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[With special comments by Reuters News]

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EXECUTIVE SUMMARY

[695] 2014-15 Federal Budget: temporary deficit tax announced, but only over $180,000; FTB changes; retirement age at 70; welfare means testing; other tax changes

On 13 May 2014, the Treasurer Mr Hockey handed down the 2014-15 Federal Budget, his keenly awaited 1st Budget. Anticipation was high that significant changes would be announced following the recent release of the National Commission of Audit report (see 2014 WTB 18 [622]), even though that report only looked at the expenditure side of the equation. The Government did however release its formal response to the Commission's report - see para [696] of this *Bulletin*.

From a taxation point of view, the Budget was relatively "light on". Apart from the expected 2% budget deficit levy, and the reindexation of fuel excise, tax measures were relatively few, although progress on announced but unenacted measures was noted (see para [708] of this *Bulletin*). Notably, however, a significant range of welfare benefit changes was announced, including the freezing of certain eligibility thresholds. The projected savings from the welfare measures run into billions and form a substantial part of the Government's debt/deficit reduction drive.

The much debated budget deficit levy (tax) was a key announcement, although the 2% levy won't cut in until incomes reach $180,000, and will last for only 3 years ie for the 2014-15, 2015-16 and 2016-17 years – it will apply from 1 July 2014 to 30 June 2017. The 2% levy will apply on taxable income above $180,000 per annum. The levy will apply to all taxpayers, including members of Parliament. Mr Hockey said the levy is expected to increase revenue by $3.1bn over the forward estimates period.

The Government says that, in 2014-15, the Australian economy is forecast to grow slightly below trend, with a large fall in resources investment partly offset by a boost from higher resources exports and the household sector's response to low interest rates. The unemployment rate is forecast to reach 6.25% by the June quarter 2015 and remain at this rate to the end of 2015-16.

The underlying cash deficit in 2014-15 is expected to be $29.8bn (1.8% of GDP), falling to $2.8bn in 2017-18. The underlying cash deficit is projected to be $60bn over 4 years to 2017-18, compared to $123bn over 4 years at the 2013-14 Mid-Year Economic and Fiscal Outlook (MYEFO). With the changes in this Budget, the Government claims debt would be $389bn in a decade; $277bn lower than the projection of $667bn at MYEFO, and assuming future tax relief.

The Budget documents say medium-term projections show surpluses building to well over 1% of GDP by 2024-25.

An outline of the major revenue-related announcements is given below.

Revenue measures announced

The major revenue measures announced in the Budget included:

- A temporary (3 year) 2% Budget deficit levy (tax), known as the Temporary Budget Repair Levy, for incomes above $180,000.
- The Government confirmed that it was committed to cutting the company tax rate by 1.5 percentage points (to 28.5%) from 1 July 2015. For large companies, the reduction will offset the cost of the Government's 1.5% Paid Parental Leave levy.
- Further progress on announced but enacted measures eg exempt income of charities, no decision yet on s 25-90 foreign source income measure, principal asset test and foreign residents.
- Medicare levy surcharge and private health insurance offset thresholds to be frozen.
- Most dependant offsets to be abolished.
- A tax receipt for individuals will be introduced from 1 July 2014.
- Super guarantee rate to go to 9.5% on 1 July 2014.
- Option to be given to withdraw excess non-concessional superannuation contributions.
- ATO staff reductions to be brought forward.
- Family Tax Benefit changes: 2-year freeze on rates; other changes.
- Fuel excise indexation to recommence.

The Government also confirmed in the Budget that it would proceed with its Paid Parental Leave scheme from 1 July 2015. It will provide 6 months paid leave and will include superannuation.

Although speculated before the Budget, there were no adverse changes announced to the FBT exempt benefit caps for PBI/NFP employees, and no changes to the employee share scheme rules.

More information on the tax and related announcements is also contained in a number of Budget press releases - see the Treasurer's website and the Acting Assistant Treasurer's website.

Tax reform still on the drawing board

The Budget was not big on tax reform, but the Treasurer had alluded to that in the weeks before the Budget. The Government's proposed Tax Reform White Paper is meant to address a wide range of potential reforms.

Just before the Budget, a small manufacturer asked the Treasurer (at an address he was giving in Melbourne) whether it would be a good idea to increase growth by increasing cash flows in companies by abolishing the need for them to pay provisional tax (now known as PAYG instalments) and re-invest that money back into the economy via capital expenditure, etc.

The Treasurer said he thought that was "a great idea", but warned that the Government was "not seeking to fix the tax system in this Budget". He said the Government had previously announced it would release a Tax White Paper and the Government would take what comes out of that to the Australian people at the next election. During the 2013 election campaign, the Coalition said it would release the modelling behind the Henry Review to enable an open discussion about the future of the tax system, and would then seek a second-term mandate for a further tax reform agenda by releasing a comprehensive White Paper on tax reform prior to the next Federal election - see 2013 WTB 39 [1681].

Getting Budget measures through the Senate

The composition of the "new" Senate after 1 July 2014 will have a major bearing on the Government's ability to have its legislation on Budget measures passed. In the 76-seat Senate, the Government will need 39 votes to have its legislation passed. After 1 July 2014, there will be a record 18 Senators on the crossbench.

The composition of the Senate is outlined below.

Composition of the Senate

Party	Current Senate	Post-1 July 2014 Senate
Coalition	34	33
ALP	31	25
Greens	9	10
Palmer United Party (PUP)	0	3
Nick Xenophon	1	1
Democratic Labor Party (Senator John Madigan, Vic)	1	1

Liberal Democratic Party (Senator David Leyonhjelm, NSW)	0	1
Family First (Senator Bob Day, SA)	0	1
Australian Motoring Enthusiast Party (Senator Ricky Muir, Vic)	0	1

If for example Labor and the Greens were to combine to oppose Government legislation (Budget or otherwise), the Government would need 6 of the 8 cross-bench Senators (eg PUP, Xenophon, etc) to get its required 39 votes. Of course, other permutations exist, depending on how individual Senators vote.

Where to get Budget documents

On the web

The 2014-15 Budget Papers are available at any of the following websites:

- 2014-15 Central Budget website
- Federal Government
- Department of Finance and Deregulation

Those websites also link to previous years' Federal Budget papers going back to 1996-97.

Print copies

The 2014-15 Budget Papers are also available for sale from the CanPrint Communications Pty Limited shopfront in Canberra at 16 Nyrang St, Fyshwick (tel: 1300 889 873) from 7:30pm to 8:30pm on 13 May 2014.

The Budget documents can also be ordered through CanPrint Communications Pty Ltd to be posted. An order form can be faxed to (02) 6293 8333; or mailed to: CanPrint Communications Pty Ltd, PO Box 7456, Canberra MC ACT 2610. Full details of purchase options are on the Federal Budget website.

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[696] **National Commission of Audit Report - Government releases its response**

The Government has formally responded to each of the recommendations of the National Commission of Audit report (released on 1 May 2014: see 2014 WTB 18 [622]), including those that will be considered after the Budget or through other processes and reviews.

The Commission made 86 recommendations - 64 in its Phase 1 Report which deal predominantly with improving the sustainability of the nation's finances and a further 22 recommendations in its Phase 2 Report which mostly address public sector performance and accountability as well as infrastructure. The Commission of Audit looked only at expenditure and only in the 15 largest programs.

The Treasurer said that the Government will continue to methodically consider and review the issues raised by the National Commission of Audit that are not addressed in the 2014-15 Budget. A table attached to Treasurer's press release sets out the Government's response to the 86 recommendations, identifying those items that have been addressed in the 2014-15 Budget. Some of the other items that will be considered following the Budget or other planned reviews, include:

- ***Superannuation preservation age*** - to be considered by the Murray Financial System Inquiry (FSI) and the Tax White Paper process;
- ***R&D*** - initial R&D reforms are in the 2014-15 Budget but further reforms will be considered following the Budget and through the Tax White Paper;
- ***Childcare*** - reforms will be considered following the Productivity Commission Review of Childcare;
- ***Minimum wage*** - will be considered following the 2014-15 Budget;
- ***Outsourcing, competitive tendering and procurement*** - further reforms will be considered following the Budget;
- ***Corporate services*** - initial reforms are in the 2014-15 Budget with others to be considered following the Budget.

Source: Treasurer's press release, 13 May 2014

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[697] Landmark Australian budget cuts spending to rein in deficits

- by Reuters News

The Government has released a politically contentious Federal Budget packed with deregulation and tough spending cuts that it offers as a roadmap for returning to surplus within a decade.

The 2014-15 Federal Budget presents Prime Minister Tony Abbott and Treasurer Joe Hockey's blueprint for tackling what they call unsustainable deficits forecast at $29.8bn next year and totalling $60bn over the next 4 years. But the proposals would signal perhaps the most radical reshaping of Australia's social safety network in its modern history through broad structural reforms to the welfare, healthcare, higher education and pension systems.

And with 16,500 public sector employees set to lose their jobs, the rolling back of universal healthcare and deregulation of university fees, rises to the pension age and fresh income tax hikes, it could prove politically perilous.

"We know that for some in the community, this budget will not be easy. But this budget is not about self-interest. This budget is about the national interest," Treasurer Joe Hockey said in his Budget Speech. "Doing nothing is not an option. The days of borrow and spend must come to an end."

The "fly in the ointment" of the Government's Budget plans of course remains the Senate. With the opposition parties having control of the Senate until 1 July 2014, the "new" Senate post that date will provide the Government with some brighter hope of negotiating passage of its legislation, but even then, there are still some unknowns. The Senate will be closely watched in the coming months.

What debt crisis?

Australia has fared better than most developed nations in the past decade, having avoided the implosions of the finance and housing sectors seen in the United States and Europe, while Chinese demand for resources fuelled a boom in its terms of trade. But having gone into the 2008 global financial crisis with virtually no debt, latest projections show Australian deficits continuing, with net debt set to rise to 14.6% of GDP by 2016-17, the highest in about 20 years.

Still, Australia's debt pales in comparison to most developed nations, spurring criticism that many of the mooted measures are unnecessary and might damage the AAA-rated economy. Government debt in the United States and Euro zone account for more than 100% of GDP, according to OECD figures.

While Australia's problems may be the envy of many of its rich-world peers, the Government argues that 22 years of unbroken economic growth has been squandered on a bloated bureaucracy and tax breaks for the wealthy rather than investing in infrastructure now so badly needed in many regions.

