TAXMATTERS

TAX STRATEGIES FOR YOU AND YOUR BUSINESS

BUDGET EDITION
07–2013

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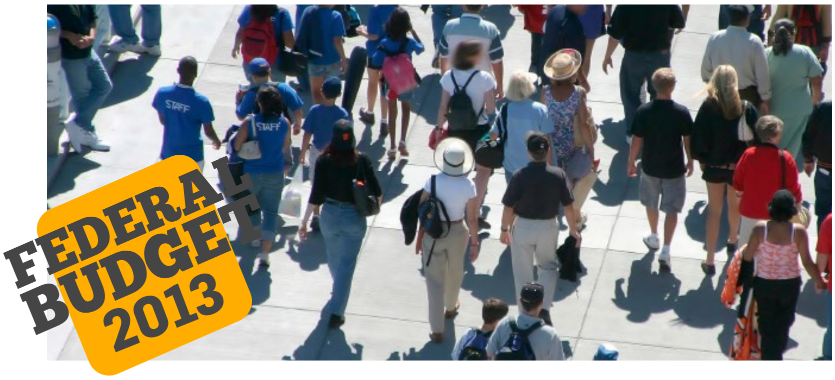

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What the Budget 2013 means for individual taxpayers

The 2013 Federal Budget contains a number of significant taxation changes that will impact on individual taxpayers.

Personal income tax rates

Although individual income tax rates have remained unchanged, changes that were due to apply from 1 July 2015 have been deferred.

Initially, the tax free threshold was set to increase from $18,200 to $19,400. The current legislated rates applicable for the 2013/14 income year are set to remain in place until 2017/18.

Increased Medicare levy

The big news item is a 0.5 per cent increase in the Medicare levy to fund the National Disability Insurance Scheme. Under the proposal, the levy will increase from 1.5 per cent to 2 per cent from 1 July 2014, costing Australians an average of $1 more a day to fund the NDIS. The legislation is set to be introduced into Parliament soon after the Budget and enacted during the current winter session of Parliament.

Tax rates for non-residents

For the 2013/14 income year, non residents will pay a flat rate of 32.5 per cent on all taxable income up to $80,000. For taxable income exceeding $80,000, the marginal tax rate for non-residents is the same as those for resident individuals.

Proposed legislation to remove the capital gains tax discount for non-residents seems to be on schedule to be introduced in the final few weeks of Parliament.

Additionally, non-residents will be subject to a non-final withholding tax of 10 per cent of the proceeds from the sale of certain taxable Australian property with effect from 1 July 2016.

Private health insurance

There has been no change to the private health insurance rebate.

Higher income earners without sufficient private health insurance will continue to pay a 1 per cent surcharge.

Net medical expenses phase out

The Government announced a phase out of the net medical expenses tax offset (NMETO). The tax offset will be available until 1 July 2019, with transitional arrangements in place for those currently claiming the offset.

Self-education expenses

Leading up to the Budget, the Government announced an annual cap of $2,000 per person is to apply from 1 July 2014 for self-education expenses. The change will apply to employee training expenditure, providing an incentive for employers to invest in staff training.

Employer provided education and training remains FBT free unless an employee salary sacrifices to obtain these benefits. Any expenditure for an employee that is subject to a salary sacrificing will also be subject to the limit.

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The future of superannuation

Although the Budget revealed no further changes to superannuation, it confirmed recently announced superannuation reforms.

Concessional contributions caps

Concessional contributions caps have increased and are as follows:

Between 1 July 2013 – 30 June 2014

For those aged under 60 years the cap is $25,000, and $35,000 for those over 60.

1 July 2014 onwards

The age limit cap will be reduced to 50 years. This means that the cap for those aged under 50 years is $25,000 while the cap for individuals aged 50 years and over remains at $35,000.

The proposed $35,000 cap is not subject to consumer price indexation, whereas the $25,000 cap that will apply to those under 60 years is. The cap is expected to be set at $35,000 for all ages by 2018. The Government has also abandoned a previous policy of increasing the concessional contributions limit to $50,000 for those with less than $500,000 accumulated in superannuation as there were issues with the complexity of the system.

