PROFILE
FINANCIAL SERVICES

FEDERAL BUDGET ANALYSIS 12 MAY 2015

May 2015 Federal Budget

The Australian government unveiled its annual budget yesterday evening, Tuesday 12 May 2015. The federal treasurer has focussed this year's budget on stimulating the domestic economy. The deficit and national debt are tracking largely as expected from the government's December forecasts, with much of this budget's expenditure being offset by announced savings. The big winners include families using childcare, small businesses with turnover of less than $2m, and asset-poor retirees. Conversely, there'll be some pain for asset-rich retirees on Centrelink benefits, families utilising employer-sponsored parental leave, and large multi-national companies with local earnings. Importantly, superannuation has remained untouched; the Prime Minister reiterating any possible changes to superannuation would be enacted only with a mandate from Australians via a federal election.

In our analysis we have focused on budget announcements that may affect your financial planning strategy or investments. It is important to bear in mind that these announcements have 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 underlying cash deficit for 2014/15 is estimated at $41.1bn and $35bn in 2015/16 (or 2.1% of GDP and below market expectations). The projected deficit then moves down to $14.4bn in 2017/18 (0.8% of GDP) with an eventual return to surplus in 2019/20. The reduction in the deficit is essentially driven by returning revenues which rise from 23.9% of GDP in 2014/15 to 25.7% in 2017/18 (on an accruals basis). Outlays move from 26.1% to 26.0% of GDP in the same period

Key treasury forecasts

FINANCIAL YEAR	GDP % (CHANGE)	INFLATION % (CHANGE)	UNEMPLOYMENT % (CHANGE)	FISCAL POSITION (DEFICIT / SURPLUS)	
				($bn)	% of GDP
2015-16	2.75	2.50	6.50	-33.0	-2.0
2016-17	3.25	2.50	6.25	-23.4	-1.3
2017-18	3.50	2.50	6.00	-9.2	-0.5
2018-19	3.50	2.50	5.75	-3.2	-0.2

1.2 Breakdown

More than any Budget in recent memory, most of the key changes were pre-announced / leaked – again to emphasise the "no surprises" focus. Thus the key spends include a $5.5bn small business package (really micro business – i.e. turnover of less than $2m per annum), including tax cuts and more importantly a 5% tax discount applied to other tax payments, immediate write-offs of new assets up to $20,000, tax advantages for crowd funding and GST exemptions to SME electronic purchases. Elsewhere there is a $3.5bn spend on childcare incentives (but linked to stalled family tax benefits savings); a new infrastructure fund for Northern Australia ($800m); extra incentives for businesses for employing older Australians; drought spending ($330m); border/terrorism spending ($500m); a payment to offset Western Australia's GST issues ($500m); extra spending on the PBS ($1.6bn) and the reversal of last year's doctor rebate savings.

Equally the savings were well flagged: including a "new law" on cross border profit shifting: GST on intangibles/services (Netflix tax); pension savings by lowering the home asset threshold to $823k ($2.4bn); tightening of the paid parental schemes (anti double dipping between private and public schemes); the withdrawal of Melbourne East-West Link money ($1.5bn) and further public service efficiency dividends.

Key measures (over 4 years)

SPENDING	$ BILLION
SMALL BUSINESS	5.5
INFRASTRUCTURE	5.0
FAMILY	3.5
HEALTH	1.6
DEFENCE	1.2
YOUTH EMPLOYMENT	0.330
GOVERNMENT SERVICE DELIVERY	0.255

SAVINGS	$ BILLION
PENSION	2.4
WELFARE	1.7
INFRASTRUCTURE	1.5
FAMILY	1.0
FIFO/DIDO WORKERS	0.325
NON-PROFIT ORGANISATIONS	0.295

1.3 Analysis

As set out in the section on the Medium Term Fiscal Outlook, the Budget really is a combination of redirected policy spending broadly offset by substantial increases in revenue to GDP – bracket creep. Outlays broadly grow in line with GDP (which is better than the previous upward trend). The economic impact of the budget on the economy is relatively neutral.

Broadly, the government's forecasts are very similar to consensus and hence the projections are likely credible. Of course, to the extent of overestimated growth – especially in a low wage growth and falling commodity price world – the budget remains open to the disappointments (especially on the revenue line) that we have seen in recent years. But with a credible set of forecasts (and a deliberately conservative iron ore price assumption – Treasury $US 48) the rating agencies should be relatively satisfied. Equally we would not expect the very negative reaction of consumers to this year's Budget. That said, we would not really expect much of a kick to business confidence – outside of micro business.

