Australian Federal Budget

What does it mean for you?

2015/16

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WEALTH ACCOUNTANTS

Bringing it together

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Green shoots and the foundations for growth

But enough to prosper?

When interest rates were cut to record lows last week, Treasurer Joe Hockey said “There are many green shoots in the Australian economy, this interest rate cut will help facilitate these green shoots”. He encouraged businesses to borrow and invest and suggested consumers do the same by spending.

Green shoots and optimism were also broadly the theme for the Budget. However, the national accounts tell a different story. With unemployment at 6.5% and economic growth at 2.75%, a sluggish economic trajectory seems likely. To counter this, the Government handed down a Budget that is expansionary in nature, complementing an already expansionary monetary policy to kick-start business investment and consumer spending.

This Budget sets government expenditure at 25.9% of GDP, which is higher than all the Budgets of Joe Hockey’s predecessors, bar one. It marks a lurch from austerity and paying down Government debt to big spending stimulus. What remains a huge challenge for the Government is how this change in tack can be achieved while maintaining a credible path back to surplus.

It seems the Government hopes that the green shoots will lay the foundations for economic growth - and lots of it. Without it, the credible path to surplus is unlikely. The Budget assumes that economic growth will ratchet up to 2.75% next year, then to 3.25% and 3.5% in the following years. Exactly how this will be achieved without a mining boom nudging it along is not clear.

To achieve this economic growth, business and consumer confidence must improve. Whether the measures outlined in the Federal Budget achieve this goal remain to be seen.

The background

Storm clouds are gathering in the Australian economy with spending and investment constrained and recession a possibility. Political scars have been meted out to the Government by the electorate’s reception of the previous Budget and the leadership spill attempt earlier this year.

These events have been the catalyst for a sea change in the Government’s rhetoric. The negative ‘debt and deficit’ narrative of last year has shifted to an ebullient tone, highlighting the positives in an attempt to lift both consumer and business confidence.

The centrepiece of Federal Budget 2015-16 is the $5.5 billion small business package which is a clear, old fashioned Keynesian stimulus measure.

Key revenue measures affecting families include the removal of the ability for employees whose employer offers a paid parental leave to ‘double dip’, and the linking of child care support and Family Tax Benefit Part A to compulsory immunisation under a ‘no jab, no pay’ rule.

Superannuation again escaped significant change, with the Government confirming its promise to avoid imposing new taxes. However, substantive changes were again announced for Australia’s Age Pensioners. These have been justified in terms of the ongoing challenges posed by an ageing population.

It’s always important to remember that virtually all measures announced will still need legislation to be introduced, and will be required to pass through Parliament, so the final version of the measures may differ to the announcements made in the Budget.

With a multitude of announcements made and the uncertainty around the process of when these may become law, it has never been more important to seek expert advice that is specific to your situation. This is the only way to have confidence in the decisions you make about your financial future.

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Individuals

The majority of individual taxpayers escape significant change in Budget 2015-16. Changes are generally confined to particular types of taxpayers such as non-residents and Family Tax Benefit (FTB) recipients. There are some changes that should be reviewed for employees that utilise salary sacrifice arrangements.

Benefit recipients

The Medicare levy low-Income thresholds for singles, families and single seniors and pensioners will be increased from the 2014/15 income year. Families will no longer be eligible for subsidised child care or the FTB Part A end-of-year supplement unless their child is up-to-date with all childhood immunisations.

The ability for individuals to access government assistance in the form of the existing Parental Leave Pay (PLP) scheme, in addition to any employer-provided parental leave entitlements, will be removed, from 1 July 2016 (see below).

The FTB Part A large family supplement will cease from 1 July 2015 and from 1 January 2016, families will only be able to receive FTB Part A for six weeks in a 12-month period while they are overseas (see also below).

Foreigners working in Australia

From 1 July 2016, the tax residency rules will be changed to treat most people who are temporarily in Australia for a working holiday as non-residents for tax purposes, regardless of how long they are here.

