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Federal Budget briefing

9 May 2012

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Last night's Federal Budget contained a number of proposals that will impact the financial planning industry.

Importantly, these proposals will require passage of legislation before they are implemented.

Further, the Government also announced that it would no longer proceed with a range of previously announced (but not legislated) proposals including:

- The reduction in the corporate tax rate
- The 50% tax discount for interest income, and
- The standard deduction to be allowed when individuals claim work related expenses in their tax return.

Superannuation

1. Deferral of higher concessional contributions cap for over 50s

Proposed start date: 1 July 2014

The Government will defer the start date of the higher concessional contributions cap for over 50s from 1 July 2012 to 1 July 2014.

Under this 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 standard $25,000 concessional contributions cap.

The two-year deferral means that all individuals, regardless of age, will be subject to the $25,000 concessional cap for the 2012/13 and 2013/14 financial years.

It is expected that from 1 July 2014 the $25,000 cap will likely have increased to $30,000 through indexation. Accordingly, the higher concessional contributions cap for over 50s with superannuation balances below $500,000 would then commence at $55,000.

2. 30% superannuation contributions tax for incomes above $300,000

Proposed start date: 1 July 2012

Individuals with incomes greater than $300,000 will have their superannuation contributions tax doubled to 30% from 1 July 2012.

The definition of 'income' for this measure will include taxable income, concessional superannuation contributions, adjusted fringe benefits, total net investment loss, target foreign income, tax-free government pensions and benefits, less any child support payments.

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, then only that part of the contributions in excess of the threshold will be subject to the higher contributions tax.

For example, someone with an income (excluding their concessional contributions) of $285,000 and concessional contributions of $20,000 (taking their total income to $305,000), would only have the 30% contributions tax applied to $5,000 of their contributions.

The higher contributions tax will not apply to concessional contributions which exceed the concessional contributions cap, as they are effectively taxed at the top marginal tax rate.

Further, the 15% tax on earnings within superannuation (and tax exemption for assets supporting pension payments), will not be affected by this change.

Treasury will consult with the superannuation industry and other relevant stakeholders on further design and implementation details.

Taxation

Personal tax measures

1. Personal tax rates

Applying from 1 July 2012 (already legislated)

Tax scales[1]	Current 2011/12		2012/13		2015/16	
	Threshold ($)	Marginal Rate (%)	Threshold ($)	Marginal Rate (%)	Threshold ($)	Marginal Rate (%)
1st Rate	6,001	15	18,201	19	19,401	19
2nd Rate	37,001	30	37,001	32.5	37,001	33
3rd Rate	80,001	37	80,001	37	80,001	37
4th Rate	180,001	45	180,001	45	180,001	45
Low Income Tax Offset (LITO)	Up to $1,500	4% withdrawal rate on income over $30,000	Up to $445	1.5% withdrawal rate on income over $37,000	Up to $300	1% withdrawal rate on income over $37,000
Effective tax- free threshold[2]	16,000		20,542		20,979	

1 Excludes Medicare levy/Flood levy (2011/12 only)

2 Includes the effect of the tax-free threshold and LITO

Notes/Key points:

- The tax-free threshold will initially increase from $6,000 to $18,200 and, according to the Government, will free up to one million low-income earners from needing to lodge a tax return from 2012/13.
- The LITO will initially be reduced from $1,500 to $445.
- The combined effect of the higher statutory tax-free threshold and the LITO is that the effective tax-free threshold will initially rise to $20,542. This means individuals will be able to earn up to $20,542 from 2012/13 without paying any net income tax.

2. Increasing Medicare levy low income threshold

Proposed start date: 1 July 2011

The Government will increase the Medicare levy low income thresholds to $19,404 (up from $18,839) for individuals and $32,743 (up from $31,789) for families, with effect from 1 July 2011. The additional amount for each dependent child or student will also increase to $3,007 (up from $2,919).

The Medicare levy threshold for single pensioners below Age Pension age will also be increased to $30,451, with effect from 1 July 2011.

3. Net medical expenses tax offset

Proposed start date: 1 July 2012

The Government will introduce a means test for the net medical expenses tax offset 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 the tax offset will be increased to $5,000 (indexed annually thereafter) and the rate of reimbursement will be reduced to 10% of eligible out of pocket expenses incurred.

People with income below the surcharge thresholds will be unaffected.

4. Consolidation of dependency offsets

Proposed start date: 1 July 2012

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 having a 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.

The new consolidated offset will be based on the highest rate of the existing offsets it replaces, resulting in an increased entitlement for many of those eligible for this measure.

Taxpayers who are currently eligible to claim more than one offset amount in respect of multiple dependants who are genuinely unable to work will still be able to do so.

5. Mature age worker tax offset phase out

Proposed start date: 1 July 2012

The Government will phase out the mature age worker tax offset from 1 July 2012 for taxpayers born on or after 1 July 1957. Access to the offset will be maintained for taxpayers who are aged 55 years or older in 2011/12.

