Retirewell eNewsletter

Exclusive Client Email Newsletter – 15 May, 2013

Swansong Budget may be somewhat irrelevant

The Federal Treasurer, Mr Wayne Swan, has not had a good week. It started with an interview with political journalist Laurie Oakes on Sunday when he was asked: “Your Budget speech last year - would you agree in retrospect it makes hilarious reading? You said for example, ‘the deficit years of the Global Recession are behind us, the surplus years are here.’ Now, that'll have people laughing in the aisles...”

In the 2013 Federal Budget delivered on Tuesday, a forecast $1.5 billion surplus for this financial year was revealed to be a $19.4 billion deficit with the 2013-14 deficit expected to be $18 billion and a surplus not predicted until 2016-17.

As economic commentator Alan Kohler said, it seems “the forward estimates… should be renamed the forward wild guesses.”

HSBC chief economist Paul Bloxham has stated that this year’s Budget may be “significantly less relevant” than most Budgets because it is an election year, and a change of government in September would change the Budget plans. The election also means a pre-election fiscal update will occur in August, which would supersede this week’s figures. Of course, it is possible that with the hung Parliament not all the Budget measures will be passed. Also, a new Coalition Government may well decide to introduce a mini-Budget before the end of the year.

Treasury expects economic growth to slow to 2.75% next financial year before returning to 3% in 2014-15. Inflation is forecast to fall from 2.5% this financial year to 2.25% in 2013-14. Unemployment is expected to edge up from 5.5% this financial year to 5.75% in 2013-14.

For an overview from **AMP Chief Economist, Dr Shane Oliver**, on how the Budget may affect the economy, interest rates and investment returns, please refer to the attached document.

As for the details of how the Budget impacts on tax, superannuation and social security, the highlights are as follows:

TAXATION

MEDICARE LEVY INCREASE

From 1 July 2014, the Medicare levy will increase from 1.5% to 2% to help fund DisabilityCare, the new national disability insurance scheme.

RISE IN MEDICARE LEVY THRESHOLD

From 1 July 2012, the Medicare levy low-income threshold will increase to $33,693 (up from $32,743) for couples, and to $20,542 (up from $19,404) for singles.

For families, the additional amount of threshold for each dependent child or student will be increased to $3,094 (up from $3,007).

The Medicare levy low-income threshold for pensioners below Age Pension age also will be increased. **From 1 July 2012**, the threshold will rise to $32,279. This will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

PHASE-OUT OF NET MEDICAL EXPENSE TAX OFFSET

From 1 July 2013, the net medical expenses tax offset (which gives individuals earning up to $84,000 pa, or $168,000 pa for a family, a 20% offset on medical expenses over $2,120, or for those earning more than that, 10% on expenses over $5,000) will not be available, with two exceptions:

- Those who claimed the offset in 2012-13 will be able to claim it 2013-14, and if they qualify, again in 2014-15; and
- Where the offset is for aged care expenses, disability aids and attendant care, it can be claimed until 1 July 2019, when DisabilityCare should be fully in place.

CAP ON SELF-EDUCATION EXPENSE DEDUCTIONS

From 1 July 2014, tax deductions for self-education expenses will be capped at $2,000 pa for individuals.

BABY BONUS TO BE REPLACED WITH NEW FAMILY TAX BENEFIT PAYMENT

From 1 March, 2014, the Baby Bonus, which currently pays $5,000 to eligible parents for each new-born or newly adopted child, will be replaced.

Instead, families who are eligible for the Family Tax Benefit Part A (FTB(A)) will receive $2,000 following the birth of their first child, and $1,000 for each subsequent child. This benefit will be paid as part of their usual FTB(A) payment, instead of a cash bonus payment.

MINING EXPLORATION DEDUCTION REMOVED

In what appears to be an ill-considered and counter-productive move which will damage small mining companies, the Government has announced the immediate removal of tax deductibility for expenditure on exploration rights by resource companies. This no doubt will result in a scaling back of the $1.1 billion annual expenditure in this area.

SUPERANNUATION

CONCESSIONAL CONTRIBUTION CAP TO RISE

The Superannuation Minister, Mr Bill Shorten, announced on Budget night that he would be introducing legislation in this sitting to increase the concessional contribution cap from $25,000 to $35,000 pa from:

- **1 July, 2013** for people 60 and over, and
- **1 July, 2014** for people 50 and over.

The cap will remain at $25,000 pa for all other ages until indexation increases it to $30,000 pa in 2014-15.

The table below outlines the proposed caps that will be available over the coming years.

Age	2012/13	2013/14	2014/15
Under 50	$25,000	$25,000	$30,000
50 – 59	$25,000	$25,000	$35,000
60 and over	$25,000	$35,000	$35,000

It has to be said that the $35,000 cap is still far too low, as seven years ago in 2006-07 the maximum deductible contribution for a 40-year-old was $42,385! However, it is a step in the right direction.

EXCESS CONTRIBUTIONS TAX REFORMED

The Superannuation Minister, Mr Shorten, also announced on Budget night that he would be introducing legislation in this sitting so that **from 1 July 2013**, individuals will be allowed to withdraw any excess concessional contributions made from their super fund.

In these instances, excess concessional contributions will be taxed at the individual's marginal tax rate, plus an amount for interest.

Both this measure and the increase in concessional contribution caps have the support of the Coalition and therefore will be passed into law shortly.

INCREASED CONTRIBUTIONS TAX FOR HIGH EARNERS CONFIRMED

In the 2012 Federal Budget, the Government announced that individuals with income above $300,000 pa will pay an additional 15% tax on their concessional super contributions, i.e. 30%. Of course, this still has to get through Parliament, however draft legislation was recently released and the 2013 Budget confirms that the Government is intent in proceeding with this measure, which would apply **from 1 July, 2012**.

SOCIAL SECURITY

ALLOWANCE INCOME THRESHOLDS INCREASE

From 20 March, 2014, the income free area for certain allowance recipients will increase from $62 per fortnight to $100 per fortnight. This means an individual will be able to earn up to $100 per fortnight before his/her maximum allowance is reduced.

This change will apply to:

- Newstart Allowance
- Sickness Allowance
- Parenting Payment (partnered)
- Widow Allowance
- Partner Allowance Payment, and
- Partner Allowance Pension.

TRIAL MEANS TEST EXEMPTION FOR DOWNSIZING FAMILY HOME

From 1 July 2014, the Government will trial a program to help older Australians move to more age-appropriate housing.

The program will apply an assets and income test exemption to Age Pension recipients who downsize their family home. To be eligible, the family home needs to have been owned for at least 25 years and at least 80% of the excess sale proceeds (up to $200,000) need to be deposited with an authorised institution.

The exemption also applies to people moving into a retirement village or granny flat, but not residential aged care.

Funds in the account will not be assessed by Centrelink for up to 10 years, or until a withdrawal is made.

Of course, all the above measures are subject to the relevant legislation being passed by Parliament.

Please contact your financial planner if you have any queries or concerns on how the Budget will affect you, or any other aspect of your financial situation.

Retirewell Financial Planning
Level 24, 141 Queen Street
BRISBANE QLD 4000
Ph: (07) 3221 1122
Email: admin@retirewell.com.au