to assist them to downsize their home without affecting their pension From July 1, 2014, pensioners who have owned their family home for at least 25 years and who decide to downsize will have the option to invest surplus funds (up to $200,000) in an account. The funds invested in the account and earned interest will be exempt from the Age Pension means test for up to 10 years. Also a new seniors' Work Bonus is intended to ensure pensioners keep more of their pension while working.

Road and rail infrastructure projects

The government will spend $24 billion in road and rail infrastructure projects from 2014-15 to 2018-19, including $4.1 billion for the Bruce Highway, $715 million for Brisbane's Cross River Rail bridge, $1.8 billion towards Sydney's M4 and M5, $718 million on the Gateway Motorway, $525 million on the M80 ring road in outer Melbourne, $500 million on Perth public transport, $500 million for Tasmania's Midlands Highway, and $448 million on the South Road upgrade in Adelaide.

The government will also continue its investments in the Swan Valley Bypass in WA, the Bruce Highway in Queensland, the Pacific Highway in NSW, the Midlands Highway in Tasmania and the Tiger Brennan Drive in the Northern Territory.

Indexation pauses

Other than the Child Care Rebate, the following items will also be subject to a pause on their indexation:

- FTB end of year supplements
- the higher income tests for family payments, and
- the income threshold for the dependency tax offsets

These will be extended for a further three years.

Business

Increase in ASIC fees

The government has revealed an increase in the cost of registering a business name, with the Australian Securities and Investments Commission (ASIC) increasing fees from $30 for one year and $70 for three years to $32 and $74 respectively. Some of the revenue from the move will be used by the corporate regulator to upgrade its call centre infrastructure to better cope with increasing demand from small business.

Increase in 457 visa application charges and compliance scrutiny

From July 1, 2013, the application fee for 457 visas will almost double from $455 to $900. The four-year 457s are temporary residence visas offered to skilled workers and their dependants who are sponsored by an Australian company. The measure is expected to raise $198 million in revenue over four years. The Fair Work Ombudsman is also set to receive $3.4 million over the next four years in new funding to monitor and enforce employer activity among 457 visa holders.

Increase in funding for Innovation Investment Fund and Fair Work Commission

The Innovation Investment Fund has been allocated fresh cash of $350 million, and the Fair Work Commission will receive $21 million specifically aimed at policing workplace bullying.

Allowing businesses in a net refund position to continue to use the GST instalment system

In the 2011-12 budget, the government announced a measure which would allow businesses in a net refund position to access the GST instalment system. The government has now announced a revision to the previously announced measure so that only those businesses already using the GST instalment system will be allowed to continue to use it if they move into a net refund position.

National Broadband Network

Funding of $12.9 million has been pledged to help small businesses take advantage of opportunities from the National Broadband Network, although the ICT Centre of Excellence will be scrapped.

Increase competitiveness

Dubbed the Enterprise Solutions Program, nearly $30 million has been promised over five years to aid small business become more competitive when bidding for government contracts and tenders. Grants of up to $100,000 for feasibility studies and $1 million for proof of concept will be made available, the government said.

The government is also providing $135 million for 150 four year Future Fellowships to attract and retain the best Australian and international mid career researchers “in areas of national importance”.

No word on loss carry-back measures

No mention seems to have been made to the loss carry-back tax measure, which was announced in last year’s budget, and is yet to be legislated.

Compliance

Trusts targeted

The ATO has been allocated an additional $68 million in the 2013-14 budget to target trust misuse. It will focus on the exploitation of trusts to conceal income, misrepresent transactions and artificially reduce trust income amounts to avoid or reduce tax.

It will also focus on what the government dubs “contrived loan arrangements” and the promoters of tax avoidance and evasion schemes.

The ATO will target known tax scheme designers, promoters, individuals and businesses who participate in such arrangements through its compliance activity. “This measure will tackle the issue of abusive trust schemes in the wider community and encourage active compliance by taxpayers,” the budget papers said.

The crackdown is expected to bring in an additional $311 million in revenue. Assistant Treasurer David Bradbury said in a statement announcing the additional funding that “emerging evidence” showed a significant increase in the level of trust-based non-compliance.

Bradbury also indicated there will be further reform of the tax law surrounding trusts and said the government will use intelligence gathered by the ATO to guide the next phase of its consultation on trust taxation law reform.