From 1 July 2015, the zone tax offset will exclude ‘fly-in fly-out’ and ‘drive-in drive-out’ (FIFO) workers where their normal residence is not within a ‘zone’.

FBT, salary sacrifice arrangements and work related deductions

The Fringe Benefits Tax (FBT) exemption for portable electronic devices used primarily for work purposes will be expanded from 1 April 2016. A separate, single grossed-up cap of $5,000 will be introduced for salary sacrificed meal entertainment and entertainment facility leasing expenses (meal entertainment benefits) for employees of not-for-profits.

The methods of calculating work-related car expense deductions will be modernised from the 2015/16 income year with a choice of only the cents per kilometre or logbook method available. A static rate of 66c per kilometre will be available regardless of engine size.

Goods and Services Tax (GST)

Offshore supplies of services and intangibles to Australian consumers will be subject to GST from 1 July 2017. This change will result in supplies of digital products, such as streaming or downloading of movies, music, apps, games, e-books as well as other services such as consultancy and professional services receiving similar GST treatment whether they are supplied by a local or foreign supplier.

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Families

The major changes for families include significant reform to the child care system and changes to means tests for access to government benefits.

Reforming the Child Care system

From 1 July 2017 a new single child care subsidy will replace the current Child Care Benefit, Child Care Rebate and Jobs, Education and Training Child Care Fee Assistance Programme. It will be based on a percentage of the actual fee paid, up to a maximum hourly fee cap for each service type, with the level of subsidy based on family income. The subsidy is proposed to be up to 85% of the actual fee paid for families earning around $65,000, tapering down to 50% for families earning $170,000 or more. Families earning around $185,000 or more will have a $10,000 annual cap on the total amount of assistance provided per child per year.

In 2017-18, the hourly fee caps will be set at:
- $11.55 for Long Day Care;
- $10.70 for Family Day Care; and
- $10.10 for Outside School Hours Care.

From 1 July 2018, the income threshold for the maximum subsidy rate will be indexed to the Consumer Price Index (CPI).

To be eligible for the Child Care Subsidy, children must attend an approved child care service and meet immunisation requirements. Eligibility for the Child Care Subsidy will be determined by an activity test that closely aligns the hours of subsidised care with the amount of work, training, study or any other recognised activity such as volunteering by parents.

Child Care Safety Net

Families with at least one parent not currently undertaking recognised activity, can access up to 24 hours of subsidised care per fortnight under the Child Care Safety Net. This will be available to those earning around $60,000 or less in 2017-18.

Further top up fee assistance through the Additional Child Care Subsidy for:
- children who are at risk of serious abuse or neglect;
- families experiencing temporary financial hardship; and
- families transitioning to work from income support.

Simplifying Family Means testing

The Government will align the eligibility criteria for FTB Part A and youth income support payments, by removing the Family Assets Test and the Family Actual Means Test from 1 January 2016.

The Government will also apply a single Parental Income Test where a family receives both Youth Allowance and FTB Part A.

From 1 January 2017, a Maintenance Income Test will be introduced for dependent children receiving individual income support payments. This test will apply to that child only and not include other child support amounts provided in relation to other children in the family. The same Maintenance Income Test already applies to FBT Part A.

Changes to waiting periods and qualification for some allowances

The Government will exclude new claimants of Widow Allowance from the One Week Ordinary Waiting Period. All claimants of Newstart Allowance, Sickness Allowance, Parenting Payment and Youth Allowance (Other) will be required to wait one week before receiving payment, unless the claimant is exempt or the waiting period is waived. Current rules will be tightened for waivers for financial hardship.

The age of eligibility for Newstart Allowance and Sickness Allowance will increase from 22 to 25 years of age, from 1 July 2016. Current recipients of Newstart Allowance and Sickness Allowance, aged 22 to 24 years of age on 30 June 2016, will remain on those allowances.

