Budget 2013-2014

On 14 May 2013, the Treasurer handed down the 2013-14 Federal Budget. Significant revenue shortfalls over those budgeted for and Government spending commitments such as the Gonski school reforms, placed considerable pressure on the Budget. The Treasurer announced a deficit of $18bn in 2013-14. The Government said it expects the deficit to fall to $10.9bn in 2014-15 and return to a small surplus ($800m) by 2015-16.

The major revenue measures announced in the Budget included: measures targeting multinational profit and debt shifting; reduction in thin cap ratios; changes to Australia's foreign resident CGT regime; measures to prevent "dividend washing"; restrictions on immediate deductions for mining rights; infrastructure measures; continued funding of Enterprise Connect and Business Advisory Services; and boosts to productivity through innovation, education, skills and research. There were no new superannuation changes, all having been announced pre-Budget. Below are some of the measures of immediate relevance to everyday Australians.

PERSONAL

2015 tax-free threshold increase "deferred"

The already legislated increase in the tax-free threshold to $19,400 from 1 July 2015 will not proceed and will instead be "deferred". The deferral of the so-called Clean Energy Future personal tax cuts came about due to the lower than originally anticipated carbon price after 1 July 2015. Legislation will be required to implement this tax-free threshold change. The already legislated increase in the second marginal tax rate from 32.5% to 33% from 1 July 2015 will still go ahead.

Scrapping of planned FTB Part A increase

The Government has announced that it will not proceed with its 2012-13 Budget proposal to provide $1.8bn in funding over 4 years to increase the maximum payment rate of Family Tax Benefit (FTB) Part A by $300 pa for families with one child and $600 pa for families with 2 or more children. For families receiving the base rate of FTB Part A, the increase would have been $100 pa for families with one child and $200 pa for families with 2 or more children. The increased FTB was to have come into effect from 1 July 2013.

FTB Part A change to age of eligibility

The Government announced it will change eligibility for FTB Part A for children aged 16 years and over. FTB Part A will only be paid until the end of the calendar year in which a child completes school. This change will start from 1 January 2014. Individuals who no longer qualify for FTB Part A may be eligible to receive Youth Allowance, subject to the usual eligibility requirements.

Seniors downsizing from family home - means test exemption

The Government will trial a pilot program from 1 July 2014 to provide a means test exemption for Age Pension recipients who are downsizing from their family home. The proposed measure will seek to remove the disincentive for pensioners to move to more age-appropriate housing (including granny flats, retirement homes, but not residential aged care). Under the proposal, the family home must have been owned for at least 25 years with at least 80% of proceeds from the sale (up to $200,000) to be deposited into a special account by an authorised deposit taking institution (ADI). These funds (plus earned interest) will be exempt from pension means testing for up to 10 years provided there are no withdrawals during the life of the account.

HEALTH

Medicare levy increase to 2% confirmed to fund Disability Care

The Medicare levy will be increased by 0.50% to 2% with effect from 1 July 2014, to help fund the Government's proposed National Disability Insurance Scheme (NDIS), now renamed DisabilityCare Australia. Low income earners will continue to receive relief from the Medicare levy through the low income thresholds for singles, families, seniors and pensioners. The current exemptions from the Medicare levy will also remain in place, including for blind pensioners and sickness allowance recipients. If the appropriate bills are passed, the increase will apply from 1 July 2014.

Phase-out of medical expense tax offset

The Government is to phase out the net medical expenses tax offset, with transitional arrangements for those currently claiming the offset. However, the offset will continue to be available for taxpayers for out-of-pocket medical expenses relating to disability aids, attendant care or aged care until 1 July 2019. From 1 July 2013, those taxpayers who claimed the offset in 2012-13 will continue to be eligible for 2013-14 if they have eligible out-of-pocket medical expenses above the relevant thresholds. In addition, those who claim the offset in 2013-14 will be eligible to claim it in 2014-15.

Medicare levy low-income threshold for families increased

The Budget announced that the Medicare levy low-income threshold for families will increase to $33,693 for the 2012-13 income year, with effect from 1 July 2012. The additional amount of threshold for each dependent child or student will also increase to $3,094.

Baby Bonus to be abolished and replaced

The Government announced that it would replace the Baby Bonus from 1 March 2014. Instead, it will increase Family Tax Benefit Part A (FTB Part A) payments by $2,000, to be paid in the year following the birth or adoption of a first child or each child in multiple births, and $1,000 for second or subsequent children. The additional FTB Part A will be paid as an initial payment of $500, with the remainder to be paid in seven fortnightly instalments. Parents who take up Paid Parental Leave (PPL) will not be eligible for the additional FTB Part A component, but will benefit from improved access to PPL as their family expands. As part of this package, parents will be able to count time on Government PPL where it occurs in the work test period for a subsequent child, just like employer funded parental leave can be counted now.

EDUCATION

HELP discounts to be abolished

The Government will remove the discounts applying to up-front and voluntary payments made under the Higher Education Loan Program (HELP) from 1 January 2014. The discounts that will be removed are: the 10% discount available to students electing to pay their student contribution up-front; and the 5% bonus on voluntary payments of $500 or more.

Confirmation that self-education expenses to be capped

The Government will introduce a $2,000 cap on tax deduction claims for work-related self-education expenses per person from 1 July 2014. Taxpayers will be able to claim a tax deduction of up to $2,000 of education expenses in an income year. 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 these expenses are incurred in the production of the taxpayer's current assessable income.

BUSINESS

Further extension of monthly PAYG instalments

The Government will extend the requirement to make monthly PAYG income tax instalments to include all large entities in the PAYG instalment system, including trusts, superannuation funds, sole traders and large investors. The Government had already announced that corporate tax entities with turnover of more than $1bn will move to monthly PAYG instalments from 1 January 2014; of $100m or more will move to monthly PAYG instalments from 1 January 2015; and of $20m or more will move to monthly PAYG instalments from 1 January 2016. Added to this they have announced that all other entities in the PAYG instalment system with turnover of $1bn or more will move to monthly PAYG instalments from 1 January 2016; and of $20m or more will move to monthly PAYG instalments from 1 January 2017.

Entities, other than head companies or provisional head companies, that have a turnover of less than $100m and report GST on a quarterly or annual basis will not be required to pay PAYG instalments monthly. In addition, to ensure the continued equity of the system, entities in the taxation of financial arrangements (TOFA) regime will assess their entry to monthly instalments using a modified turnover test, based on their gross TOFA income rather than their net TOFA income.

Increased funding for trusts taskforce

The Government will provide $67.9m over 4 years to the Tax Office to undertake compliance activity in relation to trust structures. The taskforce will target the exploitation of trusts to conceal income, mischaracterise transactions, artificially reduce trust income amounts and underpay tax. It will focus on taxpayers who have been "involved in egregious tax avoidance and evasion" involving trusts. Compliance activity will target "known tax scheme designers, promoters, individuals and businesses who participate in such arrangements".