6. Limiting the employment termination payment tax offset for golden handshakes

Proposed start date: 1 July 2012

The employment termination payment (ETP) tax offset ensures that the taxable component of an ETP up to the ETP cap amount ($175,000 in 2012/13) is taxed at a concessional rate (a maximum tax rate of 15% for those over preservation age and 30% for those under preservation age). The amount in excess of the ETP cap amount is taxed at the top marginal rate.

This tax treatment is to continue for certain ETPs relating to genuine redundancy (including to those aged 65 and over), invalidity, compensation due to an employment-related dispute, and death.

However, where the ETP is not paid due to these circumstances, for example where it is a golden handshake payment, the tax offset will from 1 July 2012 be potentially reduced.

Only that part of the ETP cap amount that takes a person's total annual taxable income (including the ETP) to no more than $180,000 will receive the ETP tax offset and concessional tax treatment. Amounts above this $180,000 total income cap will be taxed at marginal rates with no offset.

Business tax measures

1. Corporate loss 'carry- back'

Proposed start date: 1 July 2012

The Government will provide new business tax relief with a loss carry-back initiative to help companies improve their cash flow.

Currently, taxpayers are only able to carry forward their tax losses to offset future profits and reduce future tax liabilities. This new initiative will allow companies to also "carry back" their losses to offset past profits and get a refund of tax previously paid on that profit.

A one year loss carry-back will apply in 2012/13, where tax losses incurred in that year can be carried back and offset against tax paid in 2011/12. For 2013/14 and later years, tax losses can be carried back and offset against tax paid up to two years earlier.

Companies will be able to carry back up to $1 million of losses each year – providing a cash benefit of up to $300,000 a year.

The measure will apply to revenue losses only and will be limited to a company's franking account balance.

2. Broader CGT exemptions for compensation payments and insurance policies

Proposed start date: Backdated to 1 July 2005

The Government will make minor extensions to the CGT exemptions for certain compensation payments and insurance policies, with effect from the 2005/06 income year.

CGT will not apply where a taxpayer receives compensation, damages, 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.

Non-resident tax measures

1. Changes to personal tax rates for non-residents

Proposed start date: 1 July 2012

The Government will adjust the personal income tax rates and thresholds that apply to non-residents' Australian income.

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.

From 1 July 2015, the same marginal rate will again rise from 32.5% to 33%.

2. Removal of the capital gains tax discount for non-residents

Proposed start date: 8 May 2012

The Government will remove the 50% capital gains tax (CGT) discount for non-residents on capital gains accrued after 7.30 pm (AEST) on 8 May 2012.

The CGT discount will remain available for capital gains accrued prior to this time where non-residents choose to obtain a market valuation of assets as at 8 May 2012.

This measure essentially impacts non-residents with taxable Australian real property (eg real estate in Australia).

3. Increase in managed investment trust final withholding tax rate

Proposed start date: 1 July 2012

The Government will increase the managed investment trust final withholding tax rate from 7.5% to 15%, with effect from 1 July 2012.

Social Security and Aged Care

Liquid Assets Waiting Period (LAWP) – increase in the amount of allowable assets

Proposed start date: 1 July 2013

From 1 July 2013, the Government is proposing to increase the amount of assets that a claimant can have before they are affected by the LAWP. Under the proposal, a recipient will be affected by LAWP if their liquid assets equal:

- $5,500 or more for an individual who is not a member of a couple and does not have a dependent child
- $11,000 or more for an individual who is a member of a couple and/or has a dependent child.

New Income Support Supplement

Proposed start date: 20 March 2013

From 20 March 2013, recipients of the following benefits will receive an additional payment in the form of a new Income Support Supplement:

- Newstart Allowance
- Sickness Allowance
- Youth Allowance
- Austudy
- Abstudy
- Special Benefit
- Parenting Payment
- Transitional Farm Family Payment
- Exceptional Circumstances Relief Payment.

The new supplement will provide $210 per annum for 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.

The new Income Support Supplement is proposed to be paid to eligible recipients in addition to any payments received under the Clean Energy Household Assistance Package.

Tightening of the overseas portability rules

Proposed start date: 1 January 2013

Under the current rules, most income support and family payment recipients can travel overseas for a period of up to 13 weeks and continue to receive their benefits. If their absence is greater than 13 weeks, a benefit may be paid at a reduced rate or cancelled. From 1 January 2013, the Government proposes to reduce this period from 13 weeks to 6 weeks.

The maximum rate of Family Tax Benefit Part A will be restricted to the base rate for temporary absences greater than 6 weeks.

Tightening of Age Pension overseas portability rules

Proposed start date: 1 January 2014

Age Pension recipients either living or travelling overseas are subject to a different set of portability rules to those mentioned above.

