PROFILE
FINANCIAL SERVICES

FEDERAL BUDGET ANALYSIS 14 MAY 2013

May 2013 Federal Budget

The Treasurer, Mr Wayne Swan, tabled the 2013/14 Federal Budget last night, Tuesday 14 May 2013. The Government did not deliver a traditional pre-election budget, with scarce distribution of new benefits and savings achieved via a deferral of prior announcements. As noted in the Treasurer's speech, the Government is intent on leaving a notable legacy of achievement in education reform and through the establishment of a national disability scheme. Consequently the twin problems of the national debt and the budget deficit were not explicitly addressed.

There were no real new surprises in the areas affecting our clients; the proposed superannuation changes had already been foreshadowed in April and the existing personal tax scales will now remain in place for the next year. However belt tightening has been applied and in this summary we examine a number of the measures that may affect your financial planning strategy or investments. It is important to bear in mind that these announcements have generally not yet been legislated. In addition, the information in this update is general – please contact us if you would like to discuss your specific situation in more detail.

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1 ECONOMY AND MARKETS

1.1 Summary

The Government's economic outlook is broadly in line with recent RBA and IMF forecasts, and only slightly higher than market consensus in the short-term. The balance of risks for this forecast is seen as tilted to the downside, reflecting the most recent data on global economic activity which has been softer than generally expected. The Budget paper notes however, that while the Australian economy continues to be affected by the enormous structural changes taking place in the global economy, Australian economic fundamentals remain strong and the outlook favourable.

Key treasury forecasts

FINANCIAL YEAR	REAL GDP %	INFLATION %	UNEMPLOYMENT %	FISCAL POSITION (DEFICIT / SURPLUS)	
				($bn)	% of GDP
THIS YEAR (e)	3.00	2.50	5.50	-44.5	-3.0
NEXT YEAR (e)	2.75	2.25	5.75	-20.3	-1.3
2014-15 (f)	3.00	2.25	5.75	-6.3	-0.4
2015-16 (p)	3.00	2.50	5.00	6.0	0.3
2016-17 (p)	3.00	2.50	5.00	10.8	0.6

1.2 Breakdown

In accrual terms, the fiscal deficit for 2012/13 is estimated to be $19.4bn (or 1.3% of GDP). Key highlights of spending and saving measures (those committed within the current budget period) include:

Key measures

SPENDING INITIATIVES	$ BILLION
EDUCATION	3.5
HEALTH & AGED CARE	2.6
INFRASTRUCTURE	2.0
DEFENCE	0.8

SAVINGS MEASURES	$ BILLION
PERSONAL INCOME TAX	12.9
FAMILY	4.8
CORPORATE TAX	3.1
OFFICIAL DEVELOPMENT	1.9
CLEAN ENERGY FUTURE	1.5
PAYG	1.4
R&D TAX	1.1
HIGHER EDUCATION	0.9

1.3 Analysis

Only a year later and gone is the political rhetoric of the importance of gaining international credibility by getting a surplus "no matter what". Rather, the focus is very much on a fairly timid initial approach that does not see a balanced Budget until 2015/16 or a surplus until 2016/17. In short, a Budget that is more in line with a "soft economy" – even if the Government does not describe it as such.

From a structural viewpoint, nearly all the heavy lifting is from the revenue side, although the Budget is helping to repair "some" structural problems via scrapping last year's welfare increases and the baby bonus, increasing the Medicare Levy, tightening offshore tax arrangements and acknowledging the lower carbon price. The real risks to the Budget probably revolve around how much of the package will see the light of day post the election. Also, the Budget expenditures are very much back ended which raises the question of just what state the economy will be in 2016/17 and beyond.

The budget paper highlights the important transition that the Australian economy is expected to undergo over the forecast period; the transition of the resources boom away from the investment phase and towards the exports and production phase. It is also noted the impact this structural change is having on the economy already, with a persistently higher dollar and lower terms of trade having an acute and enduring effect on profits and prices growth across the economy, which is weighing heavily on nominal GDP growth and revenue growth.

Real GDP growth has grown by 0.6% in each of the three quarters up to end-2012, that is, a sub-trend annual rate of 2.5%. More recently, signs have emerged that the economy is responding to historically low borrowing rates; in the early months of this year, retail spending has strengthened and asset prices have risen, despite labour conditions remaining a little subdued. However, monthly business surveys continue to highlight the difficulty in business conditions, which remained challenging in April, while business confidence stumbled into negative territory.

