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2014 Budget - Personal Finance Summary

The first budget for the new coalition government has as expected provided some significant changes as well as confirming changes that had been widely anticipated. This summary will look at the following major changes grouped into three main areas – retirement planning, tax planning and government benefit planning:

Tax Planning

- 2% Temporary Budget Repair Levy on incomes over 180,000 per annum for the next three years from 2014-15
- Fuel excise indexation
- Mature Age Workers Tax Offset abolished
- Dependant Spouse Tax Offset abolished
- Increased Medicare Levy from 1 July 2014

Retirement Planning

- Indexing pensions to the CPI, rather than wages, from September 2017
- Increase to the Age Pension age to 70 by 1 July 2035
- Pausing of Pension Assets Test & Income Test eligibility thresholds for three years
- Resetting the Assets Test Deeming Rate thresholds from 20 September 2017
- Annual Seniors supplement to be abolished
- Indexation of the Commonwealth Seniors Health Card income thresholds from September 2014
- Untaxed superannuation income to be included in the income test for the Commonwealth Seniors Health Card for new recipients
- Change to the schedule for increasing the superannuation guarantee rate to 12%
- Increase in the concessional contributions cap from $25,000 to $35,000 for individuals aged 49 and over from 1 July 2014
- Increase in the concessional contributions cap from $25,000 to $30,000 for individuals aged younger than 49 from 1 July 2014
- Increase in the non-concessional contribution limit to $180,000 from 1 July 2014
- Deeming rules for account based pension income
- Defence Forces Retirement Benefits & Defence Force Retirement & Death Benefits superannuation payments indexation

Government Benefit Planning

- Medicare co-payment of $7 from 1 July 2015
- Increased costs of Pharmaceuticals Benefits Scheme medicines and Safety Net thresholds
- Medicare Safety Net changes
- Tightening the eligibility for Family Tax Benefit Part B
- Indexation of many payments and programmes will be temporarily paused, including: eligibility thresholds for Family Tax Benefit and Newstart; thresholds for the Medicare Levy Surcharge, Private Health Insurance Rebate and most Medicare Benefits Schedule fees; Official Development Assistance funding; Local Government Financial Assistance Grants; and 112 government grant programmes.
- Indexing Disability Support Pensions to the CPI, rather than wages, from September 2017
- Disability Support Pension reduced portability
- HELP debt repayment threshold decreased to $50,638 from 1 July 2016 & interest rate applied changed to a rate equivalent to yields on 10 year bonds rather than CPI
- First Home Saver Account Scheme cessation

Each of the above items has been addressed in a little more detail in the following sections.

TAX PLANNING

2% Temporary Budget Repair Levy on incomes over 180,000 per annum for the next three years from 2014-15

From 1 July 2014 until 30 June 2017, there will be a Temporary Budget Repair Levy of 2% on individuals' taxable income above $180,000. An individual with taxable income of $300,000 a year will pay an additional $2,400 in tax for each of the next three years.

A number of other tax rates that are currently based on calculations that include the top personal tax rate will also be increased. With the exception of the fringe benefits tax (FBT) rate, these tax rates will be increased for the same period that the Temporary Budget Repair Levy is in place. These consequential amendments are important to maintain integrity and fairness in the tax system.

To prevent high income earners from utilising fringe benefits to avoid the levy, the FBT rate will be increased from 47% to 49% from 1 April 2015 until 31 March 2017 to align with the FBT income year. The cash value of benefits received by employees of public benevolent institutions and health promotion charities, public and not-for-profit hospitals, public ambulance services and certain other tax-exempt entities will be protected by increasing the annual FBT caps. In addition, the fringe benefits rebate rate will be aligned with the FBT rate from 1 April 2015.

Strategy Thought

This places a small extra incentive to salary sacrifice income into super where possible for those earning income greater than $180,000 per annum and not already reaching the concessional contributions limit, as the tax benefit from making salary sacrifice contributions will increase by 2%.

Fuel excise indexation

From 1 August 2014, fuel excise and fuel excise-equivalent customs duty will be indexed biannually in line with the consumer price index.

The Government will amend the *Excise Act 1901* to ensure that the amount spent on road infrastructure funding is greater than the net revenue from the reintroduction of indexation on fuel excise and excise-equivalent customs duty.

