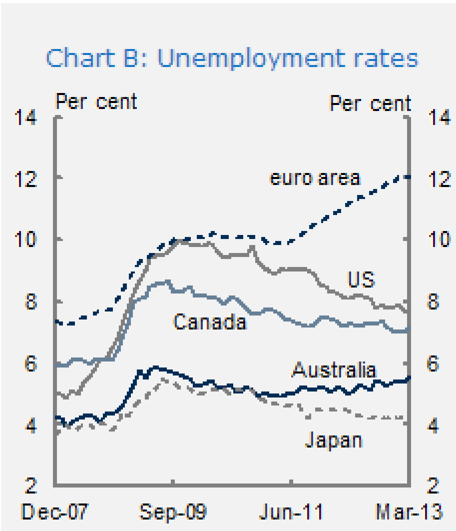
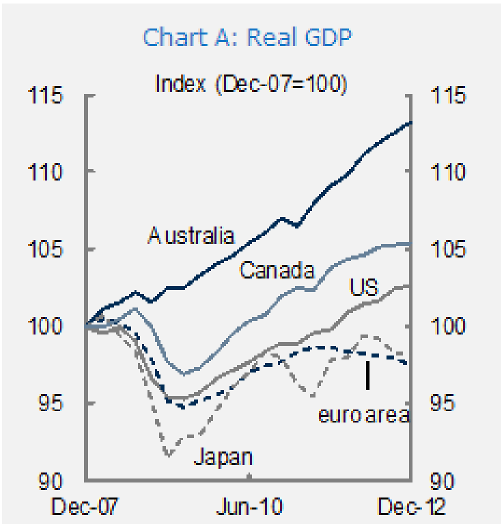
Hub Budget Summary 2013

With only four months until the Federal election, a growing deficit and a series of “disappointments” over new mining and carbon taxes, this was always going to be a difficult budget for Treasurer Wayne Swan. Most of the measures outlined had already been announced or rumoured – superannuation announcements were only a re-stated the proposals outlined in April. There were many small measures, and a broad outline of an approach to bring the budget back into surplus over time.

Economic Assumptions and Outlook

The charts below provide some useful global context. Australia’s overall economic performance has been relatively sound compared to major western economies. It is also worth noting that a budget deficit of $19.4 billion for this financial year amounts to 1.3% of Australian GDP – very modest by current international standards. The future difficulty for the economy will be the transition out of the resources-led investment boom into broader growth.



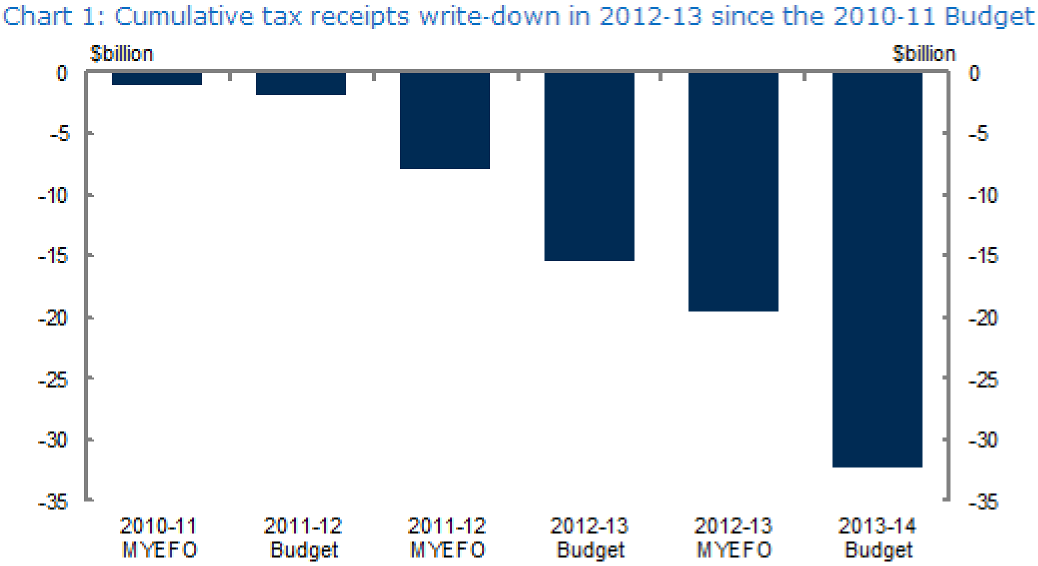


Source: Budget Paper Number 2; Treasury

Overall, the budget forecasts a reasonable economic outlook. That includes:

- Economic growth: projected 2.75% next year, then 3%
- Terms of Trade: expected to fall by 1.75%
- Unemployment: expected to average 5.75% next year
- Business investment: to grow 5% from current record levels, but falling from 2015
- Global economic growth: 3% expected next year
- Home building: to grow 5% for each of the next 2 years after 0.5% this year.
- Prices for iron ore are projected to fall from the current $120 per tonne to $100, while coal prices are forecast to remain steady.

