2015 Federal Budget

2015-16 Federal Budget – Customer Briefing

13 May 2015

Welcome to AMP's 2015-16 Federal Budget Customer Briefing.

If you're like most Australians, you're busy paying the bills and saving for retirement, as well as accessing services like healthcare, education, child care and aged care. So how will the budget change the way you live and work on a practical day-to-day level?

Here's a brief round-up of what the budget could mean for your family finances—whether you're starting out in your working life, building a career and family, or enjoying the fruits of your labours in retirement.

But don't forget—the proposals may change or not eventuate at all as legislation passes through parliament.

Social Security

1. Pension assets test thresholds

Proposed effective date: 1 January 2017

The government has announced the following changes to the pension assets tests thresholds:

	Full pension (Assets below)	Part pension (Assets below)
Single – Homeowner	$250,000	$547,000
Single – Non Homeowner	$450,000	$747,000
Couple – Homeowner	$375,000	$823,000
Couple – Non Homeowner	$575,000	$1,023,000

In addition, once you exceed the lower assets test threshold the tapering rate will change from a $1.50 per $1,000 reduction to $3.00 per $1,000.

These changes impact not just the Age Pension but other pensions paid by both Centrelink and Department of Veterans' Affairs such as the Disability Support Pension and the Carer Payment.

Based on the available numbers, we have made the following observations:

- Single pensioners who own their home with assets of less than $289,500 will receive an increased pension. Those with a higher level of assets will receive a reduction.
- Couple pensioners who own their home with assets of less than $451,500 will receive an increased pension. Those with a higher level of assets will receive a reduction.

Note: The above numbers are based solely on the assets test and the upper thresholds are based on an assumed rate of pension payment in 2017.

The budget announcement indicates that people who lose their pensions due to this measure will automatically be issued with a Commonwealth Seniors Health Card or a Health Care Card. At time of writing, there is no further detail as to how this will work or whether any other conditions will be attached to retain the card once it is received.

2. Defined benefit (DB) pensions – deductible amount

Proposed effective date: 1 January 2016

Currently, people with DB pensions receive a deductible amount under the Centrelink income test which is based on the tax-free percentage of their income payments.

The government proposes that the amount of the tax-free proportion that can be excluded from the income test will be capped at 10% of the total value of the pension payment.

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

3. Aged care means testing

Proposed effective date: 1 July 2016

Currently, age care residents who rent out their former home and leave some of their Refundable Accommodation Deposit / Contribution outstanding, have their rental income exempted from the means tested care fee (MTCF) calculation. For residents who enter care from 1 July 2016, this exemption will be removed and the rental income will be counted towards the income component of the MTCF.

The cap on the asset value of the former home (currently $157,051) will continue.

Note: This change will not affect the Centrelink assessment of the rent on the former home for Age Pension purposes. That is, where the home is rented out and there is a Daily Accommodation Payment / Contribution, that rental income will remain exempt.

4. Centrelink measures not proceeding

Proposed effective date: N/A

The following measures announced in the 2014-15 Federal Budget will not proceed:

- Resetting of the deeming thresholds to $30,000 for singles and $50,000 for pensioner couples.
- Freezing of the eligibility thresholds for pension payments for three years from 1 July 2017.

- Pension payments to be indexed by CPI from 1st September 2017. This means that pensions will continue to be indexed to the higher of the increases in the CPI, Male Total Average Weekly Earnings or the Pensioner and Beneficiary Living Cost Index.

Families

5. Reforming childcare payments

Proposed effective date: 1 July 2017

A new single Child Care Subsidy (CCS) will replace the Child Care Benefit, the Child Care Rebate and the Jobs, Education and Training Child Care Fee Assistance.

In addition to the CCS, the government will spend $869 million on the Child Care Safety Net to assist vulnerable, disadvantaged and additional needs children.

The CCS will provide financial assistance to meet the cost of child care for parents engaged in work, training, study or other recognised activity.

Family income ($)*	Maximum percentage (up to the hourly fee cap)
0 – 65,000	85
65,000 – 170,000	Between 50 and 85
170,000 – 185,000	50
185,000+	50 (with annual cap of $10,000 per child)

*Approximate income level in 2017-18 financial year.

