2012-2013 Federal Budget Report

May 2012

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This year's Federal Budget was returned to surplus while ensuring families and small business share in the benefits of the resource boom.

There were a number of announcements with positive and negative impacts on the financial services industry. Previously announced measures will not proceed including the company tax rate cut and the 50% discount on interest income. The higher concessional contributions cap has been deferred and the tax concession for high income earners who make concessional contributions will reduce. Family Tax Benefit A will increase and a new income support payment will commence.

Before any of these announcements can be implemented, they will require passage of legislation.

Taxation measures

Medicare low income thresholds

The Medicare low income thresholds will increase to $19,404 for individuals and $32,743 for families for 2011-12. The additional amount of threshold for each dependent child or student will also increase to $3,007.

The Medicare levy threshold for single pensioners below Age Pension age will increase to $30,451 for 2011-12. This ensures that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

From 1 July 2012, the low income threshold for pensioners below Age Pension age will be fixed at the level applicable to seniors entitled to the Seniors Australian Tax Offset (SATO) as part of the merger of the pensioner tax offset into the SATO, which was announced as part of the Clean Energy Future Plan household assistance package.

Changes to tax rates for non-residents

The personal income tax rates and thresholds that apply to non-residents' Australian income will be adjusted. From 1 July 2012, the first two marginal tax rate thresholds will be merged into a single threshold. The marginal rate for this threshold will align with the second marginal tax rate for residents (32.5%) and will apply to all taxable income below $80,000.

A non-resident with Australian taxable income of $80,000 is currently subject to tax of $23,630. This will increase to $26,000 ($80,000 x 32.5%) from 1 July 2012.

From 1 July 2015, the same marginal rate will rise from 32.5% to 33% (again aligning it with the second marginal rate for residents at that time).

Changes to the net medical expenses tax offset

A means test will be introduced for the net medical expenses tax offset (NMETO) from 1 July 2012.

For people with adjusted taxable income above the Medicare levy surcharge thresholds ($84,000 for singles and $168,000 for couples or families in 2012-13), the threshold above which a taxpayer may claim NMETO will be increased to $5,000 (up from $2,060 currently) and indexed annually and the rate of reimbursement will be reduced to 10% (down from 20%) of eligible out of pocket expenses.

Those with income below the surcharge thresholds will be unaffected.

This offset is very valuable for clients in aged care facilities with a tax liability as the majority of aged care fees qualify as eligible medical expenses.

Mature age worker tax offset

The mature age worker tax offset (MAWTO) will be phased out from 1 July 2012 for taxpayers born on or after 1 July 1957. Access to the MAWTO will be maintained for taxpayers who are 55 or older in 2011-12.

The maximum offset of $500 is currently available for mature age workers with net income from working between $10,000 and $53,000.

Dependency tax offsets consolidated into one

The Government will consolidate eight dependency tax offsets into a single, streamlined and non-refundable offset that is only available to taxpayers who maintain a dependant who is genuinely unable to work due to carer obligation or disability from 1 July 2012.

The offsets to be consolidated are the invalid spouse, carer spouse, housekeeper, housekeeper (with child), child-housekeeper, child-housekeeper (with child), invalid relative and parent/parent-in-law tax offsets.

Standard work related deduction

The Government has announced it will not proceed with the standard deduction for work-related expenses which was announced in the 2010-11 Budget.

Schoolkids Bonus

The existing Education Tax Refund (ETR) for school expenses will be replaced with a 'Schoolkids bonus' from 1 January 2013. Each year, families will receive a Schoolkids bonus worth $410 for each primary school child and $820 for each child in high school.

The payment will be automatic and paid upfront, twice a year, in January and July. This means that parents will not have to keep receipts to receive a payment as with the current ETR system. The bonus will be available to families receiving Family Tax Benefit Part A and young people in school receiving Youth Allowance and some other income support payments.

For 2011-12, the ETR will be paid to all eligible families as a lump sum payment in June ahead of time, meaning that parents will not have to keep receipts or make claims in their tax return this year.

50% discount for interest income

The 50% tax discount for interest income announced in the 2010-11 Budget will not proceed. The measure was to provide a 50% tax discount on up to $1,000 of interest earned.

Removal of capital gains tax discount for non-residents

The 50% capital gains tax (CGT) discount will no longer be available for non-residents on capital gains accrued after 7.30pm on 8 May 2012. The CGT discount will remain available for capital gains accrued prior to this time where non-residents choose to obtain market valuations of assets as at 8 May 2012.

Capital gains tax and loss relief to facilitate super reforms

Amendments will be made to ensure income tax considerations do not prevent mergers of superannuation funds or transfers of existing default members' balances and relevant assets in the transition to Stronger Super and MySuper.

From 1 June 2012 to 1 July 2017, optional loss relief will be available for mergers of complying super funds on the same terms and conditions as the former temporary loss relief that applied from 24 December 2008 to 30 September 2011, with some exceptions, including an optional roll over for capital gains and appropriate integrity provisions.

