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Budget 2014 Newsletter

After two week's reflection how does the Budget affect Businesses, SMSFs and superannuation?

None of the items contained within the budget will become law until the budget is passed by the House of Representatives and the Senate, and signed by the Executive Council.

On the positive side the Budget does solve the problem of excess non-concessional contributions.

While on the negative side the Budget will pause the SG rate at 9.5% for three years and will tighten the access conditions and future growth of the age pension.

Additionally, the effect of the Deficit Levy carries over to the tax rates relating to excess non-concessional contributions, non-complying funds and non-arm's length income of complying funds.

Significantly, the Budget does not alter the superannuation preservation age or otherwise restrict access to superannuation benefits. Changes to the preservation age and access to super benefits are, apparently, being considered by the Government.

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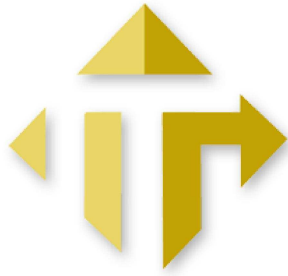
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Excess non-concessional contributions problem now solved

Having previously resolved the problem of excess concessional contributions, the Government has now solved the problem of excess non-concessional contributions.

Essentially, excess non-concessional contributions arising in respect of 2013/14 and subsequent financial years will, at the election of the member, be returned to the member together with accrued earnings. The accrued earnings will be included in the member's income and taxed at marginal rates. However, the returned excess contribution will not be taxed when repaid (as the member received no tax benefit in making the contributions in the first place). If the member does not elect to have the excess contributions returned they will be subject to excess non-concessional contributions tax at (currently) 46.5% which will increase to 49%.

Example

Bert has made \$540,000 of (ordinary) non-concessional contributions during 2014/15 on the basis that he was entitled to use the "three year" bring forward. Unfortunately, as Bert attained age 65 during the 2013/14 financial year, he was not eligible to invoke the "bring forward" and his non-concessional contribution cap for 2014/15 was \$180,000.

Consequently, Bert has excess non-concessional contributions of \$360,000 in respect of the 2014/15 financial year.

Without the proposed change Bert would be issued with a tax liability of \$176,400 – which is non-concessional contributions tax rate of 49% levied on the amount (which rate will apply from 2014/15 financial year). Under the proposed change Bert will be given the opportunity to have the excessive portion of the non-concessional contributions returned.

Additionally, the fund must also pay Bert any earnings accrued on those contributions and those earnings will be taxed at Bert's marginal tax rate.

The fine details of the proposed change have not been released. However, the Government will have to include financial disincentives in the arrangement to preclude the use of the refund as a means of transferring assessable income from the year of contribution to the year of refund.

This proposal will solve the problem of excess non-concessional contributions tax. While a member will not be compelled to have the excess contributions refunded, the effective tax rate on any excess contributions not withdrawn will be taxed at 46.5% if made during 2013/14, 49% if made during 2014/15, 2015/16 and 2016/17 and 47% if made during 2017/18 and following financial years.

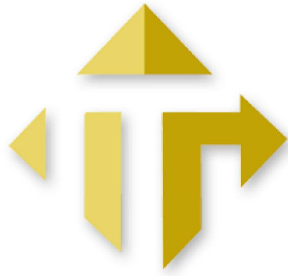
Mark Trovato CA Comment

This proposal resolves the last remaining bugbear of the Costello Super System. The proposal solves the problem from 1 July 2013 onwards. Excess non-concessional contributions which arise from contributions made in 2012/13 and previous financial years will be have to rely either on the "Commissioner's discretion" or successfully argue that the contributions which gave rise to the excess were affected by a material mistake (being a mistake which would permit a Court to order rescission of the contribution).

Having solved the excess non-concessional contribution problem the Government will now be able to apply its policy thoughts to the problems of the growing divergence between the qualifying age for the age pension and the superannuation preservation age and the early consumption of retirement capital.

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Flow on effect of the deficit levy

The Government will, temporarily, impose a 2% levy on high income earnings. This means that the top marginal tax rate of 45% (which applies to that portion of taxable income in excess of \$180,000) will effectively be 47% for the three financial years during which the levy applies. When the 2% basic medicare levy is added the effective top marginal tax rate will be 49% for the three levy years.

