

2015 Budget Update

At 7.30pm on Tuesday, 12 May 2015 Treasurer Hockey delivered the 2015 Budget.

This Update presents key observations. The “devil is in the detail” and a closer examination of the relevant legislative changes will reveal more information in the fullness of time.

In the meantime, we hope you enjoy this summary:

Small business owners

The Budget contained a number of measures designed to assist and stimulate the small business sector.

The measures include:

- 1. Small business tax rate to be reduced to 28.5% - from 1 July 2015**
A small business is defined as a business with an annual turnover of less than \$2 million.
- 2. Franked dividends paid by small business entities – from 1 July 2015**
Even though the tax rate for small businesses will reduce by 1.5%, dividends will continue to be franked at 30%.
- 3. Tax reduction for small unincorporated businesses – from 1 July 2015**
Small businesses operated by a sole trader or partnership will also benefit from a new tax concession. They will be entitled to a 5% discount on the tax they would otherwise pay, subject to a maximum discount of \$1,000.
- 4. Immediate tax deduction for professional services – from 1 July 2015**
The costs associated with starting a new business can be considerable. The Budget includes a measure that will allow a new business to claim an immediate tax deduction for the costs of obtaining professional services associated with establishing the business. Professional services include legal and accounting services.
- 5. Capital gains tax relief – 1 July 2016**
If a small business owner wishes to restructure their business they will be eligible to access capital gains tax rollover relief.
- 6. Accelerated depreciation – from 12 May 2015**
Any assets up to a value of \$20,000 acquired by a business between 7.30pm on 12 May 2015, and 30 June 2017 will be eligible for a full tax deduction in the first year.
- 7. Drought relief – from 1 July 2016**
Capital expenditure associated with fencing and water will be fully tax deductible in the year the cost is incurred. Furthermore, cost associated with storage of fodder (e.g. silos) will be fully deductible over a 3 year period.

Superannuation

When the present government came to power, they stated that they would not make any significant changes to superannuation in their first term. True to their word (so far), the changes announced in the Budget are of minor consequence for most people.

- 1. Early release of superannuation benefits – from 1 July 2015**
A member of a superannuation fund may access their superannuation benefits tax free if they have been diagnosed as being terminally ill. Terminally ill means they are unlikely to survive for more than 12 months.

The Budget includes a proposal to extend the 12 month survival period to 24 months.

2. Lost and unclaimed superannuation – from 1 July 2016

Changes will be made to streamline the reporting and administration of lost and unclaimed super thereby by making it easier for people to be reunited with their superannuation.

Personal income tax

1. Employee share schemes – from 1 July 2016

Measures will be put in place to make employee shares schemes more accessible for both employers and employees.

2. Zone Tax Offset – from 1 July 2015

People who live and work in remote areas of Australia may be entitled to a special Zone Tax Offset that results in a reduction in the amount of tax they pay. Fly-in fly-out and drive-in drive-out workers who travel to remote areas covered by the Zone Tax Offset for work, will only be entitled to claim the Zone Tax Offset if their usual place of residence is within a defined remote zone.

3. Higher Education Loan Programme (HELP) – from 1 July 2016

People with a HELP debt who reside overseas for more than 6 months will be required to make repayments of their debt.

4. Medicare levy low income threshold

The Medicare levy low income threshold has been indexed in line with movements in the Consumer Price Index (CPI) for the 2014/15 financial year. People who have an income of less than the threshold are not required to pay the Medicare levy.

5. Temporary working holiday makers – from 1 July 2016

Temporary working holiday makers (including backpackers) will be treated as non-resident taxpayers. This means they will pay income tax at a rate of 32.5% from their first dollar of income.

6. Tax deductions for business use of motor vehicles – from 1 July 2016

There are currently four different methods that can be used when working out the tax deduction for business use of a private motor vehicle. These methods will be rationalised with only the log book method and the cents per kilometre continuing to be available. In addition, the cents per kilometre method will be changed to a single rate of 66 cents per kilometre, irrespective of the engine size. Currently three different rates are used based on engine size.

Families

1. Paid Parental Leave – from 1 July 2016

The Paid Parental Leave scheme allows all primary carers access to a payment of up to 18 weeks' pay based on the national minimum wage. Some employers also make payments to their employees while on parental leave. This Budget initiative is designed to eliminate double dipping. That is people claiming a benefit from the government and their employer at the same time.