From 1 July 2013 to 1 July 2017, an optional roll-over and loss relief will also be made available for capital gains and losses on mandatory transfers of default members' balances and relevant assets to a MySuper product in another complying superannuation fund.

Capital gains tax – broadening the exemptions for certain compensation payments and insurance policies

Minor extensions to the CGT exemptions for certain compensation payments and insurance policies will be made with effect from 2005-06. The measure will disregard CGT consequences where a taxpayer receives compensation, damage or certain insurance proceeds indirectly through a trust. This will ensure that the taxpayer has the same CGT outcome as a taxpayer who receives such proceeds directly.

It also ensures that insurance policies owned by super funds that were treated as being CGT exempt prior to the 2011-12 Budget changes to compensation payments and insurance policies, continue to be CGT exempt.

Company tax cut

The proposed measure to lower the company tax rate from 2013-14 (to 29%) and to implement an early start to the company tax rate cut from 2012-13 (to 28%) for small business will not proceed.

The Government has been unable to progress this measure through the Parliament and will direct some of the savings to a loss carry back arrangement for companies.

Company loss carry-back

Companies will be allowed to 'carry back' their tax losses so they receive a refund against tax previously paid. Currently, businesses are only able to carry forward their tax losses to offset future profits and reduce future tax liabilities.

From 1 July 2012, companies will be able to carry back up to $1 million worth of losses to get a refund of tax paid in the previous year. From 1 July 2013, companies will be able to carry back up to $1 million worth of losses against tax paid up to two years earlier. This will provide a cash benefit of up to $300,000 a year.

This will be available to companies and entities that are taxed like companies and apply to their revenue losses only.

The government will release a discussion paper on this measure shortly.

Business instant write-off

From 1 July 2012, small business will be able to immediately deduct the cost of any new business asset costing less than $6,500 for as many assets as they purchase. Businesses will also be able to write-off assets costing $6,500 or more in a single pool (15% in the year they are purchased and 30% in each subsequent year).

From 1 July 2012, small businesses will be able to instantly write off the first $5,000 of the cost of a new or used motor vehicle.

Increase in managed investment trust final withholding tax rate

The managed investment trust final withholding tax rate will be increased from 7.5% to 15% from 1 July 2012. This reverses a 2009-10 Budget decision to lower the tax rate from 30% to 7.5%.

Superannuation measures

Deferral of higher concessional contributions cap

The start date of the higher concessional contributions cap will be deferred by two years, from 1 July 2012 to 1 July 2014.

Under the higher concessional contributions cap measure, individuals aged 50 and over with superannuation balances below $500,000 will be able to make up to $25,000 more in concessional contributions than allowed under the general concessional contributions cap.

For 2012-13 and 2013-14, all individuals will be able to make concessional contributions of up to $25,000 as permitted under the general concessional contributions cap. In 2014-15, the general cap is likely to increase to $30,000 through indexation, and the higher cap would then commence at $55,000.

Reduction of higher tax concession for concessional contributions of very high income earners

From 1 July 2012, individuals with income greater than $300,000 will have the tax concession on their concessional contributions reduced from 30% to 15% (excluding the Medicare levy).

The definition of 'income' for the purpose of this measure includes taxable income, concessional contributions, adjusted fringe benefits, total net investment loss, target foreign income, tax-free Government pensions and benefits, less child support.

If an individual's income excluding their concessional contributions is less than the $300,000 threshold, but the inclusion of their concessional contributions pushes them over the threshold, the reduced tax concession will only apply to the part of the contributions that are in excess of the threshold.

'Concessional contributions' for the purpose of this measure include employer contributions (superannuation guarantee and salary sacrifice contributions) and personal contributions for which a deduction has been claimed. For members of defined benefit funds (funded and unfunded), it will include notional employer contributions.

The reduced tax concession will not apply to concessional contributions which exceed the concessional contributions cap and are therefore subject to 'excess contributions tax'.

Employment termination payment tax offset

From 1 July 2012, only that part of an affected employment termination payment (ETP), such as a golden handshake, that takes a person's total annual taxable income (including the ETP) to no more than $180,000 will receive the ETP tax offset.

Amounts above this whole-of-income cap will be taxed at marginal rates. The whole-of income cap will complement the existing ETP cap ($175,000 in 2012-13, indexed) which ensures that the tax offset only applies to amounts up to the ETP cap.

The ETP tax offset ensures that ETPs up to the ETP cap are taxed at a maximum tax rate of 15% for those over preservation age and 30% for those under preservation age. Existing arrangements will be retained for certain ETPs relating to genuine redundancy (including to those aged 65 and over), invalidity, compensation due to an employment-related dispute and death.

Social Security measures

Liquid assets waiting period

From 1 July 2013, the maximum reserve amount will increase for the liquid assets waiting period for recipients of particular income support payments. Liquid assets are assets in the form of cash or those which can be easily converted into cash, including shares and term deposits.