Strategy Thought

Petrol prices will inevitably increase. Strategies to minimise fuel usage would protect against these increasing costs.

Mature Age Workers Tax Offset abolished

The Mature Age Workers Tax Offset will be abolished from 1 July 2014.

Dependent Spouse Tax Offset abolished

The Dependent Spouse Tax Offset will both be abolished from 1 July 2014.

Increased Medicare Levy from 1 July 2014

From 1 July 2014 the Government will increase the Medicare levy by half a percentage point from 1.5 to 2% of taxable income, to provide a funding source for DisabilityCare Australia.

Strategy Thought

This places a small extra incentive to salary sacrifice income into super where possible, as the tax benefit from making salary sacrifice contributions will increase by 0.5 of a percentage point.

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RETIREMENT PLANNING

Indexing pensions to the CPI, rather than wages, from September 2017

The Government will index pensions by the Consumer Price Index (CPI) from 1 September 2017. Currently, these payments are indexed in line with the higher of the increases in the CPI, Male Total Average Weekly Earnings or the Pensioner and Beneficiary Living Cost Index.

Increase to the Age Pension age to 70 by 1 July 2035

The Government will continue gradually increasing the age pension age to 70 by 1 July 2035. People born before 1 July 1958 will not be affected by this measure.

Pausing of Pension Assets Test & Income Test eligibility thresholds for three years

Eligibility thresholds for pension and pension related payments will be maintained for three years from 1 July 2017. Major pension related payments include the Aged Pension, Carer Payment, Disability Support Pension and the Veterans' Service Pension. This will see the rate of payment fall in inflation adjusted terms.

Resetting the Assets Test Deeming Rate thresholds from 20 September 2017

The Government will reset the deeming thresholds used in the pension assets test to $30,000 for singles and $50,000 for couples from 20 September 2017. This will see assessable income levels rise and pension payments reduced for those who are assessed under the income test.

Annual Seniors supplement to be abolished

The Government will no longer continue with the payment of the Senior Supplement for Commonwealth Seniors Health Card holders from 20 September 2014.

Indexation of the Commonwealth Seniors Health Card income thresholds from September 2014

Eligibility thresholds for the Commonwealth Seniors Health Card (CSHC) will be indexed by the Consumer Price Index from September 2014. This should see greater access to the card over time.

Untaxed superannuation income to be included in the income test for the Commonwealth Seniors Health Card for new recipients

The Government will include untaxed superannuation income in the assessment of income to determine eligibility for the Commonwealth Seniors Health Card (CSHC) from 1 January 2015. The assessment of superannuation income will be the same for CSHC holders as for Age Pension recipients and will align with the *2013-14 Budget* measure to deem the balances of account-based superannuation of pensioners from 1 January 2015.

All superannuation account-based income streams held by CSHC holders before the implementation date will be grandfathered under the existing rules.

Strategy Thought

If potentially eligible for a CHSC and you hold a superannuation account based pension, look to apply for the CHSC before the end of 2014.

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Change to the schedule for increasing the superannuation guarantee rate to 12%

The Government will change the schedule for increasing the superannuation guarantee rate to 12%. The superannuation guarantee rate will increase from 9.25% to 9.5% from 1 July 2014 as currently legislated.

The rate will remain at 9.5% until 30 June 2018 and then increase by 0.5% each year until it reaches 12%.

Strategy Thought

Those who are making the maximum allowable concessional contributions into super should consider the implications of receiving 9.5% standard employer super contributions from 1 July 2014 and adjust salary sacrifice levels accordingly.

Increase in concessional contributions cap for individuals aged 49 and over from 1 July 2014

A $35,000 concessional contributions cap will be provided for all people aged 49 and over from 1 July 2014.

Strategy Thought

If you will be aged 49 or above on the 30th of June 2014, consideration should be had of whether it makes sense to increase the level of concessional contributions being paid into super in the 2014/15 financial year.

Increase in the concessional contributions cap from $25,000 to $30,000 for individuals aged younger than 49 from 1 July 2014

A $30,000 concessional contributions cap will be provided for all people aged younger than 49 from 1 July 2014.

Strategy Thought

If you will be aged younger than 49 on the 30th of June 2014, consideration should be had of whether it makes sense to increase the level of concessional contributions being paid into super in the 2014/15 financial year.

