Hub Wealth 2014 Budget Summary 14 May 2014

In one of the more highly anticipated Federal Budgets, the Government announced a variety of measures aimed at improving the projected deficit without impacting too much on economic growth.

Note: **These changes are proposals only and may or may not become law.**

Summary – Contribute and Build

Some of the various "**contributions**" include:

- A Temporary Budget Repair Levy of 2% will be payable on taxable incomes over $180,000 p.a. for the next three financial years.
- The Dependent Spouse and Mature Age Worker Tax Offsets will be abolished from 1 July 2014.
- The Age Pension age will gradually increase to 70 from 2025.
- A range of changes to Family Tax Benefit – Part A and B will reduce the number of people who are eligible and, for some, lower the entitlements.
- The Commonwealth Seniors Health Card thresholds will be indexed from 20 September 2014 and the definition of income will be expanded.
- Changes to HELP debts will increase the amount payable, and payments may need to be made at lower income levels.

Some areas of "**building**" include:

- No adverse changes to superannuation tax, access or pension rules to maintain the status of super/pension strategies as Australia's most tax-effective options for most individuals.
- A new Paid Parental Leave scheme will commence from July 2015, paying a maximum $50,000.
- Establishment of a Medical Research Future Fund of up to $20 billion from potential health savings.
- An $11.6 billion Infrastructure Growth Package, including new money for national highways and western Sydney infrastructure.
- A fundamental change in the roles of state and federal Governments, with the states to be responsible in the future for funding the education and healthcare under their control. Estimated federal government savings of over $80 billion through to 2024/25 will need to be offset by new state revenue measures – such as an increased/broadened GST.

Our focus in this summary is on the budget measure most likely to have a direct impact on Hub Wealth clients.

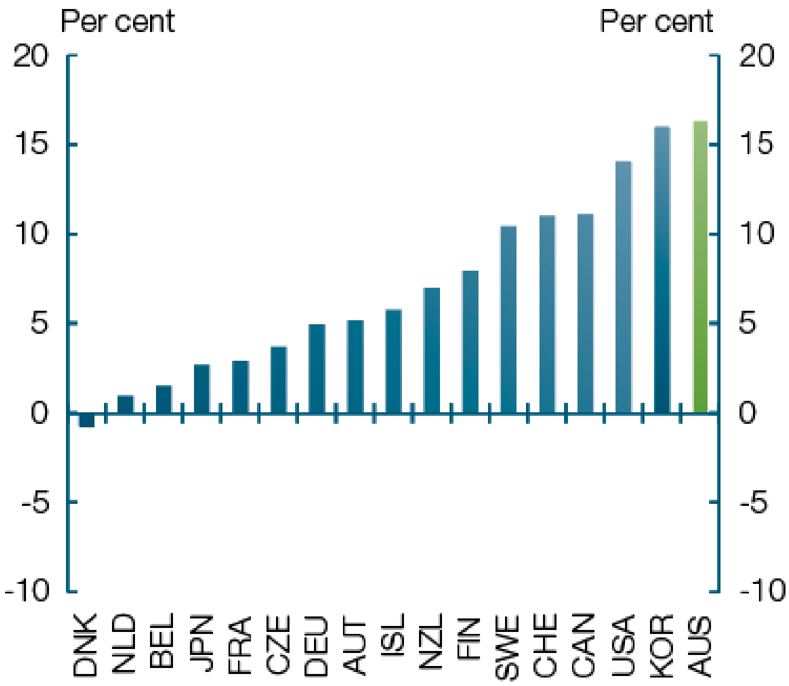
Economic Assumptions and Outlook

The budget papers and a quick review of those from previous years again emphasise the importance of the assumptions made. In 2012, assumptions included 3.75% inflation, 3.5% growth and an ultimate surplus of $1.5 billion for 2012/13. Our update then suggested this was optimistic, and so it proved to be. Commodity prices fell significantly, growth was lower, tax revenue was substantially lower (slower growth, less from carbon and mining taxes substantially hit tax revenue).

This also reflects our tax mix: we tax income much more than production or consumption. Wastage of the benefits of the commodity boom by successive governments is also clear: the additional revenue was spent on "middle-class welfare" and continued tax cuts, rather than any long-term strategy to address fundamentals of genuine investment for the future. Therefore, as tax revenue declined, spending was left at elevated levels.