1.4 Financial markets

Beyond the economic/fiscal outlook, for bond, equity and foreign exchange investors, the three main considerations from the Budget are:

- The Government's debt programme for 2013/2014 (supply);
- Implications for the Government's stable AAA credit rating; and
- Weight left for the RBA to lift via monetary policy (interest rates)

The market reaction to the Budget was negative, with the $A quickly falling half a cent to under 0.9950. The reasoning however was less likely to do with the detail of the Budget and more that investors are interpreting the string of deficits as signs the economy remains weak. Bond market movements have been minimal, and while equity markets opened this morning's session stronger, they have since reversed this trend and are now trading modestly lower.

2 TAX

There were a number of announcements that would otherwise fall under the category of "tax", however, in the interest of providing meaningful and relevant information to the majority of our clients, we have not included details on announcements relating to:

- prevention of "dividend washing" from 1 July 2013
- changes to thin capitalisation safe harbour ratios
- Farm Household Allowance (FHA)

2.1 Individuals

Personal income tax rate reduction deferred further (excluding the Medicare Levy)

Date of Effect: Projected to be 1 July 2018*

TAXABLE INCOME RANGE	CURRENT MARGINAL TAX RATES	TAXABLE INCOME RANGE	FUTURE MARGINAL TAX RATES #
$0 – $18,200	Nil	$0 – $19,400	Nil
$18,201 – $37,000	19%	$19,401 – $37,000	19%
$37,001 – $80,000	32.5%	$37,001 – $80,000	33%
$80,001 – $180,000	37%	$80,001 – $180,000	37%
$180,001 +	45%	$180,001 +	45%

*Applicable when carbon price threshold is reached, being $25.40.

The changes to marginal tax rates scheduled to commence from 1 July 2015 have been deferred. The Government has linked any changes to marginal tax rates (including thresholds) to the price of carbon and the expected revenue from the Carbon Pricing Scheme. Based on current projections, this is not anticipated to be effective until 1 July 2018.

With the Low Income Tax Offset (LITO), this gives an effective tax-free threshold of $20,542 in 2013/14 for resident taxpayers below Age Pension age ($32,279 if receiving Senior Australians & Pensioners tax offset)

Profile's view

The deferral affects low income earning taxpayers. It effectively means a taxpayer will be $83 per annum worse off (net of the LITO).

Medicare levy low-income threshold and increase in the Medicare Levy

Date of Effect: 1 July 2012

The Medicare levy low income threshold for the 2012/13 financial year will increase:

	CURRENT	PROPOSED
Individuals	$19,404	$20,542
Pensioners eligible for SAPTO^	$30,451	$32,279
Couple (Combined)	$32,743	$33,693
Additional for each dependent child/student	$3,007	$3,094

^Senior Australians and Pensioners Tax Offset

The increase in the low income threshold will assist those on lower incomes and is effective from 1 July 2012.

The Government had already announced the increase in the Medicare levy by 0.5% (up from 1.5% to 2%) to provide funding for Disability Care Australia. The effective date for the increase in Medicare levy is 1 July 2014.

While the announcement is viewed as affecting taxable income, it is important to note that there are other taxes payable where the Medicare Levy is included. This includes measures such as:

- Excess non-concessional contributions tax
- Tax on the taxable component of any lump sum superannuation withdrawals for taxpayers under age 60
- Tax on the taxable component of any death benefit payment to a non-dependent
- Fringe benefits tax

Profile's view

The Medicare Levy is not payable on death benefits paid to an estate. Therefore, strategies may need to be reviewed in terms of existing estate planning arrangements. This will also need to be balanced against the desire for certainty and possible challenges to Wills.

Generally, tax rebates and offsets can reduce an individual's tax liability to zero, however, the Medicare levy can still be payable. It is possible to reduce the Medicare levy liability by including franking credits and the private health insurance offset.

