2015 Federal Budget summary

12 May 2015

The Coalition Government's second Federal Budget proposed some important changes, particularly for families, retirees and small business owners.

Note: The measures outlined in this Federal Budget Summary are proposals only and may or may not be made law.

Summary

- The company tax rate for eligible small businesses will be reduced by 1.5% to 28.5%
- Unincorporated small businesses (sole trader, trust and partnership) will receive a 5% tax discount
- Small businesses will be able to fully deduct capital expenses of up to $20,000 per annum
- Many lower income young families will benefit from greater childcare subsidies
- Pension assets test changes will benefit lower net worth retirees, however, higher net worth retirees may receive reduced entitlements

Your Business

The Government has announced tax reductions for small businesses with an aggregated annual turnover below $2m regardless of entity type. Small businesses with a turnover of $2m or below make up 97.5% of all businesses in Australia. It's important to remember that you need to make a profit to benefit from these changes.

Company tax rate for small businesses

Proposed date of effect: 1 July 2015

The rate of company tax for eligible small businesses[1] will be reduced by 1.5% to 28.5%. These companies will continue to frank their dividends at up to 30%.

Tax discount for unincorporated small businesses

Proposed date of effect: 1 July 2015

Small businesses that are unincorporated, such as sole traders and partners in partnerships, will be able to reduce their tax liability related to small business profits by 5%, up to a maximum amount of $1,000.

Accelerated depreciation

Proposed date of effect: 12 May 2015

Small businesses will be able to fully deduct the cost of assets worth up to $20,000 in the year they are acquired. This concession will be available on purchases from **7.30pm 12 May 2015 until 30 June 2017**. The concession can apply to more than one asset purchased in the same year.

Please note that assets valued at $20,000 or more cannot be immediately deducted. They can only continue to be placed in the small business simplified depreciation pool (the pool) and depreciated at 15% in the first income year and 30% each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

[1] A small business is defined as a business with an aggregated turnover of less than $2 million.

CGT roll-over relief

Proposed date of effect: 1 July 2016

Small business with an aggregated turnover under $2m will be able to change their legal structure without triggering CGT. CGT rollover relief is currently available on transfer of business assets from individuals, partnerships and trusts into a company structure but all other entity type changes have the potential to trigger a CGT liability.

It is expected that this would allow a much broader range of restructuring options without triggering CGT. For example, a sole trader may be able to restructure their operations into a trust structure. Bear in mind that other tax issues may still need to be addressed on restructuring a business, particularly transfer duty.

FBT holiday for portable electronic devices

Date of effect: 1 April 2016

Currently, an FBT exemption can apply to more than one portable electronic device used primarily for work purposes, but only where the devices perform substantially different functions. Applying to businesses with and aggregated turnover of under $2m, this new measure will simplify the rules by removing the requirement for the devices to be substantially different. This should address some of the uncertainty that has arisen when applying the rules to tablets, laptops, phones and other devices that are hard to distinguish from each other in terms of functionality.

Immediate deduction for professional costs setting up a business

Date of effect: 1 July 2015

Start ups will be able to immediately deduct a range of professional expenses required to start up a business – such as professional, legal and accounting advice.

Generally these expenses are deductible over 5 years.

GST on digital goods & services

Date of effect: 1 July 2017

Referred to as the 'Netflix tax', it is proposed that GST will be payable on overseas supplied digital products. This change will result in supplies of digital products, such as streaming or downloading of movies, music, apps, games, e-books as well as other services such as consultancy and professional services receiving similar GST treatment whether they are supplied by a local or foreign supplier and ensure a "level playing field for the suppliers of digital products and services in Australia.

In some cases the GST liability might shift from the supplier to the operator of an electronic distribution service where those operators have responsibility for billing, delivery and terms and conditions.

The regulations will be amended to allow for a change to the GST registration process for affected entities.