The Budget forecasts deficits to shrink to $2.8bn or 0.2% of GDP by 2017-18, which if accomplished would indeed represent a radical shrinking of the deficit from almost $50bn in the current year.

An end to the age of entitlement

Mr Abbott campaigned on ending "the age of entitlement" that he argues has created an unsustainable spending path that would leave Australia vulnerable to external shocks from top trading partner China, for example, and to structural changes such as an aging population.

Among the widely flagged proposals, Australia's pension age will rise to 70 by 2035 and eligibility for pensions and other welfare payments will also be tightened.

On healthcare, an $7 fee for all doctor's visits will be introduced from July 2015, while at the same time decreasing government subsidies for prescription medications. Those savings will be invested in a $20bn Medical Research Future Fund, which the Government says will be the largest such programme in the world within a decade.

The changes mark the biggest shift since the introduction of universal healthcare and puts Australia in the unusual position of moving away from universal coverage even as the rest of the world, including the United States, has moved to provide it.

Students will also be facing big changes from January 2016, as government caps on tuition fees for higher education will be removed while the average government contribution towards course fees will be slashed by about 20%.

Although the healthcare measures will primarily be felt by low income Australians, the Budget is asking the wealthy to contribute through a 2 percentage point tax rate hike on earnings of over $180,000 per year for 3 years.

At the same time as the Government is asking taxpayers to shoulder more of the burden, the Budget committed to a previously flagged 1.5 percentage point cut in the corporate tax rate and unveiled an $11bn infrastructure package sure to please business.

(Written by Matt Siegel; Editing by Lincoln Feast and Terry Hayes.)

by Terry Hayes

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PERSONAL TAXATION

[698]Budget deficit levy (tax) of 2% to apply for 3 years from 1 July 2014 for incomes over $180,000; FBT rate increase

As foreshadowed before the Budget, the Government announced the introduction of a Budget deficit levy (tax), to apply for 3 years commencing on 1 July 2014. It is formally known as the Temporary Budget Repair Levy. The temporary levy will apply at 2% for incomes over $180,000 ie 2% on taxable income in excess of $180,000. Individuals with taxable income of $200,000 will pay 2% of $20,000 ie a levy of $400. Those with taxable income of $300,000 will pay 2% of $120,000 ie $2,400 of levy.

A number of other tax rates that are currently based on calculations that include the top personal tax rate will also be increased. With the exception of the FBT rate, these tax rates will be increased for the same period that the Temporary Budget Repair Levy is in place. These consequential amendments are important to maintain integrity and fairness in the tax system.

FBT rate increase

The Government said that to prevent high income earners from utilising fringe benefits to avoid the levy, the FBT rate will be increased from 47% to 49% from 1 April 2015 until 31 March 2017 to align with the FBT income year. The cash value of benefits received by employees of public benevolent institutions and health promotion charities, public and not-for-profit hospitals, public ambulance services and certain other tax-exempt entities will be protected by increasing the annual FBT caps. In addition, the fringe benefits rebate rate will be aligned with the FBT rate from 1 April 2015.

Personal tax rates

In last year's 2013-14 Federal Budget, the then Labor Government confirmed its earlier announcement (reported at 2013 WTB 19 [792]) that the already legislated increase in the tax-free threshold to $19,400 from 1 July 2015 would not proceed – it was to be "deferred" (*2013-14 Budget Paper No 2 [p 24]*). Amending legislation would have been required to implement that announcement. The Labor Government had not introduced such legislation before the 2013 Federal election. The Coalition Government had included the measure in its package of carbon tax repeal Bills, specifically the *Clean Energy (Income Tax Rates and Other Amendments) Bill 2013*, but those Bills were defeated in the Senate in March this year.

So, as currently legislated, plus including the newly announced temporary debt levy, the personal income tax rates and thresholds are summarised for resident taxpayers in the table below (note that these rates *do not include* the Medicare levy, currently 1.5%, but to rise to 2% from 1 July 2014):

Personal income tax rates and thresholds						
	2013-14		***2014-15***		***2015-16and 2016-17***	
	Threshold	***Rate***	***Threshold***	***Rate***	***Threshold***	***Rate***
1st rate	$18,201	19.0%	$18,201	19.0%	$19,401	19.0%
2nd rate	$37,001	32.5%	$37,001	32.5%	$37,001	33.0%
3rd rate	$80,001	37.0%	$80,001	37.0%	$80,001	37.0%
4th rate	$180,001	45.0%	$180,001	47.0%	$180,001	47.0%

With Medicare levy included, the top marginal rate would be 49% from 1 July 2014 to 30 June 2017.

Thomson Reuters note

The 2% debt levy on incomes above $180,000 is expected to affect a relatively small number of people, around 400,000 taxpayers.

For those affected, the tax increase proposed to apply from 1 July 2014 (on top of the already legislated increase in the Medicare levy to 2%) would bring into play the traditional tax planning measures of bring forward revenue where possible (to be taxed at a lower rate) and deferring deductions (which will be worth more after 1 July 2014). An uncertainty however exists given the opposition to the deficit debt levy by Labor and the Greens (the Greens apparently want to see a permanent levy on higher income earners), meaning it is highly unlikely to pass through Parliament by 30 June 2014.The chances of the debt levy passing Parliament would seem to hinge on its support in the post-1 July Senate. That will make some tax planning for the year ending 30 June 2014 difficult.

Tax rates and thresholds summarised

The current 2013-14 tax rates are as follows:

2013-14 income year	
Taxable income $	**Tax payable $**
0 - 18,200	Nil
18,201 - 37,000	Nil + 19% of excess over 18,200
37,001 - 80,000	3,572 + 32.5% of excess over 37,000
80,001 - 180,000	17,547 + 37% of excess over 80,000
180,001+	54,547 + 45% of excess over $180,000

If the temporary Budget deficit levy is implemented, the rates for the year commencing 1 July 2014 would be:

2014-15 income year	
Taxable income $	**Tax payable $**
0 - 18,200	Nil
18,201 - 37,000	Nil + 19% of excess over 18,200
37,001 - 80,000	3,572 + 32.5% of excess over 37,000
80,001 - 180,000	17,547 + 37% of excess over 80,000
180,001+	54,547 + 47% of excess over $180,000

The rates for the 2015-16 and 2016-17 would be:

2015-16 and 2016-17	
Taxable income $	**Tax payable $**

0 - 19,400	Nil
19,401 - 37,000	Nil + 19% of excess over 19,401
37,001 - 80,000	3,344 + 33% of excess over 37,000
80,001 - 180,000	17,534 + 37% of excess over 80,000
180,001+	54,534 + 47% of excess over $180,000

The Government's defeated ***Clean Energy (Income Tax Rates and Other Amendments) Bill 2013*** had proposed to cancel the carbon tax-related income tax cuts that were legislated to commence on 1 July 2015. The Bill's amendments would have meant that:

- the tax-free threshold would have remained at $18,200 (instead of increasing to $19,200 from 1 July 2015);
- the second personal marginal tax rate would have remained at 32.5% (instead of increasing to 33% from 1 July 2015).

Given those changes were not meant to apply until 1 July 2015, their possible re-introduction and passage by the "new" Senate after 1 July 2014 needs to be watched carefully.

Low income tax offset

As currently legislated, the low income tax offset (LITO) rates are:

Low income tax offset		
	From 1 July 2012 to 30 June 2015	***From 1 July 2015***
Amount	$445	$300
Lower withdrawal limit	$37,000	$37,000
Upper withdrawal limit	$66,667	$67,000
Withdrawal rate	1.5%	1.0%

The Government's defeated ***Clean Energy (Income Tax Rates and Other Amendments) Bill 2013*** had proposed to cancel the carbon tax-related income tax cuts that were legislated to commence on 1 July 2015, and repeal the associated amendments to the low-income tax offset. The Bill's amendments would have meant that:

- the maximum value of the LITO would have remained at $445 (instead of falling to $300 from 1 July 2015);
- the withdrawal rate of the LITO would have remained at 1.5% (instead of falling to 1%); and
- the threshold below which a person may receive LITO would have remained at a taxable income of $66,667 (instead of increasing to $67,000 from 1 July 2015).

Given those changes were not meant to apply until 1 July 2015, their possible re-introduction and passage by the "new" Senate after 1 July 2014 needs to be watched carefully.

Non-residents (foreign residents)

The temporary Budget deficit levy would flow across to non-residents as well from 1 July 2014 where their income exceeds the $180,000 threshold. The current tax rates for non-residents are:

2013-14	
Taxable income $	**Tax payable $**
0 - 80,000	32.5%
80,001 - 180,000	26,000 + 37% of excess over 80,000
180,001+	63,000 + 45% of excess over $180,000

The tax rates for non-residents (including the temporary deficit tax) that would (if passed) apply for the 2014-15, 2015-16 and 2016-17 income years (ie from 1 July 2015 to 30 June 2017) are:

2014-15, 2015-16 and 2016-17	
Taxable income $	**Tax payable $**
0 - 80,000	33%
80,001 - 180,000	26,400 + 37% of excess over 80,000
180,001+	63,400 + 47% of excess over $180,000

Source: Budget Paper No 2 [p 15]

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[699] **Don't forget the Medicare levy increase to 2% on 1 July 2014 and its flow-on effects**

The Medicare levy will increase from 1.5% to 2% from 1 July 2014. That was announced in last year's Budget and has been legislated. The intention of the increase is to help fund the proposed National Disability Insurance Scheme (NDIS), now renamed DisabilityCare Australia. This would mean that, coupled with the proposed new budget deficit levy, the effective top marginal tax rate would become 49% from that date.

Increasing the Medicare levy also affects other tax rates that are linked to the top personal marginal rate and the Medicare levy eg FBT, excess contributions tax and the tax withheld on bank accounts when the account holder has not provided their tax file number. The FBT rate is 47% for the 2014-15 FBT year.

Section 29 of the *Income Tax Rates Act 1986* specifies the rate of tax payable by trustees of complying and non-complying super funds, and retirement savings account providers in respect of no-TFN contributions income. The rate of tax is calculated in accordance with s 29(2) of the *Income Tax Rates Act 1986*. The component of the rate of tax calculation, which incorporates the Medicare levy rate, increases to 2% from 1 July 2014.

Thomson Reuters comment

Of course, not everyone pays the Medicare levy, so its increase would not affect all taxpayers. Relief from the Medicare levy is currently provided to certain low-income earners with families eg those married on the last day of the income year, those entitled to the child-housekeeper or housekeeper offset, and those notionally entitled to the sole parent offset.