Net medical expenses tax offset (NMETO) phase out

Date of Effect: 1 July 2013

The Government will phase out the NMETO with transitional arrangements for those currently claiming the offset. At present (2012/13), a 20% tax offset can be claimed for eligible out-of-pocket expenses above $2,120 per annum for taxpayers with an adjusted taxable income (ATI) below the threshold of $84,000 for singles and $168,000 for taxpayers with a spouse or has dependants (threshold increases by $1,500 for each dependent child after the first). If the taxpayers ATI is above the aforementioned thresholds, the tax offset is reduced to 10% and only claimable for eligible expenses above $5,000.

Individuals who are unable to utilise the NMETO in 2012/13 will be unable to utilise it in future years, unless it relates to out-of-pocket medical expenses relating to disability aides, attendant care or aged care until 1 July 2019. That is, for general (eligible) medical expenses, only taxpayers who claim the offset for the 2013 income year will be eligible to claim in future years

- Taxpayers who claim for the 2013 year will be eligible to claim again for the 2014 year
- Taxpayers who claim for the 2014 year will be eligible to claim again for the 2015 year.

Profile's view

This is an area that the Government targeted in last year's budget, with an increase in the threshold from $2,000 to $5,000 (with a means test introduced). As we noted last year, if you have plans to incur larger medical expenses, you should consider bringing this forward to 2012/13 if you have already incurred out-of-pocket expenses to qualify for NMETO. If you are close to the threshold, you may wish to speak with your medical professional and stagger the expenses between now and 30 June 2013 and 1 July 2013 onwards.

It is important to note that the offset can only be used if you have to pay tax. For retired taxpayers who derive the majority of their income from a superannuation pension, each person can earn up to $20,542 before tax is payable, meaning that the NMETO may not be applicable.

Introduction of an annual cap of $2,000 for work related self-education expenses

Date of Effect: 1 July 2014

This change was previously announced by the Government on 13 April 2013.

Deductible education expenses are costs incurred in undertaking a course of study or other education activity, such as conferences and workshops, and include tuition fees, registration fees, student amenity fees, textbooks, professional and trade journals, travel and accommodation expenses, computer expenses and stationery, where such expenses are incurred in the production of the taxpayer's current assessable income.

Employers are generally not liable for fringe benefits tax for the aforementioned expenses for employees if it is provided to support their skill development. This treatment will be retained, unless an employee salary sacrifices to obtain the benefits.

The effective date of implementation is 1 July 2014

Profile's view

Clients may wish to investigate pre-paying any education expenses prior to the 1 July 2014 start date if it is anticipated that the $2,000 limit may be exceeded.

This announcement is likely to have been introduced to target excess overseas travel cloaked as self-education expenses and therefore not subject to fringe benefits tax (FBT).

Abolition of Higher Education Loan Program (HELP) discounts

Date of Effect: 1 January 2014

Discounts will be abolished for voluntary and up-front payments made on HELP loans. At present, a 10% discount applies to up-front payments and a 5% discount to voluntary payments of $500 or more.

The discounts are proposed to be abolished from 1 January 2014. Under HELP, students choosing to not pay upfront take a no-interest concessional loan (indexed to CPI), which is repaid gradually when *assessable* income exceeds a minimum repayment threshold ($49,096 in 2012/13).

Profile's view

There will now be no incentive to accelerate the repayment of HELP which implies that the government will be extending loans to students for longer. Clearly Treasury have calculated that the discounts offered to repay early were greater than the opportunity cost of receiving repayments back from students as they enter the workforce and generate assessable income.

2.1.1 Non-Residents

You may recall that last year's Federal Budget removed the 50% capital gains tax discount for non-residents (effective 7:30pm 8 May 2012). Any accrued gains prior to 8 May 2012 may still be eligible for the discount, provided a market valuation is obtained as at 8 May 2012.

Changes to taxation treatment on sale of Australian property

Date of Effect: 1 July 2016

Where a non-resident sells a property located within Australia, a new (non-final) withholding tax regime will be apply.

This measure is designed to ensure that the Australian government is able to recoup/recover an appropriate amount of tax on gains realised when such properties are sold. These measures will apply to all Australian taxable property. Other than:

- where the property is owned and sold by an Australian resident (ie, it only applies to non-residents)
- residential properties valued at less than $2.5 million.

The change means that the purchaser of the property will need to withhold 10% of the purchase price and forward it to the ATO as a form of withholding. As a result, the vendor will only receive 90% of the sale proceeds up-front. The vendor will then need to lodge a tax return if they want to receive any of the remaining 10%.