It is also important to note the budget is not the complete current fiscal story. There is still the Tax White Paper to come - the Budget had little on big tax and superannuation questions. Also there is still the debate about what happens to the government's removal of $80bn in state funding for health and education in the out years. And finally, despite the government's best efforts, what happens in the ensuing political process is unknowable.

1.4 Impact

There has been a modest but nonetheless positive market reaction to the budget. The Australian dollar pushed 30 basis points higher towards USD0.7990 - although it was trading higher before the budget's release. Bond futures improved 2 to 3 basis points (i.e. yields are lower), presumably because the debt program is a little less than expected and the major ratings agencies have been quick to say the budget doesn't pose any immediate threat to the AAA rating.

2. TAX

The changes to taxation were limited in this year's budget. It was a case of "window dressing" and applying the integrity measures that the Treasurer led with in his handing down of the document. It is difficult to see the proposals not being passed in the Senate, as they are not overly controversial, and address the issues (albeit in a modest way) of revenue and expenditure measures to address the longer term issue of returning the budget to surplus.

2.1 Individual Taxes

There were no changes announced for personal income tax rates for residents. However, the tax free threshold has been removed for people on a working holiday. The Government will change the tax residency rules to treat most working holiday makers temporarily in Australia as non-residents for tax purposes. Currently, a working holiday maker is treated as a resident for tax purposes if they satisfy the tax residency rules, which is typically if they are in Australia for more than six months.

2.1.1 Personal tax rates (excluding the Medicare Levy,)

Date of effect: now

TAXABLE INCOME RANGE	RESIDENT TAX PAYABLE IN 2015/16	NON-RESIDENT TAX PAYABLE IN 2015/16
$0 – $18,200	Nil	32.5%
$18,201 – $37,000	Nil + 19% on amount over $18,200	
$37,001 – $80,000	$3,572 + 32.5% on amount over $37,000	
$80,001 – $180,000	$17,547 + 37% on amount over $80,000	$26,000 + 37% on amount over $80,000
$180,001 +	$54,547 + 47^% on amount over $180,000	$63,000 + 47^% on amount over $180,000

^ The Temporary Budget Repair Levy (2.0%) has not been extended beyond 30 June 2017.

The proposed measure is estimated to have a gain to revenue of $540m over the forward estimates.

Profile's view

The change in taxation payable by working holiday makers (aka "backpackers") may well affect the available labour force for rural Australia. With rural Australia being a focus in this year's budget, it will be interesting to see the reaction from the sector, as we see this as the only reason why the proposal may be "watered down" in having to pass the Senate.

2.1.2 Increase to the Medicare Levy low-income thresholds

Date of effect: 1 July 2014

The low income threshold will increase for singles, families and single seniors and pensioners to take into account movements in the Consumer Price Index (CPI). Taxpayers with taxable income below the noted thresholds are exempt from paying the Medicare Levy.

	NO MEDICARE IF TAXABLE INCOME IS EQUAL TO OR LESS THAN:
Individuals	$20,896 (previously $20,542)
Single pensioners under age pension age	$33,044 (previously $32,279)
Couples (no children)	$35,261 (previously $34,367)
Additional for each dependent child/student	$3,238 (previously $3,156)

The proposed measure is estimated to have a cost to revenue of $231m over the forward estimates.

2.1.3 Employee Share Schemes (ESS) – further changes to tax treatment

Date of effect: 1 July 2016

The Government will make further amendments to the proposed changes to the taxation of ESS. The measures address:

- Excluding eligible venture capital investments from the aggregated turnover test and grouping rules (for the start-up concession).
- Providing the CGT discount to ESS interests that are subject to the start-up concession, where options are converted into shares and the resulting shares are sold within 12 months of exercise.
- Allowing the Commissioner of Taxation to exercise discretion in regards to the minimum 3 year holding period where the circumstances are outside the control of the employee that make it impossible for the employee to meet this criteria. ESS interests provided at a small discount by eligible start-up companies will not be subject to up-front taxation if they are held by the employee for at least 3 years.

The proposed measure is estimated to have a small and unquantifiable cost to revenue over the forward estimates.

Profile's view

The Government's objective in making changes to ESS is to encourage new businesses to "have a go" and reward employees where cash flow may otherwise not be able to be provided via traditional wages and salary. This makes it easier for potential entrepreneurs to attract talent to assist them to succeed in their business venture. However, employees considering joining a company that is a start-up may wish to weigh-up the likelihood of success if they are trading salary/wages for equity in a company.