From 1 July 2016, the Government will require young people under 25 years of age without significant barriers to employment to actively seek work for a four week waiting period before receiving income support payments.

Early School Leavers and New Start access

From 1 January 2016, all early school leavers will be required to actively look for work if they are not in full time education or a combination of education and part time work of 25 hours per week. Early school leavers will also be required to meet their activity requirements of 25 hours per week until they turn 22 or have achieved a Year 12 or Certificate III qualification.

Additionally, from 1 July 2016, the Government will extend the ‘no show no pay’ principle to missed appointments and activities like ‘work for the dole’, to encourage positive job seeker behaviour and compliance.

Job seekers who fail to undertake adequate job search will be subject to income support payment suspension until they demonstrate genuine job search efforts. These job seekers would also no longer be able to have the financial penalty waived by agreeing to undertake a compliance activity.

A fairer HELP scheme

From 1 January 2016, Higher Education Loan Programme (HELP) repayment thresholds will be assessed on worldwide income. Graduates living and working overseas will be required to make compulsory repayments. The measure will apply to new and existing HELP debts. Debtors going overseas for more than six months will have to register with the ATO, those already overseas will have until 1 July 2017 to register.

Pensions

For the second year running, substantive changes were reserved for Australia’s Age Pension system where the ongoing challenge of an ageing population again warranted additional tinkering. While last year had been predominantly centred around income test/means testing revision, this year focuses on significant assets test alterations.

Aged care received some small changes following the substantive overhaul the system had recently received.

Increasing the Age Pension asset-free threshold

The Government will increase the Age Pension assessable asset-free thresholds to $250,000 and $375,000 (couple) for homeowners and $450,000 and $575,000 (couple) for non-homeowners, from 1 January 2017, with a pensioner’s main residence continuing to be exempt from being counted under the assets test.

Increasing the Age Pension taper rate

From 1 January 2017 the Government will increase the Age Pension taper rate, being the rate at which the Age Pension reduces as the amount of assessable assets increase over the asset-free threshold, from $1.50 to $3 per $1,000 of assessable assets. This will cause a corresponding reduction in the amount of Age Pension that a part pensioner is likely to receive, as well as reducing the level of assessable assets at which the Age Pension will cut out.

The Age Pension Indexation to remain in line with AWOTE

The Government will no longer change the manner in which the pension increases each year. Indexation will continue to increase in line with the higher of CPI, Pensioner and Beneficiary Living Cost Index and the Male Total Average weekly earnings rather than increase in line with inflation which was a proposal of the 2014 Federal Budget.

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Aged Care changes

The Government has announced, from 1 January 2016, it will align aged care means testing arrangements for residents who pay their accommodation costs by periodic payments with the arrangements that currently apply to those residents who pay via a lump sum. This will remove the rental income exemption under the aged care means test for aged care residents who are renting out their former home and paying their aged care accommodation costs by periodic payments. Existing protections such as annual fee caps and lifetime fee caps remain.

From 1 February 2017, funding will be allocated to the consumer based on their care needs. This will allow consumers greater choice in deciding who provides their care and increase competition among providers.

Superannuation

The Superannuation system again escaped significant change, with the Government confirming its promise to avoid imposing new taxes upon the system.

Lost and unclaimed superannuation changes

The Government will implement a package of measures that will reduce red tape for superannuation funds and individuals by removing redundant reporting obligations and by streamlining lost and unclaimed superannuation administrative arrangements. The changes will make it easier for individuals to be reunited with their lost and unclaimed superannuation. The measures will have effect from 1 July 2016.

Reversal of unclaimed savings and life insurance proceeds

The Government will restore the time before unclaimed money in savings accounts and life insurance policies are transferred to the Government from three years to seven years, reversing the changes made in 2012.

Children’s bank accounts will also be exempt to ensure funds put aside in these accounts will never be transferred to the Government.

