budget wrap

2012

FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

Dante De Gori

Dante is the General Manager, Policy & Government Relations of the Financial Planning Association of Australia (FPA). Dante drives the proactive policy and government relations strategy for the FPA, leveraging his extensive experience in supporting financial planners in technical strategies and legislative analysis. Since joining the FPA in 2010, Dante has participated in more than 10 Government Committees and Consultation Groups, led the formulation of FPA policy on over 100 submissions to Government and ASIC, and been instrumental in the FPA's consultation with Treasury on the FoFA reforms.

Prior to joining the FPA, Dante was a Technical Manager at ClearView Financial Management providing technical support to financial planners in the areas of taxation, superannuation, estate planning, life insurance and social security legislation. Dante has also worked at Zurich Financial Services and Asteron providing technical strategies and legislative analysis to financial planners. Dante has a Bachelor of Commerce (majoring in Finance and Marketing), a Graduate Certificate in Politics and Policy and a Diploma in Financial Planning. He is currently undertaking his CFP® certification.

Follow Dante on Twitter @ddegori10 for the latest policy updates.

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

ABN 62 054 174 453
GPO Box 4285
Sydney NSW 2001

Phone 02 9220 4500
Fax 02 9220 4580

Members call 1300 337 301
Consumers call 1300 626 393

fpa@fpa.asn.au
www.fpabestpractice.com.au

OVERVIEW

As the Government flagged, the 2012-13 Budget will produce a cash surplus of $1.5 billion – the surplus foreshadowed in last year's Budget for 2012-13. The surplus is forecast to rise to $2 billion in 2013-14 and to $5.3 billion the following year.

The 2012-13 Budget includes for the first time carbon price estimates for the 2015-16 projection year, when the scheme will transition to a flexible price and be linked to the international market. In the flexible price period, international carbon prices are expected to set the domestic carbon price.

The Carbon Pricing Mechanism is expected to raise $24.7 billion in receipts over the forward estimates. The receipt estimates incorporate a carbon price for 2015-16 of $29, based on Treasury modelling

Economic growth is forecast to lift fractionally in 2012-13 to 3 ¼ per cent, up from an expected 3 per cent in 2011-12, according to the Budget.

The growth forecast is in line with that of the Reserve Bank which in its May monetary policy statement earlier this month revised down slightly its economic growth forecasts for 2012-13 to 3 to 3½ per cent for 2012-13.

Growth is expected to flatten to 3 per cent in 2013-14. The main drivers of economic growth are expected to be business investment and exports.

Underlying inflation is forecast to remain within the Reserve bank's 2-3 per cent target range but headline inflation will kick higher to 3 ¾ per cent because of the impact of the carbon tax.

SUPERANNUATION

Contribution Tax changes

As the Government had hinted before the Budget, the tax concession for superannuation contributions by high-income earners has been cut.

From 1 July 2012, individuals with income greater than $300,000 will be taxed at 30% on their superannuation contributions (up from 15% and excluding the Medicare levy).

The definition of 'income' for the purpose of concessional contributions for those earning over $300,000 will also be changed.

The measure will provide savings to the Budget of $946.5 million over the forward estimates. It is estimated that it will affect around 128,000 people in 2012-13, or 1.2 per cent of people contributing to superannuation.

The definition of 'income' for the purpose of this measure will include taxable income, concessional superannuation contributions, adjusted fringe benefits, total net investment loss, target foreign income, tax-free government pensions and benefits, less child support.

If an individual's income excluding their concessional contributions is less than the $300,000 threshold, but the inclusion of their concessional contributions pushes them over the threshold, the reduced tax concession will only apply to the part of the contributions that are in excess of the threshold.

For example, someone with income excluding their concessional contributions of $285,000, and concessional contributions of $20,000 (taking their total income to $305,000), would have the reduced tax concession only apply to $5000 of their contributions.