Your Super

- The only proposed superannuation change of significance is to extend the maximum life expectancy – from 12 to 24 months – to allow a terminally ill patient access to their superannuation.
- No other new superannuation measures were announced in this year's Budget, in line with the Government's 2013 election commitment to not make changes during its first term.
- In 2015/16, the minimum amount of super contributions employers must make into eligible employees' accounts under the Superannuation Guarantee (SG) will remain at 9.5% per annum.
- The table below summarises the caps that will apply to super contributions in FY2016 (2015/16).

Contribution type	Contributions included	Cap applying in FY2016 (2015/16)	
Concessional	All employer contributions (including SG and salary sacrifice), personal contributions claimed as a tax deduction and certain other amounts	Aged 49 + on 30/06/2015	$35,000
		Aged < 49 on 30/06/2015	$30,000
Non-concessional	Personal after-tax contributions, spouse contributions and certain other amounts	$180,000 or $540,000 provided you are aged 64 or under on 1/07/2015, don't exceed this amount over a three-year period and meet certain other conditions	

Your Tax

Changes to work related car expenses

Date of effect: 1 July 2015

The way work related deductions for car expenses are calculated will change.

The '12% of original value method' and the 'one- third of actual expenses method' will be removed - the Government says they are only used by less than 2% of those who claim work related car expenses.

The 'cents per kilometre method' will be modernised by replacing the three current rates based on engine size with **one rate set at 66 cents per kilometre to apply for all motor vehicles**, with the Tax Commissioner responsible for updating the rate in following years.

The 'logbook method' of calculating expenses will be retained. These changes will not affect leasing and salary sacrifice arrangements.

Employee share schemes – further changes

Date of effect: 1 July 2015

The Government is making further technical amendments to the draft legislation enabling reforms to the taxation of employee share schemes. The changes:

- Exclude eligible venture capital investments from the aggregated turnover test and grouping rules (for the start-up concession);
- Provide the CGT discount to employee share scheme interests that are subject to the start-up concession, where options are converted into shares and the resulting shares are sold within 12 months of exercise; and
- Allow the Commissioner of Taxation to exercise discretion in relation to the minimum three-year holding period where there are circumstances outside the employee's control that make it impossible for them to meet this criterion.

Working holiday workers

Date of effect: 1 July 2015

Most people who are temporarily in Australia for a working holiday are to be treated as 'non-residents' for tax purposes, regardless of how long they are here. As a result, they will be taxed at 32.5% from the first dollar of income earned. This may result in a higher cost of employment for some small businesses.

Fringe benefits tax – changes to rebatable “Not for profits”

Date of effect: 1 April 2016

Currently, employees of public benevolent institutions and health promotion charities have a standard $30,000 FBT exemption cap ($31,177 for the first year of the measure because of the Temporary Budget Repair Levy) and employees of public and not-for-profit hospitals and public ambulance services have a standard $17,000 FBT exemption cap ($17,667 for the first year).

Under the new measure, meal entertainment benefits exceeding the separate grossed-up cap of $5,000 can also be counted in calculating whether an employee exceeds their existing FBT exemption or rebate cap. All use of meal entertainment benefits will become reportable.

Medicare levy low income threshold increased

Date of effect: 1 July 2014

The Medicare levy low-income thresholds for singles, families and single seniors and pensioners will increase to take account of movements in the CPI so that low-income taxpayers generally continue to be exempted from paying the Medicare levy.

The threshold will be increased to:

Singles	$20,896
Couples with no children	$35,261
Additional amount of threshold for each dependent child or student	$3,238
Single seniors and pensioners	$33,044

Your Aged Care

Aged care means testing – rental income from former home

Date of effect: 1 January 2016

If you enter a residential aged care facility from 1 January 2016, any rental income generated by your former home will be assessed when determining your aged care fees, regardless of how you pay the accommodation costs. Under the existing rules, any rental income received from your former home is exempt from the means-tested fee if you pay at least part of your accommodation payment as a daily payment. The change will not impact means-testing for Centrelink or DVA purposes.