2.1.4 Tightening of eligibility to Zone Tax Offset (ZTO)

Date of effect: 1 July 2015

This is mainly targeted at the Fly-in fly-out workers (FIFOs). The Government is implementing this measure to better target the ZTO to people who have genuinely taken up residency in remote areas.

The current system allows FIFO workers who actually reside in a non-remote areas (or zones) to claim the ZTO by working in specified remote areas (or zones) for more than 183 days in an income year.

This measure is estimated to have a gain to revenue of $325m over the forward estimates.

Profile's view

This measure seems to be consistent with the intended purpose of the ZTO. With the slowdown in mining activity, there is a risk that the estimated gain to revenue may be optimistic.

2.1.5 A fairer Higher Education Loan Program (HELP)

Date of effect: 1 January 2016

The Government will extend the HELP repayment framework to debtors residing overseas.

The current system only requires repayment when the debtor's repayment income is above the compulsory repayment threshold ($54,126 for 2015/16). It does not currently capture a debtor's worldwide income, meaning that it discriminates between an Australian-domiciled resident taxpayer and a debtor who resides overseas and is a non-resident for tax purposes.

From 2016-17, HELP debtors residing overseas for six months or more will be required to make repayments of their HELP debt if their worldwide income exceeds the compulsory repayment threshold at the same repayment rates as debtors in Australia. Debtors going overseas from 1 January 2016 for more than six months will be required to register with the ATO, while those already overseas will have until 1 July 2017 to register.

This measure is estimated to improve the government's balance sheet by more than $140m over the next 10 years.

Profile's view

While some Profile clients have elected to return to university for further studies, chances are they are unlikely to reside overseas for more than six months. Therefore, this measure is something that Profile clients may wish to consider for their children or grandchildren. While many young people choose to have a 'gap' year, they are unlikely to earn more than the compulsory repayment threshold. It could well apply to persons who choose to work overseas in a professional capacity while at the same time, still having a significant HELP debt in place. If people are not aware, they may well get a nasty surprise from the ATO and incur a significant tax liability.

2.1.6 Introduction of a cap for not-for-profit salary sacrificed benefits

Date of effect: 1 April 2016

The Government will cap the amount that employees of public benevolent institutions and health promotion charities can salary sacrifice for meal entertainment benefits. At present, there is no limit and the amount salary sacrificed is not required to be reported.

The cap will be a single grossed up amount of $5,000. Any amount exceeding the cap will be counted towards the existing fringe benefits tax (FBT), being $31,177 for public benevolent institutions and health promotion charities and $17,667 for public and not-for-profit hospitals and public ambulance services.

This measure is designed to improve the integrity of the tax system by introducing a limit on the use of these benefits.

Profile's view

The introduction of a cap seems to be a sensible and acceptable strategy. While the exemption for FBT is designed to make employment in the noted institutions more attractive, an uncapped benefit for meal entertainment was possibly an unintended benefit. There has been little if any resistance to the announced measure which may suggest that it was not widely abused and is in keeping with the government's "integrity" measures introduced as part of this years' budget.

2.1.7 New method for calculating work-related car expense deductions

Date of effect: 1 July 2015

The Government will make changes to the calculation method for work-related car expense deductions.

Currently, there are four methods for calculating the amount of the tax deduction for eligible work-related car expenses. These are:

- The 12% of original cost method
- The 1/3rd of actual expense method
- The cents per kilometre method, (amount subject to engine size) and
- The log book method

The first two methods will be abolished.

The cents per kilometre will now be a flat 66 cents per kilometre. There is no change to the log book method.

The proposed changes will not affect leasing and salary sacrifice arrangements.

This measure is designed to have a gain to revenue of $845m over the forward estimates.

Profile's view

The removal of the first two methods is a logical proposal, given that less than 2% of those claiming work-related car expenses used these methods. For taxpayers using the cents per kilometre method that own a car with an engine size larger than 1.6 litres, the amount of tax deduction able to be claimed will decrease. It is also likely that employers who reimburse their employee's costs for travel on a cents per kilometre basis will adjust their calculations in line with the proposed rates.

2.2 Business Taxes

2.2.1 Reduction in company tax rate for small business and discounts for unincorporated businesses

Date of Effect: 1 July 2015- 20 June 2017

The Government has proposed reducing the company tax rate for small business from 30% to 28.5%. They have defined small business as having aggregated annual turnover of less than $2 million.

Individual tax payers with an unincorporated business, which once again has aggregate turnover of less than $2 million, will be eligible for a 5% discount on income tax payable on business income received (capped at $1,000 per individual per year). The discount will be delivered as a tax offset.