If a taxpayer's taxable income is below the relevant low-income threshold, he or she is not liable to pay the levy. The low-income thresholds for 2012-13 and 2013-14 are:

- senior Australians entitled to SAPTO - $32,279 [SAPTO is the merged pensioner rebate and SATO that has applied from 1 July 2012];
- others - $20,542.

If a taxpayer's taxable income exceeds the relevant low income threshold amount, but does not exceed what is called the "phase-in limit", the Medicare levy is 10% of the excess of taxable income above the low income threshold limit. The phase-in limits for 2012-13 and 2013-14 are:

- senior Australians entitled to SAPTO - $37,975;
- others - $24,167.

The full levy becomes payable if a taxpayer's taxable income exceeds the phase-in limit.

The increased family income thresholds for 2013-14 were announced in the 2013-14 Federal Budget – see para [700] of this *Bulletin*. These thresholds will apply up to 30 June 2014.

The Medicare levy has been the focus of tax reform attention in the past. It might be recalled that the Henry Tax Review's Recommendation 5 was that the Medicare levy be abolished and removed as a separate component of the system and instead, be incorporated into the personal income tax rates scale. Obviously that is not about to happen, but perhaps reform of the Medicare levy may arise in the context of the Government's Tax Reform White Paper.

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[700] Medicare levy thresholds for families increased for 2013-14

From the 2013-14 income year, the Medicare levy low-income thresholds for families will be increased to $34,367 (up from $33,693 for 2012-13). The additional amount of threshold for each dependent child or student will also be increased to $3,156 for 2013-14 (up from $3,094).

Note that the Medicare levy low-income threshold for individuals will remain at $20,542 for 2013-14 (unchanged from 2012-13) as the threshold has already been increased by more than the growth in the CPI and therefore does not need to be further increased at this time. Likewise, the Medicare levy low-income threshold for Senior Australians is $32,279 for 2013-14 (unchanged from 2012-13). This threshold applies to those entitled to the seniors and pensioners tax offset (SAPTO).

Date of effect

The measure will apply from 1 July 2013.

Source: Budget Paper No 2 [p 15]

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[701] Medicare levy surcharge and private health insurance offset thresholds to be frozen

The income thresholds for the private health insurance offset and the Medicare levy surcharge will be frozen for 3 years from 1 July 2015.

The 2013-14 thresholds are set out in the tables below. The private health insurance offset table includes the rebate percentages that apply from 1 April 2014. The rebate percentages were adjusted down in accordance with the simplification of the rebate adjustment factor: see 2014 WTB 16 [570].

	Income for surcharge purposes 2013-14		**Private health insurance rebate percentages from 1 April 2014**		
Tier	**Singles $**	**Families $**	**Under 65 %**	**Age 65-69 %**	**Age 70+ %**
Base	0 - 88,000	0 - 176,000	**29.040** (30)	**33.880** (35)	**38.720** (40)
Tier 1	88,001 - 102,000	176,001 - 204,000	**19.360** (20)	**24.200** (25)	**29.040** (30)
Tier 2	102,001 - 136,000	204,001 - 272,000	**9.680** (10)	**14.520** (15)	**19.360** (20)
Tier 3	136,001+	272,001+	0	0	0
Notes: The rebate percentages applying for the period 1 July 2013 to 31 March 2014 are shown in brackets after the rebate percentage (in bold) applying from 1 April 2014. The income thresholds will be indexed from 1 July 2014. For families, the income thresholds are increased by $1,500 for each child after the first.					

	Income for surcharge purposes 2013-14		**Medicare levy surcharge**
Tier	**Singles $**	**Families $**	
Base	0 - 88,000	0 - 176,000	Nil
Tier 1	88,001 - 102,000	176,001 - 204,000	1%
Tier 2	102,001 - 136,000	204,001 - 272,000	1.25%
Tier 3	136,001+	272,001+	1.5%
Note: For families, the income thresholds are increased by $1,500 for each child after the first.			

Source: Budget Paper No 2 [p 139]

by Trevor Snape

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[702] **Family Tax Benefit changes: 2-year freeze on rates; other changes**

The Government will maintain (ie freeze) current Family Tax Benefit (FTB) payment rates for 2 years from 1 July 2014. Under this measure, indexation of the maximum and base rates of FTB Part A, and the rate of FTB Part B will be paused until 1 July 2016. Savings of $2.6bn over 4 years are expected.

FTB B threshold

The Government will reduce the Family Tax Benefit Part B (FTB-B) primary earner income limit from $150,000 per annum to $100,000 per annum, from 1 July 2015. The income threshold for the Dependent (Invalid and Carer) Tax

Offset will also be reduced to $100,000 as it is linked to the FTB primary income earner limit. These measures are expected to achieve savings of $1.2bn over 4 years.

Limiting Family Tax Benefit Part B

The Government will limit Family Tax Benefit Part B (FTB-B) to families whose youngest child is younger than 6 years of age from 1 July 2015. As a transitional arrangement, families with a youngest child aged 6 and over on 30 June 2015 will remain eligible for FTB-B for 2 years. Savings of $1.9bn over 5 years are expected.

New FTB allowance

The Government will provide $155m over 4 years for a new allowance for single parents on the maximum rate of Family Tax Benefit (FTB) Part A whose youngest child is aged between 6 and 12 years old from the point when they become ineligible for FTB Part B. This allowance will provide $750 for each child aged between 6 and 12 years old in an eligible family from 1 July 2015.

Remove FTB Part A per child add-on

The Government will remove the Family Tax Benefit Part A per child add-on to the higher income free threshold for each additional child from 1 July 2015. Savings of $211.2m over 4 years are expected.

Revise FTB end-of-year supplements

The Government will revise the Family Tax Benefit (FTB) end-of-year supplements to their original values and ceasing indexation from 1 July 2015. Savings of $1.2bn over 4 years are expected.

The revised supplements will provide $600 per annum per FTB Part A child and $300 per family per annum for each FTB Part B family.

Source: Budget Paper No 2 [pp 197, 198, 199, 200]

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[703] **Tax receipt for individuals to be introduced from 1 July 2014**

The Government will introduce a receipt for taxpayers providing information about "where and how their taxes were used".

The one-page receipt will show, in dollar terms, "how much of person's tax bill was spent on each budget area". The receipt will be issued by the ATO and, in most cases, will accompany a taxpayer's notice of assessment. The ATO will start issuing receipts from 1 July 2014.

Source: Treasurer's media release, 13 May 2014

by Trevor Snape

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[704] **Most dependant offsets to be abolished**

The Government will abolish nearly all of the dependant tax offsets, including the dependent spouse tax offset (DSTO), for all taxpayers from 1 July 2014.

A new dependant offset was introduced with effect from the 2012-13 income year - the dependant (invalid and carer) tax offset (DICTO). As a result, access to the DSTO was restricted to those taxpayers whose spouse was born before 1 July 1952 and to taxpayers who qualify for the zone tax offset (ZTO), overseas civilians tax offset (OCTO) or overseas forces tax offset (OFTO), regardless of the age of their dependent spouse. In addition, access to the other dependant tax offsets - namely the invalid spouse, carer spouse, child-housekeeper, invalid relative, parent and parent-in-law offsets - and the housekeeper tax offset was limited to those taxpayers who qualify for ZTO, OCTO or OFTO.

The Government has now announced that the DSTO and the other dependency offsets will be abolished from 1 July 2014. Treasury also confirmed to Thomson Reuters that the housekeeper offset will be abolished from 1 July 2014.

From that date, taxpayers who qualify for ZTO, OCTO and OFTO may qualify for the DICTO. Further, taxpayers with a dependant who is genuinely unable to work due to a carer obligation or a disability may be eligible for the DICTO.

Date of effect

The measure will apply from 1 July 2014.

Source: Budget Paper No 2 [p 13]

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[705] Deductible gift recipients - new ones added

The following organisations have been approved as deductible gift recipients:

- Minderoo Foundation Trust – from 1 January 2014; and
- East African Fund (School of St Jude) – from 1 July 2014.

Source: Budget Paper No 2 [p 16]

by Ian Murray-Jones

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[706] Mature age worker offset to be abolished

The mature age worker tax offset will be abolished from 1 July 2014.

The offset will be replaced by the expanded seniors employment incentive payment called Restart. From 1 July 2014, a payment of up to $10,000 will be available to employers who hire a mature age job seeker, aged 50 years or over, who has been receiving income support for at least 6 months. Eligible employers will receive $3,000 if an eligible mature age person is employed full-time for 6 months and an additional $3,000 if employed for 12 months. Further $2,000 payments will be made after 18 months and 24 months full-time employment (maximum is therefore $10,000).

The mature age worker offset is currently available to Australian resident individuals born before 1 July 1957 whose "net income from working" for the income year is $63,000 or less. The maximum offset is $500.

Source: Budget Paper No 2 [p 14]; Minister for Employment and Treasurer joint media release, 13 May 2014

by Trevor Snape

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[707] **Uniform tax penalty rules - miscellaneous amendments**

The Government will make a series of minor amendments to the tax laws and superannuation laws to correct technical defects, remove anomalies and address unintended outcomes which have recently been identified.

The amendments include technical corrections to the uniform penalty rules that prevent certain penalties that are levied under the law from being collected and a number of amendments to address issues, raised by industry, in relation to the consolidation regime.

These changes are part of the Government's intended maintenance of the taxation and superannuation systems, and the Government's broader deregulation agenda.

Source: Budget Paper No 2 [p 20]

by Kirk Wilson

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BUSINESS TAXATION

[708] **Announced but unenacted measures: further progress - charities; s 25-90; consolidation; foreign residents; etc**

The Budget papers contain further developments in relation to various tax and superannuation measures that have been announced by former governments but not yet legislated. These are set out under the headings below.

Exempt income of charities: no change

The previous Government announced in the 2011-12 Budget that the tax concessions provided to charities and other not-for-profits organisations would be targeted only at those activities which directly further the entity's altruistic purpose. The present Government announced it would not proceed with this measure, but would explore simpler alternatives to address the risks to revenue (item 33 in the media release): see 2013 WTB 53 [2270].

The Acting Assistant Treasurer stated that such measures are not required "at this time", ie the Government will not seek to introduce any measures relating to this.

Deduction relating to foreign source income (s 25-90)

The Government has not made a decision on a targeted anti-avoidance provision to address certain conduit arrangements. The previous Government proposed to repeal s 25-90, with effect from 1 July 2014. The present Government has said it would not proceed with this measure, but will instead consult on a targeted integrity rule (item 19 in the media release): see 2013 WTB 47 [1983].