Tightening measures

Business taxation changes introduced in the 2013-14 budget include a tightening of measures that aim to prevent multinational businesses shifting tax-deductible loans to Australian subsidiaries. The government said it will “address aggressive tax structures that seek to shift profits by artificially loading debt into Australia”.

Other “loopholes and abuses” include tightening the thin capitalisation rules and removing the interest expense deduction for deriving certain foreign exempt income. This and related measures will apply from July 1, 2014.

Dividends

Investors with franking credit tax offset entitlements of more than $5,000 will be prevented from engaging in “dividend washing”, thus claiming two sets of franking credits on effectively the same parcel of shares.

The measure will ensure that when an investor sells shares ex-dividend and then immediately buys equivalent shares that still carry the right to a dividend (known as cum-dividend shares), they will only be permitted to claim one set of franking credits. The changes will be targeted to the special two-day period after a shares goes ex-dividend. This will apply from July 1, 2013.

Data matching and third party information

The government will provide $77.8 million over four years to the ATO to improve compliance by expanding data matching with third party information.

Treasury said the information provided will also improve the pre-filling of tax returns. The measure will establish new and strengthen existing reporting systems for:

- taxable government grants and specified other government payments
- sales of real property, shares (including options and warrants), and units in managed funds
- sales through merchant debit and credit services
- managed investment trust and partnership distributions, company dividend and interest payments, and
- transactions reported to the ATO by the Australian Transaction Reports and Analysis Centre.

Capital gains tax (CGT)

The principal asset test for foreign resident CGT will be amended and a non-final withholding tax will be introduced. This will ensure that indirect Australian real interests are taxable if disposed of by a foreign resident.

Where a foreign resident disposes of certain taxable Australian property, the purchaser will be required to withhold and remit to the ATO 10% of the proceeds of the sale as a non-final withholding tax. This will not apply to residential property transactions under $2.5 million or disposals by Australian residents. This measure applies from July 1, 2016.

Also, native title rights transfers will not involve any CGT implications where the transferee is an Indigenous person or holding entity. This last measure retrospectively applies from July 1, 2008.

Superannuation

Taxation of superannuation

Several changes have already been announced to the taxation of superannuation. Under the change, from July 1, 2013, individual superannuation accounts in their pension phase that have more than $100,000 annual earnings will be taxed at 15% on their earnings above that amount instead of being tax-free. The change applies only to earnings and does not apply to pension payments.

Also announced as part of the superannuation changes:

- pension deeming rules (which deem minimum rates of interest) will be applied to superannuation account-based income streams. All products held by pensioners before January 1, 2015 will be grandfathered indefinitely and continue to be assessed under the existing rules for the life of the product "unless they choose to change products"
- deferred lifetime annuities will receive the same concessional tax treatment that superannuation assets supporting income streams receive. This reform will apply from July 1, 2014.

Not previously announced however are some "minor" amendments including:

- a technical amendment to the Low-Income Superannuation Contribution – which provides up to $500 for people earning less than $37,000 to compensate them for tax paid on super – means it will now be paid to individuals with an entitlement below $20
- additional funds have been allocated to compensate members of the APRA-regulated super funds that suffered losses due to the Trio Capital debacle. These funds will be recovered through levies on these super funds.

Concessional contribution caps

Concessional contribution caps for people aged over 60 will increase from $25,000 to $35,000 from July 1, 2013. The higher limit will also be made available to those aged 50 and over from July 1, 2014, and all other super contributors from July 1, 2018. The government had previously said it would increase the cap to $50,000, however this is no longer on the table.

Council of Superannuation Custodians

The government will establish a Council of Superannuation Custodians to advise whether future changes in super rules are consistent with a proposed Charter of Superannuation Adequacy and Sustainability.

Health

Net Medical Expenses Tax Offset phased out

The government will phase out the Net Medical Expenses Tax Offset (NMETO) with transitional arrangements for those currently claiming the offset.

The NMETO will continue to be available for taxpayers for out-of-pocket medical expenses relating to disability aids, attendant care or aged care expenses until July 1, 2019 when DisabilityCare Australia is fully operational and aged care reforms have been in place for several years.

This measure is estimated to provide savings to the budget of nearly $1 billion over four years.

From July 1, 2013 those taxpayers who claimed the NMETO for the 2012-13 income year will continue to be eligible for the NMETO for the 2013-14 income year if they have eligible out of pocket medical expenses above the relevant thresholds. Similarly, those who claim the NMETO in 2013-14 will continue to be eligible for the NMETO in 2014-15.

