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FINANCIAL CONSULTANTS

# Insight

## The Federal Budget speech delivered an upbeat outlook for Australia's economic future.

**For the second year running no new taxes on superannuation were introduced, however some changes have been made to the Age Pension. These measures will increase the number of people eligible for a full Age Pension but reduce the level of assets at which a part Age Pension is received.**

Unlike last year, this Budget made several key commitments to encourage growth in small business. Small businesses with aggregate annual turnover of less than \$2m are the big winners with a reduced tax rate to 28.5%, an immediate tax deduction for asset purchases valued at less than \$20,000 and a 5% discount on tax for sole traders. Clearly small businesses are the big hope for economic growth and increased employment.

A range of personal income tax measures aim to modernise taxation methods including changes to the tax deduction of car expenses, caps on fringe benefits and subjecting GST to offshore digital services, provided to Australian consumers. In addition there has been no extension to the budget repair levy. However, major tax reform measures remain for consideration in the Tax Reform White Paper and pre-Budget speculation that a new 0.05% tax would apply to bank deposits of up to \$250,000 was not included in the Budget.

There will also be no changes to the maximum franking credit rate of 30% for distributions from all companies, maintaining the existing arrangements for investors. In addition there has been no amendments to the negative gearing concessions.

The Government is implementing its announced child care reforms, including a \$4.4 billion increase in funds to provide a Child Care Subsidy, a two year Nanny Pilot Program, and a child care safety net for disadvantaged families.

*It's important to note that before any of these announcements can be implemented, they will need to be passed by Parliament into legislation, which will remain challenging.*

### Social Security



#### Age Pension Asset Test Thresholds

From 1 January 2017, the Asset Test taper rate will increase from \$1.50 to \$3.00, effectively reversing the 2007 decision to halve the taper rate at that time. The current and proposed thresholds are detailed below:

	Asset Test threshold for part pension (20 March 2015)	Asset Test threshold for part pension (1 January 2017)
<b>Single, homeowner</b>	\$775,500	\$547,000
<b>Single, non-homeowner</b>	\$922,000	\$747,000
<b>Couple, homeowner</b>	\$1,151,500	\$823,000
<b>Couple, non-homeowner</b>	\$1,298,000	\$1,023,000

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These reduced thresholds will mean some people currently receiving a part pension will lose this. The Budget announcement indicates that individuals who lose their pensions due to this measure will automatically be issued with a Commonwealth Seniors Health Card or a Health Care Card. At present, there is no further detail as to how this will work or whether any other conditions will be attached to retain the card once it is received.

### Pension indexation changes not proceeding

The government has decided not to proceed with the proposed 2014/15 measure to link pension increases to inflation only. Payment rates will continue to be indexed under current arrangements by the higher of increases in the Consumer Price Index (CPI) or the Pensioner and Beneficiary Living Cost Index (PBLCI)

### Pensions – changes to proportionality

From 1 January 2017, Pensioners who have lived in Australia for less than 35 years, will have the period they can continue to receive their full pension entitlement whilst overseas reduced from 26 weeks down to 6 weeks. These changes relate to recipients of Age Pension, Wife Pension, Widow B Pension and the Disability Support Pension.

### Cessation of the Low Income Supplement

The government will cease the payment of the Low Income Supplement from 1 July 2017. Currently a supplement of \$300 per year is paid to people with income below \$30,000 Single, \$45,000 Couple or \$60,000 combined for couples or singles with a dependent child, provided they did not receive a pension or benefit from the Government for more than 39 weeks in the previous financial year.

## Aged Care



### Rental income exemption removed

The rental income exemption under the aged care means test, for aged care residents who are renting out their former home and paying their aged care accommodation costs by periodic payment, will no longer apply.

As a result the means tested care fee is likely to be significantly higher under this proposed change. This change won't affect the Centrelink assessment of the rent on the former home for Age Pension purposes. That is, where the home is rented out and there is a Daily Accommodation Payment/Contribution, the rental income will remain exempt. These changes apply only to new residents entering aged care from 1 January 2016.

## Home Care Programme

The Government has committed to \$73.7m over the next 4 years to increase flexibility and consumer choice for older Australians in receipt of a Commonwealth funded Home Care Package.

From 1 February 2017, Home Care Packages will be allocated directly to consumers, rather than to service providers. This will allow recipients to receive services from a provider of their choice and the ability to change providers.

To be eligible for a package, a consumer would be assessed by an Aged Care Assessment Test (ACAT) to determine the appropriate level of assistance and their care needs.



## Taxation

### Income tax rates

2015/2016 personal income tax rates remain unchanged from 2014/15

### Medicare Levy low-income thresholds

The threshold for singles will be increased to \$20,896. For couples with no children, the threshold will be \$35,261 and the additional amount of threshold for each dependent child or student will be increased to \$3,238. For single seniors and pensioners, the threshold will be increased to \$33,044.



## Superannuation

On a positive note the Treasurer reiterated there will be no new taxes on superannuation under this Government.

### Early access for people with terminal illness

Access to superannuation benefits will be granted where the member obtains certification from two medical practitioners that they have life expectancy of less than 24 months, rather than current 12 month provision.



## Other Items

### Reversal of lost monies changes.

The Government will reverse the 2012 changes to unclaimed money in savings accounts and life insurance policies. This will mean the funds will again need to be inactive for seven years rather than the current 3 year period, before the funds are transferred to the Government. These changes will take effect from 31 December 2015.

**Should you have any queries on how the proposed Budget changes may affect you, please contact us to discuss.**

# Secure your financial future

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