The current maximum franking credit for a distribution will remain unchanged at 30 percent for all companies, maintaining the existing arrangements for investors, such as self-funded retirees.

This measure is designed to be a cost to revenue of $3.3b over the forward estimates.

Profile's view

The objective is to incentivise companies to employ more people and create more jobs. The government would be hoping that the increase in employment will result in a higher collection of income tax to offset the cost to revenue by reducing company tax. It is pleasing to see the franking credit regime remain in place, however, this may well be in the scope of an overall tax review that the government may undertake.

2.2.2 Accelerated Depreciation – Primary Producers

Date of Effect: 1 July 2016

Primary producers (eg farmers) will be able to claim an immediate deduction for the capital cost of fencing and water facilities. They will also be able to claim depreciation over a shorter period of three years for capital expenditure on fodder storage assets (such as silos and tanks used to store grain and other animal feed).

This measure is designed to be a cost to revenue of $70m over the forward estimates.

Profile's view

Whilst this doesn't reduce the actual amount outlaid for these items, the accelerated depreciation will result in a greater tax benefit up front. In the past some primary producers have had the benefit spread over an extended period of up to 50 years. The purpose of this initiative is to help farmers prepare for and better manage periods of drought as well as boost productivity in the farming industry

2.2.3 Accelerated Depreciation – Small Business

Date of Effect: 7:30pm 12 May 2015 to 30 June 2017

Small businesses are now able to immediately deduct assets that cost less than $20,000 and are acquired and installed ready for use between 7:30pm 12 May 2015 and 30 June 2017.

Whilst this doesn't reduce the actual amount outlaid for these items, the accelerated depreciation will result in a great tax benefit up front for these small businesses.

This measure is designed to be a cost to revenue of $1.8b over the forward estimates.

Profile's view

The measure may have the desired effect of getting small business to reinvest and hopefully also employ new staff. There will always be an element of waste in expenditure, however, you cannot legislate on what does, and does not qualify as a deductible expense. Companies (both large and small) who supply goods and services to small businesses should take this measure into account in future marketing material and possibly investigate innovative offers to assist small business to take advantage of the measure in the coming two years.

2.2.4 Capital Gains Tax Rollover Relief

Date of Effect: 1 July 2016

Currently, CGT rollover relief is only available for individuals who incorporate, and all other changes in entity type have the potential to trigger a CGT liability.

The Government plans to allow small businesses to change legal structure without attracting a capital gains tax liability at that point. This measure will be available for businesses that changes entity type from 1 July 2016.

This measure is designed to be a cost to revenue of $40.0 million over the forward estimates.

Profile's view

While it is easy to understand that small business owners can be overwhelmed by working in their business, this measure is very valuable and should be kept top of mind. It is important to note that it relates to small businesses (ie turnover of less than $2m), so if your business is approaching or projected to exceed this level of turnover, you should be speaking with your accountant about taking advantage of this measure.

2.2.5 Immediate deductibility for new businesses for certain start-up costs

Date of Effect: 1 July 2015

Currently, when a business is established, some of the costs associated with that business are eligible for deduction over a period of five years.

The government plans to amend the laws to allow start-up businesses to claim an immediate deduction for a range of professional expenses incurred when beginning a business such as legal expenses.

The government plans to encourage more start-ups by implementing a streamlined business registration process and removing obstacles to crowd-sourced equity funding.

This measure is designed to be a cost to revenue of $30m over the forward estimates.

Profile's view

This is a welcome measure and should assist with cash flow planning within small businesses. It is consistent with the government's objective of encouraging Australian's to "have a go."

2.2.6 Changes to FBT for Work-Related Electronic Devices

Date of Effect: 1 April 2016

Currently, fringe benefit exemption tax exemption is only available for one work-related portable electronic advice of each type.

From 1 April 2016 an FBT exemption will be available to small businesses that provide employees with more than one qualifying work-related portable electronic device, even where the item has substantially similar functions.

The proposed measure is estimated to have a small and unquantifiable cost to revenue over the forward estimates.

Profile's view

This measure should assist small business to improve efficiency and take advantage of technology.