'Concessional contributions' for the purpose of this measure include all employer contributions (both superannuation guarantee and salary sacrifice contributions) and personal contributions for which a deduction has been claimed. For members of defined benefit funds (both funded and unfunded schemes), it will include all of their notional employer contributions.

The reduced tax concession will not apply to concessional contributions, which exceed the concessional contributions cap and are therefore subject to 'excess contributions tax'. These contributions are effectively taxed at the top marginal tax rate and therefore do not receive a tax concession.

Treasury will consult with the superannuation industry and other relevant stakeholders on further design and implementation details.

Concessional contributions cap

The Government will defer the start date of the higher concessional contributions cap measure by two years, from 1 July 2012 to 1 July 2014.

Under the originally proposed higher concessional contributions cap measure, individuals aged 50 and over with superannuation balances below $500,000 would have been able to contribute up to $50,000 in concessional contributions – but this has been deferred!

The two-year deferral means that for 2012-13 and 2013-14, all individuals will only be able to make concessional contributions of up to $25,000 per year. In 2014-15, the concessional cap is expected to increase to $30,000 through indexation, and the higher cap (after the deferral period) would then commence at $55,000.

In consultations on the implementation of the higher cap, the superannuation industry raised concerns in relation to the cost and complexity involved in administering the balance limit, and the difficulty some individuals may face in determining whether they are eligible for the higher cap.

One reason for the deferral is to help individuals to be able to more easily determine whether they are eligible for the higher cap from 1 July 2014, as the ATO is developing an online reporting facility that will provide access to comprehensive account balance information from early 2014.

Deferring the start date of the higher concessional contributions cap will save $1.46 billion over the forward estimates.

SuperStream levy arrangements

The Government has confirmed that a temporary SuperStream levy will be paid by Australian Prudential Regulation Authority (APRA) regulated superannuation funds to fund the costs to Government of implementing the SuperStream reforms.

The costs associated with the implementation of SuperStream will be collected by APRA within the existing Superannuation Supervisory levy. As is normal practice, a discussion paper will be released shortly after Budget setting out how the levy will be apportioned between superannuation funds.

Pensioner Draw Down

The Government will phase out the pension drawdown relief that has been provided over the last three years. Minimum payment amounts for account-based, allocated and market linked pensions will be reduced by 25% for 2011-12 and will return to normal in 2012-13.

For example, from 2012-13, the minimum payment amount for a pensioner under age 65 will be 3% of the account balance.

The Government previously provided pension drawdown relief in the 2008-09, 2009-10 and 2010-11 years by halving the minimum payment amounts.

TAXATION

Medicare Levy Exemption

The Government will raise the low-income thresholds for the Medicare Levy and Medicare Levy Surcharge as part of the 2012-13 Budget. The increase in the threshold will be backdated to take effect from 1 July 2011.

The Medicare Levy low-income threshold will increase in line with the Consumer Price Index to $19,404 for singles (up from $18,839) and to $32,743 for couples (up from $31,789). For families, the additional amount of threshold for each dependent child or student will also be increased to $3,007 (up from $2,919).

The Medicare Levy low-income threshold for pensioners below Age Pension age will also be increased. For the 2011-12 financial year, the threshold will rise to $30,451 (up from $30,439). This will ensure that pensioners below Age Pension age do not pay the Medicare Levy when they do not have an income tax liability.

From 1 July 2012 the low-income threshold for this group will be fixed at the level applicable to seniors entitled to the Senior Australians Tax Offset (SATO), as part of the merger of the pensioner tax offset into the SATO, which was announced as part of the Clean Energy Future Plan household assistance package.

Personal Tax

The Government announced a $3.9 billion package in support payments for parents, through additional family payments and the new School kids bonus that replaces the education tax rebate.

- *More generous payments under Family Tax Benefit Part A*

The Government will provide $1.8 billion over four years by increasing the maximum payment rate of Family Tax Benefit Part A (FTB-A) by $300 per annum for families with one child and $600 per annum for families with two or more children.

