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2015 Budget - Personal Finance Summary

The 2015 Federal Government Budget address has been delivered in Canberra overnight. Whilst there are a myriad of discussion points stemming from this address, this summary is focussed on the major changes to individual and family personal finances grouped into three main areas – tax planning, government benefit planning and retirement planning.

Tax Planning

- Small business tax incentives
  - Reduction in company tax rate from 30% to 28.5% for small companies with turnover under $2 million from the 2015-16 financial year
  - Unincorporated small business owners will benefit from a 5% tax discount, up to $1,000 per year, from the 2015-16 financial year
  - Small business immediate deduction for asset purchases up to a value of $20,000
  - Any small business asset with a purchase price over $20,00 can be added together ("pooled") and depreciated at the same rate – 15% in first income year and 30% per year thereafter
  - All small business work related portable devices are FBT free
- Accelerated depreciation for primary producers
- Work related car expenses tax deduction changes
- Changes to Employee Share Schemes
- Fly-in fly-out workers ineligible to the Zone Tax Offset
- Higher Education Loan Programme – recovery of payment from overseas debtors
- Increasing the Medicare levy low-income thresholds
- Application of GST to off-shore suppliers of digital products and services in Australia
- Capping salary sacrificed meal entertainment benefits to $5,000 per annum for employees of not-for-profits

Government Benefit Planning

- Child Care Reforms
  - Simplified child care subsidy to be implemented from 1 July 2017 with a single subsidy based on family income
  - New Child Care Safety Net
- Family Tax Benefit (FTB) Part A – reduced portability from 1 January 2016 whilst overseas
- Paid parental leave changes
- Cessation of the Low Income Supplement
- Extension of the Drought Concessional Loan Scheme & Drought Recovery Concessional Loan Scheme for an additional year

Retirement Planning

- Age Pension Changes
  - Asset free area for Age Pensioners to increase from 1 January 2017 with the asset test taper rate to increase from $1.50 to $3 at the same time
  - Recipients of the Age Pension who lose access due to the change in the taper rate will remain eligible for a Commonwealth Seniors Health Card or Health Care Card
  - Defined benefits scheme income test exclusion capped at 10% from 1 January 2016
  - Pension portability reduction after 6 weeks from leaving Australia
- Aged Care Changes
  - Rental income to be included in aged care means tests
  - Funding for home care services for older Australians will be allocated to the consumer based on care needs from 1 February 2017
- Changes to early access to superannuation for people with terminal illness

TAX PLANNING

Small Business Tax Incentives

The Government announced a range of tax concessions to assist small business entities. Generally, a business is a small business entity if it has business turnover (aggregated turnover) of less than $2 million.

Company tax cuts

A tax cut of 1.5% is proposed to apply to all incorporated small business entities from the 2015-16 financial year. If implemented, this measure will reduce the company tax rate for small business entities to 28.5%.

Importantly, the Government has confirmed the current maximum franking credit rate of 30% will remain unchanged for all companies, maintaining the existing arrangements for investors, such as self-funded retirees.

Unincorporated small business tax cuts

Individual taxpayers with business income from an unincorporated small business will be eligible for a 5% tax discount on income tax payable on business income received from the 2015-16 financial year. The discount will be capped at $1,000 per individual for each income year.

Expansion of accelerated depreciation

Small businesses will be able to claim an immediate deduction on assets that cost less than $20,000 they start to use or install ready for use, between Budget night and 30 June 2017. Assets valued at $20,000 or more can continue to be placed in the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter.

The Government will also suspend the current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) until 30 June 2017.

From 1 July 2017, the thresholds for the immediate depreciation of assets and the value of the pool will revert back to existing arrangements.

Fringe benefit tax change for work-related electronic devices

From 1 April 2016 a fringe benefit tax (FBT) exemption will be available to small businesses that provide employees with more than one qualifying work-related portable electronic device, even where the item has substantially similar functions.

This removes confusion in relation to the current rules where an exemption is only provided for one work-related portable electronic device of each type.

Accelerated depreciation for primary producers

From 1 July 2016, the Government will allow all primary producers to immediately deduct capital expenditure on fencing and water facilities, as well as allow primary producers to depreciate over three years all capital expenditure on fodder storage assets such as silos and tanks used to store grain and other animal feed.