This increase will also apply to the non-complying superannuation funds (and other non-complying super entities) and to the non-arm's length income of a complying superannuation fund. For the three levy years (being 2014/15, 2015/16 and 2016/17) the tax rate applying to non-complying superannuation funds will be 47% (rather than 45%) and the tax rate applying to non-arm's length income will also be 47% (rather than 45%). Any non-TFN contributions income of a superannuation fund will also be subject to tax at 47% (rather than 45%).

Additionally, for the three levy years, any excess non-concessional contributions tax, imposed for the three levy years will be 49% rather than the current 46.5%. After the three levy years the rate will reduce to 47% (ie equal to the top marginal tax rate plus the basic medicare levy of 2%).

The effect of the levy can be reduced by an affected member increasing their concessional superannuation contributions up to \$35,000 (for those aged 50 or more at any time during the 2014/15 financial year) and \$30,000 (for other members). However, the effect of the levy cannot be reduced by substituting fringe benefits for assessable salary as the fringe benefits tax rate will also increase to 49% for the fringe benefits tax years corresponding to the levy years.



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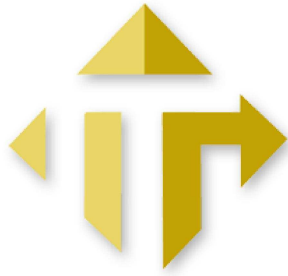
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The Superannuation Guarantee rate - to be paused for three years at 9.5%

The Budget proposes to increase the SG rate from 9.25% to 9.5% for 2014/15 and the 9.5% rate will apply for the following three years. With effect from 1 July 2018 the SG rate will increase to 10% and a further 0.5% until the rate reaches 12% in respect of the 2022-23 financial year.



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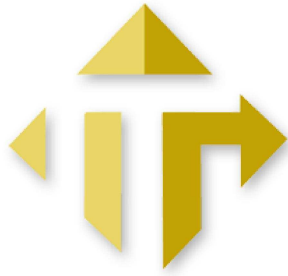
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Increasing the age pension age

The Budget proposal is to ultimately increase the qualifying age for the age pension to be 70. The age 70 qualifying age will apply to anyone born on or after 1 January 1966.

The qualifying age has previously been modified to equalise the female qualifying age to the male qualifying age of 65. Subsequently both qualifying ages were increased from 65 to 67. The Budget proposes to further increase both qualifying ages to 70.

The increase in qualifying age from 67 will affect anyone born after 1 July 1958 and will be completely implemented for anyone born after 1 January 1966.

If implemented, the qualifying age for an individual is set out in the following table. The shaded portion of the table indicates the currently implemented qualifying ages. The white portion specifies the proposed higher qualifying ages.

Birth date ranges	Males	Females
Before 1 July 1936	65 years	60 years
1 July 1936 to 31 December 1936	65 years	60 years 6 months
1 January 1937 to 30 June 1938	65 years	61 years
1 July 1938 to 31 December 1939	65 years	61 years 6 months
1 January 1940 to 30 June 1941	65 years	62 years
1 July 1941 to 31 December 1942	65 years	62 years 6 months
1 January 1943 to 30 June 1944	65 years	63 years
1 July 1944 to 31 December 1945	65 years	63 years 6 months
1 January 1946 to 30 June 1947	65 years	64 years
1 July 1947 to 31 December 1948	65 years	64 years 6 months
1 January 1949 to 30 June 1952	65 years	65 years
1 July 1952 to 31 December 1953	65 years 6 months	65 years 6 months
1 January 1954 to 30 June 1955	66 years	66 years
1 July 1955 to 31 December 1956	66 years 6 months	66 years 6 months
1 January 1957 to 30 June 1958	67 years	67 years
1 July 1958 to 31 December 1959	67 years 6 months	67 years 6 months
1 January 1960 to 30 June 1961	68 years	68 years
1 July 1961 to 31 December 1962	68 years 6 months	68 years 6 months
1 January 1963 to 30 June 1964	69 years	69 years
1 July 1964 to 31 December 1965	69 years 6 months	69 years 6 months
1 January 1966 and following	70 years	70 years

Mark Trovato CA Comment

Given increased longevity and improved health standards it is hard to argue against increasing the qualifying age for the age pension. The policy challenge for the Government will be to ensure that the increase in the qualifying age for the age pension does not mean that those who now have a higher qualifying age will transfer to the disability support pension (which is more generous than the age pension) or other pensions/allowances until they qualify for the age pension.