Limitation of tax free income earned by superannuation funds paying pensions

In a pre-budget proposal, the introduction of a $100,000 cap is to be applied per member, on the tax exempt income that may be claimed by superannuation funds paying pensions.

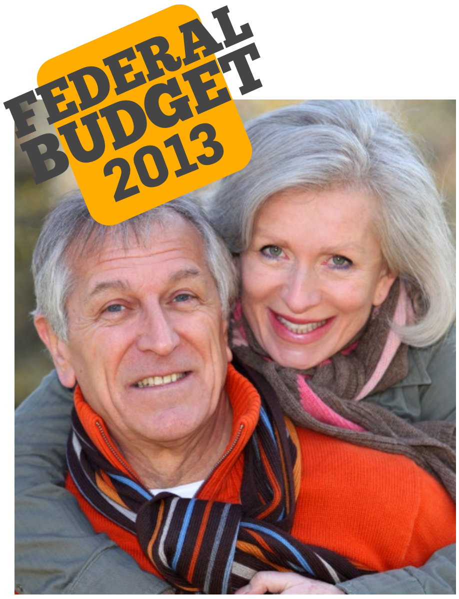
The cap will commence from 1 July 2014, with members with income over this cap set to pay 15 per cent on the excess.

These are significant changes to the current tax legislation under which a pension fund is exempt from paying tax on its investment income and capital gains, however a ten year transitional arrangement will be put in place for changes to capital gains.

Excess contributions

As announced in April, excess concessional contributions will be refunded and made subject to tax at the individual's marginal rate (plus an interest charge).

Previously, the excess contribution was taxed at the top marginal rate. The refund will be available from 1 July 2013 and will provide greater assistance beyond the one-off $10,000 refund currently available.



Update on other recently announced super changes

Other recent superannuation changes that have been proposed or legislated include:

- Introduction of an additional 15 per cent tax on the concessional contributions by individuals with incomes over $300,000 or more.
- Increase in the Superannuation Guarantee rate by 0.25 per cent, gradually increasing to 12 per cent by 1 July 2019.
- The Government is set to abolish the maximum age limit for the SG, encouraging mature age workers to remain in the workforce.

What the Medicare levy increase means for businesses

The increase in the Medicare levy from 1.5 per cent to 2 per cent, will effectively bring the top marginal tax rate to 47 per cent.

This will not only impact on individual taxpayers but will have a flow on effect to small businesses.

A number of tax laws that businesses regularly comply with apply the top marginal income rate as a penalty rate of tax.

As a result, the following common tax items will be subject to tax of 47 per cent, up from the previous 46.5 per cent:

- Fringe Benefits Tax (FBT)
- TFN and ABN Witholding Tax
- Family Trust Distributions Tax
- Trusts, where Section 99A applies to retained income
- Excess non-concessional contributions to super (with tax on excess concessional contributions to increase to 32%)

Farm Management Deposit Scheme update

The Government recently announced changes to the Farm Management Deposit Schemes (FMDs) which are intended to apply from 1 July 2014.

Changes include:

Increasing the non-primary production income threshold from $65,000 to $100,000 so that more primary producers can access the scheme

Allowing primary producers who hold multiple FMDs accounts to consolidate them once they have been held for the minimum 12 month period

Other proposed measures include:

- Concessional loans to help restructure debt and invest in productivity
- Extra rural financial counsellors to work directly with farm businesses
- Progressing a nationally consistent approach to debt mediation across the country

FMDs are intended to support and assist farmers struggling with levels of debt, and allows them to smooth their taxable income by depositing funds in high income years and withdrawing in low income years.

New definition of ‘residential premises’ for GST

Following a recent GST ruling, the ATO has varied its view as to the meaning of ‘residential premises’ for GST purposes.