Increase in the non-concessional contribution limit to $180,000 from 1 July 2014

An $180,000 non-concessional contributions cap will be provided for all people from 1 July 2014. For those aged 64 or younger on 1 July 2014 would be able to trigger the 3 year bring forward rule and contribute up to $540,000 into superannuation.

Strategy Thought

If it is likely that you will pay tax, including losing franking credits, from investments held outside of superannuation, consideration should be given to making a personal contribution into super to get assets into a friendlier tax environment. Before making this decision consideration should be given to capital gains tax implications and whether you are comfortable to lock assets away in the superannuation system.

Deeming rules for account based pension income

Normal pension income test deeming arrangements will be extended to superannuation account-based income streams assessed from 1 January 2015. Products held by pensioners before 1 January 2015 will be grandfathered.

This means that rather the level of deemed income from income stream pension payments being calculated based on the level of payment drawn with an amount deducted in relation to the life expectancy of the account holder or primary beneficiary, the government will calculate a level of deemed income based on the asset value of the account.

This is likely to see account holders deemed to be earning a much greater level of income for means testing of government benefits purposes (e.g. Age Pension & Disability Support Pension).

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Strategy Thought

Those already holding superannuation account based income stream accounts who are already receiving or likely to receive means tested government benefits will need to carefully consider the implications of restructuring an account based pension. Currently many holders of these accounts will add new contributions each year or roll over to another provider. This would be deemed to be the commencement of a new account based pension and as such would fall under the new regime through adding extra contributions or moving to an alternative provider if implemented after 1 January 2015.

Defence Forces Retirement Benefits & Defence Force Retirement & Death Benefits superannuation payments indexation

From 1 July 2014, DFRB and DFRDB superannuation scheme members aged 55 and over will have their superannuation benefits indexed by the better of the Consumer Price Index and the Pensioner and Beneficiary Living Cost Index, with reference also to a benchmark level of Male Total Average Weekly Earnings.

GOVERNMENT BENEFIT PLANNING

Medicare co-payment of $7 from 1 July 2015

The Government will reduce Medicare Benefits Schedule (MBS) rebates from 1 July 2015 by $5 for standard general practitioner consultations and out-of-hospital pathology and diagnostic imaging services and allowing the providers of these services to collect a patient contribution of $7 per service.

For patients with concession cards and children under 16 years of age the MBS rebate will only be reduced for the first 10 services in each year, after which it will return to current benefit levels. A new Low Gap Incentive will replace bulk billing incentives for providers of these services. The Low Gap Incentive will be paid to providers where they provide services to patients with concession cards or children under 16 years of age and only charge the $7 patient contribution - for the first 10 services in a year, or where they charge no patient contribution - for additional services in that year.

Increased costs of Pharmaceuticals Benefits Scheme medicines and Safety Net thresholds

The Government will increase the Pharmaceutical Benefits Scheme (PBS) co-payments and safety net thresholds from 1 January 2015.

Co-payments will increase for general patients by $5.00 (from $37.70 to $42.70) and for concessional patients by $0.80 (from $6.10 to $6.90) in 2015.

PBS safety net thresholds will increase each year for four years from 1 January 2015, with general safety net thresholds to increase by 10% each year and concessional safety nets to increase by the cost of two prescriptions each year.

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

Medicare Safety Net changes

From 1 January 2016, the existing Original Medicare Safety Net, Extended Medicare Safety Net and Greatest Permissible Gap will be replaced by the new Medicare Safety Net. There will be new safety net thresholds of $400 for concessional singles and concessional families, $700 for non-concessional FTB-A families and non-concessional singles, and $1,000 for non-concessional families who do not receive FTB-A.

Once the annual thresholds have been met in a calendar year, Medicare will pay 80 per cent of any subsequent out-of-pocket costs, capped at 150 per cent 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 per cent of the MBS fee.

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Tightening the eligibility for Family Tax Benefit Part B

From 1 July 2015 families will no longer receive this payment when their youngest child turns 6. In order to give existing recipients time to adjust the Government has introduced a two-year grandfathering to this change.

A new Family Tax Benefit Part A allowance will be introduced for low-income sole parents whose youngest child is aged between 6 and 12 years old from the point when they become ineligible for FTB Part B. This allowance will provide $750 for each child aged between 6 and 12 years old in an eligible family from 1 July 2015.