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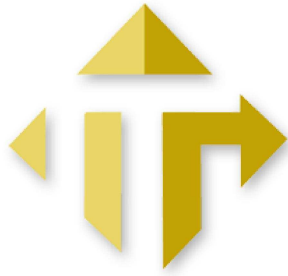


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Centrelink income test - Aged Pension

The Budget has made three very significant changes to the income test for the age pension. The effect of these changes will be to make the income test more stringent and the age pension will now increase at a lower rate.

From 1 September 2017, the income test for qualification for the age pension will be made more stringent by reducing the deeming thresholds from the current \$46,600 to \$30,000 (single threshold) and from the current \$77,400 to \$50,000 (couple threshold).

The deeming thresholds apply to financial assets and attribute a notional income return from those assets for the purposes of the income test of the age pension. The current deemed income rates are 2% which applies to the total value of assets (which are subject to deeming) below the threshold and 3.5% on the excess above the threshold.

Mark Trovato CA Comment

By lowering the deeming threshold more income will be treated as being earned from the assets and used in applying the income test.



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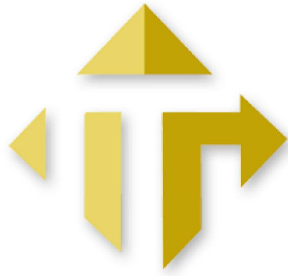
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Indexation of the Age Pension

The Budget proposal is to index the age pension (and certain other pensions) by reference to the Consumer Price Index. This change will apply from 1 September 2017. Currently, the age pension is increased by reference to whichever of the following indices produces the most favourable outcome: Consumer Price Index, Male Total Average Weekly Earnings and the Pensioner and Beneficiary Living Cost Index.

While this change will not reduce the age pension, it will have the effect that the age pension will not increase as fast as would have been the case if the current indexation arrangements were to continue.

Mark Trovato CA Comment

A small change but given the number of age pensioners and the time period involved – it may, however, result in significant reduction in the present value of age pension entitlements.

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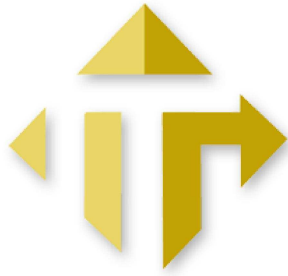
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Seniors Health Card

The Budget proposal is to index (based upon CPI) the current income limits applying to the eligibility for the Commonwealth Seniors Health Card. This will apply from 20 September 2014.

It is also proposed that from 1 January 2015, account pensions will be counted when determining the eligibility for the Seniors Health Card. The assessment of superannuation income will be the same for age pension recipients from 1 January 2015.

However, all superannuation account income streams held by existing Seniors Card Holders before 1 January 2015 will be grandfathered under the existing rules.

Mark Trovato CA Comment

This is a significant change to the eligibility for the Seniors Health Card.



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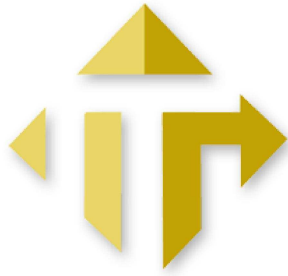
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Key Budget Outcomes - 2014/15

Australian Economic Predictions

	Budgeted 2011	Budgeted 2012	Budgeted 2013	Expected 2014	Forecast 2015	Forecast 2016
Real GDP Growth %	2%	3%	2.6%	2.75%	2.5%	3%
CPI	3.6%	1.25%	2.4%	3.75%	2.25%	2.5%
Unemployment Rate	4.9%	5.25%	5.6%	6%	6.25%	6.25%
Wage Price Index	3.8%	3.7%	2.9%	2.75%	3%	3%
Deficit/Surplus	-\$47.7B	-\$43.4B	-\$18.8B	-\$49.8B	-\$29.8B	-\$17.1B
Population	22.6million	22.8million	23.3million	23.7million	24.1million	24.6million

