Personal & Business tax changes from the Federal Budget

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NAB's Senior Tax Advisor and panel of economists break out the Tax impacts from the 2013 Federal Budget. Understand what the changes are for individuals and businesses including a recap on those that were previously announced.

The Government has announced a budget deficit estimated to be $18bn in 2013-14 but the Treasurer declared the Government was "charting a sensible pathway to surplus over the forward estimates".

As a result, a range of revenue and savings measures were announced in the budget including:

- Increase in Medicare levy to 2%;
- Abolition of Baby Bonus and introduction of new family payment arrangements;
- Deferral of the planned 2015-16 income tax cuts indefinitely;
- Measures designed to prevent multinational companies from shifting profits out of Australia;
- Closing corporate tax loopholes and concessions;
- Withholding tax on gains made by foreign residents.

Personal tax

- The personal income tax cuts which apply from 2015/16 (by way of an increase to the tax free threshold) will be deferred.
- The net medical expenses tax offset will be phased out. Transitional measures are available for those who currently claim the offset.
- The Medicare levy low income thresholds for the 2012/13 income year will increase to: (i) $20,542 for individuals, and $32,279 for pensioners eligible for the Seniors and Pensioners Tax Offset; and (ii) $33,693 for families, with the additional family threshold amount for each dependent child or student increasing to $3,094.
- As previously announced, the Medicare Levy will be increased from 1.5% to 2% from 1 July 2014 to help fund the National Disability Insurance Scheme
- The Baby Bonus will be abolished from 1 March 2014, and replaced by increases to 'Family Tax Benefit Part A' payments. Parents who take up Paid Parental Leave are not eligible for the new payments, but the "work test" under the Paid Parental Leave scheme will be extended to count periods of Government Paid Parental Leave as work.
- The existing discounts which apply to up-front and voluntary payments made under the Higher Education Loan Program (HELP) will be removed from 1 January 2014.
- As previously announced a $35,000 concessional contribution cap will apply for people aged over 60 years old from 1 July 2013 and 50 years and over from 1 July 2014 compared to the current $25,000 (indexed).
- Excess concessional contributions will be taxed at an individual's marginal tax rate plus interest rather than at the top marginal tax rate.
- Earnings on pension assets that exceed $100,000 annually per individual will be taxed at a rate of 15% (rather than being exempt currently).

Business

- As previously announced, the R&D tax incentive will be overhauled to provide a 45% refundable tax offset for companies with annual turnover of less than 20m and a 40% non-refundable tax offset for other companies. Companies will turnover above $20bn will no longer be eligible for the tax offset.
- The monthly PAYG instalments will be extended to trusts, superannuation funds, sole traders and large investors, with all entities with turnover of $20m or more moving to monthly PAYG from 1 January 2017.
- The superannuation guarantee charge will increase from 9% to 9.25% from 1 July 2013 and will progressively increase to 12% by 1 July 2019.
- A 10% new withholding tax on the proceeds from sale will be introduced to the disposal by foreign residents of certain taxable Australian properties, including real property and mining rights. The measure will not apply to residential property transactions below $2.5m.
- As widely anticipated the Government has announced changes to the current thin capitalisation rules that are designed to restrict the level of gearing that multinational companies can use. This will generally see the current safe harbour limit for non-bank entities reduced from 3:1 to 1.5:1. This will reduce the thin

capitalisation safe harbour level to 60% of debt to total assets. For business these changes are designed to restrict interest deductions and will create a need for current gearing levels to be reviewed and potentially restructured.

- Interest deductions will no longer be allowable for loans that are used to fund the acquisition of foreign investments, where the income from the investment is not subject to tax in Australia.
- The Offshore Banking Unit (OBU) concession at the rate of 10% will no longer be available for related party transactions and certain financial activities.
- An immediate deduction for the purchase of mining rights and information is no longer allowed.
- Investors with franking credit tax offset entitlements of more than $5,000 will be prevented from engaging in “dividend washing” which involves a trading strategy that allows an investor to double the amount of dividend franking credits earned from franked dividend by selling the shares after they go ex-dividend and immediately buying the shares back while trading cumdividend.

Our team of leading economists, tax and superannuation experts will continue to unpack Federal Budget 2013 to help you understand what it means. Visit our online hub to access all the latest articles, fact sheets and video commentary. **http://nab.co/ZKxAuX**

Note: These measures are proposals only and may or may not be made law.

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