For families receiving the base rate of FTB-A, the increase will be $100 per annum for families with one child and $200 per annum for families with two or more children. The increased rate will come into effect from 1 July 2013.

Families Minister Jenny Macklin provided the following examples:

A family with two children under 12 will receive:

- ✓ $600 boost, up to an income of $78,000
- ✓ $200 boost, with an income of between $78,000 and $112,000

A family with one child under 12, and one aged over 12, will receive:

- ✓ $600 boost, up to an income around $85,000
- ✓ $200 boost with an income between $85,000 and $112,000

A family with two teenage children will receive:

- ✓ $600 boost, up to an income around $90,000
- ✓ $200 boost with an income between $90,000 and $115,000

A family with one teenage child will receive:

- ✓ $300 boost, up to an income around $70,000
- ✓ $100 boost with an income between $70,000 and $101,000

- *Family Tax Benefit Part A – change to the age of eligibility*

The Government will save $360.9 million over four years by limiting the eligibility for Family Tax Benefit (FTB) Part A.

The benefit will be limited to young people under 18 years-of-age or, where a young person remains in secondary school, the end of the calendar year in which they turn 19.

Individuals who no longer qualify for FTB Part A may be eligible to receive Youth Allowance subject to usual eligibility requirements. This change will focus payments in the family assistance system on families with children who are at school, while Youth Allowance will become the primary form of assistance to eligible young adults aged 18 and over.

- *The School kids bonus*
  - ✓ The Government will fund $2.1 billion over five years for a new School kids Bonus to provide $410 for primary school students and $820 for secondary school to help families with education costs.

The measure, foreshadowed by the Prime Minister on Sunday, will replace the Education Tax Refund, a measure that 774,000 eligible families failed to fully claim.

From 2013, eligible families will automatically receive a payment of $410 for primary school students and $820 for secondary school students, paid in two equal instalments, in January and July of each year. As a transitional arrangement, families will receive the full 2011-12 ETR entitlement in a single payment in June 2012.

All eligible families will receive the full rate of payment and will no longer need to keep receipts as proof of expense, or wait until tax time.

Eligibility for the payment will remain open to families with children enrolled and attending school who are in receipt of Family Tax Benefit Part A (FTB A) or other qualifying income support payments or allowances under a prescribed educational scheme that precludes the family from receiving FTB A.

Reduced tax offset for "golden handshakes"
From 1 July 2012, only that part of a "golden handshake" that takes a person's total annual taxable income (including the ETP) to no more than $180,000 will be taxed at concessional rates.

The $180,000 cap will complement the existing ETP cap ($175,000 in 2012-13, indexed) which ensures that the tax offset only applies to amounts up to the ETP cap.

The ETP tax offset ensures that ETPs up to the ETP cap are taxed at a maximum tax rate of 15% for those over preservation age and 30% for those under preservation age.

Tax Relief for Small business
The Government will introduce a loss carry back scheme to provide immediate tax relief for businesses, which report a loss.

Currently businesses are able to carry forward losses to offset future profits and therefore reduce their tax bills. The new measure will allow businesses to 'carry back' their losses, applying them to their previous tax paid, and receive a refund on some of that tax paid.

From 1 July 2012, small businesses will be able to instantly write-off each and every asset they purchase costing less than $6,500 – a full deduction straight away, rather than waiting.

From 1 July small businesses will also be able to instantly write-off the first $5,000 of a motor vehicle.

Other Changes: what is being scrapped or reducing?

- *Personal Tax: 50 per cent discount for interest income scrapped*

The Government will not proceed with the 2010-11 Budget measure *Stronger, fairer, simpler tax reform — 50 per cent discount for interest income* (as amended in the 2010-11 MYEFO and the 2011-12 MYEFO), which was due to commence on 1 July 2013.