Your Government Payments – Retirees

Pension assets test thresholds

Proposed date of effect: 1 January 2017

A number of changes were announced in relation to pension entitlements including:

- changes to the assets test thresholds and taper rate, and
- the removal of the indexation changes announced in the 2014/15 Federal Budget.[2]

The lower threshold will be increased. However, the taper rate will increase from $1.50 to $3.00 which means the upper (or cut-out threshold) will reduce. The taper rate is the amount the age pension reduces for every $1,000 of assets over the lower asset threshold.

[2] Pensions will continue to be indexed to the greater of CPI and Pensioner and Beneficiary Living Cost Index as well as being benchmarked against Male Total Average Weekly Earnings.

The tables below show the amount of pension that could be received under these proposed measures'.

NOTE: It's important to remember that both the income and assets tests are applied. The test which calculates the lowest entitlement determines the age pension payable. The tables in the press release assume entitlement is determined under the assets test only.

	Assets Test threshold for full pension (20 March 2015)	Assets Test threshold for full pension (1 January 2017)
Single, homeowner	$202,000	$250,000
Single, non-homeowner	$348,500	$450,000
Couple, homeowner	$286,500	$375,000
Couple, non-homeowner	$433,000	$575,000

	Assets Test threshold for part pension (20 March 2015)	Assets Test threshold for part pension (1 January 2017)
Single, homeowner	$775,500	$547,000
Single, non-homeowner	$922,000	$747,000
Couple, homeowner	$1,151,500	$823,000
Couple, non-homeowner	$1,298,000	$1,023,000

The proposed new taper rates and Assets Test thresholds mean some pensioners will receive a higher fortnightly pension, while others will see their pension reduced. The following table approximates the level of assets above which the pension under the Assets Test will reduce due to the proposed measures.

	Asset level above which pensions (under the Asset Test) are reduced due to the proposed measures (from 1 January 2017)
Single, homeowner	$289,500
Single, non-homeowner	$537,000
Couple, homeowner	$451,500
Couple, non-homeowner	$699,000

Pension income test – defined benefit income

Date of effect: 1 January 2016

A larger proportion of a pensioner's defined benefit income will be taken into account when applying the relevant social security income test, capping the proportion of income that can be excluded at 10%.

A defined benefit income stream is a pension paid from a public sector or other corporate defined benefit superannuation fund where the pension paid generally reflects years of service and the final salary of the beneficiary. Under current arrangements, some defined benefit pensioners are able to have a large proportion of their super income excluded from the pension income test.

Recipients of Veterans' Affairs pensions and/or defined benefit income streams paid by military superannuation funds are exempt from this measure.

Commonwealth Seniors Health Care Card

The Government will ensure age pensioners who lose entitlement due to the above changes will be entitled to the Commonwealth Seniors Health Care Card (CSHC) from 1 January 2017. The CSHC is designed to assist older Australians by providing a range of concessions, including:

- discounts on Pharmaceutical Benefits Scheme (PBS) prescription medicines
- bulk-billed doctor appointments (at the doctor's discretion)
- lower out-of-hospital medical expenses through the Medicare Safety Net, and
- certain state, territory and local government concessions - such as transport or concessions from private business that vary between each state and territory.

Pension portability

Proposed date of effect: 1 January 2017

The Government permits certain recipients to continue to receive their pension payments while overseas for up to 26 weeks. However, from 1 January 2017, it is proposed to reduce this time to six weeks. This will apply to pensioners who have lived in Australia for less than 35 years. Their payments will be paid at a reduced rate proportional to their period of Australian Working Life Residence. Impacted payments are the Age Pension, Wife Pension, Widow B Pension and Disability Support Pension.

Your Government Payments – Families

Child Care Subsidy

Proposed date of effect: 1 July 2017

From 1 July 2017, a new Child Care Subsidy will be introduced. This will replace:

- Child Care Benefit
- Child Care Rebate, and
- Jobs, Education and Training Child Care Fee Assistance.

A single means test will apply, subject to an activity test. This subsidised amount is paid directly to the care facility. The level of support will depend on family income as summarised in the following table.