2. Family Tax Benefit (FTB) – Part A – from 1 January 2016

Recipients of FTB-A will only be limited to receive their benefit for a 6 week period each 12 months, if they are overseas.

3. FTB – Part A – from 1 July 2016

The large family supplement will cease to be paid from 1 July 2016.

4. New Child Care Subsidy to be introduced – from 1 July 2017

The current child care rebate and child care benefits will be abolished and replaced with a Child Care Subsidy. The proposed subsidy will cover up to 85% of child care costs. The number of subsidised hours paid for each fortnight will be based on the work activity undertaken by the parents. The subsidy is designed to help parents get back into the workforce, or undertake other approved activities including training to further work activity opportunities.

5. No Job, No Pay – from 1 January 2016

This controversial measure was recently announced and has now been included in the Budget. Parents of children who don't have up-to-date immunisations will not have access to subsidised child care and will not be eligible to receive the FTB-A end-of-year supplement.

Pensioners and retirees

1. Assets test free area – from 1 January 2017

By increasing the assets test free area, an estimated 170,000 pensioners will receive a pension increase.

2. Increase the asset test taper rate – from 1 January 2017

Where a pension recipient has assessable assets that exceed the asset test free threshold, their pension is reduced by \$1.50 for every \$1,000 of assets over the asset test free amount. From 1 January 2017, the taper rate will increase to \$3.00 per \$1,000.

As a result, an estimated 91,000 will lose their entitlement to the pension, and a further 235,000 will receive a reduced pension.

3. Health Cards – from 1 July 2017

Those pension recipients that lose their pension entitlements as a result of the changes to the assets test will automatically receive a Commonwealth Seniors Health Card or, if under age pension age, the Health Care Card.

4. 2014 Budget announcements

In the 2014 Budget, the government announced a number of changes affecting pension recipients including:

- Limiting pension increases to Consumer Price Index (CPI);
- Rebasing the deeming thresholds;
- Pausing indexation of certain thresholds.

The legislation governing the changes is still before the Parliament. However, the government has announced that the changes will not be progressing.

The withdrawal of these previously announced changes will take effect immediately.

5. Overseas portability of pensions – from 1 January 2017

Pension recipients (Age Pension, Wife Pension, Widow B Pensions and Disability Support Pension) who have less than 35 years Australian Working Life Residency (AWLR) will have their pensions reduced in proportion to their AWLR after 6 weeks from leaving Australia, rather than after the current 26 week period.

AWLR is the number of years a pension recipient lived in Australia between the ages of 16 and age pension age.

Those pension recipients who have an AWLR of more than 35 years will not be affected by this announcement.

6. Defined benefit pensions – from 1 January 2016

Certain former government and corporate employees may be receiving their retirement income in the form of a defined benefit pension.

In some cases, a portion of the income they receive will be excluded under the income test for age pension purposes. This portion is referred to as the deductible amount.

With effect from 1 January 2016, the maximum amount that will be excluded from the income test will be 10% of the pension income received.

Those people in receipt of a Veterans Affairs pension or a pension from a military superannuation scheme will not be affected by this change.

7. Low income supplement – from 1 July 2017

The low income supplement is a tax exempt payment made to low income earners. This supplement will no longer be available from 1 July 2017.

Aged Care

1. Rental income – from 1 January 2016

Residential aged care accommodation charges may be paid as a lump sum, as a series of periodic payments, or as a combination of both.

Where an aged care resident's former home is rented and they are paying their accommodation fees by way of a (part) periodic payment, the rental income from the former home is not counted under the means tested fee for aged care.

For consistency, the rental income from the former home will be brought into account for aged care residents who pay all or part of their accommodation charge by way of a periodic payment.

2. Home Care Packages – from 1 February 2017

The delivery of Home Care Packages (services provided to older Australians who choose to remain in their own home but are assessed as requiring some support) will be streamlined.

Summary

The 2015 Budget addressed a significant number of measures. This summary is not intended to be a comprehensive analysis of every issue contained in the Budget but it does target some of the main issues that will affect mainstream Australians.

Each of the measures mentioned will have to be passed into legislation. The smooth passage of each measure is not guaranteed.

Furthermore, some of the initiatives mentioned in this Update will not take effect until 2017. The last day that the next election can be held is 17 January 2017.

If you have any questions about any of the measures mentioned in this update, we urge you to discuss them with your financial adviser or accountant.

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