Work related car expenses tax deduction changes

There are currently four different methods used to calculate car related expenses which will be simplified to two:

- Cents per kilometre – to be retained.
- Logbook method – to be retained.
- 12 per cent of value method – to be abolished.
- One-third of actual expenses – to be abolished.

The cents per kilometre method will be able to be used up to a maximum of 5,000 kilometres p.a. and will be a flat rate of 66 cents per kilometre. This replaces the current three different rates for large, medium and small cars.

Changes to Employee Share Schemes

The Government will make further amendments to the proposed changes to taxation of Employee Share Schemes (ESS) from 1 July 2016. The aim is to make ESS more accessible for Australian businesses and their employees, especially start-ups. This measure addresses:

- Excluding eligible venture capital investments from the aggregated turnover test and grouping rules (for the start-up concession).
- Providing the CGT discount to ESS 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.
- Allowing the Commissioner of Tax 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. ESS interests provided at a small discount by eligible start-up companies will not be subject to up-front taxation if they are held by the employee for at least three years.

Fly-in fly-out workers ineligible to the Zone Tax Offset

Fly-in fly-out (FIFO) workers whose normal place of residence is outside the remote 'zone' will be ineligible for the Zone Tax Offset (ZTO). Currently, workers whose normal place of residence is outside the 'zone' can benefit from the offset by working in a specified remote area for more than 183 days in an income year.

The Government says this measure is designed to better target the ZTO to people who have taken up genuine residence in remote zones.

Higher Education Loan Programme – recovery of payment from overseas debtors

The Government will extend the Higher Education Loan Programme (HELP) repayment framework to debtors residing overseas for six months or more. People with a HELP debt will be required to make repayments if their worldwide income exceeds the minimum repayment threshold at the same repayment rates as debtors in Australia.

Increasing the Medicare levy low-income thresholds

The Government will increase the Medicare levy low-income thresholds for singles, families and single seniors and pensioners to take into account of movements in the Consumer Price Index. Taxpayers with taxable income below this threshold are exempt from paying Medicare Levy. These changes are to apply from 2014-15.

Medicare low income thresholds

	Current	Proposed
Individuals	$20,542	$20,896
Married sole parent	$34,367	$35,261
For each dependent child or student, add:	$3,156	$3,238

Medicare low income thresholds – people entitled to seniors & pensioner tax offset

	Current	Proposed
Individuals	$32,279	$33,044
Married sole parent	$46,000	$46,000
For each dependent child or student, add:	$3,156	$3,238

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Application of GST to off-shore suppliers of digital products and services in Australia

The Government has announced GST will apply to off-shore supplies of digital products and services imported by consumers from 1 July 2017. Currently GST doesn't apply to cross border supplies and all revenues raised from this measure will go to the States.

Capping salary sacrificed meal entertainment benefits to $5,000 per annum for employees of not-for-profits

From 1 April 2016, the Government will introduce a separate single grossed-up cap of $5,000 for salary sacrificed meal and entertainment expenses (meal entertainment benefits) for employees.

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

Currently, employees of public benevolent institutions and health promotion charities have a standard $30,000 FBT exemption cap (this will be $31,177 for the first year of the measure due to 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 (this will be $17,667 for the first year).

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GOVERNMENT BENEFIT PLANNING

Child Care Reforms

New child care subsidy

From 1 July 2017, a new single Child Care Subsidy (CCS) will be introduced. CCS will replace the existing:

- Child care benefit and
- Child care rebate.

CCS will be payable to families who use an approved child care service for a child who is under 13 years old. In addition, they need to meet an activity test (working, studying, training or other recognised activity).

Child Care Subsidy payments will be paid directly to approved child care service providers. Families will pay the gap between the level of subsidy they receive and the actual fee charged by the service.

The amount of Child Care Subsidy payable is determined by:

- amount of work, study, training or other recognised activity undertaken
- hourly caps depending on the type of care
- family income

Amount of work, study and training (Activity Test):

Step	Hours of activity (per fortnight)	Hours of subsidy (per fortnight)
1	8 - 16	Up to 36
2	17 - 48	Up to 72
3	49 or more	Up to 100

Hourly caps:

Type of care	Hourly cap
Centre based long day care	$11.55
Family day care	$10.70
Outside school hours care	$10.10

Family income:

- families earning less than $65,710 will be eligible for 85% of the actual fee paid up to an hourly cap
- families earning $170,710 or higher, will be eligible for 50%
- families earning $185,710 or higher, an annual cap of $10,000 for assistance per child will apply each year.