The Government advises that it is still seeking advice on this matter.

Multiple entry consolidated groups

The Government will not proceed with changes that would have applied to MEC groups. The media release states that the proposal was to "remove inconsistencies for multiple-entry consolidated groups and ordinary consolidated groups …. originally announced by the previous Government in the 2013-14 Budget". Unfortunately, the announcement is not linked to the items that were listed in the Treasurer's Media Release of 6 November 2013 (see 2013 WTB 47 [1983]) – however, Treasury officials confirmed to Thomson Reuters on the night that it was item 6.

The decision follows a tripartite review involving Treasury, the Tax Office and tax specialists. The review concluded that it was not feasible to review inconsistencies without "a reconsideration of broader international tax policy issues".

Treasury will "shortly" start consultation on an amendment to extend a modified form of the unrealised loss rules to multiple-entry consolidated groups as well as other measures identified by the review.

Principal asset test and foreign residents

The previous Government announced that it would refine the proposed 2013-14 Budget measure to amend the principal asset test: see 2013 WTB 20 [849]. The current Government confirmed in item 9 of its press release dated 6 November 2013 that it intended to proceed with this measure: see 2013 WTB 47 [1983].

To prevent the double counting of assets, the measure will now apply to interests held by foreign residents in unconsolidated groups as well as in consolidated groups.

For interests held by foreign residents in unconsolidated groups, the measure will apply to CGT events occurring on or after the date draft legislation is released. For interests held in a consolidated group or MEC group, the measure will have effect from 14 May 2013 (ie the date it was first announced).

Consolidated groups: changes to integrity measures

The Government intends to "refine" the consolidation integrity package announced in the 2013-14 Budget: see 2013 WTB 20 [851]. The Government confirmed in item 6 of its media release dated 6 November 2013 that it intended to proceed with this measure: see 2013 WTB 47 [1983]. One new measure will be added, while some other measures will be modified.

First, the new measure will clarify that accounting liabilities relating to securitised assets held by a subsidiary will be disregarded in certain situations where the subsidiary leaves a consolidated group and/or joins a consolidated group. This change will apply to arrangements that commence on or after 7:30pm on 13 May 2014. Transitional rules will apply to arrangements that commence before this time.

Second, the double deductions measure, the churning measure and the deductible liabilities measure will be amended so that they apply to arrangements that commence on or after the date of announcement of the original measure (ie 14 May 2014), rather than to the exit or entry of a subsidiary that takes place on or after the date of announcement.

The deductible liabilities measure will also be amended so that retirement villages' residential loan liabilities are excluded.

MITs: deferral of start date of new system

The Government confirmed in November 2013 that it intended to implement the proposal to implement a new tax regime for managed investment trusts (item 10 of the Treasurer's Media Release): see 2013 WTB 47 [1983]. The start was announced at that time as 1 July 2014.

The Government will defer the start date by 12 months, ie to 1 July 2015. This is intended to provide more consultation time and allow both industry and the Tax Office additional time to make necessary systems changes.

The law will also be amended to allow MITs to continue to disregard the trust streaming provisions for the 2014-15 income year. This is intended to allow the interim arrangements to continue until the new system is implemented.

Exposure draft legislation is expected to be available in June 2014.

Offshore Banking Units

The Budget papers reiterated the decision to proceed with reforms to the OBU regime. The start date for the changes will be deferred to income years commencing on or after 1 July 2015, as had been previously announced on 30 January 2014: see 2014 WTB 5 [135].

Third party reporting and data matching

The Government is to defer the start date of the measures designed to improve tax compliance through third party reporting and data matching. It was first announced as starting on 1 July 2014: see 2014 WTB 7 [208]. The revised start date is 1 July 2016.

The delay will provide time "to conduct a thorough analysis of stakeholder concerns regarding whether a third party reporting model is the best way of achieving the policy objectives". As reported at 2014 WTB 7 [208], the proposed legislation is extensive and will affect: (i) taxable government grants and other specified government payments; (ii) sales of real property, shares (including options and warrants) and units in managed funds; and (iii) sales through merchant debit and credit services. Certainly any concern expressed by stakeholders is justified as the potential ramifications are significant and arguably have not been fully understood by affected businesses.

Source: Budget Paper No 2 [p 18]; Acting Assistant Treasurer's media release dated 13 May 2014

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[709] FBT exempt benefit caps for PBI/NFP employees to be increased; FBT rate to go to 49%

In an announcement associated with the 2% Temporary Budget Repair Levy, the Government said that to prevent high income earners from utilising fringe benefits to avoid the levy, the FBT rate will be increased from 47% to 49% from 1 April 2015 until 31 March 2017 to align with the FBT income year. The cash value of benefits received by employees of public benevolent institutions and health promotion charities, public and not-for-profit hospitals, public ambulance services and certain other tax-exempt entities will be protected by increasing the annual FBT caps (currently $17,000 and $30,000).

Thomson Reuters note

There had been wide speculation before the Budget that the FBT exemption caps might be reduced or at least a tightening of what they could be used for. The Budget was silent on this.

The benefits in question have ranged from payments for meals and accommodation to school fees, mortgage repayments, house rates, electricity and gas bills, etc under salary packaging arrangements. The exempt benefits caps were originally introduced to assist organisations like public hospitals etc obtain and retain good staff as they did not have the funds to compete with the private sector, but concern has grown over the years that the exemption was not being used in the manner originally intended, nor in the spirit of the law. The ability to utilise the exemption more than once where employees (eg medical specialists) worked for more than one employer was also a concern.

Under the current FBT law, benefits provided to an employee of a registered public benevolent institution (PBI), a public hospital, a private hospital that is a rebatable employer or a public ambulance service (or a service that supports a public ambulance service) are exempt benefits (if provided in respect of the employee's employment). In the case of public ambulance services (or supporting services), the employee must be predominantly involved in connection with the provision of those services. The exemption also extends to benefits provided to an employee who exclusively performs their duties in, or in connection with, a public or private hospital (ie a rebatable employer), but who are technically employed by a government body rather than the hospital. Note, however, there is a limit on the amount of exempt fringe benefits that may be provided: see below. Although exempt, these benefits may form part of the employee's "reportable fringe benefits amount".

The grossed-up taxable value of exempt fringe benefits that a public hospital, private hospital that is a rebatable employer or public ambulance service (or supporting service) may provide to each employee each year is capped at $17,000. Practice Statement PS LA 2001/9 gives the Tax Office's views on which organisations are treated as hospitals for capping purposes. For a PBI and a rebatable employer that is not a hospital, a cap of $30,000 per employee applies. Any amount of fringe benefits above the $17,000 or $30,000 cap are not exempt and are subject to normal FBT treatment.

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[710] SME instant asset write-off: businesses still in limbo over $6,500 threshold

The mining tax legislation as originally passed contained associated income tax measures, one of which was increasing the instant asset write-off (ie the outright deduction for low value assets) for small business entities (ie generally, those with aggregated turnover of less than $2m) to $6,500. However, the Government's ***Minerals Resource Rent Tax Repeal and Other Measures Bill 2013*** to abolish the mining tax also proposed to abolish this small business measure and scale the write-off back to $1,000 with effect from 1 January 2014. The defeat in the Senate on 25 March 2014 of that Bill (see 2014 WTB 13 [466]) means the proposed amendment to cut the $6,500 write-off back to $1,000 has not been passed. The current $6,500 write-off therefore still stands despite the Government's intention that it be scaled back to $1,000 from 1 January 2014.

This places SMEs in something of a quandary. Many will have purchased relevant assets and installed them ready for use before 1 January 2014 to ensure the $6,500 threshold can be utilised. Others may not have done so, or not been able to do so in time. If the mining tax and this associated amendment are passed after 1 July 2014 by the incoming Senate, will the 1 January 2014 application date still apply?

It would have been helpful to business if the Government had made some announcement about these measures (and the changes re motor vehicle rules – see below), however, the Budget papers made no mention of this.

The deduction is available in the income year in which the business starts to use the asset, or installs it ready for use, for a taxable purpose.

What follows is a brief explanation of the Government's proposed, but not yet legislated, changes. They represent the Government's intention with respect to the instant asset write-off.

Under the proposed changes, depreciating assets that are first used or installed ready for use in the part of the income year to 1 January 2014 would be subject to the $6,500 threshold. The $1,000 threshold would then apply to assets that are first used or installed ready for use in the remaining part of that income year.

Where a depreciating asset is both installed ready for use and first used in the same income year, but these 2 events occur at different times during the income year, the $6,500 threshold would continue to apply to the asset if it was installed ready for use prior to 1 January 2014. The $1,000 threshold would apply to a depreciating asset that is first used on or after 1 January 2014 only if it was not installed ready for use before 1 January 2014.

It should also be remembered that the threshold applies on a per asset basis, so several assets each costing up to $6,500 would qualify for the write-off if installed ready for use before 1 January 2014.

Note that following the amendments, depreciating assets that cost $1,000 or more would be allocated to the small business entity's general small business pool, depreciated at a rate of 15% in the income year in which they are first used or installed ready for use, and then depreciated as part of that pool at an ongoing rate of 30% in later income years.

Example

A small business purchases equipment costing $5,000 on 20 November 2013. The equipment is installed ready for use on 1 December 2013, but is not begun to be used at that time. The business starts to use the equipment on 1 February 2014. The business has a 30 June year end.

Although the business started to use the equipment after 1 January 2014, the $6,500 instant asset write-off threshold continues to apply as the equipment was installed ready for use before 1 January 2014. The business would therefore be able to claim a deduction for the full cost of the equipment because the taxable purpose proportion of its adjustable value is under $6,500 (being $5,000 x 100% business estimate use).

Special rules for certain motor vehicles

Under the existing law, a small business entity can claim a special deduction in respect of a depreciating asset that was a motor vehicle in the income year in which the vehicle was first used or installed ready for use. That deduction is equal to the taxable purpose proportion of the first $5,000 value of the motor vehicle plus 15% of any additional value. The remaining value of the motor vehicle is then allocated to the small business entity's general small business pool and depreciated as part of that pool at an ongoing rate of 30% in later income years. Up to 1 January 2014, these rules would only apply where the motor vehicle cost $6,500 or more (as motor vehicles that cost less than $6,500 would be written-off under the general instant asset write-off rule). The now defeated mining tax repeal Bill sought to repeal these special motor vehicle rules from 1 January 2014. Instead, the general capital allowance provisions would apply to depreciating assets that are motor vehicles in the same way they do to all other depreciating assets.