The table below outlines the annual caps applicable to various types of care

Type of care	Hourly fee cap
Long day care	$11.55
Family day care	$10.70
Outside school hours care	$10.10

Family eligibility will be determined by an activity test, which aligns hours of subsidised care with the amount of work, training, study or other recognised activity undertaken.

Hours of activity (per fortnight)	Number of hours of subsidy (per fortnight)
8 to 16 hours	Up to 36 hours
17 to 48 hours	Up to 72 hours
49 or more hours	Up to 100 hours

Families with incomes of around $65,000 or less in 2017-18, who do not meet the activity test, will be eligible to receive up to 24 hours subsidised care per fortnight under the Child Care Safety Net.

To be eligible for the CCS, children must attend an approved child care service and meet immunisation requirements. The CCS will be paid directly to providers under these proposed arrangements.

6. Nanny pilot programme

Proposed effective date: 1 July 2016

A proposed Nanny Pilot Programme will provide care for around 10,000 children whose families cannot easily access mainstream services for reasons such as shift work or living in rural and remote areas.

Families with an annual family income of less than $250,000 who meet the programme guideline requirements will be able to express interest in participating in the programme.

Families will receive a percentage (which varies depending on their family income) of the fixed hourly rate of $7.00 per hour per child, at the same assistance rate as proposed under the CCS and with the same activity test. Qualification criteria also apply for nannies wishing to participate in the programme.

7. Removal of “double dipping” on paid parental leave (PPL)

Proposed effective date: 1 July 2016

Currently, eligible parents can receive both:

- government-funded Paid Parental Leave Pay (PPLP) scheme, and
- their employer-provided PPL scheme, if available.

The government has announced that it will remove the ability to “double dip”, by taking payments from both your employer and the government.

The government will ensure that all primary carers would have access to parental leave payments that are at least equal to the maximum PPLP benefit (currently 18 weeks at the national minimum wage).

Superannuation

8. No new taxes on Superannuation

The Treasurer, during the delivery of his Federal Budget speech, confirmed that “there will be no new taxes on superannuation under this Government.

9. Relaxing access to super – terminal medical condition

Proposed effective date: 1 July 2015

Currently, patients must have two medical practitioners (including a specialist) certify that they are likely to pass away within one year to gain unrestricted access to their superannuation.

The government will change this period to two years, giving terminally ill patients earlier access to their super.

Small business

10. Tax cuts for small business

Proposed effective date: 1 July 2015

It is proposed to reduce the tax rate to 28.5% for companies with aggregated annual turnover less than $2 million. Companies with an aggregated annual turnover of $2 million or above will continue to be subject to the current 30% rate on all their taxable income.

The current maximum franking credit rate for a distribution will remain unchanged at 30% for all companies, maintaining the existing arrangements for investors, such as self-funded retirees.

You'll be eligible for a small business tax discount if you receive business income from an unincorporated business that has an aggregated annual turnover of less than $2 million. The discount will be 5% of the income tax payable on the business income received from an unincorporated small business. This discount will be capped at $1,000 per person for each income year and delivered as a tax offset.

Observation:

- The Budget papers suggest that the tax discount for unincorporated businesses may apply not only to sole traders but also include trusts and partnerships.
- 'Aggregated annual turnover' is generally defined as gross sales less GST.

11. Immediate tax deductions for assets under $20,000

Proposed effective date: 7:30pm (AEST) – 12 May 2015

It is proposed to expand accelerated depreciation by allowing small businesses with aggregate annual turnover of less than $2 million to immediately deduct assets that cost less than $20,000.

This will apply for each asset acquired and installed ready for use between 7.30pm (AEST) 12 May 2015 and 30 June 2017. From 1 July 2017, the thresholds for the immediate depreciation of assets will revert back to existing arrangements.

12. Capital Gains Tax (CGT) roll-over relief for business entity restructures

Proposed effective date: 1 July 2016

It is proposed to allow small businesses with an aggregated annual turnover of less than $2 million to change legal structure without attracting a CGT liability at that point. This measure will be available for businesses that change entity type from the 2016-17 income year.

Observation:

- Currently, CGT roll-over relief is available for people who subsequently incorporate, but all other entity type changes have the potential to trigger a CGT liability. This proposal recognises that new small businesses might choose an initial legal structure that they later find does not suit them when the business is more established.

