



2015 Federal Budget

What it means for you

13 May 2015

The Treasurer Joe Hockey's 'no surprises' Federal Budget involves limited superannuation and taxation changes, with a number of key measures having been announced prior to Budget night. Of note is the Government's announcement that it will reform a number of family assistance measures, as well as the means test for the Age Pension.

Below is a summary of key announcements that may affect you from a financial advice perspective. Please talk to your financial adviser for further details.

Highlights

Income tax changes

- [Personal income tax](#)
- [Tax compliance](#)

Corporate tax changes

- [Small businesses](#)

Superannuation changes

- [Access to benefits](#)

Social security and family assistance changes

- [Family assistance](#)
- [Social security](#)
- [Aged care](#)

Income tax changes

Personal income tax

There were no changes to personal marginal tax rates for resident or non-resident taxpayers in this year's Budget. However, the following changes in relation to personal income tax were announced:

- Motor vehicle expense deductions
 - The number of methods available for calculating tax deductions related to the business use of a motor vehicle will be reduced from four to two, with the '12 per cent of original value method' and 'one-third of actual expenses incurred method' to be removed with effect from 2015/16 financial year
 - The 'cents per kilometre method', which currently provides a deduction based on the size of the motor vehicle's engine, will also be modified. The reference to engine capacity will be removed and a flat rate of 66 cents per kilometre will be applied to determine an individual's deduction amount under this method.
- Fringe Benefits Tax (FBT)
 - Employees of public benevolent institutions, health promotion charities, public and not-for-profit hospitals and public ambulance services are currently able to salary sacrifice meal entertainment benefits without being subject to FBT and without the benefits being reportable
 - From 1 April 2016, a new separate single grossed-up cap of \$5,000 will apply for salary sacrificed meal entertainment benefits for employees of these institutions. All use of meal entertainment benefits will now be a reportable fringe benefit
 - Meal entertainment benefits exceeding the separate grossed-up cap of \$5,000 can also be counted in calculating whether an employee exceeds their existing FBT exemption or rebate cap.

Tax compliance

- Increase in penalty units
 - The value of Commonwealth penalty units will increase from \$170 to \$180 from 31 July 2015. The penalty unit will also be indexed every three years by the Consumer Price Index, with the first indexation to occur on 1 July 2018
 - Commonwealth penalty units are relevant for some Australian Taxation Office (ATO) penalties including:
 - failure to lodge an income tax return or other document by the due date or in the approved form
 - statements made or schemes undertaken by a taxpayer including intentional disregard of the tax law, recklessness or failure to take reasonable care
 - breaches of the *Superannuation Industry (Supervision) Act 1993*.

Corporate tax changes

Small businesses

- Capital gains tax (CGT) roll-over relief for small businesses
 - Commencing from the 2016/17 income year, changes to the legal structure of a small business with an aggregated annual turnover of less than \$2 million will allow a deferral of the taxing point via CGT roll-over relief
 - Currently, CGT roll-over relief is only available for individuals who incorporate, while all other entity type changes (eg trusts) may give rise to a CGT liability. This measure recognises that new small businesses might choose an initial legal structure that they later find does not suit them when the business is more established.
- Tax cuts and tax discounts for small businesses
 - Small businesses that are companies with an aggregated annual turnover of less than \$2 million will receive a tax cut of 1.5 per cent
 - Companies exceeding the \$2 million threshold will be subject to the existing 30 per cent company tax rate on all taxable income. The current maximum franking credit rate for a distribution will remain unchanged at 30 per cent for all companies
 - Unincorporated small businesses will receive a tax discount of 5 per cent, capped at \$1,000
 - These changes will commence in the 2015/16 income year.
- Immediate deductibility for professional expenses of small businesses
 - The Government will allow businesses to take an immediate deduction for a number of professional expenses associated with starting a new business

- The expenses will include certain professional, legal and accounting advice expenses and will commence from the 2015/16 income year
- Under the current law, some professional expenses would ordinarily be deducted over a five year period.
- Expanding accelerated depreciation for small businesses
 - Small businesses with an aggregate annual turnover of less than \$2 million will be able to immediately deduct the cost of assets, provided the asset cost is less than \$20,000
 - This measure represents an increase from the current threshold of \$1,000. It will apply to assets acquired and installed ready for use between 7.30pm 12 May 2015 and 30 June 2017
 - Assets valued at \$20,000 or more will continue to be placed in the small business simplified depreciation pool and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. The pool can also be immediately deducted if the balance is less than \$20,000 over this period (including existing pools)
 - The Government will also suspend the current ‘lock out’ laws for the simplified depreciation rules. These laws prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out, until 30 June 2017
 - From 1 July 2017, the thresholds for the immediate depreciation of assets and the value of the pool will revert to existing arrangements.

