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For further information
please write to
manu@mgarthur.com.au

NEWS POINT

BUDGET 2013 SPECIAL

It Changes Everything. Again!

Never thought I would use iPhone's famous advertisement punch line to describe Wayne Swan's budget. iPhone's anticipation vs Budget's disappointments. There is so much of scrapping this year, Greens might have a problem with the amount of scrap paper generated!

Seriously though, years of broken promises and 'penny wise pound foolish' tinkering with the tax law tends to make us feel frustrated and flabbergasted. Of course next year Wayne might have someone else to blame for his broken promises – us, if Labor loses the election this September. Not much solace from the other side of the politics either. Opposition have gone on record to say they will keep all budget cuts while, quite shamelessly, continuing to criticize the government.

This edition of AboutTax covers major changes effecting your taxes, social support, superannuation and businesses announced in the 2013 Budget and preceding media releases.

You, Your Family and Your Taxes

SCAPPED! Increased tax free threshold promised from 1st July 2015. The table below says it all. The promised Tax free threshold increase to \$19,400 is 'deferred' for good. Interestingly, the proposed increase in tax rate to 33% and drop in LITO stay. How convenient! Effective 1st July 2015. Implementation post elections.

| Tax Rates | 2012-13, 2013-14 & 2014-15 | | SCRAPPED 2015-16+ | | NEW 2015-16+ | |
|---------------------------|---|---------------|---|---------------|---|---------------|
| | Threshold \$ | Marginal Rate | Threshold \$ | Marginal Rate | Threshold \$ | Marginal Rate |
| 1 st Rate | 18,201 | 19% | 19,401 | 19% | 18,201 | 19% |
| 2 nd Rate | 37,001 | 32.5% | 37,001 | 33% | 37,001 | 33% |
| 3 rd Rate | 80,001 | 37% | 80,001 | 37% | 80,001 | 37% |
| 4 th Rate | 180,001 | 45% | 180,001 | 45% | 180,001 | 45% |
| Low Income Tax Offset | Up to \$445 1.5% withdrawal rate on income over \$37,000 | | Up to \$300 1% withdrawal rate on income over \$37,000 | | Up to \$300 1% withdrawal rate on income over \$37,000 | |
| Effective tax-free income | 20,542 | | 20,979 | | 19,780 | |

*Includes the effect of the tax free threshold and the Low Income Tax Offset.

INCREASED! Medicare levy goes up to 2%, to fund the new NDIS initiative. This increase will also impact ensuing tax rates including Trustee FTD and Beneficiary Non Disclosure Rates, FBT rates, Superannuation Special Income Tax Rates, Excess Contribution Tax Rates, Bank Interest withholding tax rates and the likes. Effective 1st July 2014. Likely to be passed prior to elections.

SCRAPPED! Self Education Expense Tax Deduction limited to \$2000 per year. A shocker, quietly announced well before the budget. The devil is in the details. This change not only impacts your normal university course fee and expenses, it is proposed to cover wide ranging expenses like conferences and workshops, travel and accommodation and the likes. ***This will have a big impact on professionals, especially medical, accounting, lawyers etc.*** The brief says it wouldn't impact employers paying for employees' training but would impact salary sacrificed expenses. Effective 1st July 2014. Implementation post elections.



SCRAPPED! Net medical expense offset phased out. Barring a few limited cases, this offset will no longer be available. Effective 1st July 2013. Implementation post elections.

SCRAPPED! Baby Bonus gone. Giving a good 9 months for children on their way, Baby bonus will be scrapped from 1st March 2014. Henceforth FTB-A eligible parents will get a supplement of \$2000 for the first child and \$1000 for the second. Effective 1st March 2014. Implementation post elections.

SCRAPPED! FTB-A increase previously promised from 1st July 2013. This was expected to provide additional \$300 per year for families with one child and \$600 per year for families with two or more children. Effective 1st July 2013.

SCRAPPED! Indexation for upper limit for FTB and various tax offset family income limit (\$150,000) frozen till 30th June 2016. This will ensure regular exiting of existing eligible families while limiting entry for new ones. Child Care Rebate cap of \$7,500 per child per year is also frozen for three years. A convenient cut! Effective 1st July 2013.

SCRAPPED! Two year time period for claiming your FTB, CCB and CCR money reduced to one. Termed as streamlining the process, this just aims at denying people their right just because they couldn't get their act together in time. Another convenient cut! Effective 1st July 2012 (believe it or not!)

SCRAPPED! Discounts on upfront or early payment of HECS-HELP. When businesses are tight for money, they give prompt payment discounts. When government is scratching for money, they drop their discounts. Does that make sense? Already termed as the cheapest loan you could get, and might not need to pay back if you don't earn enough, or migrate elsewhere, this change is only going to make government loose more money. Penny Wise Pound Foolish! Effective 1st July 2014.

Your Super

INCREASED! Extra 15% tax on Concessional Contribution by the 'rich'. An increase declared in Budget 2012, this has been hanging in the looms because of implementation issues. Importantly, the definition of income has been changed to 'income for surcharge purposes less reportable superannuation contribution plus low tax contribution'. This include;

- Taxable income
- Reportable Fringe Benefits
- Total Net Investment Losses
- Less Superannuation Lump sum
- Add low tax contribution (concessional contribution up to \$25,000)

Only that portion of the concessional contribution which exceeds the above income beyond \$300,000 will be taxed the extra 15%. Effective 1st July 2012. Legislation expected to pass before 30th June 2012.