3. SUPERANNUATION

3.1 No major changes to superannuation

Heading into the 2015 federal budget, there were plenty of rumours and speculation around possible changes to superannuation. There were suggestions of limiting allowable contribution amounts, resulting in the retention of more assets outside the superannuation environment, and consequently increased tax in the hands of individuals. Another possibility was a tax on earnings above a certain level on allocated pension accounts, which are currently tax-free. Lastly, we could have seen a tax on pension payments above a certain threshold. These suggested proposals were designed to increase government revenue. However, the Government has decided to leave superannuation largely untouched. The Treasurer, Joe Hockey, has stated the main reasons behind this decision are record low interest rates having put further pressure on retiree income due to a significant portion of these investments being interest rate sensitive vehicles, such as term deposits. The government is encouraging more people to become self-funded.

Profile View

Almost every year, rumours abound concerning changes to super and this year was no different. We were glad to hear the current system is not being changed as a majority of our clients continue to benefit from years of planning. While many say all good things must come to an end, we will continue to enjoy the good times while we can.

3.2 Defined Benefit Income Rebate

Date of Effect: 1 January 2016

Revenue for the Government: $465 million

Currently, some people on defined benefit income have been able to claim a 50% deductible amount towards the Centrelink income test for government benefits.

The government plans to introduce measures to cap the proportion of income that can be excluded from any income test at 10% from 1 January 2016. This means anyone that has been receiving defined benefit income of over $83,130 per year may no longer be eligible to receive an age pension entitlement.

For example a couple with a defined benefit income stream of $100,000 a year with a 50% deductible amount can exclude $50,000 from the income test. Only the remaining $50,000 is assessed as income under the test, which results in the couple receiving a part pension of around $12,400 per year in addition to their defined benefit pension. However, under the new measures $90,000 would be assessed under the income test, which results in the couple not being eligible for the age pension.

The government estimates that around 65 percent of income support recipients with payments from defined benefit pension accounts have deductible amounts of 10 per cent or less, and therefore revenue can be raised from the remaining 35 percent.

It is important to note that recipients of Veterans' Affairs pensions and/or defined benefit income streams paid by military superannuation funds are exempt from this measure.

3.3 Relaxing Criteria for Access to Super – Terminal Medical Condition

Date of Effect: 1 July 2015

Cost to the Government: $300,000 in the first Financial Year only

Currently, a person with a terminal illness can only access their superannuation if they are diagnosed to have less than 12 months to live.

Under the proposed changes, those who are diagnosed to have less than 24 months to live will have unrestricted access to their preserved super benefits tax-free.

The process of being diagnosed with a terminal illness involves two medical practitioners agreeing on the diagnosis (including a specialist), which has remained unchanged.

Profile's view

This is a welcome change as it can assist with the payment of treatment costs and potentially provide a better standard of living for the last 24 months of life. However, the benefits need to be weighed up against the potential losses such as the anti-detriment payment when super is cashed out prior to death.

3.4 Full Cost Recovery of Superannuation Activities

Date of Effect: 1 July 2015

Savings to the Government: $11.6 million per Financial Year

The Government plans to increase the supervisory levies paid by financial institutions in order to fully recover the cost of superannuation activities undertaken by the Australian Tax Office and the Department of Human Services.

Profile's view

This may lead to an increase in administration fees by superannuation funds in order to cover increased costs.

3.5 Lost and Unclaimed Superannuation

Date of Effect: 1 July 2016

The Government has proposed that they reduce the red tape for superannuation funds and individuals. This measure removes redundant reporting obligations, and streamlines lost and unclaimed superannuation administration arrangements.

Profile's view

These changes should make it easier for individuals to claim their lost and unclaimed superannuation.

4. SOCIAL SECURITY

4.1 Changes to pension assets test thresholds and tapering rates

Date of effect: 1 January 2017.

As announced prior to budget night, the government focused on tightening the Age Pension eligibility this year. This has meant there are winners and losers with 172,000 people at the lower end of the partial Age Pension being better off while an estimated 81,000 people who are currently in receipt of the Aged Pension no longer being eligible. By implementing these changes, the government is set to save an estimated $2.4 billion.

Previously a couple who had assets of less than $286,500 would receive the full Aged Pension – this has now been increased to $375,000. On the other end of the scale, part pension eligibility has been reduced from assets of $1,151,500 to $823,000.

	Full Pension (Assets below)	Part pension (Asset below)
Single - Homeowner	$ 250,000	$ 547,000
Single - Non Homeowner	$ 450,000	$ 747,000
Couple - Homeowner	$ 375,000	$ 823,000
Couple - Non Homeowner	$ 575,000	$ 1,023,000

Once clients exceed the lower assets test threshold the tapering rate will change from a $1.50 per $1,000 reduction to $3.00 per $1,000.

