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Second edition 2015

What's in the Budget for you?

The Treasurer, Mr Joe Hockey, has delivered his much anticipated second Federal Budget – a responsible budget about fairness, families and small business that encourages Australia to 'get out there and have a go'.

Key points include:

- Introduction of GST on digital goods purchased overseas.
- Generous new tax concessions for small businesses.
- Changes to the age pension assets test.
- Simplified child care subsidy framework and a cap on all forms of paid parental leave.

We've summarised some of the key points from the Federal Budget, but note that these are subject to the passing of legislation. Please call us to discuss any of these points in more detail.

Superannuation

There are no changes to superannuation at this stage. However, the Government does plan to consider super as part of a broader review of retirement incomes. In fact, this review started in March this year, with the Treasurer releasing a tax discussion paper called Re:think. In the second half of this year, the Government will issue a green paper covering tax options in superannuation and retirement incomes. And, ahead of the 2016 election, they will put forward a white paper for the public to consider.

Taxation

Personal tax

There was no significant changes to personal tax, however if you buy digital goods and services from overseas, such as e-books, games, movies or music as well as consultancy and legal services, the Government plans to close the GST loophole and you will need to pay GST on overseas digital purchases.

Also, if you use your car for work, the method to calculate this as a work-related expense is being simplified. If you choose not to use the log book method, the 'cents per kilometre' method will be a flat rate of 66 cents per kilometre (irrespective of the size of your car).

Small business

The Government wants to ensure that Australians are in a good position to start and grow a small business. Some of the positive changes for small business owners with an annual turnover under $2 million include:

- A tax rate reduction – the current 30 per cent tax rate will reduce to 28.5 per cent. And, small unincorporated businesses eg sole traders, partnerships and trusts will receive a five per cent tax discount.
- An immediate tax deduction for all assets under $20,000. This is effective from 12 May 2015 to 30 June 2017 to help small businesses invest in new tools or machinery.
- The ability to change legal structure without attracting a capital gains tax. This is to help small business owners who choose an initial legal structure that they later find does not suit them when the business is more established.
- A fringe benefits tax exemption when providing employees with more than one qualifying work-related portable electronic device, effective from 1 April 2016.

Effective 1 July 2015, new business start-ups will also be allowed an immediate deduction for a range of professional services such as professional, legal and accounting expenses associated with starting a new business. Currently, some professional costs associated with a new business start-up are deducted over a five year period.

Primary producers

If you are a primary producer, you will be able to bring forward deductions on capital expenditure for fencing and water facilities such as dams, tanks and bores.

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Centrelink and other Government benefits/payments

Age pension asset test changes

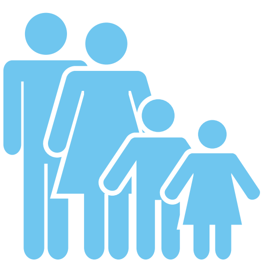
From 1 January 2017, the assets test threshold for those eligible to receive the **full age pension** will increase from $286,500 to $375,000 for couples (and from $202,000 to $250,000 for singles). This means more Australians will be eligible for the full age pension.

However, the upper threshold for those eligible to receive a **part age pension** will decrease from $1,151,500 to $823,000 for couples (and from $775,500 to $547,000 for singles). This means that some retirees who were once able to receive a part age pension may no longer be eligible to receive the age pension from the Government. On a positive note, those who lose their age pension will be guaranteed eligibility for the Commonwealth Seniors Health Card.

Note: if you are no longer eligible for the age pension, this may affect the income assessment of your account-based pension and your eligibility for the Pension Bonus Scheme. If you believe you may be affected, it's important that you contact us.

Also, the taper rate for the assets test, which determines how much age pension you receive, will be reduced by $3 a fortnight for every $1,000 of assets you own over the full age pension threshold.

The proposed changes are intended to reduce access to the age pension for wealthy seniors and to protect pensioners with lower levels of assets. The Government has kept its commitment, however, to continue to exclude the family home from the assets test.



Child Care Subsidy

The Government proposes to make early childhood care simpler, more affordable, accessible and flexible, especially for families in need.

The first proposal is to remove the Child Care Benefit and Child Care Rebate and introduce a single means tested Child Care Subsidy for all families.

The Child Care Subsidy will be 85 per cent of the child care fee (or a benchmark price, whichever is lower) per child. If your family has an income of over $170,710, the subsidy will be 50 per cent of the actual fee or benchmark price.

The good news for higher income families is that a cap of $10,000 per child will be established for incomes over $185,710.

To give families and service providers time to adjust to the new model, the introduction of the new arrangements will start in July 2017.

Parental leave – double dipping

The Government has also announced removing the double-dipping for parental leave payments.

Currently, you are able to access both the Government's parental leave pay scheme as well as any parental leave entitlements that are provided by your employer.