The question remains whether the instant asset write-off and motor vehicle rule changes will still apply from 1 January 2014, *if* they happen to be passed by the incoming Senate sometime after 1 July 2014? The uncertainty this creates for small businesses is not welcome.

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[711] Reduction in R&D offset rates

The rates of the refundable and non-refundable R&D tax offsets will be reduced by 1.5 percentage points, with effect from 1 July 2014.

This means that the refundable offset will be reduced to 43.5% and the non-refundable offset will be reduced to 38.5%.

The refundable offset is available to R&D entities with an aggregated annual turnover of less than $20m (unless controlled by one or more tax-exempt entities). The non-refundable offset is available to R&D entities that do not qualify for the refundable offset. Note that the *Tax Laws Amendment (Research and Development) Bill 2013* proposes to prevent companies with an aggregated assessable income of $20bn or more accessing the offset (the Bill is before the Senate).

The Government said that reducing the offsets by 1.5 percentage points is consistent with the Government's commitment to cut the company tax rate by 1.5 percentage points from 1 July 2015 (see [695] of this *Bulletin*), although the reduction in the rate of the R&D offsets is proposed to take effect from 1 July 2014.

Source: Budget Paper No 2 [p 18]

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[712] Reform of employee share scheme tax rules put on hold

It had been expected that the Budget might announce long-awaited changes to essentially simplify Div 83A ITAA 1997 governing the application of the employee share scheme (ESS) rules, however, the Budget was silent on this.

The rules, which have operated since 1 July 2009, have been repeatedly criticised as too complex and in need of simplifying and that in their current form, were an effective disincentive for companies to offer their employees share plans. Calls have also often been made for the rules to be changed to encourage start-ups.

Writing in the *Weekly Tax Bulletin* last year, Gary Fitton, Director at Remuneration Strategies Group, said the taxation arrangements applying to employee share ownership in Australia were way too complex and act as a deterrent to employee share ownership here – see 2013 WTB 17 [704]. He contrasted this with the UK where, despite the continuation of naming similarities, but material legislative and public sector policy differentiation, as between the UK and Australian employee share plan scenes, employee share ownership is growing strongly.

Mr Fitton said there was increasing awareness in the Australian marketplace that the discount-based taxation provisions of Div 83A introduced in 2009 have become a deterrent for companies wishing to access these taxation provisions and allocate shares and options to their employees. He said the taxation provisions applying to discount-based options have proven particularly problematic for companies contemplating the issue of options to their employees – which is often the preferred equity vehicle in cash conscious, start- up companies, especially in the high tech and mining industries. He pointed out that a survey indicated that around 80% of Australian companies considering employee option plans were not issuing options to their employees because of the complexities and punitive nature of the income tax provisions (ie Div 83A) applying to options issued to their employees and contractors.

In June 2013, the then Government announced that it would review the policy settings around employee share schemes – see 2013 WTB 27 [1216]. Treasury said that by December 2013, the Government would consult with stakeholders to determine the most effective measures to address the barriers faced by start-up companies, including:

- developing guidance to reduce the administrative burden (meaning the cost of valuing shares and options) of establishing an ESS;
- adjusting the valuation methodology of options; and
- examining the point at which share options are taxed for start-up companies.

The pressure for change is obviously there, and it is understood the Government is essentially receptive to the need for change. While the process of framing the Budget was no doubt a difficult one, it was nonetheless anticipated that the opportunity might be taken to make some announcement on the ESS rules. It would have been welcome.

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[713] Other tax-related changes flowing from carbon tax and mining tax repeal leave taxpayers in limbo

The defeat in the Senate of the Government's Bills to repeal the carbon tax and the mining tax mean the related repeal of the associated income tax changes is also on hold, creating uncertainty for taxpayers. The defeated ***Minerals Resource Rent Tax Repeal and Other Measures Bill 2013*** had proposed the following tax-related measures:

- repeal company loss-carry back – following the changes, companies would only be able to carry their tax losses forward to use as a deduction for a future year;
- repeal the low income superannuation contribution – the contribution would be not payable in respect of concessional contributions made after 1 July 2013;
- repeal the geothermal expenditure deduction. If a geothermal exploration right is exchanged for a geothermal energy extraction right relating to the same, or a similar area, then a CGT roll-over would apply to defer the liability until the sale of the extraction right;
- repeal the income support bonus;
- repeal the schoolkids bonus;
- delay the superannuation guarantee (SG) charge percentage increase – proposed to delay by 2 years till 2021 the phase-in of the increase in the SGC to 12%. The SG charge percentage would pause at 9.25% for the years starting on 1 July 2014 and 1 July 2015, and increase to 9.5% for the year starting on 1 July 2016, and then gradually increase by half a percentage point each year until it reaches 12% for years starting on or after 1 July 2021.

The Government's defeated ***Clean Energy (Income Tax Rates and Other Amendments) Bill 2013*** had proposed to cancel the carbon tax-related income tax cuts that were legislated to commence on 1 July 2015, and repeal the associated amendments to the low-income tax offset. The Bill's amendments would have meant that:

- the tax-free threshold would have remained at $18,200 (instead of increasing to $19,200 from 1 July 2015);
- the second personal marginal tax rate would have remained at 32.5% (instead of increasing to 33% from 1 July 2015);
- the maximum value of the LITO would have remained at $445 (instead of falling to $300 from 1 July 2015);
- the withdrawal rate of the LITO would have remained at 1.5% (instead of falling to 1%); and
- the threshold below which a person may receive LITO would have remained at a taxable income of $66,667 (instead of increasing to $67,000 from 1 July 2015).

Some announcement on the fate of all the above changes would be welcome. It is possible they could be re-introduced and passed after 1 July 2014.

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[714] Mining interest realignments - joint venture partners

The Government will clarify the treatment of realignments of interests between joint venture partners in the minerals and petroleum industry.

The measure will only apply to changes of ownership within a common project (which includes combining neighbouring fields into one project and sharing expenditure in areas such as planning, research and construction of infrastructure). This reform is intended to address uncertainty for realignments, which are potentially affected by the decision to limit the immediate deduction for mining rights first used for exploration.

Note that these realignments do not raise the integrity concerns regarding intangible assets connected rights to mine to which the original measure was directed - see 2013 WTB 20 [849].

Date of effect

The measure will apply from 7:30pm (AEST) 14 May 2013.

Source: Budget Paper No 2 [p 13]

by Kirk Wilson

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[715] Refundable tax offset for "greenfields" exploration costs

The Government has announced that it will provide small exploration companies with a refundable tax offset for "greenfields" exploration costs under the "Exploration Development Incentive" program to fund exploration for new mineral deposits. The "Incentive" program will target junior exploration companies and will be capped at $100m.

Date of effect

The "Incentive" program will commence on 1 July 2014.

Source: Minister for Industry, 13 May 2014

by Kirk Wilson

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[716] Product Stewardship for Oil scheme levy to increase

The levy for the Product Stewardship for Oil scheme is to increase to 8.5 cents per litre of oil or kilogram of grease.

This is anticipated to have a gain to the Budget of $70m over the forward estimates period.

Date of effect

The increase will take effect from 1 July 2014.

Source: Budget Paper No 2 [p 16]

by Ian Murray-Jones

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[717] Seafarer offset to be abolished

The seafarer tax offset will be abolished from 1 July 2015.

The seafarer offset is potentially available to any Australian company that employs at least one Australian resident for a minimum of 91 days in the income year on a voyage as a master, deck officer, integrated rating, steward or engineer. The route of the voyage must include an overseas voyage.

Source: Budget Paper No 2 [p 212]

by Trevor Snape

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SUPERANNUATION

[718] Option to withdraw excess non-concessional contributions

The Government will allow individuals the option of withdrawing superannuation contributions in excess of the non-concessional contributions cap made from 1 July 2013 and any associated earnings, with these earnings to instead be taxed at the individual's marginal tax rate. The measure will seek to provide a process to addresses all inadvertent breaches of the superannuation contribution caps where the error would result in a disproportionate tax penalty. Final details of the policy will be settled following consultation with key stakeholders in the superannuation industry.

Excess non-concessional contribution

Currently, superannuation contributions that exceed the non-concessional contributions cap are taxed punitively at 46.5% (equivalent to the top marginal tax rate plus Medicare levy). Given that non-concessional contributions come from income that has already previously been taxed, the Government has acknowledged that an overall tax rate of up to 93% can apply to excess non-concessional contributions.

Non-concessional contributions include contributions which are not included in the assessable income of the receiving superannuation fund, eg non-deductible personal contributions made from the member's after-tax income (formerly known as undeducted contributions). The annual non-concessional contributions cap is currently $150,000 (but rising to $180,000 from 2014-15). The bring-forward rule currently allows a one-off non-concessional contribution up to $450,000 over 3 years (or $540,000 over 3 years from 2014-15).

Option to withdraw excess contributions

For any excess non-concessional contributions made after 1 July 2013, the Government will allow individuals to withdraw those excess contributions and associated earnings. If an individual chooses this option, no excess contributions tax will be payable and any related earnings will be taxed at the individual's marginal tax rate. Individuals who leave their excess non-concessional contributions in their superannuation fund will continue to be taxed on these contributions at the top marginal tax rate.

Non-concessional contributions in excess of a person's cap are currently taxed at 46.5% (47% from 1 July 2014): s 5 *Superannuation (Excess Non-Concessional Contributions Tax) Act 2007*. The liability for this tax is currently levied on the individual who must withdraw an amount from her or his superannuation fund equal to the tax liability by providing the release authority to her or his superannuation provider within 21 days.

Consistency with excess concessional contributions

The Acting Assistant Treasurer, Senator Mathias Cormann, said the measure will ensure that the tax treatment of both excess concessional contributions and non-concessional contributions is broadly consistent. Since 1 July 2013, taxpayers have been given an option to withdraw excess "concessional contributions" and instead have them included in their assessable income from the 2013-14 income year.

Note that an individual's "excess concessional contributions" are also included in their non-concessional contributions. However, the changes to the excess concessional contributions from 1 July 2013 enable a taxpayer to elect to release up to 85% of their excess concessional contributions from their superannuation fund to the Commissioner as a "credit" to cover the additional tax liability of having the excess contributions included in assessable income. If an individual elects to release an amount of their excess concessional contributions, the amount of their excess concessional contributions is reduced by 100/85 of the released excess concessional contributions for the purpose of determining their non-concessional contributions. This seeks to ensure that an individual has the option to avoid the automatic operation of the $450,000 bring forward rule ($540,000 from 2014-15).

