May 2013

Snapshot

Budget 2013: Charting a middle course

As widely anticipated, the bottom line of this year's budget reveals a blowout in the budget deficit to $19.4 billion this financial year followed by $18 billion in 2013–14. This is in stark contrast to last year's projected surplus of $1 billion.

But rather than cut to the bone or adopt European-style austerity, Treasurer Wayne Swan has outlined a middle course to restore the budget to balance by 2015–16, and back to surplus the year after.

The focus of this election-year budget is on jobs and sustainable growth. Major spending initiatives are confined to three big ticket items which are fully funded for the next 10 years —DisabilityCare, the Gonski education package, and a $24 billion investment in new road and rail infrastructure projects.

The economy

The reason behind the rapid increase in the budget deficit is a shortfall in revenues. The mining tax is only expected to deliver $3.3 billion over four years, down from $13 billion forecast a year ago. Company and carbon tax receipts have also fallen short.

With the economy moderating, Treasury has wound back its forecast for GDP growth in 2013–14 from 3.0 to 2.75 per cent. But economic activity is expected to return to 3.0 per cent growth in 2014-15.

On a more positive note, debt remains low. Net government debt is tipped to peak at 11.4 per cent of GDP, compared to Germany with a current net debt to GDP of over 50 per cent, and the USA and the UK above 80 per cent.

In an effort to support economic growth and jobs, government spending is forecast to grow by 4.3 per cent in real terms next year, but receipts are expected to grow at an even faster 7.3 per cent.

Unemployment is expected to edge up to 5.75 per cent in the year ahead, then stay around that level. Even so, this is still one of the lowest rates in the developed world.

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$9.87 billion to fund Gonski education reforms

Disability, education and infrastructure spending

The Treasurer avoided wielding the axe to fund the government's major spending commitments, opting to make cuts at the margins.

The $14.9 billion DisabilityCare scheme is to be partly funded by a 0.5 per cent boost to the existing 1.5 per cent Medicare Levy from July 1, 2014. This will add $3.3 billion a year to the government's coffers.

The government is also going ahead with proposed cuts to university funding of $2.3 billion to help fund the $9.87 billion Gonski education reforms.

New infrastructure spending includes $4.1 billion for an upgrade of the Bruce Highway in Queensland and $400 million towards the tunnel linking the F3 and M2 Motorways in Sydney.

Superannuation

There will be relief that there are no major surprises for superannuation, with important changes announced previously.

From July 1 this year, people 60 and over will be able to contribute up to $35,000 into their super on a concessional (pre-tax) basis, up from the current cap of $25,000. This measure will be extended to people over 50 from July 1, 2014.

At the same time, super contributions tax will be doubled to 30 per cent for individuals on annual incomes of more than $300,000.

Also from July 1 next year, earnings on assets supporting retirement income streams will be tax-free only up to $100,000. Earnings above the threshold will be taxed at 15 per cent, in line with the taxation of earnings in the accumulation phase of super. However, for assets held prior to April 5 this year, capital gains are quarantined until July 1, 2024.

The government also allocated $60 million to proceed with proposed changes to the current excess contributions rules. These rules target anyone who contributes over their annual contribution caps.

Any superannuation member hit by excess contributions tax is currently charged a punitive 46.5 per cent regardless of their marginal tax rate. Under the proposed changes excess contributions will be taxed at an individual's marginal tax rate, plus an interest charge. And individuals will be allowed to withdraw any excess concessional contributions from their fund.

The take up of deferred lifetime annuities has been encouraged. From July 1, 2014, these products will receive the same concessional tax treatment that superannuation assets supporting income streams receive.

In one of the few budget surprises, the government announced a new pilot scheme to allow senior Australians to downsize their home without reducing the Age Pension if the home has been owned for at least 25 years. Amounts up to $200,000 can be deposited into a separate account that will be an exempt asset for Age Pension eligibility purposes, for up to 10 years.

And despite the rumours, there were no changes to tax effective strategies for negative gearing, capital gains or the family home.

Tax changes

In the search for savings the government has axed some tax benefits, and deferred some planned tax cuts.

The net medical expenses tax offset will be phased out over the next seven years, starting this July. However, it will continue to be available for disability aids, carers or eligible aged care expenses until July 1, 2019 when the DisabilityCare program comes into effect.

So-called ‘middle-class welfare’ has also been reined in a little. The baby bonus is to be scrapped from March 2014 to be replaced with a $2,000 increase to Family Tax Benefit Part A for the first child and $1,000 for second and subsequent children.

The government has also scrapped a planned boost to Family Tax Benefit Part A, saving $1.8 billion over three years. The increase, worth up to $600 a year to eligible families, was due to start in July this year.

Indexation has been paused for both the Childcare Rebate program and the upper income limits that apply to family benefits.

Personal income tax cuts that were promised from July 1, 2015 as part of the carbon tax compensation package will be delayed until the carbon price rises. The cuts would have increased the tax-free income threshold from $18,200 to $19,400. Deferring them will save $1.4 billion a year.

Concessional caps set to increase to $35,000 for people over 60 from 1 July

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Welfare relief

The income rules for single mothers and the unemployed on Newstart will be relaxed, allowing recipients to earn up to $100 a fortnight before their payments are affected. This is an increase of $38 a fortnight.

Welfare advocates have been calling for a substantial rise in the Newstart allowance to bridge the growing gap between it and the Age Pension.

Infrastructure investment

Along with new investment in road and rail infrastructure projects, the government is looking to promote new private sector funding for the Melbourne Metro and Brisbane Cross River Rail ‘mega’ projects. If successful, this approach could be welcome news for major superannuation funds looking for long-life infrastructure investments that provide consistent income streams.

Big business

The government is cracking down on multi-national tax minimisation schemes, a move which is budgeted to generate $4.2 billion in savings over the next four years.

In what is sure to be a less popular initiative, large taxpayers including trusts, super funds, sole traders and larger investors will be moved to monthly tax (PAYG) instalments. This is expected to save $1.4 billion over the next four years.

Looking ahead

The blowout in the budget deficit was widely anticipated, prompting concerns about some nasty surprises that didn’t eventuate.

Households who were bracing for big cuts to tax concessions and superannuation can rest a little easier for another year.

By resisting savage cuts and charting a middle course towards a gradual return to surplus over the next few years, the government has been able to fully fund education, disability and infrastructure spending for the next decade. It has also minimised the risk of damage to overall economic growth and employment.

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