Profile's view

The measure will result in non-residents having to make a judgement call on the sale of Australian property and if they are prepared to lodge an Australian tax return. Based on an asset sale of $1 million, this means a withheld amount of $100,000. There are about one hundred thousand reasons to lodge a tax return to recover the withheld amount. If you are buying a property, you may wish to investigate if the vendor is a non-resident as it will mean extra compliance on your behalf and something that your lawyer/conveyance will need to be aware of.

Funding measures to facilitate an ATO Trusts taskforce

Date of Effect: n/a

The Government will provide the ATO with $67.9 million to investigate and audit the use of complex trust structures by high net wealth individuals to avoid and evade tax.

The ATO will undertake compliance activity in relation to taxpayers who have been involved in tax avoidance and tax evasion using trust structures. Recent law enforcement operations have led to the ATO believing that there is a significant increase in the level of trust-based non-compliance.

Profile's view

For clients who have Trusts in operation, it is even more important to ensure that the operational and compliance aspects of the Trust are up-to-date and able to be demonstrated should an audit be announced. Trusts are an area that the Government are continually monitoring and it is important to realise that it is the anti-avoidance practices that will be the main area of focus.

2.2 Business

Change to frequency of PAYG instalments

Date of Effect: 1 January 2017

The Government will extend the requirement to make monthly Pay As You Go (PAYG) income tax instalments to include all large entities in the PAYG instalment system. Prior to this Federal Budget announcement, the measure only related to corporate entities. The recent announcement will now capture superannuation funds, Trusts, sole traders and large investors which will result in their payment of tax being brought forward.

It is important to note that this only applies to non-corporate entities with turnover of $20 million or more and comes into effect from 1 January 2017.

3 SUPERANNUATION

Higher concessional contribution caps

Date of effect: Phase in from 1 July 2013

	UNDER AGE 50	AGE 50<60	AGE 60+
2012/13	$25,000	$25,000	$25,000
2013/14	$25,000	$25,000	$35,000
2014/15	$30,000 (due to indexation increase)	$35,000	$35,000

The proposed increase in contribution cap for those over age 50 is really only a transitional measure with indexation expected to increase the standard cap to $35,000 by 1 July 2018. This is due to the higher caps for those over 50 being non-indexed limits.

The indexation of the standard cap is also expected to flow through to an increase in the non-concessional cap (5X times the concessional cap or $180,000) as at 1 July 2014.

The higher cap replaces the previous budget proposal where a higher cap would apply to those over 50 and superannuation balances under $500,000 due to it being found too hard to administer.

Profile's view

If you will be 60 years of age from 1 July 2013 and have existing superannuation arrangements in place to maximise the current concessional contribution limit of $25,000, you may wish to amend your contribution levels to take advantage of the increased limit. As always, this should be made in consultation with your adviser and subject to any effect it may have on your day-to-day cash flow.

Given the penalties for excess concessional contributions, the changes to any salary sacrifice arrangements should not be made until the later of 1 July 2013 and the proposed change being legislated.

Given that indexation is likely to occur on 1 July 2014, careful consideration will need to be made on the merits of triggering the "bring forward" provisions beforehand, as you may forfeit a potential increase in limit in the meantime.

Minimum pension payments

Date of effect: 1 July 2013

Over recent years, minimum drawings from pension accounts have been reduced. With the budget not announcing an extension to the arrangement the standard minimum drawings are expected to apply for the 2013/14 financial year and onward.

AGE AT START OF PENSION (AND 1 JULY EACH YEAR)	2013/14
Under 65	4%
65 – 74	5%
75 – 79	6%
80 – 84	7%
85 –89	9%
90 – 94	11%
95 +	14%

Profile's view

The higher minimum pension payments may result in some people having cash flow in excess of their requirements. The options for this excess cash flow will need to be considered.

For people where the higher minimum pension will result in an actual increase to their pension payments, their investment portfolio allocations will need to be reconsidered over the coming year.

For those aged under 60 and utilising a Transition to Retirement pension the new minimum may affect the tax benefits of your current strategy and as such should be reviewed.

