

## 2013/14 BUDGET SUMMARY

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### Summary

Overall, the pre-Budget announcements have resulted in few surprises. The items which were not announced prior to the delivery of the Budget (most were announced on 5 April 2013) were not of major consequence.

One matter not covered in the Budget was a further reduction in the minimum annual payment amounts for certain SMSF income streams. First introduced during the 2008/09 financial year, and then extended through subsequent years, the reduction for the 2012/13 financial year would appear to be the last, given the fact that no extension was announced. The Topdocs pension calculations for the 2013/14 year have already been set at the standard minimum pension rates for orders placed via the Topdocs Document Portal.

We will look at the announced Budget measures as they impact:

1. Individuals
2. Small to Medium Enterprises
3. Superannuation

### 1. Superannuation

#### \$300,000 High Income Earner Contribution Tax

This matter was announced as part of the Mid-Year Economic and Fiscal Outlook (MYEFO) of October 2012. Although legislation has been drafted, a few changes were announced in the Budget. Exemptions from the tax will apply to Judges and senior public servants, and a refund of the tax will be available to temporary residents after they have left Australia (as their benefits will be subject to the departing Australia tax).

#### Excess Contributions Tax

This announcement was met with a degree of relief, although concern exists as to why it applies only to Concessional Contributions and not also to Non Concessional Contributions. Basically, excess Concessional Contributions will be taxed at the individual's marginal tax rate,

rather than at the top marginal tax rate for all excess amounts. There will also be an amount of interest charged, on the basis that the tax on superannuation contributions is paid later than PAYG tax withheld from salary.

Members will also have the option of withdrawing the excess from their superannuation. The excess amount will be included in the recipient's taxable income, with a tax adjustment being made (to allow for the 15% tax paid by their super fund) by way of a tax offset.

#### Deferred Lifetime Annuities

As a means of encouraging use of deferred lifetime annuities, the same tax treatment as applies to superannuation income streams (see 'Tax Exemptions for Superannuation Pension Income' below) will apply from 1 July 2014.

#### Concessional Contributions Cap

The announcement confirmed that the proposed exclusion from increased contributions cap limits for individuals with balances in excess of \$500,000 will not proceed. The Concessional Contributions Cap will increase to \$35,000:

Current as at 16 May 2013.

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- from 1 July 2013 for individuals aged 60 or more; and
- from 1 July 2014 for individuals aged 50 or more.

### Tax Exemptions for Superannuation Pension Income

Changes are to be made to the tax free status of superannuation income derived from assets supporting a pension (i.e. Exempt Current Pension Income). The first \$100,000 per member will remain tax free, with amounts over \$100,000 taxed at 15%. This includes realised capital gains, which will continue to be subject to a 1/3rd discount. The \$100,000 will be indexed to CPI, in \$10,000 increments.

For investments acquired before 5 April 2013, capital gains will not be included in the calculation until after 1 July 2024. The announcement used the words 'accrue after 1 July 2024', which leads to the question of whether it is intended that both realised and unrealised gains are to be included in the calculations.

A separate question related to the ability to 'carry forward' capital losses in a superannuation fund which is fully in pension mode. The position will become clearer once legislation has been drafted.

### Lost Superannuation Member Accounts

The threshold as which 'Lost Super' accounts are to be transferred to the ATO will be increased from:

- \$2,000 to \$2,500 from 31 December 2015; and
- to \$3,000 from 31 December 2016.

### 2. Small to Medium Enterprises

#### Research & Development

Tax incentives for R & D will be limited to companies with Australian turnover of less than \$20 billion from 1 July 2013. For companies investing in R & D which meet that criteria, a 40% offset incentive is available, with an additional 5% (to 45%) available to those companies with annual aggregate turnover of less than \$20 million.

#### GST - Businesses in Net Refund Position

Businesses may continue to use the GST instalment system, even if they move into a net refund position, a reversal of a previous Budget announcement - the 2011-12 Budget.

#### Monthly PAYG Instalments

Entities, including superannuation funds, with annual turnover of \$20 million or more will be required to make PAYG instalments on a monthly basis from 1 January 2017.

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### 3. Individuals

#### Proposed Income Tax Cuts Deferred

Initially announced to be introduced from 1 July 2015 as part of the carbon tax package, the proposed tax cuts have been deferred until the estimated carbon price in the budget reaches \$25.40, which is now expected, according to the Budget papers, to occur in the 2018/19 financial year.

The tax cuts were intended to mainly benefit low income earners by way of an increase of \$1,200 in the tax free threshold, from \$18,201 to \$19,401, less a reduction in the Low Income Tax Offset (LITO). There does not appear to be any indication as to whether or not the LITO reduction will proceed.

#### Medicare Levy Changes

The Medicare levy rate is to increase from 1.5% to 2%, effective from 1 July 2014.

The Medicare levy low income threshold for families will increase to \$33,693 (\$20,542 for individuals) for the 2012/13 financial year, with the additional threshold for each dependant increased to \$3,094.

#### Net Medical Expenses Offset

The offset is to be phased out, with only certain expenses relating to disability aids, aged and attendant care expenses remaining until 1 July 2019.

Otherwise, those who claim the offset in the 2012/13 year can claim the following year and so on, until they do not claim in a particular year.

#### Self Education Expenses

Deductions for self education expenses will be limited to \$2,000 per annum, from 1 July 2014. Changes will be made to Fringe Benefits Tax rules in regards to employer expenses for education, when the employee salary sacrifices to pay those expenses. Otherwise, employers will continue to be entitled to deductions for education expenses for employees.

Attendance at conferences and seminars will be impacted by the changes, particularly for self employed individuals.

#### Dividend Washing prevented

'Dividend washing' involves a shareholder selling shares after a dividend is declared (ex-dividend) and almost immediately buying an identical parcel of shares as cum dividend. The shareholder effectively receives the benefit of double franking credits. The government will introduce legislation to prevent this, after consultation with industry.

#### More information

Should you have any queries or require more information, please contact the team at Topdocs on 1300 659 242.

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