Many are set to lose out on the Age Pension due to this lowering of the Aged Pension Threshold and increasing of tapering. This is a reversal of the reduction in tapering brought in by The Howard Government in 2007, which opened up access to the Aged Pension to self-funded retirees in recent years.

We have included some examples below of how we expect this to affect clients of varying asset balances.

Assessable Assets		Age Pension received at current rates*		Aged Pension under rebalanced asset test measure		Change in pension received	
$	200,000	$	33,717	$	33,717	$	-
$	400,000	$	29,290	$	31,767	$	2,477
$	463,500	$	26,814	$	26,814	$	-
$	600,000	$	21,490	$	16,167	-$	5,323
$	800,000	$	13,690	$	567	-$	13,123
$	823,000	$	12,793	$	-	-$	12,793

*Inclusive of supplements

To help the transition of those affected by the scaling back of the maximum asset threshold, the Government will guarantee them eligibility for the Commonwealth Seniors Health Card (CSHC) or Health Care Card, which provides the same concessional access to pharmaceuticals as given to those on the pension.

Profile's view

With social changes, such as ever increasing life expectancy and its increased pressure on the government to assist non self-funded retirees for longer, it was expected the budget would focus on cutbacks in this area. While a lot of our clients will be negatively affected by these changes it wasn't all bad news, with clients at the lower end of the assets test receiving more. This budget set out to assist those people who need it most by reducing payments to those at the wealthier end of the spectrum and, in that light, it achieved its goal.

The Government is no longer looking to change the way the pension was indexed which would have negatively impacted pensioners more over the long term. It was proposed pension payments would increase in line with the Consumer Price Index (CPI), however they will now continue to be indexed under the higher of the increase in the Consumer Price Index (CPI) or the Pensioner and Beneficiary Living Cost Index (PBLCI) and benchmarked against Male Total Average Weekly Earnings (MTAWE).

4.2 Childcare reform

Cost to the Government: $3.2 billion over 5 years (Total cost of all childcare policies)

4.2.1 Child Care Subsidy Scheme (CCS)

Date of effect: 1 July 2017.

With many areas of the Budget focusing on cost saving, child care reform was to the contrary with an additional $3.2b committed over five years on child care assistance, including a new Child Care Subsidy (CCS). The simplified Child Care Subsidy will be implemented from 1 July 2017 with a single subsidy based on family income, replacing the Child Care Benefit, Child Care Rebate and Jobs, Education and Training Child Care Fee Assistance program.

Children accessing these subsidies must be vaccinated under the new 'No Jab, No Pay' rule. Families who choose not to vaccinate their children will not be able to receive child care payments or the Family Tax Benefit Part A end of year supplement. This starts on 1 January 2016.

In an effort to encourage those parents engaged in work, training, study or other recognised activities, the CCS will assist in meeting child care costs up to an hourly cap (see below). It is hoped these changes will encourage the estimated 165,000 people who are currently struggling to engage in the above activities, but are unable to do so.

Family income ($) Financial year 2017/18	Maximum % (up to hourly fee cap)
0 - 65,000	85
65,000 - 170,000	Between 50 and 85
170,000 - 185,000	50
185,000+	50 (with annual cap of $10,000 per child)

The CCS will be paid directly to providers under these proposed arrangements for up to 100 hours per fortnight.

Type of care	Hourly fee cap
Long day care	$ 11.55
Family day care	$ 10.70
Outside school hours care	$ 10.10

Any cost of childcare above these caps is met by the parents. For example if your combined family income is $170,000 you can receive 50% of subsidies daily child care costs up to $115.50, calculated as (10 hours x $11.55) x 50% = $57.75. However if your childcare is costing you $150.00 per day you must also pay the difference - calculated ($57.75 + 34.50) = $92.25 net cost per day to you.

A family with both parents working 8 hours a fortnight each can have up to 36 hours of subsidised child care; families who work longer hours can have more child care hours subsidised. Volunteering, paid work and study all count. In addition, the CCS will subsidise 24 hours of childcare a fortnight for low-income families with a parent who doesn't work.

Hours of activity (per fortnight)	Number of hours of subsidy (per fortnight)
8 to 16 hours	Up to 36 hours
17 to 48 hours	Up to 72 hours
49 or more hours	Up to 100 hours

Profile's view

A simplified approach to child care subsidy was needed and the Government have attempted to streamline the process in this budget. With many families unable to afford a full-time stay at home parent, these changes are seen as a positive step to encouraging these women to re-enter or stay in the workforce while ensuring there child is receiving a good level of educational assistance in their absence. As the childcare industry grows, if the Government continues to subsidise many of the costs, we feel they should have an active participation in the framework of the childcare industry. This should ensure an appropriate level of qualifications is kept while excess and unnecessary costs do not continue to escalate rapidly.