- *Government scraps standard deduction for work-related expense*

The Government will not proceed with the 2010-11 Budget measure *Stronger, fairer, simpler tax reform — standard deduction for work-related expenses and the cost of managing tax affairs* (as amended in the 2011-12 MYEFO) which was due to commence on 1 July 2013.

The Government said it is pursuing other simplification measures such as tripling the tax free threshold to $18,200 from 1 July 2012, taking up to one million people out of the tax system.

- *Phase out of mature age worker tax offset*

The Government will phase out the mature age worker tax offset (MAWTO) from 1 July 2012 for taxpayers born on or after 1 July 1957.

Access to the MAWTO will be maintained for taxpayers who are aged 55 years or older in 2011-12. This measure is estimated to increase revenue by $255.0 million over the forward estimates period.

- *Net Medical expenses tax offset: threshold increases and reimbursement reduced*

The Government will introduce a means test for the net medical expenses tax offset (NMETO) from 1 July 2012.

For people with adjusted taxable income above the Medicare levy surcharge thresholds ($84,000 for singles and $168,000 for couples or families in 2012-13), the threshold above which a taxpayer may claim NMETO will be increased to $5,000 (indexed annually thereafter) and the rate of reimbursement will be reduced to 10 per cent for eligible out of pocket expenses incurred. People with income below the surcharge thresholds will be unaffected.

- *Business and investment – Tax changes*

The Government has abandoned the planned cut in company tax from 30 to 29 per cent, originally announced as part of the carbon Price package.

- *Better targeting Fringe benefits tax —living-away-from-home allowances and benefits at people* legitimately maintaining a second home in addition to their actual home for an initial period by:
  - limiting access to the tax concession to employees who maintain a home for their own use in Australia, that they are living away from for work; and
  - providing the tax concession for a maximum period of 12 months in respect of an individual employee for any particular work location.

- *Increase in managed investment trust final withholding tax rate*
  - The Government will increase the managed investment trust final withholding tax rate from 7.5 per cent to 15 per cent, with effect from 1 July 2012. This measure will return the withholding tax for managed investment trusts to the level of the original 2007 election commitment. This measure is estimated to have a gain to revenue of $260.0 million over the forward estimates period.

SOCIAL SECURITY

Extra allowance for those on income support

The new supplement will provide $210 each year for eligible singles and $175 each year for each member of an eligible couple.

The supplement will be paid in two instalments, in March and September each year, with the first payment commencing on 20 March 2013.

The supplement will be an ongoing, non-taxable payment to recipients of Newstart Allowance, Sickness Allowance, Youth Allowance, Austudy, ABSTUDY, Special Benefit, Parenting Payment Single, Parenting

Payment Partnered, Transitional Farm Family Payment and the Exceptional Circumstances Relief Payment.

The Government will also double the liquid assets test thresholds for income support recipients. From 1 July 2013, newly unemployed people will be able to access income support without waiting up to 13 weeks if they have liquid assets of up to $5,000 for singles without children and $10,000 for all others.

Aged care
The Budget delivers a $3.7 billion five year package to reform the aged care system, under the *Living longer, living better* package.

The Government will encourage greater investment in the sector to provide consumers with more choice and greater protections, at a cost of $660 million over five years.

The Government will also make savings through new income test arrangements for people commencing Home Care packages or entering residential aged care after 30 June 2014.

A new income test will be introduced from 1 July 2014 for Home Care packages. Under these arrangements, full pensioners will not pay any income-tested care fee, while part-pensioners will contribute up to a maximum of $5,000 a year, and self-funded retirees up to $10,000 a year, for their care. Care recipients will continue to pay a basic fee of up to 17.5 per cent of the basic age pension.

Income and assets tests will be combined from 1 July 2014 to strengthen the means testing arrangements that currently apply to residential care.