The Government emphasises the growing fiscal debt, which will be exacerbated with the natural impact of an ageing population over time if left unchecked. This is illustrated in the chart below.

Increase in Spending Growth 2012-2018 (Source IMF and Budget Papers)



At the same time, it is fair to point out that our current position of debt as a proportion of GDP is among the best in the world. The budget appears to acknowledge the risk to economic growth in avoiding substantial net cuts to spending and increases in tax. Therefore, there is only a 2.1% reduction in budget spending over the 4 years to 2017/18.

This budget assumes economic growth of 4% in 2013/14, falling to 3% in 2014/15. Unemployment is predicted to increase to 6.25% in 2015, inflation to be 2.5% and wages growth 3%. The terms of trade (a measure of the relative prices for exports and imports) are forecast to continue to decline, falling by 6.75% in 2014/5 due to falling iron ore prices partly offset by rising LNG export prices. Workplace participation is also expected to fall slightly, to 64.5% in 2015.

Source: Access Economics, TD Securities

Potential Investment Implications

There remains considerable risk associated with the budget: the assumptions made, and the successful passage of legislation through the Senate in particular. A cut to company tax, reduced Government debt and retention of the AAA credit rating should all be general positives for investment. The absence of further “tinkering” in superannuation will also help. However, as always, global events will have a significant impact on growth and therefore tax/debt.

Some potential implications include:

- Projected lower debt may enable the Reserve Bank to retain interest rates at current low levels, or even cut further

- Lower interest rates may also assist the Australian dollar to fall against other currencies, which would be a positive for international assets owned by Australians.

- A very clear expectation that there will be a need to broaden/increase the GST in future to enable the states to fund the cost of education and hospitals that had previously been a federal funding responsibility. While an issue for the next election, it potentially has implications for consumer businesses in particular.

Personal Taxation

There is no change to the current personal marginal tax rates, as set out below.

Taxable Income	Tax on this Income
The first $18,200	Nil
$18,201 - $37,000	19c for each $1 over $18,200
$37,001 - $80,000	$3,572 plus 32.5c for each $1 over $37,000
$80,001 - $180,000	$17,547 plus 37c for each $1 over $80,000
$180,001 and over	$54,547 plus 45c for each $1 over $180,000

Medicare levy low income threshold will be increased to taxable income of $34,367. Medicare levy is payable at the rate of 2% of taxable income in 2014/15 (legislated after the 2013 budget).

Temporary Budget Repair Levy for higher earners

Date of effect: 1 July 2014

A Temporary Budget Repair Levy of 2% will be payable on taxable incomes over $180,000 p.a. for the next three financial years. This levy will effectively increase the top marginal tax rate to 49%, (including the Medicare levy) until 30 June 2017.

Comment

The levy applies to taxable income, so strategies to reduce taxable income may be relevant for these people. Potential examples include salary sacrificing to superannuation for those earning $180,000 to $300,000, sheltering income in company structures or insurance bonds. Care needs to be taken when selling assets or taking superannuation lump sums for those under age 60.

Increase to Fringe Benefits Tax

Date of effect: 1 April 2015

In line with the introduction of the Temporary Budget Repair Levy, the FBT rate will increase by 2% to 49% for three FBT years from 1 April 2015.

Comment

For nine months, the FBT rate will continue to be lower than the highest personal marginal tax rate. This may result in increased use of FBT and salary packaging arrangements.

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Tax offsets to be abolished

Date of effect: 1 July 2014

The Dependent Spouse and Mature Age Worker Tax Offsets are currently being phased out. The phase out will cease and the 2013/14 tax year will be the last year in which these offsets will be available.

Indirect Tax – Indexation of Fuel Excise

Date of effect: 1 August 2014

Fuel indexation will be re-introduced from 1 August 2014, increasing biannually with inflation.

Comment

This will not be popular with many, although the Greens have indicated support. In reality, if the increase is 2c per litre and you drive 20,000 km per year, the total additional cost from this measure is estimated to be approximately $50 p.a.

Higher Education Loan Programme (HELP) debt changes

Date of effect: 1 June 2016 and 1 July 2016

HELP debts will accrue interest at the 10 year Government bond rate from 1 June 2016, subject to a maximum rate of 6%. Currently, HELP debts are indexed to the Consumer Price Index. In addition, from 1 July 2016, HELP debts will start to be repayable from a lower income level.