The table below from the Budget Papers is one of many that highlight the inaccuracy of previous budget forecasts. In this instance, tax collections have been significantly below expectations. Key factors behind that have included a slowing in the mining boom, changed spending patterns after the GFC, and the continuing strength of the Australian dollar against other currencies.



Source: Treasury Budget Papers

From an investment perspective, the interesting elements in the forecasts include ongoing moderate growth, low unemployment, terms of trade stable in the short-term but reducing considerably over the next 20 years, and moderate inflation. All of this would be broadly positive for investors.

Superannuation

There were no new measures announced in the budget, after the previous reform announcements made in April (please refer to our April "Superannuation Reform Proposals Summary"). The budget confirmed these announcements, including:

- Taxing earnings** in pension phase that exceed $100,000 p.a. at the superannuation tax rate of 15% (NB capital gains taxed at 10%). Further, pension assets purchased before 5 April 2013 will only be subject to capital gains after July 2024.
- Increasing concessional contributions caps from $25,000 to $35,000 from July for those 60 and over, and from July 2014 for those 50 and over.
- Deeming account-based pensions under the Social Security Assets Test (see Social Security changes below).
- Minimum pension drawing levels return to normal from the current reduced levels. People drawing at the minimum level from pension accounts will receive higher pension payments in 2013/14.
- Confirmation of additional 15% tax on concessional contributions for people earning over $300,000 per year. This is to apply from July 2012; draft legislation was released recently.

**It is important to note that the earnings limit would only apply to realised gains and income, not the total return.

Tax Planning Considerations

Personal Tax Rates Remain Unchanged

Tax cuts previously announced to apply from 2015 have been deferred. The tax rates remain:

Income Level	Tax Rate %
$0 - $18,200	0
$18,201 - $37,000	19%
$37,001 - $80,000	32.5%
$80,001 - $180,000	37%
$180,000 and over	45%

Medicare Levy and Threshold Increases

The Government confirmed previous announcements that it will increase the Medicare Levy from 1.5% to 2% from July 2014 to provide funding for DisabilityCare Australia.

The Medicare Levy low income threshold increases to $20,542 for individuals and $33,693 for families from 2012/13. The threshold for pensioners eligible for Seniors and Pensioners Tax Offset rises to $33,279.

The increased Medicare Levy increases the attractiveness of salary sacrifice super contributions, which pay a maximum 15% contributions tax and no Medicare Levy.

Net Medical Expenses Tax Offset (NMETO) to be Phased Out

Currently, net out-of-pocket medical expenses over $2,120 are subject to a 20% tax offset. NMETO will continue to apply for taxpayers who have expenses relating to disability aids, attendant care or aged care expenses until July 2019. From July 2013, taxpayers who claimed NMETO in 2012/13 will continue to be eligible.

If you needany elective surgery, it may be more tax-effective to have it done before 30 June 2013.

Cap on Self-Education Expenses

From July 2014, there is proposed to be a cap of $2,000 on self-education expenses that can be claimed as a tax deduction. However, there is no change to the employer FBT exemption for such expenses.

The strategy here seems to be to incorporate before undertaking significant self-education.

Social Security Changes

Encouragement to Downsize Home for Pensioners

From July 2014, the proposal is to undertake a three-year trial for pensioners who may wish to downsize their home. The family must have lived in the home for 25 years, with at least 80% of any excess sale proceeds (to a maximum of $200,000) deposited into a special account. Funds in this account will be exempt from pension means testing for up to 10 years as long as there are no withdrawals.

Deeming of New Income Streams from 1 January 2015

Deeming will apply for social security incomes test purposes to account-based pensions purchased from 1 January 2015. All existing accounts will be exempt indefinitely.

Currently, account-based pensions are favourably treated compared to other assets. For anyone expecting to receive future Age Pension, it will be a very good reason to purchase an account-based pension prior to 2015.

Replacement of the Baby Bonus

From 1 March 2014, the Baby Bonus will be replaced by an increase in Family Tax Benefit Part A (RTBA) for those eligible – a family test of Adjusted Taxable Income applies. Payment will be $2,000 in the year following birth/adoption of a first child, and $1000 for second and subsequent children.

Aged Care – Accommodation Bond Insurance

The Government will defer the requirement for providers of residential aged care to insure accommodations bonds they hold for residents entering their care until July 2014.

Negotiations are continuing with insurance providers. The Government will continue to guarantee all bonds in the interim.

Ending of Discount on HECS-HELP and Voluntary HELP Repayment Bonus.

The Government will remove the 10% discounts applying to up-front and 5% discount for voluntary payments made under the Higher Education Loan Programme (HELP) from January 2014.

Various Changes to Family Payments

A variety of minor changes to payments for Family Tax Benefits were announced. These include reduced ability to access Family Tax Benefit Part A (FTBA) if overseas, and no increase to the payment level for FTBA (was scheduled to rise from July 2013)

More Information?

For more information on what any of these changes may mean for you, please speak to the team at Hub Wealth or send us an email.

Phone us on 02 9279 3400
www.hubwealth.com.au

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