Government Debt

- 2015 - \$667billion (expected)
- 2024 - \$389billion (expected)



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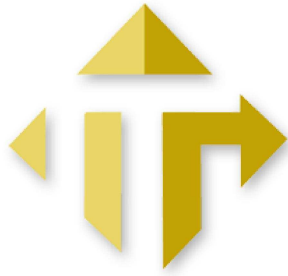
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Tax Changes from 1st July 2014

Individuals

- Dependent Spouse Tax Offset abolished.
- Mature Aged Worker Tax Offset abolished.

Families

- The Family Tax Benefit (FTB) Part B – eligible until one parent earns more than \$100,000 per annum (currently \$150,000 per annum) until the youngest child reaches six years of age.
- Phasing out of existing FTB Part B benefits, where children are six years or older, for the next two years.
- Cuts to end of year supplement payments.
- Part A threshold has not changed from \$94,316.

Paid Parental Leave Scheme

- The Paid Parental Leave Scheme will pay 26 weeks (six months) parental leave, based on the individual's full-time salary, to a maximum of \$50,000.
- Not means tested.

Welfare/Pension Measures

- Aged Pension – gradually increase the eligibility of the aged pension to 70 from 1st July 2035.
- Reset the assets test deeming rate threshold.
- Commonwealth/Seniors Health Card – from 1st January 2015, exempt superannuation pensions will be added to income for the purposes of the eligibility test, except for account-based pensions that have commenced prior to 1st January 2015. New page...



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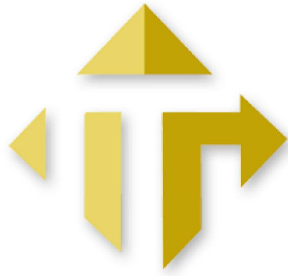
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Taxation

Temporary Budget Repair Levy

The government has announced the introduction of a Temporary Budget Repair Levy, to apply from 1st July 2014 through to 30th June 2017. The levy will apply to individuals with a taxable income exceeding \$180,000.

Tax/levy rates applying to individuals, for the component of their taxable income exceeding \$180,000, will be:

- Income Tax – 45%
- Temporary Budget Repair Levy – 2%
- Medicare Levy – 2%
- Total – 49%

If the individual is subject to the Medicare Levy Surcharge, the total of taxes/levies will be:

- Without Medicare Levy – 49%
- Medicare Levy Surcharge – 1.5%
- Total – 50.5%

for component of their income, which exceeds \$180,000.

Marginal Income Tax Rates 2014-15

<u>Taxable Income Threshold Range</u>	<u>2014/15 Marginal Income Tax Rate %</u>
\$0 - \$18,200	Nil
\$18,201 - \$37,000	19%
\$37,001 - \$80,000	32.5%
\$80,001 - \$180,000	37%
\$180,001 plus	45%

To each of these rates, it is necessary to add the Medicare Levy of 2% and, for incomes in excess of \$180,000, the Temporary Budget Repair Levy.

Company Tax Rates

From 1st July 2015, the company tax rates are as follows:

- Companies with taxable income of less than \$5million – 28.5%
- Companies with taxable income of over \$5million – 28.5%
- In addition, companies with taxable income of over \$5million will be liable for the Parental Leave Levy of 1.5%, bringing those companies' total tax/levy to 30% of taxable income.

Fringe Benefit Tax

The Fringe Benefit Tax rate for the period 1st April 2015 to 31st March 2017 will be 49%.

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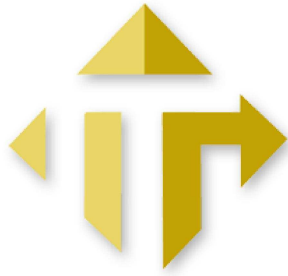
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Issues For Small Businesses And Primary Producers

Superannuation Contributions

From 1st July 2014, the superannuation guarantee rate will be 9.5%.