Superannuation

There were **no changes** made to proposed contribution caps, tax rates, access or pension accounts. This was in line with the Government's "no adverse change" promise. The contribution levels for 2013/14 and 2014/15 remain as summarised below.

Concessional Superannuation Contribution Rates

This includes SGC, salary sacrifice and personal deductible contributions.

Changing Concessional Cap	2012/13	2013/14	2014/15
General concessional cap	$25,000	$25,000	$30,000
Concessional cap – aged over 49 to 59	$25,000	$25,000	$35,000
Concessional cap – aged over 59	$25,000	$35,000	$35,000

The normal rate of tax is 15% on these contributions, with **people earning over $300,000 are subject to an additional 15% contributions tax.**

Non-concessional Superannuation Contribution Rates

No immediate tax benefit is claimed, and no contributions tax is payable.

Under Age 65	Over Age 65
The "bring forward" rule is available to use up to 3 years of non-concessional contribution entitlements in one year.	From July 2014, the limit becomes $180,000 per financial year after meeting the work test (currently $150,000 limit).

Excess non-concessional contribution withdrawals
Date of effect: 1 July 2014

Individuals who make contributions exceeding their non-concessional contribution cap from 1 July 2013 will have the option to withdraw the excess amount, plus earnings on the excess.

No tax will be payable on the excess amount withdrawn. However, withdrawn earnings will be taxed at the individual's marginal tax rate.

Revised Superannuation Guarantee rate increase
Date of effect: 1 July 2014

While the Superannuation Guarantee (SG) rate will still increase to 12%, the schedule for this increase will be amended. The Government confirmed that the legislated increase to 9.5% will take effect on 1 July 2014. It is proposed that the rate will remain at 9.5% for four years and from 1 July 2018, it will increase by 0.5% pa, before reaching 12% on 1 July 2022.

Comment: this is in line with previous indications from the Government, but the "freeze" on SG increase is nonetheless disappointing at a time when the age for Age Pension access is being pushed out to age 70.

Social Security

Increase in Age Pension age to 70

Date of effect: 1 July 2014

The Age Pension age will increase to 67.5 from 1 July 2025. It will then continue to rise by six months every two years, until the pension age reaches 70 by 1 July 2035. People born before 1 July 1958 will not be affected by this change.

Currently, the Age Pension age is due to increase from 65 starting on 1 July 2017, and gradually reach 67 by 1 July 2023.

Age Pension eligibility age by birth date	
People born between	**Eligible for Age Pension at age**
1 July 1952 and 31 December 1953	65.5
1 January 1954 and 30 June 1955	66
1 July 1955 and 31 December 1956	66.5
1 January 1957 and 30 June 1958	67
1 July 1958 and 31 December 1959	67.5
1 January 1960 and 30 June 1961	68
1 July 1961 and 31 December 1962	68.5
1 January 1963 and 30 June 1964	69
1 July 1964 and 31 December 1965	69.5
1 January 1966 and later	70

Comment

While the policy aims to encourage people to work longer, and reflects the “ageing population” theme, there reality is that there will be a gap for many people between retirement and any access to Age Pension. This will require sensible planning and potentially additional saving. However, the maximum age to access superannuation remains at 60.

Increasing cost of medical care

Date of effect: 1 July 2015

A patient contribution of $7 may be charged from 1 July 2015, for general practitioner consultations and out-of-hospital pathology and diagnostic imaging services.

Holders of concessions cards and children under 16 years of age can only be charged for the first 10 visits in a year. Visits beyond the first 10 will require no patient contribution.

Comment

It will be interesting to see how the net benefit from this initiative is assessed. It may be counter-productive if people hold off visiting a Doctor until their issues are heightened and need more care.

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Family Tax Benefit changes

Date of effect: various

A number of amendments have been announced in relation to eligibility and payment rates for the Family Tax Benefit (FTB), and associated supplements and allowances.

Payment rates

From 1 July 2014, the maximum and base rates of the FTB Part A and B will be frozen until 1 July 2016. The FTB Part A and B end of year supplements will be reduced from 1 July 2015. The supplements will reduce from:

- $726.35 to $600 for FTB Part A, and
- $354.05 to $300 for FTB Part B.