A single person without dependents will now have an increased maximum reserve amount of $5,000, while a person who is a member of a couple and/or has a dependent child will now have an increased maximum reserve amount of $10,000. The change will affect applicants for Newstart Allowance, Youth Allowance, Sickness Allowance and Austudy payments.

New income support supplement

Commencing on 20 March 2013, an ongoing, non-taxable payment will be made to recipients of Newstart Allowance, Sickness Allowance, Youth Allowance, Austudy, ABSTUDY, Special Benefit, Parenting Payment Single, Parenting Payment Partnered, Transitional Farm Family Payment and the Exceptional Circumstances Relief Payment to assist with the cost of living pressures.

The new supplement will provide $210 per annum for eligible singles and $175 per annum for each member of an eligible couple. The supplement will be paid in two instalments, in March and September each year.

Australian working life residency

From 1 January 2014, Age Pension recipients who are overseas for more than 26 weeks will be paid their maximum entitlement of pension only if their Australian Working Life Residence (AWLR) is 35 years or more, rather than 25 years as applies under current arrangements. Pension recipients with less than 35 years AWLR will be paid a proportional rate.

Pensioners overseas on the date of implementation will not be affected by this change unless they return to Australia for at least 26 weeks. In addition, all partnered pensioners residing overseas will be paid based on their own AWLR rather than their partner's AWLR.

Portability of Australian Government payments

From 1 January 2013, the period of time that people who travel overseas will continue to be paid will be reduced from 13 to 6 weeks for most income support and family payment recipients.

Beneficiaries who are outside Australia on the date of implementation will retain the 13 week portability of their payments until they return to Australia. The Age Pension will be excluded as it can be paid overseas indefinitely, once certain criteria are met.

Some payments such as Parenting Payment and Family Tax Benefit also have a requirement which means that the portability period is not reset until the person has returned to Australia for a period of 13 weeks. This return period will also be reduced to six weeks.

This measure affects the following payments and benefits: Disability Support Pension, Parenting Payment, Carer Payment, Carer Allowance, Widow B Pension, Wife pension, Widow Allowance, Partner Allowance, Youth Allowance (student), Austudy, Mobility Allowance, Telephone Allowance, Pension Supplement, Utilities Allowance, Seniors Supplement, Clean Energy Supplement, Low Income Supplement, Concession Cards, Family Assistance, and Paid Parental Leave. Family Tax Benefit Part A payments above the base rate will be reduced to the base rate after 6 weeks of a temporary absence from Australia.

Change to age of eligibility for Family Tax Benefit Part A

From 1 January 2013, the eligibility for Family Tax Benefit (FTB) Part A will be limited to young people under 18 years of age or, where a young person remains in secondary school, the end of the calendar year in which they turn 19.

Individuals who no longer qualify for FTB Part A may be eligible to receive Youth Allowance subject to usual eligibility requirements.

Increasing the rate of Family Tax benefit Part A

From 1 July 2013, the maximum payment rate of FTB Part A will increase by $300 per annum for families with one child and $600 per annum for families with two or more children.

For families receiving the base rate of FTB Part A, the increase will be $100 per annum for families with one child and $200 per annum for families with two or more children.

Aged Care measures

Means testing

From 1 July 2014, a new income test will be introduced for Home Care packages. Under these arrangements, full pensioners will not pay any income-tested care fee, while part-pensioners will contribute up to a maximum of $5,000 a year, and self-funded retirees up to $10,000 a year, for their care. Care recipients will continue to pay a basic fee of up to 17.5% of the basic Age Pension.

From 1 July 2014, income and assets tests will be combined to strengthen the means testing arrangements that currently apply to residential care. An annual cap of $25,000 will apply to care contributions in residential care. Care recipients will continue to pay a basic fee, currently up to 84% of the basic Age Pension.

Aged care recipients will not contribute more than the cost of their care. In addition, a lifetime cap of $60,000 will be applied to both home care and residential care contributions. The lifetime and annual caps will be indexed.

Residents in permanent care in an aged care home as at 30 June 2014 and all respite residents will not be affected by these changes.

Few details have been provided on how this new test will apply but it appears that aged care fees will increase for part pensioners and self-funded retirees. However, as income will continue to be assessed under Centrelink rules, annuity strategies will still be relevant to minimise fees.

Accommodation supplement

From 1 July 2014, for aged care homes that are newly built or significantly refurbished from 20 April 2012, the maximum rate of the accommodation supplement will be increased from $32.58 to $50.00 a day (in current prices). In addition, all residents entering permanent residential aged care from 1 July 2014 will have the choice to pay for their accommodation through a fully refundable lump sum payment, periodic payments, or a combination thereof.

Providers of residential aged care services will be required to insure any accommodation bonds that they hold for residents entering care on or after 1 July 2014.

A capped number of aged care places that will allow residents to purchase higher level amenities and hotel-type services will be released. The Government component of the extra services fee will be abolished for residents who enter care after 1 July 2014.

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