

federal budget 2013-14

Tax Changes Affecting Individuals

a) Baby Bonus Abolition

The Government will abolish the Baby Bonus from 1 March 2014 and replace it with new family payment arrangements for newborns. From 1 March 2014, families eligible for FTB Part A will receive an additional loading on their family payments when they have a new baby to help with upfront costs (if they are not accessing the Government's Paid Parental Leave scheme).

The extra FTB Part A payments for families will total \$2,000 for their first child (and all multiple births) and \$1,000 for subsequent children. It will be paid as an initial instalment of \$500, with the rest rolled into normal fortnightly payments over a three month period.

b) Indexation clause to Family Tax Benefit

The Government will extend indexation pauses on higher income limits for a further three years until 30 June 2017 in the following areas:

- The FBT Part B primary earner income limit will remain at \$150,000;
- The income limit for receiving dependency tax offsets will remain at \$150,000;
- The Paid Parental Leave and Dad and Partner Pay individual income limits will remain at \$150,000 in the financial year before the birth of the child; and
- The current higher income free area of FTB Part A will also remain at current levels e.g. the income cut-out for a family with two children will remain at around \$113,000. Each family's income limit depends on the number and age of their children.

From 1 January 2014, FTB Part A will only be paid to families up to the end of the calendar year that their teenager is completing school.

c) Net Medical Expenses Tax Offset

The Government will phase out the net medical expenses tax offset (NMETO), with transitional arrangements for current claimants.

d) Self-Education Expense Deductions

The Government has decided to persist with its recently announced and controversial annual cap of \$2,000 on deductions for self-education expenses. The exact detail will be determined by consultation on the measure which will take place later this month.

e) Medicare Levy

This will increase from 1.5% to 2% with the introduction of the NDIS. This brings the effective top marginal rate to 47%, the discount capital gains tax rate to 23.5% (top), a little closer to the corporate rate of 30%.

Retirement Income

The changes to superannuation and the retirement income system are as previously announced in April this year and earlier. The key changes are:

a) Superannuation Guarantee

From 1 July 2013, the super guarantee rate is going up. The rate will increase gradually over 7 years from 9% to 12% by 2019.

If you were making super payments at the minimum 9% rate, you need to adjust payments to the new rate from 1 July 2013.

The table below shows the increased rate for super guarantee payments each year.

1 July 2013	9.25%
1 July 2014	9.50%
1 July 2015	10%
1 July 2016	10.50%
1 July 2017	11%
1 July 2018	11.50%
1 July 2019	12%

b) Changes to the Concessional Contributions Cap

The Government has scrapped the planned \$50,000 for those over 50 with an account balance of less than \$500,000 and replaced it with a \$35,000 concessional contributions cap for those aged 60 and over from 1 July 2013 and those aged 50 and over from 1 July 2014. While this is an improvement, it is a far cry from the caps of \$100,000 and \$50,000 legislated by the previous government. The Government has also decided to abolish excess concessional contributions tax – a measure welcomed in all quarters.

c) Taxation of Fund Earnings in the Pension Phase

Fund earnings for funds in pensions phase where the earnings are in excess of \$100,000 will be taxed at 15% instead of being exempt as is currently the case.

Business Taxation

a) Trusts

The Government will provide the ATO with \$67.9 million to target the use of complex tax structures by high wealth individuals to avoid tax. The ATO will target the exploitation of trusts to conceal income, mischaracterise transactions and artificially reduce trust income amounts to avoid or reduce tax.

The relevant press release suggests that the Task Force will uncover avoidance and evasion schemes and information the ATO gleans from these activities will be used to inform the Government's next phase of trust taxation reform. The Government will ask Treasury to consult the NTLG Trust Consultation Subgroup on the most appropriate way to progress the reform, and in particular to address integrity concerns arising from the mismatch between trust and tax concepts of income.

This will be a short process with Treasury providing input on the subject by July this year. It's not clear what the Government is up to, but there are obviously some concerns that the mismatch between trust income and taxable income of a trust provides opportunities for tax avoidance

Personal income Tax rates - residents

The 2013-14 Budget confirmed the income tax cuts for the 2012-13 income year however the government has decided to defer the subsequent tax cuts contained in this legislation that were to commence on 1 July 2015. A summary of how the resident personal rates will apply is set out below:

INDIVIDUAL RESIDENT TAX RATES PER BUDGET			
Taxable Income		RATES	
		2012-13, 2013-14 & 2014-15	
LOWER THRESHOLD	UPPER THRESHOLD	Tax on income up to lower threshold	Rate of tax for each \$1 over lower threshold
—	18,200	—	0%
18,201	37,000	—	19%
37,001	80,000	3,572	32.5%
80,001	180,000	17,547	37%
180,001	—	54,547	45%

These rates do not include the Medicare levy of 1.5%

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