Changes to tax exemption for earnings on income stream assets

Date of effect: 1 July 2014

All income received by a superannuation fund from assets supporting an income stream (such as an account based pension) is currently completely tax free.
It is proposed that this tax exemption be limited to $100,000 per individual per year (indexed in $10,000 increments) and that earnings above this are taxed at 15%.

"Earnings" clearly includes all investment income (eg dividends from shares). However the treatment of realised capital gains will be more complex:

- if the asset was purchased before 5 April 2013, capital gains will only be included in the calculation from 1 July 2024
- if assets are purchased between 5 April 2013 and 1 July 2014, you'll have the choice to only include any capital gain that accrues after 1 July 2014
- assets bought after 1 July 2014 will have the full capital gain included in the calculation
- the 1/3 discount will apply to realised capital gains on asset held for greater than 12 months (ie. the effective tax rate would be 10%).

Profile's view

While it has been suggested that this will only affect individuals with over $2 million in pension phase, this assumes an earning rate of 5%. The table below highlights who may be affected in the event that a higher earning rate is achieved (especially relevant in years where a large capital gain has been accruing on an asset for a long period of time and then sold.)

PENSION BALANCE	EARNING RATE			
	5%	7%	9%	15%
$666,666	$33,333	$46,666	$60,000	$100,000
$1,111,111	$55,555	$77,778	$100,000	$166,667
$1,428,571	$71,429	$100,000	$128,571	$214,286
$2,000,000	$100,000	$140,000	$180,000	$300,000

This may have an effect on the investment strategies and management of funds, in particular their appetite to hold growth assets unchanged for a long time. While this may affect direct share holdings, due to the ability to sell partial holdings it should have relatively limited effect through prudent management. However, in the case of direct property holdings where partial sales are not usually possible and transaction costs of buying and selling can be significant, the proposed changes reduce their relative attractiveness.

While the change is certainly not welcomed it must be noted that superannuation and pensions are still likely to remain the most tax effective wealth accumulation and holding vehicle for retirement wealth in most circumstances.

The implementation of this policy also presents several challenges for the Australian Taxation Office (ATO). Invariably this will ultimately either flow directly to:

- members as an inconvenience and increase reporting requirements (especially if they currently are not required to communicate with the ATO through means such as completing a tax return), or to:
- super fund administrators as an increased responsibility and as such any additional costs are likely to flow onto members in the form of higher fees.

Refund of excess concessional contributions

Date of effect: 1 July 2013

Currently if you exceed your concessional contribution cap, a tax penalty applies at the rate of 31.5% (grossing up to 46.5% when you add the 15% contributions tax). This meant that for people not on the top marginal tax rate, the resulting tax paid would be greater than if they had just received it as salary (even if it was by accident or not their fault). Recently legislation was passed to allow excess concessional contributions to be refunded (a one-off opportunity) as long as the excess was less than $10,000.

All excess concessional contributions (made after 1 July 2013) will now be able to be refunded with the penalty rate of tax being applied at their marginal tax rate plus an interest charge.

Profile's view

This is a fair change to the concessional excess contributions tax. However, for ultra-high income individuals that were deliberately breaching their cap as a tax deferral mechanism (excess contributions tax get paid long after PAYG) the benefit of this strategy is now likely to be gone due to the interest charge being applied.

Change in threshold for lost member accounts to be transferred to the ATO

Date of effect: Phased in from 31 December 2015

The current threshold for inactive superannuation accounts to be transferred to the ATO is $2,000. This is to be increased to $2,500 from 31 December 2015 and then $3,000 from 31 December 2016. Interest is to be paid on the transferred balances equal to the Consumer Price Index (CPI) growth.

Profile's view

While having any lost super held in Trust by the Federal Government is far better than having your superannuation balance eroded via fees, it is important to remember that the balance will only be maintained (that is, keep pace with inflation). The Government will be investing the funds held in Trust and will keep any returns generated in excess of CPI. Just remember, any such gains could have been yours, so it is in your interest to find any lost super you may have. Please contact your adviser if you feel you have any lost super and we can assist you to locate it.

Improved tax treatment for deferred lifetime annuities

Date of effect: 1 July 2014

Currently deferred lifetime annuities do not qualify as an income stream for the purpose of the zero tax rate (that applies to pension assets). A tax rate of 15% applies to their earning like an accumulation fund. This is to be changed so that they will become eligible for the zero tax rate.

