

The 2014 Federal Budget

14/05/2014

General Overview

This newsletter provides a brief summary of the Budget announcements that are potentially relevant to you. It should be noted that most measures are proposals only, legislation is still required to be passed with possible changes and clarification to be provided.

Changes for Business

Cutting Company tax rate by 1.5% from 1 July 2015.

Reducing the company tax rate to be more competitive globally and to help offset the 1.5% tax increase on the top 3000 firms (those paying for the parental leave).

Consequence: This may result in minimal tax savings for your company. The majority of small business cannot afford to pay the owners award wages, let alone have a profit on which to be taxed.

Action: Tax planning and superannuation to reduce the tax drain on wealth and retirement savings.

FBT rate is increased to 49% to compensate for the budget deficit levy change.

Consequences: Fringe benefits are more expensive to provide.

Action: Review salary packaging options and employee FBT cash out and concentrate on tax free benefits.

\$10,000 subsidy over 24 months for businesses who employ over 50's from 1 July 2014.

To be eligible for a payment, employers must employ job-seekers over age 50 that were previously unemployed for a minimum of six months, plus they must employ that person for at least six months.

Consequence: This should see a decrease in age discrimination for those over 50's looking for a job. This will result in an increase of competition for jobs.

Action: Recruitment practices remain unchanged but all things being equal, take the subsidy option.

So there was no pain in the budget for Small Business?

Consequence: The 1.5% reduction in company tax rate is cold comfort to most small business which can't afford to pay award wages to the business owner, let alone have profits to pay company tax on.

Small business owners are individual taxpayers and families caught up in the broader belt tightening - reduced FTB entitlements and increase costs of supporting their children through school, uni and until age 30 if they can't get a job.

Small business owners will be under increasing pressure to absorb cost increases and especially the fuel levy and the super guarantee increases from 1 July 2014; and to not pass the increased costs on in the form of higher prices.

Small business sales are likely to decrease as the community reacts to the budget tightening measures by reducing their household expenditure.

Small business profitability is likely to fall in the 2015 financial year after a subdued trading period to 2014.

There is a lot of pain being shared.

Actions: Financial analysis, budgeting, cash flows and debtors monitoring.

Changes for high income earners

Budget deficit levy (tax) of 2% to apply for 3 years from 1 July 2014 for incomes over \$180,000.

Consequence: This will essentially increase the tax rate for those earning \$180,000 and over to 49% for the next 3 years.

Action: Tax planning and superannuation to reduce the tax drain on wealth and retirement savings

FBT rate is increased to 49% to compensate for the budget deficit levy change.

Consequences: Fringe benefits are more expensive to provide.

Action: Review salary packaging options and employee FBT cash out and concentrate on tax free benefits.

Changes for seniors

Age Pension increasing to age 70 from 2035.

Brief overview: Australians will not have access to the age pension until age 70. This is not to be confused with preservation age, which for most Australians is age 65. In other words, you can still access your super at age 65 but you will not have access to the age pension until age 70.

This will not affect people born before 1 July 1958.

Consequence: This will increase the reliance on a self-funded retirement.

Action: Tax planning and superannuation to reduce the tax drain on wealth and retirement savings.

Consider downsizing the home or taking a reverse mortgage in order to supplement your retirement savings.

Pensions indexed to inflation, rather than wages – indexed at a lower rate, CPI instead of wages.

This includes age pensioners and those on disability support pensions (DSP), whose meagre incomes will now be indexed at a lower rate – that is, according to the consumer price index, rather than the higher rate of wage inflation.

Consequence: Pensions will still rise with inflation but may rise at a slower rate.

Action: Tax planning and superannuation to reduce the tax drain on wealth and retirement savings.

Consider downsizing the home or taking a reverse mortgage in order to supplement your retirement savings.

Untaxed Superannuation Income included in the health card income test.

Consequence: Wealthier retirees may no longer have access to the health care card.

Action: Tax planning and superannuation to reduce the tax drain on wealth and retirement savings.

Consider downsizing the home or taking a reverse mortgage in order to supplement your retirement savings.

Changes for Uni students

Graduates to repay HELP debt once they earn over \$50,638 from 1 July 2016.

The threshold has been lowered and the Interest paid on HELP loan is set to increase, topping at 6 per cent. Furthermore Higher education providers are to set their own tuition fees from 1 January 2016.

Consequence: Tertiary education may become more expensive but the cost is still deferred until the income threshold is reached.

Action: Tax planning and superannuation to reduce the tax drain on wealth and retirement savings and maximise net family cash flow.

