2013-14 Federal Budget

It has become common practice in recent years for the Federal Government to gradually pre-announce many new budget measures individually, before budget night. No doubt at least part of the rationale is to deliver bad news in small doses, but it does take some of the shine off one of the most significant events in the accountant's calendar! This has never been more the case than with the 2013-14 Federal Budget delivered last night by Treasurer Wayne Swan.

Some have said that historically this will be the budget that will be remembered for DisabilityCare and the education reforms. That may well end up being the case, but it has made for slim pickings from a tax and business point of view. There was very little in the budget that was not previously known or mooted - right down to the size of the deficit ($18 billion) - and even less that is likely to have any significant impact on small-medium enterprises (SMEs) in Australia. Most of the announced business reforms are targeted at large corporate enterprises and multi-nationals, for the most part leaving SMEs untouched. In some respects this is welcome, but in another sense we can't but help wonder aloud - if the current revenue shortfall is attributable in part to a decline in business profits, could more have been done to stimulate business development and growth?

Here's a few of the highlights.

- Expanded business assistance for SMEs
- Large businesses subject to monthly PAYG payments
- Tax free threshold increase 'deferred'
- Medicare levy increased to 2%
- Medical Expenses Offset to be phased out
- Baby Bonus to be axed
- Claims for self-education expenses to be capped at $2,000
- Discounts on up-front and lump sum HELP payments to be abolished
- Superannuation - no news is not always good news
- Third party data matching to be improved

Business

- **Expanded business assistance for SMEs** - $378 million will be allocated over 15 years through the Venture Australia package to stimulate innovation, assist small and medium businesses to develop and grow and provide better access to finance. Measures were also announced to help

Australian SMEs bid for public sector work.

- **Large businesses subject to monthly PAYG payments** - This change will not affect SMEs, but all entities with turnover greater than $20 million will be required to remit their PAYG instalments monthly. This will apply for companies from 1st January 2016, and all other large entities, including trusts and superannuation funds, from 1st January 2017.

Personal

- **Tax free threshold increase 'deferred'** - An increase to the tax free threshold for individuals from $18,200 to $19,400, which had already been legislated and was due to take effect from 1st July 2015, will now be deferred. The accompanying increase in the second marginal rate from 32.5% to 33% will still proceed.

- **Medicare levy increased to 2%** - As previously announced, the Medicare rate will increase from 1.5% to 2% from 1st July 2014 to help fund the Government's new DisabilityCare scheme. This will have flow-on effects to many other tax rates that are aligned to personal marginal rates of tax, such as Fringe Benefits Tax and the tax on excess superannuation contributions.

- **Medical Expenses Offset to be phased out** - The Medical Expenses Offset allows taxpayers to recover part of the net costs of medical expenses in a year that exceed a set threshold through their income tax return. This will be phased out, with transitional arrangements applying to those who have previously been claiming it. Taxpayers who do not make a claim in the 2012-13 year will not be entitled to any future claim thereafter, while those who do will be eligible for a claim in 2013-14. Likewise, if a claim is made in 2013-14, taxpayers will be entitled to one more claim in 2014-15. After that time, any future claims will be limited to eligible expenditure on disability aids, attendant care or aged care.

- **Baby Bonus to be axed** - From 1st March 2014, the Baby Bonus will be replaced with a $2,000 increase to Family Tax Benefit Part A for the first child (or each child in the case of multiple births).

- **Claims for self-education expenses to be capped at $2,000** - The Budget confirmed a previous announcement that claims for eligible self-education expenses would be limited to $2,000. The Government flagged its intention to consult closely with both employees and employers to ensure that these changes are not overly punitive and continue to support essential training, and to this end a discussion paper will be released in due course. A press release issued in conjunction with the announcement suggests that the limit will apply not only to expenses incurred in gaining a formal qualification from a school, university or other place of education, but may also be extended to cover expenses incurred for conferences, seminars and self-organised study tours. This is broader than the previous definition, so we will have to wait until it is legislated to be certain. It's important to note that this limit does not apply to employers paying conference, training and other education costs for employees, providing the employee does not salary sacrifice the costs.

- **Discounts on up-front and lump sum HELP payments to be abolished** - For those who have a Higher Education Loan Program (HELP - formerly HECS) debt, the 10% discount that applied to up-front course fee payments will be removed from 1st January 2014. This will also apply to the 5% discount provided for any lump sum HELP debt repayments made over $500. This seems like an unusual measure during a revenue crisis as it is likely to reduce Government cash flow in the short term as the incentive to make large payments is removed. Instead, it will make no difference whether students attempt to pay off their debt sooner or leave it indefinitely to be gradually paid off through the tax system.

Superannuation

- **Superannuation - no news is not always good news** - There were no further changes announced with respect to superannuation. However previously announced reforms will have an impact in the coming months, including the cap announced on tax-free pension earnings over $100,000 which comes into effect 1st July 2014. Thankfully, proposed increases to the maximum concessional contribution limits were left untouched. The first increase comes in on 1st July 2013 for those over 60 years of age (an increase from $25,000 pa to $35,000 pa).

Compliance

- **Third party data matching to be improved** - In an effort to further plug the holes in the budget, the Government will allocate $77.8 million to expand the Tax Office's data matching with third party information. The revenue gain is estimated to be around $610.2 million. This will focus on reporting systems for things like government grants, sales of real estate and investment income.

Our take...

We hate to say we told you so, but astute readers of our newsletters may remember this from our budget summary last year, after the Government promised a very modest surplus for the coming fiscal year:

"The economy remains shaky, however, and there are numerous uncontrollable global factors that may yet exert an adverse influence. Such a delicately balanced budget may only need a very minor shift in the underlying economic assumptions to quickly erode the small surplus."

The forecast surplus of $1.5 billion for 2012-13 turned into a deficit of $19.4 billion due to a sharp decline in revenue. If the polls are to be believed, this will be the last Federal Budget delivered by Wayne Swan, which is why many are cynically referring to it as the Labor Government's 'Swan Song'. It certainly seems as though this budget has been shaped as a 'last chance' effort. It's a very 'Labor' budget - big on social reform and infrastructure spending, with the biggest hits being taken by businesses at the larger end of town.

The Government has touted this budget as "charting a sensible pathway to surplus". The current political situation however leaves us wondering how much of it will actually come into effect. Certainly the DisabilityCare and Education reforms are all but locked in, but much of the tinkering required to help pay for it all is still to be legislated. Facing the prospect of election defeat within four months, and a hostile parliament in the meantime, the Government may not be able to push through many of the measures needed to map this course, and as such we may simply have to wait until after September this year to see the way forward with any certainty.

Our mailing address is:
Dewings
PO Box 170
Fullarton, South Australia 5063
Australia