New child care safety net

From 1 July 2017, the Child Care Safety Net will provide support to disadvantaged or vulnerable families. The Child Care Safety Net has three key components:

- Additional Child Care Subsidy to provide access to early learning
- Community Child Care Fund which is a competitive grants programme for approved child care services to reduce barriers to access child care
- Inclusion Support Programme which assists approved child care services provide access for children with additional needs.

Family Tax Benefit (FTB) Part A – reduced portability from 1 January 2016 whilst overseas

From 1 January 2016, the Government will reduce the portability of Family Tax Benefit Part A. Families will only be able to receive FTB Part A for six weeks in a 12 month period whilst overseas.

Currently FTB Part A recipients who are overseas are able to receive their usual rate of payment for six weeks and then the base rate for a further 50 weeks.

Paid parental leave changes

The Government will remove the ability for individuals to double dip when applying for the existing Parental Leave Pay (PLP) scheme, from 1 July 2016.

Currently, individuals are able to access payments from both the Government PLP scheme in addition to any employer-provided parental leave entitlements.

However, the Government has confirmed it will ensure that all primary carers would have access to parental leave payments that are at least equal to the maximum PLP benefit (currently 18 weeks at the national minimum wage).

Cessation of the Low Income Supplement

The Low Income Supplement will be ceased from 1 July 2017. Recipients of most Government payments will continue to receive carbon tax compensation through the Energy Supplement, which provides up to $14.10 per fortnight depending on individual circumstances.

Extension of the Drought Concessional Loan Scheme & Drought Recovery Concessional Loan Scheme for an additional year

The package includes:

- $250.0 million in concessional loan funding to continue the drought-specific concessional loan schemes in 2015-16 — the extension will provide an additional $150.0 million for Drought Concessional Loans and an additional $100.0 million for Drought Recovery Concessional Loans;

- $20.0 million in 2015-16 to extend the access to social and mental health services in communities affected by the drought element of the 2014-15 Budget measure titled *Support to drought affected farmers* — assistance will continue to be delivered through the existing Family Support and Targeted Community Care (Mental Health) programmes within the Social Services Portfolio, with an extension of services to include additional local government areas experiencing severe and prolonged drought; and

- $1.8 million in 2015-16 for an additional ten counsellors to be available to be able to assist farmers through the Rural Financial Counselling Service.

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RETIREMENT PLANNING

Age Pension Changes

Pension asset test changes

From 1 January 2017, the following changes to the pension asset test have been proposed:

- increase the 'asset free areas' for both homeowners and non-homeowners
- increase the asset test taper from $1.50pf to $3pf per $1,000 of assets over the lower threshold.

According to the government the proposed changes will result in some people either completely losing their age pension entitlement or having their entitlement to a part pension reduced. Conversely, other people may see a small increase to their entitlement.

Asset free area changes

The proposed changes to the asset free area (the lower assets test threshold) are:

- For homeowners – the asset free area is proposed to increase from $202,000 to $250,000 for singles and from $286,500 to $375,000 for couples. This represents an increase in the lower assets test threshold of $48,000 and $88,500 for singles and couples respectively.
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- For non-homeowners – the asset free area is increasing from $348,500 to $450,000 for singles and from $433,000 to $575,000 for couples. This represents an increase in the lower assets test threshold of $101,500 and $142,000 for singles and couples respectively.

For those with lower levels of assets, these changes may result in an increased rate of age pension.

The government has also confirmed the comparatively larger increase in the lower assets test level for non-homeowners is in recognition of higher living costs.

Asset test taper

The asset test taper rate (the amount by which a person's pension entitlement decreases under the assets test) is proposed to increase from $1.50pf to $3pf per $1,000 of assets over the lower threshold.

Under these proposed changes the asset test taper rate will return to 2007 levels and will result in a substantial reduction in the upper assets test threshold.