INCREASED! Pension income beyond \$100,000 to be taxed at 15%. A dragon in its shadows. Importantly this includes capital gains tax in your superfund (from 2024). If implemented, this measure is said to cause more problems and administrative costs than the dollars it would collect. Effective 1st July 2014. Implementation post elections.

TIP!

It is appalling that this government treats tax concessions for retirement savings as tax grabs and belittles efforts of individuals trying to save for their own retirement rather than rely on the meager state pension! **Lesson to learn – make the most of the incentives now, lest they might be further reduced.**

INCREASED! Concessional contribution cap to go up to \$35,000 per year, from 1st July 2013 for members above 60 and from 1st July 2014 for members above 50. Sold as a great concession, it is important to remember this comes in the light of a *scrapped* promise to increase contribution limit to \$50,000 for those above 50 (with balances below \$500,000) from 1st July 2013. Just a few years ago, this limit used to be \$100,000. Effective 1st July 2013. Expected to pass before elections.

SCRAPPED! Excess contribution tax on concessional contribution. One of the most inhuman taxes of recent times, which the tax office implemented with unashamed force is to be finally scrapped. This tax, which has seen taxpayers inadvertently pay up to 93% tax is finally gone! Members exceeding the limit of \$25,000 will be allowed to withdraw the excess and tax them (plus an interest penalty) at their marginal rate. Effective 1st July 2013. Expected to pass before elections.



TIP!

This doesn't change the game on excess non-concessional contribution tax, which could still result in you paying tax of up to 72%. Tribunal and Courts have set precedents to deny relief in most cases. Precise planning is thus vital.

Your Business

INCREASED! Employer Super Guarantee to 9.25%. Proposed to increase to 12% by 2019 and advertised as a huge benefit for employees, there is no mention of the increased cost burden on small businesses already struggling with poor economic conditions and indifferent government proposals. On top of this, super will now be payable for employees above 70 years of age. Effective 1st July 2013. Already legislated.

TIP!

It doesn't just stop here. If you pay wages under fairwork or other awards, you need to report the amount paid on payslips. If your employee doesn't make a choice of fund, you will need to pay his super in a fund that provides MySuper. Very soon you will be required to use new e-commerce standards. All this will surely add to the time and money you will be spending on super!

NOT SCRAPPED! Tax concessions from small businesses applicable for 2012-13 and later years.

- Claim in tax 100% of your Investments in Plant and Equipment of up-to \$6,500 per item.
- Claim in tax first \$5,000 of new or second-hand motor vehicle purchased during the year plus normal Small Business Entity (SBE) fast track depreciation.
- Avail other SBE concessions like accelerated depreciation, concessional pre-paid expenses and trading stock rules.
- Use SB CGT Concessions to mitigate any Capital Gains Tax on sale of business assets. Restructure your business or transfer your business real property into super.



TIP! PLAN YOUR TAXES BEFORE IT IS TOO LATE!

With ever increasing changes to tax laws, it is all the more important to ensure your tax planning is up to speed. Plan now to save your taxes before 30TH June!

INCREASED! Scrutiny of tax affairs of trusts. Touted as trust taskforce to target exploitation of trusts to conceal income, mischaracterize transactions, artificially reduce trust income amounts and underpay tax. It is aimed at 'taxpayers engaged in egregious tax avoidance and evasion'.

TIP! It is only hoped the tax office will not use this as a license to promote their well known dislike of trust as a legitimate business and investment vehicle. Ensure you make your trust resolutions by 30th June and report TFNs of beneficiaries by 31st July each year. Cross your t's and dot your i's so you are not caught short and hit with huge taxes and penalties.

INCREASED! Target on big businesses and multi-national tax groups. Finally something that could give the average taxpayer and small businesses some relief. Last six months have seen increased heat on multi-nationals like Google, Apple, Microsoft and the likes which are siphoning huge profits to their tax haven entities thereby minimizing any tax they pay anywhere in the world. Not surprisingly, an analysis by Sydney Morning Herald recently found that 19 of the top 20 ASX listed Australian companies had 'lesser known' subsidies, possibly engaged in what is known 'Base Erosion and Profit Shifting (BEPS) activities. The proposals below target these and other big businesses to spread the burden of tax collection.

- Target BEPS through OECD and international collaboration with America, UK and Europe to rope in taxes on billions of dollars of profit siphoned off to tax shelters.
- Strengthen Thin Capitalisation provisions to limit use of debt by multinationals to reduce their Australian taxable income.
- Restrict immediate deduction of some mining rights.
- Changes provisions to minimize incentives for Offshore Banking Units by Australian Banks
- Sign new DTA with Switzerland for better international tax info exchange.

TIP! With world economies struggling with tax collection there has been increased focus on multinationals using tax havens to avoid tax. Increased collection from these super large businesses could lead to reduced taxes for individuals and small businesses.

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