An Age Pension recipient can be absent from Australia for an indefinite period of time. However, if the recipient is absent for greater than 26 weeks, the maximum payment rate is calculated with reference to their Australian Working Life Residence (AWLR) and usual means testing.

From 1 January 2014, an Age Pension recipient will be required to have residence of 35 years (up from 25 years) between the age of 16 and their pension age – in order to be eligible to receive the maximum rate of pension (subject to usual means testing).

In addition, all partnered pensioners residing overseas will be paid on their own AWLR rather than their partner's AWLR.

Grandfathering provisions will protect existing customers who are currently being paid under an international agreement.

Aged Care

The Government is proposing a range of significant reforms in aged care. The details of the proposed 'Living Longer. Living Better' reform package were released on 20 April 2012. For more information go to **www.health.gov.au.**

1. Changes to means testing

Proposed start date: 1 July 2014

The Government is proposing a range of changes to means testing of both home care and residential aged care recipients.

1.1 Home care package recipients

Home care package recipients will be asked to pay a new means tested care fee in addition to the existing basic fee. Care recipients with total income less than the maximum income level for a full pensioner will not be asked to pay a care fee.

Care recipients with total income greater than the maximum income level for a full pensioner, but less than the maximum income level for a part pensioner will have their care fee calculated as 50% of their total income above the relevant threshold, up to an annual cap amount of $5,000 (indexed).

Care recipients with total income greater than the maximum income level for a part pensioner, will have their annual care fee equal to $5,000 (indexed) plus 50% of their total income above the relevant threshold. The annual cap amount for these recipients is $10,000 (indexed) per annum.

The Government is also proposing a lifetime cap of $60,000 (indexed) on all care fees.

1.2 Residential aged care recipients

The Government proposes a single means test for people entering care after 30 June 2014. This new test will combine the current income and asset tests. Residents who can afford to will pay a means tested contribution comprising of:

- a basic fee of up to 85% of the single basic pension (currently $15,364 per annum),
- a means tested contribution to their accommodation, and
- a means tested contribution to their care ('the care fee').

There will be protection measures in place for people with low income or asset levels. People who do not fall into this category will be asked to pay the maximum. The maximum means tested contribution will be as follows (based on 2012 thresholds):

- 50% of income above the income threshold plus
- 17.5% of the value of assets between $40,500 and $144,500 plus
- 1% of the value of assets between $144,500 and $353,500 plus
- 2% of the value of assets above $353,500.

A maximum cap of $25,000 per annum (indexed) and a lifetime cap of $60,000 (indexed) will apply to a resident's contribution towards their care costs.

Contributions that residents may have made as recipients of home care packages will be taken into account in calculating their lifetime care expenditure.

2. Other proposed measures

Among other proposals, the Government is also looking to:

- develop an aged care gateway that will provide a single point of contact to access aged care services. This includes establishing a My Aged Care website, a call centre and developing a common assessment process for accessing aged care services
- ensure that all residents who enter care after 1 July 2014 have the choice to pay for their accommodation through a refundable lump sum payment, periodic payments, or a combination of the two, and
- significantly increase the total number of residential places and home care packages over the next five years and beyond.

Families

Changes to Family Tax Benefit Part A

1. Change to age of eligibility

Proposed start date: 1 January 2013

Currently, Family Tax Benefit Part A is generally available to families who have a dependent full-time student under 21 years of age.

The Government is proposing to limit availability of Family Tax Benefit Part A to:

- children under 18 years of age, or
- where a child remains in secondary school – until 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, provided that they meet the usual eligibility criteria.

2. Increasing the maximum rate

Proposed start date: 1 July 2013

The Government is proposing to increase the maximum payment rate of Family Tax Benefit Part A 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 Family Tax Benefit Part A, the proposed increase is $100 per annum for families with one child and $200 per annum for families with two or more children.

Replacing the Education Tax Refund with a Schoolkids Bonus

Proposed start date: 1 January 2013

Under the current rules, the Education Tax Refund (ETR) is a refundable tax offset available to families who receive Family Tax Benefit Part A.

The Government proposes abolishing the ETR and replacing it with a new Schoolkids Bonus. The Schoolkids Bonus will be paid to eligible recipients in two equal instalments in January and July each year.

Every family with a child at school will receive $410 per annum for each primary school student and $820 per annum for each secondary school student.

The new Schoolkids Bonus will be available to families with children enrolled and attending school who are in receipt of:

- Family Tax Benefit Part A (FTB A), or
- other qualifying income support payments or allowances under a prescribed educational scheme that precludes the family from receiving FTB A.

The Government also proposes that as a transitional measure, the ETR in 2011/12 will be replaced by a one-off lump sum payment to eligible families in June 2012. This payment will be made automatically to eligible families.

For more details on any of the above information and the implications for your clients, please contact the AXA Technical Services team on 1800 644 644 or AMP TapIn team on 1300 300 651.

Important information

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10568-05-12E

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