The superannuation contributions in future years will be:

- 2015/16 – 9.5%
- 2016/17 – 9.5%
- 2017/18 – 9.5%
- 2018/19 – 10%
- 2019/20 – 10.5%
- 2020-21 – 11%
- 2021/22 – 11.5%
- 2022/23 – 12%

Superannuation Contribution Limits

<u>Age</u>	<u>Superannuation Contribution Limit</u>	
	<u>2013/14</u>	<u>2014/15</u>
Under 50 years	\$25,000	\$30,000
50 years to under 60 years	\$25,000	\$35,000
60 years and over	\$35,000	\$35,000

Non-Concessional Contribution Cap

<u>Financial Year</u>	<u>Standard Cap</u>	<u>3-Year Contribution Limit</u>
2013/14	\$150,000	\$450,00
2014/15	\$180,000	\$540,000

Excess Contributions Tax (ECT)

From 1st July 2013, the ability to withdraw non-concessional contributions that exceeded the \$150,000 per annum cap without ECT includes associated earnings.

Research And Development Rebate

The rebates for the 2013/14 financial year will be:

- Companies with turnovers of under \$20million – 45%
- Companies with turnovers of over \$20million – 40%

For the 2014/15 financial year, the R&D rebates will be:

- Companies with turnovers of under \$20million – 43.5%
- Companies with turnovers of over \$20million – 38.5%

Exporters

- The government has ignored the recommendation from the Audit Committee and will continue to support the Export Finance Investment Corporation.
- The Export Market Development Grant will continue with an extra \$50million in funding.

Fuel Excise Indexation

The government will re-introduce the Fuel Excise Indexation. The indexation will be assessed twice a year, rising about one cent a litre to 39 cents per litre this year.

Small Business And Family Enterprise Ombudsman

The government is allocating \$8million in extra funding in the budget to turn the existing office of the Australian Small Business Commissioner into a Small Business and Family Enterprise Ombudsman, with extra powers and functions to act as a 'one-stop shop' for small business interactions with the government.

Major Project

The government has announced a large funding commitment, in conjunction with State governments, for road projects and other major infrastructure projects around Australia. Some small businesses will benefit from these projects.

Unfair Contract Protection

The government has indicated that it will extend unfair contract protection for small businesses. The government has allocated \$1.4million to enable small businesses to access the same unfair contract protection currently available to consumers, under the Australian Consumer Law. The government has indicated that this will help to provide a level plain field for small businesses and enhance the welfare of Australians, by increasing a small business certainty, confidence and productivity.

Farmers Affected By Drought

The government has confirmed the announcement, originally made in February 2014, of a \$320million drought package. Drought concessional loans will be available to eligible farm businesses.

The Farm Household Allowance commences on the 1st July 2014, to help farmers during times of financial hardship, ensuring income support, to assist with essential bills and to put food on the table.

Agriculture Research And Development

The government will provide \$100million in new funding for rural research and development, specifically to support continued innovation in the agriculture, fisheries and forestry sectors.

The program will be known as Rural R&D for Profit Policy Initiative and will fund research activities, which focuses on enhancing the profitability of agriculture industries. The research will focus on delivering cutting edge technologies with an emphasis on making research accessible for farmers. The initiative will be delivered in a competitive grants process.

Small Exporters

The government has announced that small exporters will have access to \$15million in funding over the next four years, to deal with the cost of export fees and charges. The grant will apply to small exporters in the meat, dairy, fish, horticulture and grain industries. The rebate will be made available in 2014/15 financial year, to cover 50% of export registration charges up to a maximum of \$5,000.

Incentive To Hire Older Workers

From 1st July 2014, businesses will be able to receive up to \$10,000 in government funding if they hire a jobseeker aged 50 or over. Eligible employers will receive \$3,000 if they hire a full-time, mature-aged jobseeker who was previously unemployed for a minimum of six months and employ that person for at least six months.

Once the jobseeker has been working for the same employer for 12 months, the business will receive another payment of \$3,000, then another payment of \$2,000 at 18 months and a final payment of \$2,000 at two years.

To be eligible for Restart, businesses will need to demonstrate that the job they are offering is sustainable and ongoing and they are not displacing existing workers with subsidised jobseekers. New page...