Under the current provisions in GST legislation, GST is payable on premises other than ‘residential premises’ which by way of sale, lease, hire or license have been used predominantly for residential accommodation.

Where premises are ‘residential premises’ to be used for residential accommodation, the supply of those premises will be input taxed (and therefore not subject to GST).

In the GST act, the test for defining ‘residential premises’ is whether premises are intended to be occupied, and capable of being occupied, as a residence or for residential accommodation (regardless of the term of occupation).

The ATO has changed its view so that it will now be looking at the physical characteristics of a property to determine whether the premises are ‘residential premises’. This means that the subjective view of the intended use of the property will no longer be a factor in determining whether it is defined as ‘residential premises’.

The new ruling will broaden the effect of when premises will be input taxed as a result of being defined as ‘residential premises’ despite not having been used as such at the point of sale.

For example, premises that look like residential premises such as display homes that are zoned and used for commercial activity, and businesses which may operate out of premises that were previously used as residential accommodation, may now be input taxed under the ATO’s new policy.

Financially this will affect those who could claim GST credit on the sale of GST applicable properties.

However if a property is determined to be ‘residential’ then the sale is input taxed and it cannot be claimed as a tax deduction.

Following the changes, those planning to sell or buy property should carefully review the new interpretation and consider how the changes may impact their existing or proposed dealings in real property.

Fair Work receives funding to tackle workplace bullying

The Government has allocated funding in the Budget to crack down on workplace bullying.

The Fair Work Commission has been given $21.4 million over the next four years to fund legal remedies for victims of workplace bullying.

A recent report by the Productivity Commission has highlighted the significant impact of bullying in the workplace, which could cost an estimated $36 billion in productivity each year.

The Fair Work Commission is set to begin hearing bullying complaints from 1 July 2013- although the accompanying Fair Work Amendment legislation is yet to pass through Parliament.

Following the proposed legislation, the Fair Work Commission will have the power to intervene in bullying cases where the complaint could not be resolved between the parties involved.

Small businesses will be updated by business groups in regards to the bullying requirements in the lead up to 1 July.

HELP payment discount axed

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The Government has abolished discounts that were previously available for upfront and voluntary payments on Higher Education Loan Program (HELP) loans.

Currently a 10 per cent discount applies to up-front payments and a 5 per cent discount to voluntary payments of $500 or more.

The discounts will be abolished from 1 January 2014, taxpayers are advised to bring forward any HELP repayments or debt repayments before the deadline to benefit from the discount.

FEDERAL BUDGET 2013

Tightening the franking credit loophole

Several measures have been introduced by the Government to close the loophole that enables sophisticated investors to engage in double claiming from franking credits.

Under the proposed changes that are due to come into effect from 1 July 2013, the Government will ensure that when an investor sells shares ‘ex-dividend’, and then immediately buys equivalent shares which still carry the dividend entitlement (known as ‘cum-dividend’ shares), the investor will only be able to claim one set of franking credits.

The investor will not be able to claim franking credits otherwise available in respect of one of the two dividend entitlements.

The proposed changes will focus on tightening the 45 day ‘holding period rules’, and on the basis of these changes will not affect small investors with annual franking credit entitlements that do not exceed $5,000.

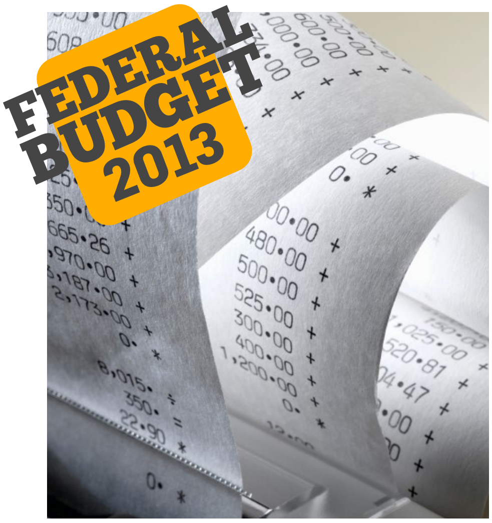
Improving the integrity of the tax system

The Budget has introduced a number of measures intended to improve the integrity of the taxation system.