Inspector-General's ECT report

The Acting Assistant Treasurer said the proposal to allow the withdrawal of excess non-concessional contributions deals with both policy recommendations made in the Inspector-General of Taxation's report to the Tax Office's approach to superannuation excess contributions tax (ECT). Senator Cormann said that the Inspector-General's ECT report made 9 other recommendations to improve the ECT system, including through further ATO assistance being provided to taxpayers in monitoring their contribution levels. The Inspector-General's ECT report, including the Tax Office's response, is available at http://www.igt.gov.au.

Date of effect

The measure will apply from 1 July 2013. It is expected to have a cost to revenue of $40.1m over the forward estimates period.

Thomson Reuters comment

Hopefully, this measure will provide relief for taxpayers who inadvertently breach their non-concessional cap, often through no fault of their own. For example, in *FCT v Dowling* [2014] FCA 252 (reported at 2014 WTB 12 [434]), a taxpayer triggered an excess non-concessional contributions tax liability of $20,393 when she withdrew and re-contributed $200,000 as part of an estate planning strategy. In doing so, the wife had overlooked the fact that her husband had previously withdrawn $293,858 from his superannuation account and deposited it into her account, following advice from Centrelink in anticipation of reaching Age Pension age.

Source: Budget Paper No 2 [p 19]; Acting Assistant Treasurer's press release, 13 May 2014 *by Stuart Jones*

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[719] Super Guarantee rate of 9.5% from 1 July 2014

Instead of pausing the superannuation guarantee rate at 9.25%, as previously announced, the Government will now increase the SG rate to 9.5% on 1 July 2014 (as currently legislated) and leave it at this level until 30 June 2018. The SG charge percentage will then increase by 0.5% each year until it reaches 12% from 2022-23, a year later than previously proposed. As such, employers are required to increase their superannuation contributions on behalf of employees to 9.5% of ordinary time earnings from 1 July 2014 (as currently legislated).

The Treasurer said this change to the schedule for increasing the superannuation guarantee rate to 12% is necessary to give certainty to employers and employees. This is because the Senate has refused to pass the *Minerals Resource Rent Tax Repeal and Other Measures Bill 2013* which contained the measures to pause the SG rate at 9.25% for 2014-15 and 2015-16. That Bill will not proceed after it was negatived in the Senate on 25 March 2014. Even if the Bill was re-introduced, the amendments were unlikely to be passed by the Senate before 1 July 2014. The measure is estimated to provide a net gain to revenue of $90m over the forward estimates period.

Date of effect

The measure will apply from 1 July 2014.

by Stuart Jones

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[720] Military Superannuation - new accumulation arrangements

From 1 July 2016, the Government will establish a modern fully funded, accumulation superannuation scheme – called *ADF Super* - for new members of the Australian Defence Force (ADF). The existing Military Superannuation and Benefits Scheme (MSBS) will be closed to new members from 1 July 2016. ADF Super will apply to those joining the ADF from 1 July 2016 and those serving and returning members of the MSBS who choose to join the new scheme. Importantly, current members of the MSBS who are serving or who leave and rejoin the ADF from 1 July 2016 can choose to stay in that scheme, or to join ADF Super. There will be no compulsion to transfer to the new arrangements.

Under the new arrangements, the Government will pay a 15.4% contribution to a member's chosen superannuation fund. The contribution rate will increase to 18% for any period in which members are serving in war-like operations. Serving ADF personnel covered by the new arrangements will also be covered by statutory death and disability arrangements consistent with the defined benefit arrangement currently in place under the MSBS.

The new arrangements will allow ADF members to choose which superannuation fund they belong to and, for the first time, give those members the ability to transfer their accumulated benefits to a new fund if they leave the ADF. There will be no change to the superannuation arrangements for existing MSBS members, but they may elect to be covered by the new arrangements. There will also be no requirement for ADF members to contribute to their superannuation under the new arrangements. The Minister for Defence, Senator David Johnston, said this will provide greater flexibility for individuals in how they manage their finances at various stages of their working life.

According to the Government, the new arrangements will be more flexible than the MSBS, as members will be able to transfer superannuation benefits to a fund of their choice. ADF Super will be managed by the Commonwealth Superannuation Corporation. The introduction of new fully funded arrangements will reduce the Government's unfunded superannuation liability by an estimated $126bn by 2050.

Date of effect

The measure will apply from 1 July 2016.

Source: Budget Paper No 2 [p 75]; Minister for Defence and Minister for Finance, joint press release, 13 May 2014

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[721] **Other super measures**

Merger of ComSuper

From 1 July 2015, the Government will merge ComSuper with the Commonwealth Superannuation Corporation, so that the management of Commonwealth superannuation schemes will be undertaken by one body. (*Source: Budget Paper No 2 [pp 70-71]*.)

MPs super freeze

The Government has made a submission to the independent Remuneration Tribunal proposing to freeze the salaries and allowances of parliamentarians (MPs), departmental secretaries and all other public office holders at current levels for 12 months, over the period 1 July 2014 to 30 June 2015. The freeze will also apply to the pensions of former parliamentarians received under the closed Parliamentary Contributory Superannuation Scheme.(*Source: Budget Paper No 2 [p 70]*.)

Higher Education Superannuation - NSW universities

The Government will resume making payments under the Higher Education Superannuation Programme to eligible universities, subject to agreement with the NSW Government, to meet the Commonwealth's share of certain superannuation expenses. The resumption of payments for staff who are members of the State Superannuation Scheme, with State Authorities Superannuation Scheme and State Authorities Non-Contributory Superannuation accounts, will align the arrangements for NSW with other participating states. The expenditure for this measure is not for publication as the arrangement is subject to negotiation with the NSW Government. (*Source: Budget Paper No 2 [p 86]*.)

Seniors Health Card - income test

The Government will include untaxed superannuation income in the assessment of income to determine eligibility for the Commonwealth Seniors Health Card (CSHC) from 1 January 2015: see para [724] of this *Bulletin*. All superannuation account-based income streams held by CSHC holders before the implementation date will be grandfathered under the existing rules. (*Source: Budget Paper No 2 [p 193]*.)

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WELFARE/PENSION MEASURES

[722] Age Pension age to increase to 70 by 2035

The Budget confirmed the Treasurer's earlier announcement (see 2014 WTB 19 [668]) that the Government would raise the eligibility age for the Age Pension to 70 by 2035.

The Government announced that, from 1 July 2025, the Age Pension qualifying age will continue to rise by 6 months every 2 years, from the qualifying age of 67 years that will apply by that time, to gradually reach a qualifying age of 70 years by 1 July 2035. People born before 1 July 1958 will not be affected by this measure.

This measure has a long implementation timeframe to allow people who would be affected to consider their retirement income arrangements. (*Source: Budget Paper No 2 [p 202]*)

Mr Hockey said the Government was focused on "what is deliverable and achievable [sustainable] over the medium and long term and one area that needs to be properly addressed is the eligibility for the Age Pension". He said the Age Pension expenditure today ($39bn a year, and growing rapidly) is currently more than Australia spends on defence. Mr Hockey said that when Labor increased the Age Pension age to 67 by 2023, the Coalition gave them bi-partisan support. He said "when we introduce legislation to increase it to 70 by July 2035, 2035 that's when it will go to 70, we expect that there will be bi-partisan support".

Thomson Reuters note

However, it is understood that the Opposition, the Greens and Clive Palmer are all opposed to the increase in the pension age. The negotiation of that measure through the Senate could therefore be quite "tricky", despite Mr Hockey's call for bi-partisan support.

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[723] **Freeze on eligibility thresholds for Australian Government payments**

The Government will maintain (ie freeze) eligibility thresholds for the Australian Government payments for three years. Savings of $1.5bn over 4 years are expected.

Eligibility thresholds for non-pension payments will be maintained for 3 years from 1 July 2014. Major non-pension payments include Family Tax Benefit, Child Care Benefit, Child Care Rebate, Newstart Allowance, Parenting Payments and Youth Allowance.

Eligibility thresholds for pension and pension related payments will be maintained for 3 years from 1 July 2017. Major pension related payments include the Aged Pension, Carer Payment, Disability Support Pension and the Veterans' Service Pension.

Source: Budget Paper No 2 [p 204]

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[724] Commonwealth Seniors Health Card: indexation; include untaxed super in eligibility; Seniors Supplement to end

The Government says it will provide $95.8m over 5 years from 2013-14 to index current income limits for the Commonwealth Seniors Health Card by the CPI from September 2014. This will allow more retirees access to medicines listed on the Pharmaceuticals Benefits Scheme at a concessional rate. This announcement delivers on the Government's election commitment.

Include untaxed superannuation income in the eligibility assessment

The Government announced that it will include untaxed superannuation income in the assessment of income to determine eligibility for the Commonwealth Seniors Health Card (CSHC) from 1 January 2015. The assessment of superannuation income will be the same for CSHC holders as for Age Pension recipients and will align with the 2013-14 Budget measure to deem the balances of account-based superannuation of pensioners from 1 January 2015.

All superannuation account-based income streams held by CSHC holders before the implementation date will be grandfathered under the existing rules.

Seniors Supplement to end

The Government will cease the Seniors Supplement for holders of the Commonwealth Seniors Health Card (CSHC) from 20 September 2014. Eligible seniors who do not receive a pension will continue to be eligible for a concession card. This is expected to achieve savings of $1.1bn over 5 years from 2013-14.

CSHC holders will still receive the Clean Energy Supplement and a range of concessional benefits including lower co-payments for medicines on the Pharmaceutical Benefits Scheme and access to the lower threshold for the extended Medicare Safety Net.

Source: Budget Paper No 2 [pp 192, 193]

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[725] Index Pension and Pension Equivalent Payments by the CPI

The Government will index pension and equivalent payments and Parenting Payment Single by the Consumer Price Index (CPI). Savings of $449m over 5 years are expected.

This measure will commence on 1 July 2014 for Parenting Payment Single recipients and from 1 September 2017 for Bereavement Allowance and pension payments such as: Age Pension; Disability Support Pension; Carer Payment and Veterans' Affairs pensions.

Currently, these payments are indexed in line with the higher of the increases in the CPI, Male Total Average Weekly Earnings or the Pensioner and Beneficiary Living Cost Index.