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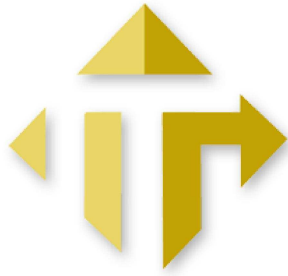
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New Government Grants

The government has announced some new government grants and initiatives. These are as follows:

Growth Fund

To assist the Victorian and South Australian Economies adjust to a future without car assembly.

Manufacturing Transition Grants Program

To assist manufacturers to move towards higher value and niche manufacturing opportunities (an additional \$50million will be provided).

Exploration Development Incentives

Available for small explorers not making any taxable income. The funding is \$100million. This is a refundable tax offset, payable to Australian Residents Shareholders, of small minerals explorers that undertake green fields' exploration and have no taxable income against which to offset this expenditure.

Entrepreneurs Infrastructure Program

From 1st July 2014, this fund will be allocated \$484.2million over 5 years, to support the 'commercialisation of good ideas' and boost small business.

The focus of the program is to support 'the commercialisation of good ideas', job creation and lifting the capability of small business, the provision of market and industry information, and the facilitation of access to business management advice and skills from experienced private sector providers and researchers. This program has been introduced after the government has removed eight other program initiatives.

Industry Skills Fund

Will be created to support the training needs of SMEs, focusing on health, mining and advanced manufacturing (this will be after the abolishment of 10 different skills and training programs).

Medical Research

The government has announced that medical research will be boosted by the fund that will distribute \$276.2million over the three financial years, starting in 2015-16 and, ultimately, aims to provide \$1billion per annum in medical research funding by 2022/23.

Government Grants Removed

The treasurer has announced the removal of a number of grant programs, including:

- Supporting automotive sector jobs program.
- Automotive Transformation Scheme (ATS) will cease on the 1st January 2018. (The treasurer has indicated there's still \$1billion available for allocation by the ATS, to assist the motor vehicle industry sector.)
- Commercialisation Australia
- Enterprise Solutions Program
- Innovation Investment Fund
- Enterprise Connect
- Industry Innovative Precincts
- Australian Industry Participation Program
- Textile, Clothing and Footwear – Small Business
- Building Innovative Capability
- The government will abolish 10 different skills and training programs (partly offset by the announced introduction of the Industry Skills Funds).
- Tools for Trade Program (partly offset by the Trade Support Loans program for apprentices).
- Australian Renewable Energy Agency
- There have been a number of deductions, which will be repealed. As a result, of the government's commitment to repeal the

Minerals Resources Rent Tax:

- This include faster write-off to small business' depreciating assets (no longer available after the 1st January 2014); and
- Loss Carry Back Offset measures (basically, a one-year initiative for 2013 only).
- Mature Aged Worker Tax Offset will be abolished from the 1st July 2014.

Government Grants Reduced Funding

The government has announced reduced funding for a number of programs, including:

- Clean Technology (investment and innovation program)
- Cooperative Research Centres
- Carbon Capture and Storage Flagships Program
- National Low Emissions Coal Initiative
- Subsidies to bio-fuel producers
- Ethanol Production Grants Program
- Cleaner Fuel Grants Scheme
- First Home Saver Accounts Scheme



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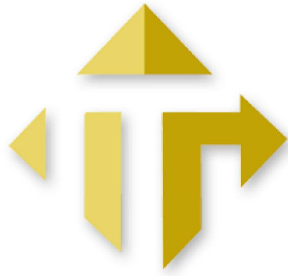
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Apprentices

The government will introduce a Trade Support Loans Program, which will give apprentices a loan of up to \$20,000 over a four-year apprenticeship.

The loans will be provided at concessional interest rates and will be staggered across the four-year period with up to \$8,000 available for the first year of an apprenticeship, \$6,000 in the second year, \$4,000 in the third year and \$2,000 in the fourth year.

The loan will not be tied to the particular spending requirements and recipients will be required to pay back the loan when their income exceeds the minimum repayment threshold of \$53,345. Those who complete their training will receive a 20% discount.

At the same time, the government will withdraw the previous scheme, Tools for your Trade, from 1st July 2014.

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