Annual family income[3]	Subsidy per child	Cap
Up to $65,000	85% of fee paid	n/a
$65,000 - $170,000	Will taper gradually from 85% down to 50%	n/a
$170,000 - $185,000	50% of fee paid	n/a
Over $185,000	50% of fee paid	$10,000 per annum

A new activity test will be established (see table below), with what comprises an activity yet to be announced.

Activity (hours per fortnight)	Number of subsidised hours (per fortnight)
8 – 16	Up to 36 hours
17 – 48	Up to 72 hours
49+	Up to 100 hours

Those families earning less than $65,000 per annum who do not meet the activity test will continue to be entitled to up to 24 subsidised hours per fortnight.

[3] Source: http://www.pm.gov.au/media/2015-05-10/jobs-families-child-care-package-delivers-choice-families

Hourly fee caps, indexed to CPI, will apply. Child care payments will be subject to stronger immunisation requirements.

Financial support for families with nannies

Proposed date of effect: 1 January 2016

The Government proposed a two year pilot program to subsidise the cost of child care provided in the family home by nannies, which will commence on 1 January 2016. The program will extend financial assistance to participating families who:

- have difficulty obtaining child care due to irregular working hours (eg shift workers)
- are in rural or remote areas, or
- have other accessibility issues.

Support will be subject to a fee cap of $7.00 per child per hour.

Care will be provided for up to 50 hours per week, which is the same as the current child care benefit. Families must meet the program requirements and earn less than $250,000 per annum. The program requirements are yet to be released.

Nannies will need to be attached to an approved service, be 18 years or older, have a current 'Working with Children' check and have first aid qualification. There will be no requirement to hold a minimum early childhood qualification.

Family Tax Benefit – Part A

Proposed dates of effect: 1 January 2016 and 1 July 2016

From **1 January 2016**, families will only be eligible to receive Family Tax Benefit – Part A (FTB-A) for six weeks in a 12 month period, whilst overseas. Currently for temporary overseas absences, the standard rate is payable for the first six weeks which then reduces to the base rate for a further 50 weeks. The period of time that the standard rate is payable may be extended in special circumstances.

From **1 July 2016**, the Government will no longer pay the large family supplement for FTB-A. This supplement is paid for third and subsequent children and is currently $12.32 per fortnight per child.

Disability support and other pensions

The assets test for all pensions will be changed, effective January 2017. Please see the next section.

Higher Education Loan recovery from overseas debtors

Date of effect: 1 July 2017

The Higher Education Loan Programme (HELP) repayment framework will be extended to debtors residing overseas. From 2016/2017, HELP debtors residing overseas for 6 months or more will be required to make repayments of their HELP debt if their worldwide income exceeds the minimum repayment threshold at the same repayment rates as debtors in Australia. The change is expected to recover $26m over 4 years.

The economy in brief

- Deficit of $35.1 bn in 2015/2016 reducing to $6.9 bn by 2018/2019
- Real GDP expected to grow by a modest 2.75% in 2015/2016, which is 0.25% slower than expected 12 months ago.
    - Stronger non-mining business investment expected to drive growth in 2016/2017 to 3.25%
- Unemployment rate currently better than predicted at 6.25% but expected to push higher in 2015/2016 before falling again.
- Tax receipts downgraded by $52 billion since the 2014 Budget - $20 bn a result of the iron ore spot price almost halving:
    - Iron ore investments and exports directly contributed 15% to economic growth over the last decade
    - Australia accounts for 1/3 or world iron ore production

- Australia's major trading partners are expected to grow by 4.5% in 2015 and 2016.
- Total exports expected to increase by 5% in 2015/2016 and 6.5% in 2016/2017
- Non-mining business investment has increased but remains uncommitted

Any questions?

For more information on what any of these changes may mean for you, please speak to *Aki Forrest, Tax and Financial Adviser of Forest Accountability* on 02 9905 6677 or email to aki@forestaccy.com.au.

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