This will be achieved by increasing business tax compliance, closing loopholes, strengthening tax evasion systems and increasing the payment of tax instalments.

Monthly PAYG instalments

In an unexpected announcement, the Government has now made it a requirement for all large entities in the PAYG instalment system to make monthly PAYG income tax instalments. The monthly PAYG instalment system will therefore be extended to include



trusts, superannuation funds, sole traders and large investors.

The system will be phased in between 1 January 2014 and 1 January 2017 and will come into force as follows:

- Corporate tax entity with a turnover over $1 billion: 1 January 2014
- Corporate tax entity with turnover over $100 million: 1 January 2015
- Corporate tax entity with a turnover over $20 million and other PAYG entities with a turnover over $1 billion: 1 January 2016
- Other PAYG entities with a turnover $20 billion: 1 January 2017.

The budget has revealed further tax compliance measures including:

ATO Trust Taskforce

The Government has increased funding to the ATO to undertake compliance activity targeted at high wealth individual taxpayers who have been involved in tax avoidance and evasion using trust structures.

The ATO will target taxpayers who use trusts to conceal income, mischaracterise transactions, artificially reduce trust income amounts and underpay tax.

Enhance third party data matching

The ATO has received extra funding to improve compliance by expanding data matching with third party information.

The funding will establish new and strengthen existing reporting systems and will affect:

- Sales of real property, shares (including options and warrants) and units in managed funds
- Transactions through merchant debit and credit services
- Certain taxable government grants and payments
- Managed investment trust and partnership distributions, company dividend and interest payments
- Transactions reported to the ATO by the Australian Transactions Reports and Analysis Centre

The ATO will have more resources than ever before to ensure that businesses remain compliant. This will put more pressure on small businesses to ensure that they are rigorous in their tax compliance and reporting requirements.

Integrity checks on ABN registration

The ATO will be strengthening up-front checks for issuing Australian Business Numbers (ABN) and will encourage businesses to use the AUSkey and the online services of the Australian Business Register.

This is intended to reduce the regulatory costs and minimise the compliance burden for individuals and businesses.

Changes to social security payments

The Budget has introduced a number of changes to social security payments.

Those individuals most likely to be affected are middle-income families and recipients of welfare payments.

Family Tax Benefit Part A

The Government has announced that it will no longer be proceeding with last year's Budget proposal to increase the maximum payment rate of Family Tax Benefit Part A (FTB Part A).

The proposal would have commenced from 1 July 2013 and would have increased payments of up $300 per year for families with one child and $600 per year for families with two or more children. Additionally, FTB Part A will only be paid until the end of the calendar year a child completes school.

This will affect children aged 16 years and over and will commence from 1 January 2014. Furthermore, those who no longer qualify for FTB Part A may be eligible to receive Youth Allowance, subject to the usual eligibility requirements.

Baby Bonus

The Baby Bonus has been replaced with a means-tested payment as part of the FTB Part A from 1 March 2014.

The Government will increase FTB Part A payments to $2,000 to be paid in the year following the birth or adoption of a first child or each child in multiple births, and $1,000 for second or subsequent children.

The additional FTB Part A will be paid as an initial payment of $500 with the remainder payments made in seven fortnightly instalments.

Parents who take up the Paid Parental Leave (PPL) scheme will not be eligible for the additional FTB Part A component, but will receive benefits in terms of improved access to PPL as their family expands.

Newstart

There have also been changes to the means test thresholds for eligible income support payments. The budget changes will affect

individuals on the Newstart Allowance, Sickness Allowance and Partner Allowance Pension etc. The threshold for individuals receiving social security benefits will increase from $62 per fortnight to $100 per fortnight from 20 March 2014 before their income support is reduced.

It is planned that the threshold be indexed on an annual basis from 1 July 2015.