From 1 July 2016, all primary carers would have access to parental leave payments that are at least equal to the maximum parental leave pay benefit of 18 weeks at the national minimum wage.

Pension portability

From 1 January 2017, the period during which recipients of the age pension, Wife Pension, Widow B Pension and the Disability Support Pension can be absent from Australia will be reduced from 26 weeks to six weeks. This is only applicable to pensioners who have lived in Australia for less than 35 years.

Defined benefit schemes

From 1 January 2016, if you are a member or defined benefit superannuation scheme, eg a public sector fund such as the Commonwealth Super Scheme, the amount of superannuation income that you can exclude from the Centrelink income test will be capped at ten per cent.

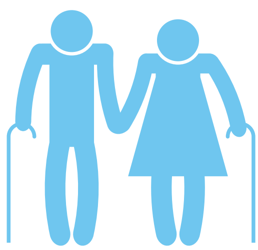
Recipients of Veterans' Affairs pensions and/or defined benefit income streams paid by military superannuation funds are exempt from this measure.

Aged care

The Government has also announced that it will introduce changes for new residents entering into aged care from 1 January 2016.

This change will align aged care means testing arrangements for residents who pay their accommodation costs by instalments with the arrangements that currently apply to those residents who pay via a lump sum.

This change will remove the rental income exemption under the aged care means test for residents who are renting out their former home and paying their aged care accommodation costs by periodic payments.



Growing pains – the 2015 Intergenerational Report

In March 2015, Treasurer Joe Hockey released the Intergenerational Report (IGR). Every five years the IGR provides a snapshot analysis of Australian demographics now and in 40 years' time. The IGR is important to the Government's policy agenda as it provides the evidential basis for reform.

This is the fourth IGR to be published since 2002 and, like its predecessors, the 2015 IGR focuses on the three 'Ps':

Population

Australia's population is expected to grow from 23.9 million to 39.7 million by 2055. The report makes clear the undeniable fact we are living longer, and that Australia will have an ageing population by 2055.

Men born today are expected to live to 91.5 years while for women it's 93.6 years increasing to 95.1 and 96.6 respectively for babies born in 2055. For those who want to retire at 60, this is a long time to stretch out your super savings. Meanwhile the report also stated that 15 per cent of the population is aged over 64. By 2055 this is expected to increase to 22.6 per cent.

Participation

Participation in the workforce for those aged 15 or over is expected to decline from 64.6 per cent today to 62.4 per cent in 2055.

The IGR also highlighted that the current participation of women in the workforce is 4 per cent below New Zealand and Canada. Increasing female participation to Canadian levels would add $25 billion to Australia's Gross Domestic Product, the report concluded. It is also predicted that the participation rates of people in the workforce aged 65 and over will increase significantly from 12.9 per cent this year to 17.3 per cent in 2055.

Productivity

Labour productivity, the report says, has slowed from 2.2 per cent in the 1990s to 1.5 per cent in the 2000s. To retain and improve living standards, productivity improvements are required.

Growing pains – the 2015 Intergenerational Report continued

How could this affect you?

From a retirement planning perspective, more people living longer and working longer will require the Government to makes changes to superannuation and social security policy settings.

The report points to the inevitably of people having to remain longer in the workforce before being able to access the age pension – an area where the Government is already taking action. Currently, to be eligible for the age pension you need to be age 65, however from 1 July 2017 the qualifying age for age pension will rise from 65 years to 65 years and 6 months. The qualifying age will then climb by 6 months every 2 years, reaching 67 years by 1 July 2023.

Date of birth	Qualifying age
1 July 1952 to 31 December 1953	65 years and 6 months
1 January 1954 to 30 June 1955	66 years
1 July 1955 to 31 December 1956	66 years and 6 months
After 1 January 1957	67 years

As well as needing to work longer to access the age pension, the report also predicts an increase in the preservation age – that is, the age when you become eligible to access your super contributions. Currently for people born since 1 July 1964, this is 60 years of age.

More optimistically however the report notes that as more Australians receive compulsory super contributions for longer periods of their working lives, they are likely to retire with higher super balances. This would assist with Government policy to lower the level of reliance on the age pension and assisting in the national budget deficits.

Observations on the age pension

The 2015 report notes that around 70 per cent of people aged 60 or over were receiving the age pension. Of these, 60 per cent were in receipt of the full rate pension. While it's predicted that the proportion of part-pensioners relative to full-pensioners is expected to increase, the proportion of retirees receiving any pension is not projected to decline.

Looking ahead, areas for policy review may include the taxation of the super system, review of existing social security payment policies, means of transforming super savings into retirement income streams and barriers to retirement product initiatives.

With an ageing population, another important area of advice that individuals will need is in the area of aged care planning. Family members who want to ensure their parents and loved ones have proper aged care and accommodation (whether at home or in a care facility) in their later parts of life should also seek early financial advice to enable all possible options to be properly explored.

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