Eligibility thresholds

The FTB Part A per child add-on, which currently increases the higher income free threshold for each additional child, will be removed from 1 July 2015.

Under existing arrangements, a family may qualify for FTB Part B if the primary income earner has income up to $150,000 pa. This will be reduced to $100,000 pa from 1 July 2015.

Eligibility FTB Part B

From 1 July 2015, payment of FTB Part B will be limited to families whose youngest child is under the age of six. Families already in receipt of FTB Part B, whose youngest child is aged six or over on 30 June 2015 will remain eligible for FTB Part B under the transitional measures for two years.

Other changes

From 1 July 2015, a new Family Tax Benefit Allowance will be made available to single parents receiving the maximum rate of FTB Part A, whose youngest child is aged 6 to 12. This will apply from the time they become ineligible for FTB Part B. An additional payment of $750 will be paid for each child aged 6 to 12.

Commonwealth Seniors Health Card (CSHC)

Indexation of Income Thresholds for CSHC

Date of effect: 20 September 2014

The income thresholds for eligibility for the Commonwealth Seniors Health Card (CSHC) will be indexed from 20 September 2014 to the Consumer Price Index. Indexation may allow additional people to become eligible for this card.

Changes to income definition for CSHC

Date of effect: 1 January 2015

The CSHC allows self-funded retirees to gain access to medicines listed on the Pharmaceuticals Benefits Scheme at concessional rates, plus other benefits. To be eligible, current thresholds are adjusted taxable income (ATI) of $50,000 if single, or $80,000 for a couple.

The definition of income for the CSHC will be expanded. From 1 January 2015, the income from superannuation pensions will be assessed using pre-determined rates not the actual income earned. Income from these pensions is currently not included in the definition of income. Grandfathering rules will apply to those already holding the CSHC.

Comment

"Grandfathering" means that this measure will not impact people with existing account-based pensions as at 1 January 2015. For potential new claimants after that time, people with significant account-based pensions and/or income from government pensions or foreign schemes will be significantly impacted.

Cessation of the Seniors Supplement

Date of effect: 20 September 2014

From 20 September 2014, the Seniors Supplement will no longer be payable to holders of the CSHC. However, holders of the card will still receive the Clean Energy Supplement. The current annual rates of Seniors and Clean Energy supplements are:

Payment	Single	Couple (each)
Seniors Supplement	$876.30	$660.40
Clean Energy Supplement	361.40	$273.00

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Spending and Investment Initiatives

Reduction in Company Tax
Date of Effect: 1 July 2015

The company tax rate reduces from 30% to 28.5% from 1 July 2015.

Comment

This also means that the value of franking credits from Australian share dividends will fall. There may be an effort from companies with surplus franking credits to pay higher dividends in 2014/15. The reduced company tax rate is to offset for the cost of the Government's Paid Parental Leave Levy (below) for companies with earnings over $5 million (see below).

Establishment of Medical Research Future Fund
Date of Effect: 1 January 2015

The MRFF is proposed to provide additional funding for medical research. Investments will be managed by the Future Fund, with a target capital level of $20 billion. This is to be funded from savings generated by budget health reforms, starting with the transfer of $1 billion from the Health and Hospitals Fund.

Paid Parental Leave Scheme

Date of effect: 1 July 2015

Mothers will receive up to 26 weeks of salary up to a cap of $100,000 p.a. – a maximum of $50,000 over a six-month period. The scheme is funded by a 1.5% levy on companies earning over $5 million.

Comment
This is "watered down" from the proposed $150,000 original cap proposal after widespread opposition.

New Subsidy for Hiring Australians Aged 50 or More

Date of effect: 1 July 2014

This new subsidy, Restart, is to encourage businesses to employ Australians aged 50 or more who have been on income support for at least six months. Employers may receive up to $10,000 over 24 months in Government assistance.

Comment
The Mature Age Worker Tax Offset is abolished from 1 July 2014, with savings directed to the Restart programme.

More Information

Please don't hesitate to contact the Hub Wealth Management team if you would like to discuss your own circumstances and portfolio with us.

Please call us on 02 9279 3400 or email us through our website at www.hubwealth.com.au

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