Medicare levy low-income threshold

The government will increase the Medicare levy low-income threshold to $20,542 for individuals, $32,279 for pensioners eligible for the Seniors and Pensioners Tax Offset, and $33,693 for families, with the additional family threshold amount for each dependent child or student increasing to $3,094.

This measure is estimated to have a cost to revenue of $38 million over the forward estimates period. These measures apply from July 1, 2012.

Fighting cancer

The budget invested $226 million to help fight cancer. This includes $55.7 million to expand BreastScreen Australia's target age range for free breast screening by five years – to include women aged 70-74. It is estimated that 145,000 additional women taking up the screenings every two years (from 2016-17) will mean more than 1,100 more breast cancers will be picked up every two years.

It also includes additional funding for screening in both cervical and bowel cancer. Also the government will invest more to prostate cancer research with an $18.5 million package to fund three Prostate Cancer Research Centres across the country to further their critical research work. The budget will also include funding for Cancer Australia to improve the outcomes for people with lung cancer and additional funding for cancer data to better track and record treatment efforts.

The budget also provides further support for critical chemotherapy medicines, and invests $23.8 million for life-saving bone-marrow transplants, funding of $18.2 million to expand CanTeen – a support program for teenagers undergoing treatment for cancer – and $19.5 million to expand the McGrath Breastcare Nurses program.

Increased medical funding

The government will spend an extra $2.2 billion in the Medicare Benefits Schedule across five years and $33.8 million is being invested in the General Practice Rural Incentive program in 2013-14. New medicines in the Pharmaceutical Benefits Scheme will receive $691 million over five years. Drugs will help in the treatment of Parkinson's, chronic nerve pain and chronic hepatitis C.

Education

Gonski schools funding reforms

Over six years from 2014-15, there will be $9.8 billion invested in school reforms – in an effort to deliver greater equality in school funding, enhanced teacher selection, training, mentoring and more assistance for schools facing disadvantages. This came on the back of the Gonski review which proposed a more equitable and consistent system for school funding.

From January 1, 2014, schools will be funded per student – with primary schools getting $9,271 per child and high schools getting $12,193 per child. Students with a disability, from a low socio-economic status, non-English speaking or indigenous background, or students from a regional, remote or small school will benefit from the additional funding.

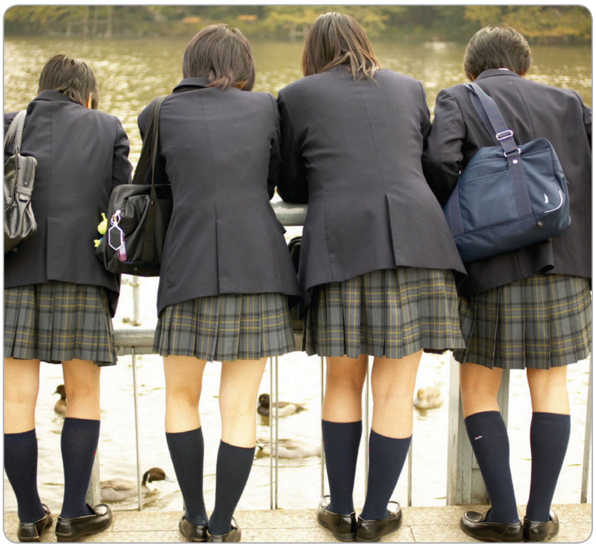
Investment in higher education and early childhood education

Investment in higher education funding is expected to be $51 billion over five years while the government will provide $314.2 million over five years to boost the quality of early childhood education and support workplace reform. The government has also allocated an extra $97 million from 2014 to 2017 for extra Commonwealth-supported places for sub-bachelor and postgraduate courses.

Reforms to work-related self-education expenses

The government will clamp down on work-related self-education expense deductions through an annual $2,000 cap on these expenses from July 1, 2014. Deductible education expenses are costs incurred in undertaking a course of study or other education activity, such as conferences and workshops, and include tuition fees, registration fees, student amenity fees, textbooks, professional and trade journals, travel and accommodation expenses, computer expenses and stationery, where these expenses are incurred in the production of the taxpayer's current assessable income.