Changes for Job Seekers

No newstart allowance for six months for new jobseekers under 30. After six months, 25 hours per week work for the dole to receive income support for six months.

Consequence: Parents will be forced to support their children, their spouses and perhaps grandchildren.

Action: Parents and children need to accumulate liquid reserves in order to preserve wealth and retirement savings. Household budgeting should become a priority.

Changes for Families

Introduction of paid parental leave scheme with an income cap of \$100,000 pa.

\$7 per visit to the doctor, free for children under 16 after the first 10 visits each year.

\$5 per script.

\$750pa handout for each child aged 6 to 12 for low income single parents.

Dependent spouse tax offset abolished.

Consequence: Medical expenses will rise and middle class families will receive less benefits.

Lower income parents will receive funds in order to support their children.

Action: Tax planning and superannuation to reduce the drain on wealth and retirement savings. Household budgeting should become a priority.

Changes for Motorists

Indexation of fuel excise reintroduced from August 1, 2014.

\$11.6bn to transport infrastructure spending, with roads a priority.

Consequence: Fuel costs will rise nominally, increasing the cost of living.

Action: Think green when it comes to vehicle choice and record deductible work related travel costs.

Other non-budget changes

1. Immediate Asset Write off - These provisions were supposed to cease at 1 January 2014 but as legislation has not passed the effective date may be deferred to 1 July 2014. Assets costing less than \$6,500 (reverting to \$1,000) will be eligible for immediate write-off under the general Small Business Entity provisions. Assets costing more will need to be depreciated in the general small business pool.

Action: Buy before 30/06/2014 in case the start date is 01/07/2014

2. New vehicles used exclusively for business are eligible for the first \$5,000 to be written off with the balance of cost depreciated. As above, this concession may cease at 1 January 2014 or 1 July 2014.

Action: Buy before 30/06/2014 in case the start date is 01/07/2014

3. Superannuation caps changing: Concessional caps increasing to \$30,000 up to the age of 48; and to \$35,000 those aged 49 and over as at 01/07/2014.

Action: Contribute (via salary sacrifice) to the cap.

4. The SG rate increases to 9.5% from 1 July 2014.

Action: Employers to adjust super calculations and contributions.

5. Medicare Levy to rise to 2% from 1 July 2014.

Medicare levy will rise to 2% (previously 1.5%). This was announced and legislated by the previous government, to assist with funding the Disability Care Australia Fund. Medicare levy is assessed based on taxable income.

Action: Tax planning and superannuation to reduce the drain on wealth and retirement savings.

6. The tax free threshold increases to \$19,401 for the 2015/2016 and subsequent years.

Action: No further action required.

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“Cashflow is critical for business growth and survival. Is your business generating the returns you require and is it maximising your wealth?”

Nash Solutions Business Services can assist you with:

Accounting, book-keeping and day to day business administration services

Taxation advice, including:

- Year-end tax planning
- CGT and business rollovers
- GST
- Negative Gearing

Small Business advice, including:

- Structuring
- Incorporation and company secretarial services
- New business start up
- Business acquisitions and valuations
- Business Sale

Tax return and BAS preparation

Superannuation, including:

- Self Managed
- Employer Superannuation Funds
- CGT rollovers on sale of business

Business analysis, including:

- Financial Analysis
 - Management accounting
- #### **Business planning**, including:
- Financial Analysis
 - Management accounting

Financing, including:

- Review of current finance arrangements
- Equipment and motor vehicle finance

Computerised Records, including:

- Accounting related assistance generally
- MYOB software and computer support
- Banklink

Audits

- Self Managed Super Funds
- Clubs and Associations
- Companies

“Savings plans are necessary to ensure sufficient funds are available for your retirement. Will you live the comfortable retirement you dream of?”

Nash Solutions Financial Planning Services can assist you with:

Children’s education plans, including

- Imputation Bonds

Direct Share Investment

Superannuation, including:

- Individuals
- Employer group policies
- Self Managed Superannuation Funds

Personal Insurance, including:

- Life
- Total & Permanent Disablement
- Income Protection

Finance, including:

- Debt consolidation
- Housing & Commercial Loans
- Investment Loans
- Vehicle, Plant & Equipment

Wealthvue retirement and lifestyle planning analysis

- Income streams and capital drawdowns
- Centrelink benefit planning and analysis for age pension retirees

Estate succession planning

Aged Care Planning

“3 in every 4 Australians will be diagnosed with a serious illness during their working life and will spend many months off work. Will your family live in poverty?”