The following table sets out the current and proposed asset test thresholds:

	Current – Lower threshold	Proposed – Lower threshold	Current – Cut-off limit	Proposed – Cut-off limit
Single Homeowner	$202,000	$250,000	$755,500	$547,000
Single Non-Homeowner	$348,500	$450,000	$922,000	$747,000
Couple Homeowner	$286,500	$375,000	$1,151,500	$823,000
Couple Non-Homeowner	$433,000	$575,000	$1,298,000	$1,023,000

Concession cards

The government estimates that approximately 12% of pensioners will lose entitlement to the pension as a result of the changes to the asset test. These people will automatically be issued with a Commonwealth Seniors Health Card, or a Health Care Card for those under pension age.

Previously announced changes to income test free areas and deeming thresholds

Due to the changes in the pension asset test, the government will not proceed with changes to the pension income test free areas and deeming thresholds that were announced in the 2014 Federal Budget.

Strategy Thought

The changes to the pension asset test have a number of important implications for retirement planning:

- Additional retirement savings may be required to fund the shortfall created by reduced pension entitlements.

- Strategies that reduce assessable assets will become more effective.

Currently, for every $1,000 reduction in assessable assets, asset tested pensioners receive an additional $3.90 per fortnight of pension. As a result of the changes, for every $1,000 reduction in assessable assets pensioners will receive an additional $7.80 per fortnight of pension.

Asset test reduction strategies include:
- contributing to superannuation in the name of a spouse under age pension age
- improving the principal home
- gifting within allowable limits
- gifting five years prior to age pension age
- long term annuities with a depleting asset value

Defined benefits scheme income test exclusion capped at 10% from 1 January 2016

From 1 January 2016, the level of income that can be excluded from the pension income test will be capped at 10%. The Government claims an anomaly was unintentionally created in 2007 which allowed some people to exclude a large percentage of their defined benefit income stream from the pension income test. Department of Veterans Affairs pensions and defined benefit pensions paid by military superannuation funds are proposed to be exempt from this measure.

Pension portability reduction after 6 weeks from leaving Australia

From 1 January 2017, those affected by proportional pension portability will have their rate of pension reduced after six weeks from leaving Australia rather than the current 26 week period.

Affected payments include Age Pension, Wife Pension, Widow B Pension and the Disability Support Pension.

People affected by proportional pension portability include those who have less than 35 years Australian Working Life Residence. Australian Working Life Residence refers to the period of time a person has resided in Australia between the ages of 16 and age pension age.

Pensioners overseas at the date of implementation are not affected unless they return to Australia and make a subsequent overseas trip.

Aged Care Changes

Rental income to be included in aged care means tests

New aged care residents who enter aged care from 1 January 2016 will have their rental income from renting out their former home included in the calculation of their means tested amount.

This differs from current rules, where residents who pay some or all of their accommodation payments as periodic payments are entitled to an exemption on the rental income from their former home when calculating their means tested amount for aged care fee purposes.

The Government claims this measure aligns the aged care means testing arrangements between those that pay their accommodation payments as lump sums and those that pay periodic payments.

Funding for home care services for older Australians will be allocated to the consumer based on care needs

From 1 February 2017, Home Care packages will be allocated directly to consumers by the My Aged Care Gateway rather than to service providers through the Aged Care Approvals round.

The My Aged Care Gateway will be responsible for prioritising clients' access to packages at a regional level. This will allow aged care recipients to receive services from a provider of their choice.

In addition, from 1 July 2018 home care arrangements and the Commonwealth Home Support Programme will be consolidated into a single home-based care programme.

Changes to early access to superannuation for people with terminal illness

The Government intends to amend the superannuation conditions of release to make it easier for people suffering a terminal illness to access their superannuation benefits from 1 July 2015.

Under the current rules, a person with a terminal illness can only access their preserved super benefits where they are diagnosed as having less than 12 months to live.

The Government plans to amend the relevant regulations to change the life expectancy period to 24 months. This change will provide people with access to their super savings earlier which may assist with the payment of treatment costs and allow them to make the most of time with their family.

SUMMARY OF MAJOR STRATEGY CONSIDERATIONS

The key strategy consideration coming out of this year's budget is for Age Pension recipients along with those who might receive Age Pension benefits in future years . Careful considerations needs to be had in terms of strategies that will reduce asset test levels. We look forward to discussing this with relevant clients over the course of the next few months.

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 again 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.

This document has been prepared as a brief summary of the 2015 Federal Budget as it impacts on personal finances. It is a publication of A Clear Direction Financial Planning. It contains general financial information. Readers should check this information with a professional financial adviser before acting on any of the material contained in this document.

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