Improving release of superannuation on terminal illness grounds

Currently, patients must have two medical practitioners (including a specialist) certify that they are likely to die within one year to gain unrestricted tax free access to their superannuation balance. From 1 July 2015, the Government will change this period to two years. This will give terminally ill patients earlier access to their superannuation.

Capping the deductible amount for defined benefits incomes

From 1 January 2016, the level of income from defined benefit superannuation that can be excluded from the pension income test will be capped at 10%.

This measure mainly affects former public sector employees. Department of Veterans Affairs Pensions and defined benefit income streams paid by military superannuation funds are exempt from this measure.

Business

The centre piece for the 2015-16 Budget is the $5.5 billion small business package.

Small business (generally annual turnover of less than $2 million)

The single biggest change is the huge immediate write-off available to businesses that purchase capital equipment. The rules will be changed so that the threshold below which small businesses can claim an immediate deduction for the cost of assets will be temporarily increased from $1,000 to $20,000. This will apply to assets purchased after Budget night until 30 June 2017. However business owners need to bear in mind that legislation has not yet passed so it is wise to consult your tax advisor before making large scale acquisitions.

The tax rate for companies with an aggregated annual turnover of less than $2 million will be reduced by 1.5% (i.e. from 30% to 28.5%) from the 2015/16 income year. Business owners with companies need to be aware that there could be significant transitional issues associated with this change – in particular in relation to franking accounts and effective tax rates. Again, consult your tax advisor before deciding on your 2015 dividend policy.

To counter concerns that the Government is discriminating against unincorporated businesses, the Budget contains a 5% tax discount for individual taxpayers with business income from an unincorporated business with an aggregated annual turnover of less than $2 million. However, the 5% tax discount is capped at $1,000 thereby providing only a token recognition for those unincorporated businesses. This change will be introduced from the 2015/16 income year.

The current five year write off for start-ups for professional fees associated with creating the legal structure for their business will also be able to claim an immediate deduction from the 2015/16 income year for these expenses and other measures to encourage start-ups and entrepreneurship will be introduced.

Capital Gains Tax (CGT) relief will be available to small businesses for any CGT liability arising from restructuring their business from the 2016/17 income year. Currently this relief is only available when incorporating, but will now be available when changing to any structure such as a trust.

Farmers

All primary producers will be able to immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills for income years commencing on or after 1 July 2016. Primary producers will also be allowed 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. Currently, the effective life for fences is up to 30 years, water facilities is three years and fodder storage assets is up to 50 years.

Big business

A targeted multinational anti-avoidance law will be introduced into the general anti-avoidance provisions of the Income Tax Assessment Act 1936. This law will extend Part IVA of the ITAA 1936 and intends to counter the erosion of the Australian tax base by multinational entities using artificial or contrived arrangements to avoid the attribution of business profits to a taxable permanent establishment in Australia.

In addition, the maximum administrative penalties that can be applied by the Commissioner to large companies that enter into tax avoidance and profit shifting schemes will be doubled. This measure will only apply to companies with global revenue of $1 billion or more.

A voluntary corporate disclosure code will also be developed to facilitate greater compliance with the tax system. To further combat multinational tax avoidance, the Government will tackle treaty abuse in its treaty practices, consult on the development of anti-hybrid rules, exchange information with other countries on harmful tax practices, and further fund the ATO's profit-shifting investigations.

Transfer pricing

The Organisation for Economic Co-operation and Development's (OECD's) new transfer pricing documentation standards will be implemented from 1 January 2016.

Under the new documentation standards, the ATO will receive the following information on large companies that operate in Australia:

- a country-by-country report showing information on the global activities of the multinational, including the location of its income and taxes paid;
- a master file containing an overview of the multinational's global business, its organisational structure and its transfer pricing policies, and
- a local file that provides detailed information about the local taxpayer's intercompany transactions.

Together, these reports will provide the ATO with a global picture of how multinational entities operate, assisting it to identify multinational tax avoidance.

Based on Commonwealth of Australia data

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