The primary income threshold for eligibility for FTB-B will also be reduced from $150,000 to $100,000 per annum from 1 July 2015.

Freezing of Indexation

Indexation of all payment eligibility thresholds will be paused including for family payments, allowances such as Newstart and parenting payment single, Medicare Levy Surcharge and the Private Health Insurance Rebate. Payment rates for family payments will also be paused for three years from 1 July 2014.

Indexing Disability Support Pensions to the CPI, rather than wages, from September 2017

The Government will index pensions by the Consumer Price Index (CPI) from 1 September 2017. Currently, these payments are indexed in line with the higher of the increases in the CPI, Male Total Average Weekly Earnings or the Pensioner and Beneficiary Living Cost Index.

Disability Support Pension reduced portability

The Government will reduce the amount of time Disability Support Pension (DSP) recipients can leave Australia and still receive DSP. Recipients will receive DSP for a maximum of four weeks in a 12 month period should they travel overseas. All DSP recipients who leave Australia on or after 1 January 2015 will be subject to the new rules. Currently, DSP can be paid for absences from Australia for up to six weeks, on multiple occasions in any one year.

HELP debt repayment threshold decreased to $50,638 from 1 July 2016 & interest rate applied changed to a rate equivalent to yields on 10 year bonds rather than CPI

The Government will reduce the income threshold for repayment of *Higher Education Loan Programme* (HELP) debts commencing in 2016-17 and will adjust the indexation of HELP debts from 1 June 2016.

A new minimum threshold will be established for the repayment of HELP debts, 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% 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.

In addition, the annual indexation applied to HELP debts will be adjusted from the Consumer Price Index to a rate equivalent to the yields on 10 year bonds issued by the Australian Government, capped at 6.0% per annum, from 1 June 2016.

<u>Strategy Thoughts</u>

More careful consideration will need to be had of whether to pre-pay HELP debt from 1 June 2016 given the higher potential interest burden.

First Home Saver Account Scheme cessation

The Government will abolish the First Home Saver Accounts scheme due to lower than forecast take-up rates. New accounts opened from Budget night will not be eligible for concessions, with the Government co-contribution to cease from 1 July 2014 and tax concessions and the income and asset test exemptions for government benefits associated with these accounts to cease from 1 July 2015.

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Summary of major strategy considerations

Here are some possible strategy modifications arising from this year's budget:

- Those earning more than $180,000 per annum and not maximising concessional contributions into super, consider increasing salary sacrifice contribution levels.

- Those in the workforce who will be 49 or older on 30 June 2014 should consider strategies to increase the level of concessional contributions being paid into superannuation up to the new $35,000 limit from 1 July 2014.

- Those in the workforce who will be younger than 49 on 30 June 2014 should consider strategies to increase the level of concessional contributions being paid into superannuation up to the new $30,000 limit from 1 July 2014.

- Those who are looking to add more to an account based pension or switch provider may want to plan for this to occur before 1 January 2015 due to the changes to means testing deeming rules.

- Those who are making the maximum allowable concessional contributions into super should consider the implications of receiving 9.5% standard employer super contributions from 1 July 2014 and adjust salary sacrifice levels accordingly.

- Salary sacrifice strategies to be re-assessed under the new Medicare Levy arrangement and the increases in concessional contribution limits from 1 July 2014.

- Personal superannuation contribution strategies to be re-assessed due to the increases in non-concessional contribution limits from 1 July 2014.

- Those with a HELP debt may want to consider a voluntary repayment before 1 June 2016 to reduce potential increases in interest increases.

- If turning Age Pension age before the end of 2014 but ineligible for the pension due to means testing, consider applying for the Commonwealth Seniors Health Card before superannuation income stream income assessment rules change.

Concluding Comments

Overall the budget has provided a number of changes in terms of personal finance outcomes that need to be carefully considered.

A pleasing aspect is that the government has chosen not to tamper with the superannuation system in this budget.

Investing through superannuation to provide for retirement therefore remains a very effective strategy with:

- Compulsory employer contributions
- Tax advantaged contributions and earnings through the accumulation stage, now at slightly higher concessional contribution rates for older superannuation account members
- Tax free superannuation withdrawals after the age of 60
- Minimal rules for withdrawing superannuation

If you would like to discuss any of the details contained in the budget and how those details impact your situation please do not hesitate to be in contact.

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