Source: Budget Paper No 2 [p 203]

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[726] Reset the Assets Test Deeming Rate Thresholds

The Government will reset the deeming thresholds used in the pension assets test to $30,000 for singles and $50,000 for couples from 20 September 2017. Savings of $32.7m over 5 years are expected.

Source: Budget Paper No 2 [p 208]

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[727]Pensioner Education Supplement; Education Entry Payment; Aged Care Payroll Tax Supplement to be abolished

The Government says it will achieve savings of $281.2m over 5 years from 2013-14 by ceasing the Pensioner Education Supplement from 1 January 2015. (*Source: Budget Paper No 2 [p 206]*)

The Government will achieve savings of $65.4m over 5 years from 2013-14 by ceasing the Education Entry Payment from 1 January 2015. (*Source: Budget Paper No 2 [p 197]*)

The Government announced that it will cease Payroll Tax Supplement payments to currently eligible residential aged care providers from 1 January 2015. It expects to achieve savings of $652.7m over 4 years by this measure. (*Source: Budget Paper No 2 [p 189]*)

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[728] Stronger Participation Incentives for Job Seekers under 30

The Government expects to achieve savings of $1.2bn over 4 years by changing access to income support for people under 30 years of age, to encourage young people with full work capacity to be earning, learning or participating in Work for the Dole.

From 1 January 2015, all new claimants of Newstart Allowance and Youth Allowance (Other) who are under 30 years of age must demonstrate appropriate job search and participation in employment services support for 6 months before receiving payments. Prior workforce participation may reduce the waiting period. After six months, claimants will be required to participate in 25 hours per week Work for the Dole to receive income support, and following this may continue to access employment services for a further 6-month period, including access to a wage subsidy in lieu of income support.

From 1 July 2015, existing recipients of Newstart Allowance and Youth Allowance (Other) who are under 30 years of age will also become subject to these new arrangements. These people will have already served 6 months on Work for the Dole.

Payment recipients who have a partial capacity to work, are the principal carer of a child, are part-time apprentices, are in education or are job seekers in Disability Employment Services or Job Services Australia Streams 3 and 4 will be exempt.

Source: Budget Paper No 2 [p 210]

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[729] Reprioritising the Aged Care Workforce Supplement

The Government says it will reprioritise funding of $1.5bn over 5 years from the Aged Care Workforce Supplement (Supplement) by increasing aged care subsidies for home and residential care providers and relevant community programmes by 2.4% on 1 July 2014 and by providing an ongoing 20% increase in the Viability Supplement to eligible residential aged care providers. The Government will also provide non-ongoing funding of $800,000 to meet commitments to those providers that signed onto the Supplement. This measure delivers on the Government's election commitment.

Source: Budget Paper No 2 [p 208]

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[730] Disability Support Pension: reduced portability; other changes

The Government announced that it will reduce the amount of time Disability Support Pension (DSP) recipients can leave Australia and still receive DSP. Recipients will receive DSP for a maximum of 4 weeks in a 12 month period should they travel overseas. All DSP recipients who leave Australia on or after 1 January 2015 will be subject to the new rules. Currently, DSP can be paid for absences from Australia for up to 6 weeks, on multiple occasions in any one year.

Portability extension and exception provisions, which allow a longer or unlimited portability period under special circumstances, will continue to apply.

Review recipients aged under 35 years

The Government will provide $46.4m over 5 years from 2013-14 to review, against current eligibility criteria, Disability Support Pension (DSP) recipients aged under 35 years who were granted DSP between 1 January 2008 and 31 December 2011. Recipients who are granted continued eligibility following this review will be required to complete a programme of activities to build their work capacity. The measure will terminate on 30 June 2019.

Recipients granted DSP before 1 January 2008 or who have a severe impairment with work capacity assessment of less than eight hours a week will be exempt.

Compulsory participation requirements for recipients aged under 35 years

The Government will provide funding of $29.3m over 5 years from 2013-14 to introduce compulsory activities for

Disability Support Pension (DSP) recipients under 35 years of age with an assessed work capacity of 8 hours or more a week who have a participation plan. These activities will vary depending on a person's circumstances and will focus on obtaining employment. Sanctions for non-compliance will be introduced.

DSP recipients with a severe impairment and an assessed work capacity of less than 8 hours a week will be exempt.

Source: Budget Paper No 2 [pp 195, 196]

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[731] Remove grandfathering of Student Start-Up Scholarship Recipients

The Government expects to achieve savings of $503.8m over 5 years by ceasing grandfathering arrangements for recipients of the Student Start-up Scholarship (SSS) from 1 January 2015.

The Government said a decision was made in the 2013-14 Budget to convert the SSS into an income contingent loan for full-time higher education students in receipt of Youth Allowance, Austudy or ABSTUDY.

Source: Budget Paper No 2 [p 206]

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[732] Student Payments – portability period

The Government will limit the Six-Week Portability Period for Student Payments from 1 October 2014. Savings of $153.1m over 5 years are expected.

Currently, students are able to receive income support while travelling overseas for up to 6 weeks. This measure limits student payments to students travelling overseas to those undertaking eligible study or training that counts toward their Australian qualification, receiving eligible medical treatment, or attending an acute family crisis.

Source: Budget Paper No 2 [p 204]

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[733] Newstart Allowance and Sickness Allowance changes

The Government will increase the age of eligibility for Newstart Allowance and Sickness Allowance from 22 to 24 years of age, from 1 January 2015. Current recipients of Newstart Allowance and Sickness Allowance, aged 22 to 24 years of age on 31 December 2014, will remain on those allowances. Savings of $508.1m over 5 years are expected.

Source: Budget Paper No 2 [p 203]

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[734] Limit the Large Family Supplement

The Government will limit the Family Tax Benefit Part A Large Family Supplement (currently $313.90 per child per annum) to families with 4 or more children from 1 July 2015. The Large Family Supplement will be paid in respect of the 4th and each subsequent child in a family. Savings of $377.7m over 4 years are expected.

Source: Budget Paper No 2 [p 198]

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[735] Certain Concessions for Pensioners and Seniors Card Holders

The Government expects to achieve savings of $1.3bn over 4 years by terminating the National Partnership Agreement on Certain Concessions for Pensioners Concession Card and Seniors Card Holders, from 1 July 2014. This Agreement contributes to state and territory government provision of certain concessions for pensioners and seniors.

Source: Budget Paper No 2 [p 192]

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[736] New Social Security Agreement with India

The Government will establish a new bilateral Social Security Agreement with the Republic of India to cover provisions relating to the age pension, and remove the double coverage of superannuation contributions for workers seconded to either country. The Social Security Agreement will commence from 1 July 2015, subject to the completion of legal and treaty processes for both countries.

Source: Budget Paper No 2 [p 209]

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[737] Cease indexation of the Clean Energy Supplement

The Government expects to achieve savings of $479.1m over 5 years by removing further indexation from payment of the Clean Energy Supplement (CES). This will fix the rate of payment at the relevant rate payable prior to 1 July 2014.

The CES is paid to all recipients of social welfare payments.

Source: Budget Paper No 2 [p 191]

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[738] **Apply the One-Week Ordinary Waiting Period to all Working Age Payments**

The Government will apply the One-Week Ordinary Waiting Period (OWP) to all Working Age Payments from 1 October 2014. It expects to achieve savings of $231.7m over 5 years by this measure.

All claimants of Newstart Allowance and Sickness Allowance are required to wait one-week before receiving payment, unless the claimant is exempt or the waiting period is waived. This measure will extend the OWP to claimants of Parenting Payment, Widow Allowance and Youth Allowance (other). This measure will also remove the current rule that enables the OWP to be served concurrently with other applicable waiting periods.

Source: Budget Paper No 2 [p 191]

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[739] **Veterans' Disability Pensions changes**

The Government says it will achieve savings of $38.8m over 4 years by paying new claims and applications for an increase in the rate of Veterans' Disability Pension effective from the date of lodgment of the claim or application. This will commence from 1 January 2015 and will align the payment arrangements for the Disability Pension with those for the Service Pension for veterans.

Review by medical specialist after 12 months

The Government says it will improve workforce participation and achieve savings of $12.7m over 4 years by introducing a requirement for medical specialist reviews of Department of Veterans' Affairs clients who have been in continuous receipt of incapacity payments for 12 months or longer. Incapacity payments are military compensation payments for economic loss resulting from an inability (or reduced ability) to work because of an injury or illness.

Source: Budget Paper No 2 [p 221]

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OTHER MEASURES

[740] Inspector-General of Taxation to hear tax complaints

The Government announced that it will provide funding over 4 years from 2014-15 to transfer the function for taxation complaints case handling from the Office of the Commonwealth Ombudsman to the Inspector-General of Taxation.

The Government considers this will enhance the systematic review role of the Inspector-General of Taxation and provide taxpayers with more specialised and focused complaint handling for tax matters.

Source: Budget Paper No 2 [p 217]

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[741] ATO staff reductions to be brought forward; ASIC funding reduced

The Government says it will achieve savings of $142.8m over 3 years from 2015-16 by reducing the ATO's departmental resourcing.

The ATO will bring forward staff reductions that were already planned in response to efficiency dividends and decisions of the former Government. Under the former Government, total staffing reductions of 4,700 were to occur over the forward estimates period to 2017-18. This included a reduction of 900 in 2013-14, 500 in 2014-15, 1,600 in 2015-16, 1,200 in 2016-17, and 500 in 2017-18.

The Government says it will bring forward the reduction in staffing numbers that were due to occur in 2015-16. As these staff reductions have already been factored into the forward estimates, there will be no net increase to the total staff reductions planned. Staffing reductions do not include the impact of the additional 0.25% efficiency dividend announced by the Government in the 2013 Federal Election.

ASIC funding

The Government will reduce funding to ASIC in order to achieve savings of $120.1m over 5 years.

Source: Budget Paper No 2 [p 214]

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[742] Fuel excise to rise (except aviation) – indexation to be re-established

The Government said it would secure funding for additional road infrastructure projects by re-introducing biannual indexation by the CPI of excise and excise-equivalent customs duty for all fuels ***except aviation fuels***. This will commence from 1 August 2014. It is expected to generate $2.2bn over the forward estimates period for building new and upgrading existing road infrastructure. This includes allowance for a $1.8m increase in Ethanol Production Grants in 2014-15, administered by the Department of Industry, and a $700,000 increase in the Cleaner Fuel Grants Scheme. The current excise rate on fuel had been frozen for the last 13 years, with indexation having been abolished in 2001 by the Howard Government.

