YOUR Knowledge

Budget 2015: who is in the firing line?

If you are a high income earner, earn income from overseas, or have a large asset base, then, if the rumours have any truth to them, you're in the firing line in the 2015/2016 Federal Budget.

The Australian economy is coming off its resources boom 'sugar hit' and as Reserve Bank Governor Glenn Stevens said recently, "the government has little choice but to accept the slower path of deficit reduction over the near term." The declining iron ore price has blown a $30bn tax receipts hole in the budget over 4 years. So, the question is, where can the Government get savings into the Budget that will pass the Senate while being palatable to voters?

Prime Minister Tony Abbott recently said, "There will be tough decisions in this year's budget as there must be, but there will also be good news." This Federal Budget is not about what the Government believes is necessary but what they can get through the Senate. Large structural reforms to tighten welfare, education and health have failed in the Senate in their current form. This budget will be about moving thresholds and imposing restrictions on the existing system.

Families

The Prime Minister calls the "families package" the centrepiece of the upcoming budget with child care facing "significant changes." While the Government has stated that this will be a better deal it is likely to be a reformulation of how child care support applies. If the budget measures follow the Productivity Commission's recent recommendations the Government will introduce a single means tested and activity based system.

The Minister for Social Services, Scott Morrison also recently released details of an in-home nanny program to support shift workers. The two year trial will support home care for children of shift workers, such as nurses and police, etc.

Your superannuation

Paving the way for the Government to change how superannuation is taxed, Australia's leading body for the superannuation industry, the SMSF Association, recently stated that, "The tax treatment of very high account balances should be the starting point for discussions around adjustments to superannuation tax concessions, rather than blanket changes that impact on all members." Their analysis of very high superannuation account balances found that 24,000 SMSF members in the pension phase with balances in excess of $2m received around $5.2bn in tax-free income stream payments, or an average of around $216,000. *Continued over…*

Quote of the month

"I believe things cannot make themselves impossible."

Stephen Hawking

Contributing to super - what you need to know

Topping up your superannuation just got a little less dangerous with new rules that allow excess non-concessional contributions to be refunded.

Before the change, a huge number of people were penalised by excess concessional contributions tax because they contributed over the allowable level of contributions. It was not uncommon to see $70,000 tax bills from what was a relatively small over contribution. And, there was very little you could do about it even if the contribution was not deliberate.

The new rules mean that members can have the excess contributions refunded to them PLUS 85% of the associated earnings on those amounts. The full earnings will then be included in your assessable income and taxed at your marginal tax rate. You will then be entitled to a non-refundable tax offset equal to 15% of the associated earnings. Simple right? Maybe not but it's a lot easier to understand than a $70,000 tax bill for going even $1 above your contributions limit.

These new rules apply to excess non-concessional contributions made from the 2013/14 financial year onwards. So, if you were affected by excess contributions tax, something can be done about it.

Budget 2015 *continued*

The Labor Party also recently supported changes to how super is taxed recommending that earnings of more than $75,000 during the retirement phase are taxed at a concessional rate of 15% instead of being tax-free. And, the recent Tax Discussion Paper also stated that the Government should equalise the way savings and investments are taxed including superannuation.

In effect, the Government has the support of the leading professional body and the Labor party to change the way superannuation is taxed, particularly if change is targeted at high income earners.

From a policy perspective, it's hard to argue that high income earners should access tax concessions on superannuation beyond the need to have certainty about superannuation policy. If the way super is taxed is not altered in this budget, it's highly likely it will be reformed in the near future – most likely as part of the Government's response to the Tax Discussion Paper.

Pensions

Like superannuation, the Government appears open to change that targets the asset rich. Currently, couples with a family home and assets up to $1.15m qualify for a part pension. The Australian Council of Social Services (ACOSS) has recommended a reduction in the assets test for home owners and an increase in the taper rate, effectively reducing the pension amount available once the threshold is passed.

Business

The Prime Minister recently announced that the planned 1.5% company tax rate reduction will be scrapped for all but small business. Small business is expected to be a focus in the upcoming Budget with a small business package.

It's also likely that research and development to foster "innovative" start-up initiatives will receive a boost. Treasurer Joe Hockey has said that, "there are a number of things we can do to help start-ups and we'll be saying more about that in the upcoming Budget."

GST on online purchases and services

To increase GST revenue, the Government has the option of trying to force through a GST rate increase with State and Territory approval or broaden the base. High on the list is applying GST to revenue earned from online and digital businesses.

On 9 April, Treasurer Joe Hockey said, "GST should be charged at the source, so a company providing intangible services into Australia, such as media services or so on, wherever they are located they should charge GST on those services."

That is, if you are an Australian resident and purchase a good or service then tax should apply in Australia as opposed to where the business is domiciled. This issue is likely to be broader than just the $1,000 threshold for goods purchased from overseas and Netflix but a review of how tax applies to intangibles. It's a question of when these measures will apply - either in the Budget or as part of the broader tax review.

'Googletax' or Multinational tax crackdown

The Treasurer has said that, "It is vitally important, vitally important that a business, wherever it is located, pay tax in the jurisdiction where it earns the income." In April, the UK introduced a 25% tax on diverted profits created by activity in the UK. The intent is to "target large multinational enterprises with business activities in the UK who enter into contrived arrangements to divert profits from the UK by avoiding a UK taxable presence and/or by other contrived arrangements between connected entities." The new tax rules apply to entities with sales revenue in the UK greater than £10m.

If the Government acts on this issue in the Budget instead of waiting for the tax review, it's likely we will see this UK style of tax apply.

Tax on bank deposits

The Assistant Treasurer has indicated that a bank deposits insurance tax will be introduced to create a fund to protect against a collapse of the banking industry. The concept was previously announced by Labor prior to the 2013 election.

We'll keep you updated in our review released the morning after the Budget.