Superannuation changes

Access to benefits

- Release of superannuation benefits for terminal medical condition
 - As previously [announced](#) by the Government, the conditions under which an individual suffering a terminal illness can access their superannuation benefits will be amended
 - Currently, access to benefits using the ‘terminal medical condition’ condition of release requires an individual to obtain certification from two medical practitioners (one of whom is a specialist practising in the area related to the injury or illness) stating they are likely to have less than 12 months to live. This time period is proposed to be extended to 24 months with effect from 1 July 2015.

Social security and family assistance changes

Family assistance

- Parental Leave Pay
 - Eligibility conditions for the Government’s Parental Leave Pay scheme will be tightened, preventing some parents from claiming parental leave payments from both their employer and the Government. From 1 July 2016, parents who are eligible for employer-funded parental leave that is more generous than the Government’s Parental Leave Pay scheme will no longer receive the taxpayer-funded payment as well. Where employer-funded parental leave is less than the Government’s scheme, parents will be eligible for a Government payment, up to the maximum Parental Leave Pay benefit (ie currently 18 weeks at the national minimum wage).
- Child care
 - The Government has [announced](#) a comprehensive package of reforms intended to provide a simpler, more affordable, flexible and accessible child care system. The reforms include a new Child Care Subsidy that will replace the current Child Care Benefit, Child Care Rebate and Jobs, Education and Training Child Care Fee Assistance programs from 1 July 2017
 - Eligibility for the new Child Care Subsidy will be based on an activity test and a means test. Families with incomes of up to \$60,000 (in 2013/14 dollars) will be eligible for a Child Care Subsidy of 85 per cent of the lesser of the actual child care fees and a benchmark price per child. The subsidy rate will reduce to 50 per cent for families with income of \$165,000 and above. The subsidy amount will be capped at \$10,000 per child for families with income of \$180,000 and above. No cap will apply for family incomes of less than \$180,000
 - Other measures include a two year [pilot program](#) to extend subsidy support for home care services provided by nannies and a [child care safety net for disadvantaged families](#)
 - For further information, see [Budget 2015/16 Families Package](#).

Social security

- Deeming thresholds
 - The Government has indicated it will not proceed with a reset of the deeming thresholds that was announced in the 2014 Federal Budget. Under the previous proposal, the deeming thresholds for the social security income test were to be reset to \$30,000 for single pensioners and \$50,000 for couples, with effect from 20 September 2017.
- Age Pension
 - In a pre-Budget [announcement](#), the Government indicated it will make significant changes to the means test used to determine eligibility for the Age Pension. The changes include increases to the 'asset free area' for the full pension and assets test reduction rate and a subsequent reduction in the part-pension cut-out thresholds. The changes are proposed to come into effect from 1 January 2017
 - Pensioners impacted by the proposed changes to the Age Pension means test will be guaranteed eligibility for either the Commonwealth Seniors Health Card or the Health Care Card
 - The Government has also indicated it will not proceed with changes to indexation of the Age Pension that were announced in last year's Federal Budget
- Income test treatment of defined benefit pensions
 - The social security means testing of certain defined benefit pensions will be amended to impose a cap on the deduction amount available under the income test. Currently, a portion of an individual's defined benefit pension, based on the tax free component, is not counted as income for social security purposes, which can result in a significant amount of income being disregarded in assessing eligibility for pensions under the income test. From 1 January 2016, this deduction amount will be limited to 10 per cent of the value of the annual pension for defined benefit pensions payable from public sector and corporate defined benefit schemes
 - Military pensions, veterans' pensions and income streams purchased from retail providers or through self-managed superannuation funds will not be affected by this change.

Aged care

- Means testing arrangements
 - The Government will align the aged care means testing arrangements for residents who pay their accommodation costs by periodic payments with the arrangements that currently apply to those who pay via a lump sum. This will remove the rental income exemption for aged care residents who are renting out their former home and paying their accommodation costs by periodic payment. This measure will apply for new residents entering care from 1 January 2016.

Further information

- For further information on the measures detailed above, please talk to your financial adviser.

Disclaimer

This information is provided by Macquarie Investment Management Limited ABN 66 002 867 003 AFSL 237 492 (MIML) for educational purposes. It does not take into account your objectives, financial situation or needs and you should consider whether it is appropriate for you. In deciding whether to acquire or continue to hold an investment, you should consider the relevant product guide or product disclosure statement.

We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

MIML will not be liable for any losses arising from reliance on this information and MIML does not give, nor purport to give, any taxation advice.

MIML is not an authorised deposit-taking institution for the purposes of the Banking Act (Cth) 1959, and MIML's obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542. Macquarie Bank Limited does not guarantee or otherwise provide assurance in respect of the obligations of MIML.

© Copyright 2015 Macquarie Investment Management Limited.