The Government will amend the *Excise Act 1901* to ensure the amount spent on road infrastructure funding is greater than the net revenue from the reintroduction of indexation on fuel excise and excise-equivalent customs duty.

The diesel fuel rebate is unchanged, meaning it will continue to apply to excise, including the excise increase.

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[743] National Rental Affordability Scheme to end

The Government announced that it would not proceed with the final round of the National Rental Affordability Scheme (NRAS). It said the Scheme had fallen "well short of expectations".

The Government said incentives already allocated through the Scheme would continue to be paid for up to 10 Years, as long as eligibility requirements are met and homes in the construction pipeline are built in the agreed locations according to agreed timeframes. The Scheme will be reviewed to addressed ongoing issues and ensure remaining incentives meet the Scheme's original aim.

Thomson Reuters comment

Division 380 of the ITAA 1997 provides a tax offset to a taxpayer that participates in the NRAS. The Scheme is designed to encourage investment in affordable housing. The following are eligible for the offset provided the Secretary of the Dept that administers the NRAS has issued the relevant entity a certificate under the Scheme: individuals, companies or super funds, or a party to an NRAS consortium, the partners of a partnership and the beneficiaries of a trust. They must

The amount of the refundable offset is the amount stated in the certificate, although apportionment may be required in certain cases. The maximum offset for 2013-14 is $7,763 per dwelling per year for a maximum of 10 years.

Source: Minister for Social Services media release, 13 May 2014

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[744] **Small business access to Government services and contract opportunities**

Ombudsman for access to Commonwealth

The Government will establish the "Small Business and Family Enterprise Ombudsman" to act as a one-stop shop and a single entry point as a means for small business to find out about Government services and programmes. For these purposes, the Ombudsman will act as "advocate" and will aim to cut compliance burdens and reduce red-tape. As part of its responsibilities, the Ombudsman will also act as a "concierge" for dispute resolution, a Commonwealth-wide advocate for small businesses and family enterprises, as well as contribute to the development of small business friendly Commonwealth laws and regulations.

New Commonwealth contracting arrangements

The Government will establish a unit in the Department of Finance to provide specialist advice on contracts and to ensure small businesses are not disadvantaged as part of Commonwealth Departments' tendering and procurement processes. The unit will focus on any overly complex nature of such processes and any barriers imposed in tendering for Commonwealth Government contracts. The unit will also work with small business to develop procurement guidance tailored specifically for them.

Source: Minister for Small business media releases, 13 May 2013

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[745] **HECS and HELP measures**

The Government will reduce the income threshold for repayment of Higher Education Loan Programme (HELP) debts commencing in 2016-17 and will adjust the indexation of HELP debts from 1 June 2016. The new minimum threshold will be established for the repayment of HELP debts, set at 90% of the minimum threshold that would otherwise have applied in 2016-17. The new minimum threshold is currently estimated to be $50,638 in 2016-17. Further, a new repayment rate of 2% of repayment income will be applied to debtors with incomes above the new minimum threshold.

In addition, the annual indexation applied to HELP debts will be adjusted from the Consumer Price Index to a rate equivalent to the yields on 10 year bonds issued by the Australian Government, capped at 6% pa, from 1 June 2016.

The Government will also continue to make available HELP loans so that eligible students do not have to pay their fees up-front. However, the HECS-HELP benefit, which was intended to provide an incentive for graduates of particular courses to take up related occupations or work in specified locations will end from 2015-16.

The Government will also remove the 25% loan fee applied to FEE-HELP loans for fee-paying undergraduate courses and the 20% loan fee applied to VET FEE-HELP loans for eligible full fee-paying students in higher level vocational education and training courses. Removing the FEE-HELP and VET FEE-HELP loan fees are intended to improve equity in the provision of loans to students attending higher education providers as the majority of students who take out HELP loans are not required to pay loan fees.

Source: Budget Paper No 2 [pp 77, 85]; Minister for Education media release, 13 May 2014

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[746] **Rate of coastal shipping levy to be reduced**

The Government announced it will reduce the rate of the Protection of the Sea Levy by 3 cents, with effect from 1 July 2014.

The former Labor Government had increased the levy for shipping companies from 11.2 cents per net registered tonne to 14.25 cents per net registered tonne in order to meet the cost of cleaning up an oil spill. Since those costs had been more than met, the Government will reverse the increase.

The levy applies to ships of more than 24 metres in length entering an Australian port carrying more than 10 tonnes of oil in bulk as fuel or cargo.

Source: Deputy PM media statement, 13 May 2014

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[747] **First Home Saver Accounts scheme abolished**

The First Home Saver Accounts (FHSA) scheme will be abolished. New accounts opened from Budget night will not be eligible for concessions, with the Government co-contribution to cease from 1 July 2014 and tax concessions and the income and asset test exemptions for Government benefits associated with these accounts to cease from 1 July 2015. Existing account holders will continue to receive the Government co-contribution and all tax and social security concessions associated with these accounts for the 2013-14 income year. As of 1 July 2015, account holders will be able to withdraw their account balances without restriction.

The Treasurer said that the FHSA scheme is being abolished as it had limited effectiveness in approving housing affordability due to the low take-up rate since its introduction in 2008. At December 2013, there were only 46,000 accounts open with a total combined balance of $521.5m.

The Government will make regulations to ensure that anyone seeking to open a new account from Budget night is informed of these changes by the account provider. . Once the FHSA is abolished from 1 July 2015, these accounts will be treated like any other account held with a relevant provider. In underlying cash terms, abolishing FHSAs will save $113.3m over the forward estimates, including $54.3m in departmental resourcing.

Date of effect

The measure will apply from Budget night using a phased approach until 30 June 2015.

Source: Budget Paper No 2 [p 216]; Treasurer's press release, 13 May 2014

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[748] Tax treatment of biodiesel - modification

The Government announced that it will achieve net savings of $156m over 4 years by reducing grants made under the Cleaner Fuels Grant Scheme to zero and reducing the excise on biodiesel to zero from 1 July 2015. From 1 July 2016, the excise rate for biodiesel will be increased for 5 years until it reaches 50% of the energy content equivalent tax rate. The excise equivalent customs duty for imported biodiesel will continue to be taxed at the full energy content equivalent tax rate.

Source: Budget Paper No 2 [p 218]

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[749] New subsidy for employers hiring Australians 50 years or over

The Government has announced that employers can receive up to $10,000 in Government assistance if they hire a job-seeker aged 50 or older under its new "Restart" program. The program will replace the Seniors Employment Incentive Payment.

Under the program, eligible employers will receive $3,000 if they hire a full-time mature-age job seeker who was previously unemployed for a period of 6 months and employ that person for at least 6 months. Further, once that job-seeker has been working for the same employer for 12 months, the employer will receive another payment of $3,000. Finally, the employer will then receive a further $2,000 once the same job seeker has been with them for 18 months, and $2,000 again at 24 months.

To be eligible for the assistance, employers will need to demonstrate that the job they are offering is "sustainable and ongoing", and that they are not displacing existing workers with subsidised job seekers.

Date of effect

The program will start on 1 July 2014.

Source: Minister for Employment and Treasurer media release, 13 May 2014

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[750] **Ethanol Production Grants Programme to cease**

The Government announced that it will achieve net savings of $120m over 6 years from 2015-16 by ceasing the Ethanol Production Grants Programme on 30 June 2015. The fuel excise on domestically produced ethanol will be reduced to zero from 1 July 2015 and then increased by 2.5 cents per litre per year for 5 years from 1 July 2016 until it reaches 12.5 cents per litre, which represents 50% of the energy content equivalent rate. The excise equivalent customs duty for ethanol will be retained at 38.143 cents per litre.

Source: Budget Paper No 2 [p 165]

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[751] **Changes to privacy and FOI arrangements**

The Government has announced new arrangements to deliver privacy and Freedom of Information (FOI) functions.

Privacy functions will be undertaken by the Privacy Commissioner as an independent statutory position within the Australian Human Rights Commission. External merits review of FOI decisions will be undertaken by the Administrative Affairs Tribunal, while responsibility for handling FOI complaints will be combined with the Commonwealth Ombudsman function. The Attorney-General's Department will take responsibility for the issuance of FOI guidelines, collection of statistics and provision of explanatory material on the operation of the *Freedom of*

Information Act 1982.

Source: Budget Paper No 2 [p 64]

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[752] Commonwealth tribunals to be amalgamated

The Government has confirmed that it will amalgamate all of the Commonwealth merits review tribunals with the exception of the Veterans Review Board, from 1 July 2015. The amalgamated body will take on the functions of the Administrative Appeals Tribunal, (AAT) the Social Security Appeals Tribunal, the Refugee Review Tribunal and Migration Review Tribunal, and the Classification Review Board. Details of the new arrangements will be developed in consultation with key stakeholders.

Merits review of Freedom of Information (FOI) matters, currently undertaken by the Office of the Australian Information Commission (OAIC), will also be transferred to the AAT from 1 January 2015. Under the new arrangements, the Office of the Privacy Commissioner will be established as a separate statutory office and will continue to be responsible for the exercise of statutory functions under the *Privacy Act 1988*.

Source: Budget Paper No 2 [pp 70-71]; Attorney-General media release, 13 May 2014

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[753] Support for drought affected farmers

The Government has confirmed a package of measures to support farmers affected by drought. The package includes:

- more generous criteria for income support under the Interim Farm Household Allowance (Interim FHA) commencing from 1 March 2014;
- an amended, more generous asset test for the Farm Household Allowance (FHA);

- up to $280m over 2 years for concessional loans to eligible farm businesses affected by drought;
- up to $12m in 2014-15 to assist drought affected farm businesses with installing water-related infrastructure. Funding will be provided to supplement the Queensland and New South Wales existing emergency water infrastructure programmes and for other jurisdictions if they establish similar programmes;
- up to $10m over 2 years in 2013-14 and 2014-15 to assist farm businesses manage the impacts of pest animals in drought affected areas, with Commonwealth funding contingent on equal contributions from states; and
- up to $10.7m over 2 years from 2013-14 to enhance access to social and mental health services in communities affected by drought. Assistance will be delivered through the existing Family Support and Targeted Community Care (Mental Health) programmes within the Social Services portfolio, with $3.2m to be met from within the existing resources of the Department of Social Services.

Source: Budget Paper No 2 [p 53]

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