An annual cap of $25,000 will apply to care contributions in residential care. Care recipients will continue to pay a basic fee, currently up to 84 per cent of the basic age pension.

Residents in permanent care in an aged care home as at 30 June 2014 and all respite residents will not be affected by these changes.

National Disability Insurance Scheme
The Government will commit $1.0 billion over four years to the first stage of a National Disability Insurance Scheme.

The first stage will deliver personalised care and support for up to 10,000 people with significant and permanent disability from 2013-14 and expand to support up to 20,000 people from 2014-15.

Eligible individuals will be entitled to reasonable and necessary care and support that reflects their individual circumstances with the Government providing funding of $342.5 million over three years from 2013-14.

This first stage of an NDIS will occur in up to four launch locations, to be announced following negotiations with state and territory governments. The Government will be seeking to share the costs with state and territory governments of individual care and support for people with a significant and permanent disability, and will bear the full remaining costs of this initiative.

Mature age job seekers given help
The Government will provide $25.7 million over four years to assist mature age job seekers aged 55 years and over who are unemployed and would like help to re-enter the workforce.

This service includes a review of the person's skills and training needs, undertaking IT training including use of social media to support job search, career counselling, financial planning support, and support for resume preparation, interview skills and job search techniques.

This measure also includes incentives of up to $500 per job seeker for items associated with job preparation such as example internet connection or other IT-related hardware.

The Government will work with industry through the National Workforce Development Fund to prioritise the up-skilling and reskilling of mature age workers and will provide an additional $35 million.

The new $1,000 Jobs Bonus will be introduced for employers who recruit and retain a mature age jobseeker for three months.

This initiative will be coupled with a $15.6 million extension of the Corporate Champions program to provide support to employers who wish to promote mature aged employment at their workplace.

ASIC FUNDING

The Gillard Government will provide the Australian Securities and Investments Commission (ASIC) with new funding of $180.2 million over four years to ensure the corporate watchdog can continue to provide strong and effective oversight of Australia's financial markets to protect retail investors and their retirement savings.

Australia's financial sector and economy emerged from the global financial crisis stronger than almost any advanced economy thanks to the actions of the Government to fight off recession and the tough supervision of our world-class regulators.

ASIC will receive funding of $101.9 million over four years to ensure that it is appropriately resourced to continue its strong, proactive and consultative oversight of Australia's financial markets, including surveillance, guidance and education, and the prosecution of breaches of the corporations law.

The Enhanced Market Supervision measure provides ASIC with further funding of $43.7 million over four years to replace its real-time integrated market surveillance system and enhance ASIC's market surveillance and supervision systems and tools. This will enable ASIC to continue to perform its market supervision functions effectively and efficiently, to ensure a level playing field for all investors.

ASIC will also receive $23.9 million over four years to facilitate the implementation and enforcement of the Future of Financial Advice reforms. These reforms significantly increase the level of protection for retail investors that seek financial advice on how to invest their hard-earned savings and will require ASIC to increase the intensity and scope of its regulatory activities.

In addition to enhancing the protection for consumers that seek financial advice, the financial services industry will benefit from this funding as it will enable ASIC to provide regulatory guidance about the reforms and also implement a streamlined system for applying for an Australian Financial Services Licence.

AFS licence fees
In order to recover these costs, the application fee to obtain an AFS licence will increase to:

- **Body corporate -** $1,485 (up from either $287 or $575, depending on method of application)
- **Natural person** - $825 (up from either $159 or $351, depending on method of application).

The annual lodgement fee for an AFS licence holder will also increase from $351 to $549 for a body corporate and from $144 to $225 for a natural person.

ASIC will further receive $10.7 million over four years to develop and maintain an online registration system for auditors of self managed superannuation funds (SMSFs). As part of the registration process, ASIC will develop a competency exam and be responsible for the deregistration of non-compliant auditors.

Conclusion
Further to this summary the FPA will continue to review all the Budget papers and will provide any updates, if required.