Employers are generally not liable for fringe benefits tax for education and training they provide or fund for their employees, in order to support employers investing in the skills of their workers. This treatment will be retained, unless an employee salary sacrifices to obtain these benefits.



HECS-HELP discount and voluntary HELP repayment bonus discounts to end

From January 1, 2014, the following discounts relating to the Higher Education Loan Program will be removed:

- the 10% discount available to students electing to pay their student contribution up-front, and
- the 5% bonus on voluntary payments made to the ATO of $500 or more.

Establishment of tax studies institute

The government will establish a Tax Studies Institute (TSI) as a centre for excellence in tax research at the Crawford School of Public Policy at the Australian National University by providing a one-off endowment payment of $3 million in 2012-13.

Disability

Increase in the Medicare Levy to fund DisabilityCare Australia

As announced before the budget, from July 1, 2014, the Medicare levy will increase by 0.5 percentage points. This will raise $20.4 billion between 2014-15 and 2018 19, to be spent on DisabilityCare Australia to provide certainty to Australians with a disability, their families and their carers.

Low-income earners will continue to receive relief from the Medicare levy through the low-income thresholds for singles, families, seniors and pensioners. The current exemptions from the Medicare levy will also remain in place. The revenue raised by the increase in the Medicare levy will be invested in DisabilityCare Australia.

The states and territories will also contribute to DisabilityCare Australia, and will be allocated $9.7 billion over 10 years from the increase in Medicare levy revenue. The money raised will be placed in a special fund for 10 years and only used for the additional costs of DisabilityCare Australia.

The budget provides $19.3 billion over seven years from 2012-13 to roll out DisabilityCare Australia across the country. This brings the government's total new investment in DisabilityCare Australia to $14.3 billion over the period.

Other measures

Increase in defence funding

The government will provide $585.7 million over four years for the net additional cost of continuing Operation Slipper, Australia's contribution to international efforts in Afghanistan and the Middle East.

Increased funding towards crime prevention

The government will provide $434.1 million over four years to fund the Royal Commission into Institutional Responses to Child Sexual Abuse. It will also provide $64 million over four years to establish a National Anti-Gang Taskforce to fight gang-related crime across Australia, and a new Australian Gang Intelligence centre. Further, it will provide $40.9 million over four years towards the establishment of a National Crime Prevention Fund to target street crime and gang violence.

Increase in public broadcasting funding

There will be triennial funding of $90 million to the ABC for news and current affairs, triennial funding of an additional $20 million to SBS, plus a $90 million loan to the ABC to consolidate staff at its Southbank facility in Melbourne.

Foreign aid target deferred

Australia will again delay reaching its foreign aid spending target in the budget which will again be used to fund services for asylum seekers in Australia and offshore, with the amount capped at the same level as last year. The millennium goal, of having the aid budget equal 0.5% of gross national income, which was supposed to be attained in the 2015-16 financial year, has now been pushed out twice and will be budgeted for the 2017-18 financial year. Aid spending will still be increased by around $500 million in 2013-14. The slowing of growth in overseas aid will save $1.9 billion.

Public service cuts

The government confirmed reports that $580 million will be cut from the public service, with the reduction to take place over four years. The cuts will focus on reducing jobs and office space. More than 1,000 public servants will be gone by 2016, and it is expected the cuts will target the middle and senior management. Several agencies such as Foreign Affairs will suffer additional cuts, although Prime Minister and Cabinet will receive a funding increase.

Anzac Centenary Public Fund to be listed as a deductible gift recipient

Part of the Anzac Centenary Program 2014-18, the Anzac Centenary Public Fund is to be listed as a deductible gift recipient (DGR).

Update in the list of specifically listed deductible gift recipients (DGRs)

The following organisations have been approved as DGRs where taxpayers may claim an income tax deduction for certain gifts of money or property:

- Australian Peacekeeping Memorial Project Incorporated
- National Boer War Memorial Association Incorporated
- National Congress of Australia's First Peoples Limited
- Philanthropy Australia Incorporated
- United Way Australia.

Where your tax dollars are spent

If you've ever wondered where the most tax money comes from, or once in the hands of the government, where it is spent, the following two graphs may provide the answer. Most tax revenue comes from individual income tax, and most expenditure is directed to social security and welfare. The two graphs below were included in the 2013-14 Federal Budget papers, and show revenue sources, and expenditure, for the 2012-13 tax year on an accruals basis.