Profile's view

Due to the tax reduction, the inferred earning rate of these types of products should increase making them more attractive. The potential increase in consumer's appetite for such products may assist in driving further product development in this space which may result in more choice for consumers in how they wish to fund certain periods of their retirement.

Higher contributions tax for individuals with incomes over $300,000

Date of effect: 1 July 2012 (still waiting on legislation to be passed)

The previous year's Federal Budget announced this change and while it is proposed to come into effect as of 1 July 2012, legislation is yet to be passed.

Last night's Budget made a minor change to the proposal, being a similar definition of income for the measure to that used for calculating whether an individual is liable to pay the Medicare Levy surcharge.

Profile's view

Individuals on incomes over $300,000 will not receive the same level of tax benefits as those earning less than $300,000. Where a 15% contributions tax currently applies (31.5% lower than their marginal tax rate) a 30% contributions tax is proposed to be levied on any contribution that takes the individual's income over the threshold.
This proposal will present a significant challenge for those responsible for the calculation and collection of this revenue in an efficient manner.

4 SOCIAL SECURITY

4.1 Deeming of Account Based Pension income streams

Date of effect: 1 January 2015

Under current legislation assets held in an account-based pension are not subject to Centrelink deeming rules (instead only income above an amount that is considered a return of capital is assessed as income). However this is set to change for those who commence pensions (or change pension products) on or after 1 January 2015. Pension products currently held by people in receipt of Centrelink/DVA Pensions before this date will be grandfathered indefinitely and continue to be assessed under the existing deductible calculation rules.

Deeming rules which currently apply to financial investments, bank accounts etc. and are set to be extended to pensions are as follows:

- For a single person the first $45,400 is deemed at 2.5%, anything above which is 4%
- For a couple the first $75,600 is deemed at 2.5%, anything above which is 4%

To qualify for Centrelink Aged Pension you must be eligible under both the Assets & Income Test.

Profile's view

CASE STUDY

John (age 65) has a superannuation balance of $250,000 of which $100,000 is tax free component. He expects to draw 6% per annum ($15,000).

Assets test

Assets purchased from superannuation are currently assessed as an asset and will continue to be treated as so.

The formula for calculating under the Asset Test is as follows:

Max AP benefit – ({(Assessable assets – threshold) / 1,000) x 1.5}

For pensions, assets over these amounts reduce pension by $1.50 per fortnight for every $1000 above the amount (single and couple combined).

$808.40 – {(($250,000 - $192,500) / 1,000) x 1.5} = *$722.15 per fortnight*

Under the assets test John would receive $722.15 per fortnight where the pension is his only assessable asset.

Income test

The current formula for calculating under the Income Test is based on annual pensions, Commutations (Lump sum payments) and Relevant number (life expectancy)

Annual Payment – (Purchase Price – Commutations / Relevant Number)

$15,000 – {($250,000 - $0) / 18.54} = $1,516 per annum or ***$58.31 per fortnight***

This amount is less than the minimum threshold amount of $152 per fortnight therefore John is exempt from income testing and would receive $722.15 as per his asset test.

However, under the new deemed income test the calculation would be:

($45,400 x 2.5%) + ((Pension balance - $45,400) x 4%)

($45,400 x 2.5%) + {($250,000 - $45,400) x 4%} = $9,319 per annum or $358.42 per fortnight

Income over $152 pf reduces pension by 50cents per fortnight therefore:

$808.40 – {($358.42 - $152) x 0.5} = ***$705.19 per fortnight***

Under the new deeming rules John's pension per fortnight has been reduced from $722.15 to $705.19.

As you can see from our case study the new deeming rules applied can have an adverse effect.

Furthermore, we may look at commencing pensions prior to 1 January 2015 for some of our clients if we feel they will be negatively affected by these changes in a material manner.

Another instance is when we have clients in pension phase who wish to contribute to superannuation we carry out what we term a 'pension refresh' which essentially rolls pension accounts back to superannuation, the contribution is received and the pension is 'recommenced'. This was a relatively straight forward process with the majority of work being carried out behind the scenes. However going forward this will be a trigger for the deeming rules to be applied as this will qualify for a change of product.