4.2.2 Nanny pilot programme

Date of effect: 1 January 2016.

The Interim Home Based Carer Subsidy Programme is a two year pilot programme aimed at assisting families who have restricted access to standard childcare due to difficult circumstances such as living in remote areas and engaging in shift work.

Commencing 1 January 2016 and ending in December 2017, eligible families will receive government-subsidised childcare provided by nannies who meet set qualification criteria. The applicable percentages and hours of subsidy are identical to those applicable under the Child Care Subsidy (CCS), but with a fee cap of $7.00/hr. Families who meet the eligibility criteria can apply to the Department of Social Services.

Profile's view

This is a trial programme, meaning that it may not become a permanent measure depending on the uptake by participants and the outcomes. It will be interesting to see the take up of this programme by individuals. Families may not be prepared for the obligations associated with hiring a nanny such as their obligations under Fair Work,

superannuation and WorkCover. Securing the services of a nanny may be challenging depending on the requirements of the eligible families. It may be difficult to find a nanny willing to work the hours required by a shift-working parent, or one who lives in a remote area. Whether this is a scheme that a family can reasonably be expected to access is yet to be seen.

4.3 Changes to Family Tax Benefit Part A

4.3.1 Reduced Portability

Date of Effect: 1 January 2016

Currently, Family Tax Benefit Part A recipients who are overseas are able to receive their usual rate of payment for six weeks and then the base rate ($56.70 per fortnight per child) for a further 50 weeks.

Under the proposed changes families will only be able to receive the Family Tax Benefit Part A for six weeks in a 12 month period whilst overseas and no base rate will then be payable.

For each child aged	Maximum rate of Part A per fortnight
0-12 years	Up to 36 hours
13-19 years	Up to 72 hours
0-19 years in approved care organisation	Up to 100 hours

This will result in $1,304.10 per annum less per child being received if the child is outside Australia.

4.3.2 Removal of Large Family Supplement

Date of Effect: 1 July 2016

Savings to the Government: $177.3 million over four years

Currently the Large Family Supplement is paid as part of the Family Tax Benefit Part A to families with three or more children. The supplement is estimated to be worth $32.20 per annum. Under the proposed changes, families will still continue to receive a per child rate of Family Tax Benefit Part A for each eligible child in their family. However, from 1 July 2015 to 30 June 2016 the Large Family Supplement will only be paid to families with four or more children. Then from 1 July 2016, the Government will no longer pay the Large Family Supplement.

4.4 Removal of "double dipping" on Paid Parental Leave (PPL)

Date of Effect: 1 July 2016

Savings to the Government: $967.7 million over four years

Those individuals who receive employer-funded parental leave entitlements will have restricted access to the Government's Parental Leave Pay (PLP) scheme. The changes will see the Government's contribution limited to the shortfall between the maximum PLP benefit (18 weeks at the national minimum wage) and the employer's payments. Where an employer's contribution exceeds the maximum PLP benefit, the individual will not be entitled to the PLP benefit.

Profile's view

The intention of the Paid Parental Leave scheme is to assist working individuals financially by providing a minimum income following the birth of their child which allows them to take at least 18 weeks off work. For employees who were fortunate enough in the past to avail of both maternity leave from their employer and Paid Parental Leave, they had every right to do so – and this was in fact encouraged by the government.

It seems there has been a U-turn in this thinking as the government has decided those receiving employer benefits should not receive the same entitlement as those without and in doing so they have made substantial savings which can

be reallocated to other areas. While parents may be hard hit by this policy in comparison to what they would have received in the past, the Government is making cuts to benefits in other areas. These may result in parents being forced to return to the workforce sooner than planned as they would be reduced to no income after 18 week period.

From an employer's perspective, providing these additional financial benefits to employees allowed them greater opportunity to attract and maintain highly skilled and valuable staff members. Employers will need to re-think their business' "attract and retain" strategies in light of the proposed measures.

4.5 Aged care means testing

Date of Effect: 1 July 2016

Savings to the Government: $26.2 million over four years

From 1 January 2016, aged care residents who pay their accommodation costs by periodic payments and rent out their former home will now have that rental income included when determining their means-tested care fee. Treatment for means testing purposes will now be identical to those who pay their accommodation costs via a lump sum.

Your income and assets are assessed by the Department of Human Services or the Department of Veterans' Affairs who then determine your assessed income and where it is higher than the above thresholds, the means-tested fee for care you are required to pay.