13. Fringe Benefits Tax (FBT) changes for work-related electronic devices

Proposed effective date: 1 April 2016

It is proposed to allow a FBT exemption for small businesses with an aggregated annual turnover of less than $2 million that provide employees with more than one qualifying work-related portable electronic device, even where the items have substantially similar functions.

Observation:

- 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.

14. Immediate deductibility for some business establishment costs

Proposed effective date: 1 July 2015

It is proposed to allow businesses to immediately deduct a range of professional expenses associated with starting a new business, such as professional, legal and accounting advice.

Observation:

- Currently, some professional costs associated with a new business start-up are deducted over a five year period. Allowing start-ups to immediately deduct these expenses will provide needed cash flow for these new businesses.

Taxation – General

15. No change to personal income tax rates

Personal income tax rates for 2015-16:

<table>
<tr><th>Income ($)</th><th>Residents
Marginal Tax Rate (%)*</th><th>Non-Residents
Marginal Tax Rate (%)*</th></tr>
<tr><td>0 – 18,200</td><td>0</td><td rowspan="3">32.5</td></tr>
<tr><td>18,201 – 37,000</td><td>19</td></tr>
<tr><td>37,001 – 80,000</td><td>32.5</td></tr>
<tr><td>80,001 – 180,000</td><td>37</td><td>37</td></tr>
<tr><td>>180,000</td><td>47</td><td>47</td></tr>
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* Excludes Medicare levy but includes Temporary Budget Repair Levy, where applicable.

Note: the Temporary Budget Repair Levy has not been extended beyond 30 June 2017.

16. New cap for certain exempt fringe benefits

Proposed effective date: 1 April 2016

Changes are proposed to meal entertainment fringe benefits provided by tax exempt employers.

Tax exempt employers include Public Benevolent Institutions, health promotion charities, public hospitals and hospitals operated by non-profit organisations and public ambulance services.

A meal entertainment fringe benefit consists of an employer providing or reimbursing expenditure for entertainment by way of food or drink (e.g. restaurant) and/or travel and accommodation expenses associated with the entertainment.

This proposal will cap the amount of such benefits that can be provided by tax exempt employers free of Fringe Benefits Tax (FBT) to $5,000 annually per employee. Meal entertainment expenses packaged in excess of this amount will be subject to full FBT or counted within the existing FBT concession cap.

Employees of these FBT exempt or rebatable employers continue to have access to capped FBT exemptions for a wide range of other benefits.

17. Taxation of Employee Share Schemes (ESS)

Proposed effective date: 1 July 2015

In March 2015, Treasury released draft legislation to amend certain aspects of ESS legislation.

Following consultation, some additional measures have been announced.

The main aim of the amendments are to make it easier for small, start-up businesses to offer non-cash remuneration, i.e. share or option plans with concessional tax treatment. The concession will be extended to unlisted companies that were incorporated less than ten years before the share/right was acquired and have turnover of less than $50 million in the year prior to the ESS interest being acquired.

Observation:

- These measures are designed to make ESSs a more appealing way of remunerating employees and aligning employee interests with those of employers through shared ownership in the business. Some measures are particularly aimed at start-up companies who historically have used option plans to remunerate employees at a time when business cash flow may not be sufficient to sustain appropriate salaries. Current legislation makes it unattractive to offer options as part of an ESS.

18. Increasing Medicare levy low income thresholds

Proposed effective date: 1 July 2014

For the 2014-15 year, the Medicare levy low income threshold will be indexed.

For singles, the threshold will increase to $20,896 and for couples $35,261 plus $3,238 for each dependent child. For single seniors and pensioners the threshold will increase to $33,044.

Taxpayers whose taxable income is below the relevant threshold are not liable for the Medicare levy.

19. Work related car expense tax deductions

Proposed effective date: 1 July 2015

The methods available for calculating work related car expense tax deductions will be rationalised.

This change has no effect on car leasing and salary sacrifice/fringe benefits arrangements.

Currently, there are four methods of claiming work related car expenses.

- Both the '12% of original value method' and one third of actual expenses method' will no longer be available.
- The existing 'cents per kilometer method' will remain, but at a flat rate of 66 cents per kilometer applied to up to 5,000 'business' kilometers – this flat rate replaces three current rates based on engine size. The Australian Taxation Office (ATO) will update the cents per kilometer rate in following years.
- The 'log book method' for claiming deductible car expenses will remain available.