Instead we may look at running more than one pension account for clients. When this is required your primary account which is exempt from deeming rules will be unaffected and a second superannuation account will be opened to accept further contributions and/or commence a pension. As a result only this second account will be subject to deeming.

4.2 Exemptions for downsizing homes

Date of effect: 1 July 2014 to 30 June 2017 (3 year trial program)

Retirees who are age pension age and have owned their current home for at least 25 years may gain some means-testing relief if they downsize their home. Currently age pensioners have been careful in selling their homes in the fear of reducing their pension eligibility. This stems from the fact that a pensioner's primary place of residence is not counted towards the asset test.

From 1 July 2014, senior Australian homeowners will have the ability to invest surplus funds (up to $200,000) in an approved account (which earns interest). The assets and interest will be exempt from the age pension means test for up to 10 years provided there are no withdrawals and at least 80% of the surplus proceeds were originally invested in the account). Once withdrawals commence, the entire account will immediately come under the asset test.

Profile's view

The idea is to encourage pensioners to transition from their homes to more manageable houses, units, retirement villages or granny flats without being concerned that they will lose some, or their entire pension. It is important to note that those pensioners moving into residential aged care will not be allowed to capitalise on the exemption. However, there are product solutions available such as annuities and insurance bonds held within a trust which can reduce the effect of the proceeds on their pension.

For our client's that have been considering a change of residence but are mindful of their age pension income, now may be the time to start considering downsizing the home.

Let's continue to use John from the above example. The benefit from the "housing downsizing exemption" would be calculated as follows:

- Primary Residence (for 25+ years) Sold for $900,000
- New Retirement Villa purchased for $600,000
- $200,000 placed in special asset exempt account
- $100,000 is now assessed as an asset plus the $250,000 pension account

$808.40 – {(($350,000 - $192,500) / 1,000) x 1.5} = **$572.15 per fortnight**

Under the new home downsizing exemption, John would continue to receive $572.15 pf from age pension.

The previous arrangement would have seen John's assessable asset increase by $300,000 thus reducing his benefit to **$272.15 pf. The new exemption provides John a direct benefit of $7,800 per year.**

4.3 Baby Bonus / FTB (Part A)

Date of effect: Birth date of 1 March 2014 onwards

The $5,000 Baby Bonus will be removed from 1 March 2014. Instead, families eligible for Family Tax Benefit (Part A) who are not accessing the Paid Parental Leave will receive $2,000 following the birth of their first child (and all multiple births), and $1,000 for each subsequent child. Parents will receive $500 up front and the remaining $1,500 be paid fortnightly over the following three months.

4.4 Increased income free area for allowance recipients and future CPI indexing to apply

Date of effect: 20 March 2014

For those in receipt of Newstart Allowance, Sickness Allowance, Parenting Payment (partnered), Widow Allowance, Partner allowance payment and Partner Allowance Pension there will be an increase in the amount you can earn per fortnight before your payments are affected. Previously this figure was $62 per fortnight and will rise to $100 per fortnight as of 20 March 2014. This increased threshold is then to be indexed in line with CPI from 1 July 2015.

Profile's view

This measure is partly in response to calls to raise the level which has been widely viewed as too low. This will be the first time in a decade that the income-free amount has been lifted. This is good news for those earning an income from part-time work allowing you up to an extra $988 per annum without affecting your entitlement.

4.5 Family payment changes

Date of effect: 1 July 2013 to 30 June 2017

The government announced the pausing of indexation on thresholds listed below until 30 June 2017:

PAYMENT	AMOUNT
FTB (B), Paid Parental Leave, and Dad/Partner Pay	Upper income test $150,000
FTB (A)	Upper income free area $94,316, plus $3,796 for each child after first
FTB supplements	$726.35 per child FTB (A) and $354.05 per family FTB (B) Note: FTB will only be paid to the end of the calendar year in which a teenager finishes school even if not yet 18
Child Care Rebate	Annual cap will remain at $7,500

Profile's view

It is important to note that families that claim the FTB and Child Care Benefit in their tax return at the end of the financial year need to ensure they have lodged their return within 12 months from the end of the relevant year. This applies for the 2012/13 financial year, so families claiming this way will need to lodge a tax return and claim the FTB before 1 July 2014.