You will not have to pay an income-tested care fee if you have assessed income below the following thresholds:

- Individual $25,118.60
- Member of a couple, but separated due to illness (individual income) - $24,650.60
- Member of a couple living together (combined income) - $38,984.40

Existing protections such as annual fee caps and lifetime fee caps remain. There are annual and lifetime caps that apply to the means-tested care fee. Once these caps are reached, you cannot be asked to pay any more in means-tested care fees.

Profile's view

Previously, Profile may have recommended strategies for individuals to rent out their former home while in aged care, whereby accommodation costs were paid under periodic payments even if the resident was able to finance the full lump sum. In some instances, this would have allowed them to receive more income before it impacted on their means-tested care fee. This window of opportunity has now been closed and the decision to pay via either lump sum or periodic payments will be determined by cash flow and investment opportunities versus periodic payment.

4.6 Overseas portability

Date of Effect: 1 January 2017

Currently, Age Pension recipients who have spent less than 35 years in Australia between ages 16 and Age Pension age begin to receive a reduced payment rate once they have been out of Australia for more than 26 weeks. This period is proposed to be reduced to 6 weeks from 1 January 2017. Recipients with a working life over 35 years will not be affected. It is worth noting that Centrelink assesses Aged Pension recipients on a continuous basis, meaning under the proposed changes, if you have lived in Australia less than 35 years and are away for a continuous period of 6 weeks you could see a decrease in your Aged Pension entitlement. If you attempt to circumvent the system by fly-in/fly-out schemes, Centrelink may review your status as a resident by determining 'where you make your home'.

For those already overseas:

- If you departed Australia before 1 July 2014, you will usually need to have lived in Australia as an Australian resident for 25 years in order to continue receiving your full rate of Age Pension after 26 weeks. If less than 25 years, you will receive a smaller rate of Age Pension after 26 weeks outside Australia.
- If you were outside Australia on 1 July 2014, you can continue to receive your payment under the 25 year rule, unless you return and stay in Australia for 26 weeks or more.

Profile's view:

For a majority of our client's this will have no effect. For those clients who have spent less than 35 years in Australia (from age 16), are on Aged Pension, and are planning on an extended trip overseas, you should look to discuss the situation with Centrelink. For everyone else, it's business as usual.

4.7 Youth Allowance/Newstart revised changes

Former proposed changes by the Government under "Stronger Participation Incentives for Job Seekers under 30" will not be proceeding. Previously, individuals under 30 would not receive government support for the first six months while still being required to meet strict job-search criteria. Once this 6-month period had passed, they would then need to participate in "Work-for-the-Dole" for a minimum of 25 hours per week while continuing to meet job search criteria in order to receive income support from the government.

Under the new proposal, people receiving the Youth Allowance will be required to actively seek work for a four-week waiting period before receiving any government support. Those eligible for a Newstart Allowance will have to wait one week before receiving payments.

Eligibility for the Newstart Allowance will change from 1 July 2016 for new claimants, who must now be aged 25 or over.

Profile's view

The former measures would have placed some considerable financial strain on unemployed adults and would have created greater economic and social repercussions, particularly when considering the implications for those under 30 with dependants and financial commitments such as mortgages.

Changes to the age criteria for government support payments will see new claimants aged between 22 and 24 now receiving the Youth Allowance as opposed to Newstart Allowance. The affected individuals will have a greater waiting period before receiving government support and will receive significantly lower support payments than under the previous regime.

4.8 Centrelink measures not proceeding:

4.8.1 Maintain eligibility thresholds for Australian Government payments for three years

The Government had planned to fix indexation for pension income test free areas and deeming thresholds for a period of three years from 1 July 2017. This is no longer proceeding and they will remain indexed annually with the Consumer Price Index (CPI).

4.8.2 Reset of Deeming Rate Thresholds Reset the Income Test Deeming Rate Thresholds

The Government had previously intended to reduce means-tested deeming provision thresholds to $30,000 for singles and $50,000 for couples over three years from 20 September 2017. This will not be happening.

4.8.3 Index Pension and Pension Equivalent Payments by the Consumer Price Index

The Government had intended to index pension and pension equivalent payments only by the Consumer Price Index from 1 September 2017 onwards. The current indexation arrangements will continue whereby indexation is in line with the higher of the increases in the CPI, PBLCI and benchmarked under MTAWE.

Profile's view

These changes will ensure that pension payments continue to increase with the rise in living costs. The previous proposals would have made things more difficult for those vulnerable individuals who are already struggling to meet their living costs.