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Optima Partners Newsletter

BUDGET EDITION

THE 2014 BUDGET In Review

Welcome to our special Budget edition of the Optima Partners Newsletter. If you're wondering why this particular issue is a tad late, we deliberately waited for the federal budget to be announced. There has been a considerable amount of hype in the months leading up to this budget and we wanted to cover everything properly.

We've also adopted a modern new look for our newsletters and a new title to go with it. Going forward, we aim to make our newsletters more reader friendly while still publishing current, high quality content. We hope you find our newsletters a valuable source of information.

Optima Partners.

"Every generation before us has contributed to the quality of life that we enjoy today. Prosperity is not a matter of luck, Prosperity is not a gift. It needs to be earned. The days of borrow and spend must come to an end"

- Treasurer Joe Hockey

Our Opinion

This budget gave us much of what we already knew was coming, but we feel the sense of financial urgency the government engineered going into the budget was smoke and mirrors.

Australia does not have a budget emergency or debt crisis, but it does have a spending problem. We agree that the government should nip this problem in the bud while it's still a small problem. *(Continued Page 3)*

Budget Breakdown

Treasurer Joe Hockey

And the Losers...

- **High Income Earners** will be levied 2% extra tax on income over and above $180,000. This will start 1 July 2014 and last for three years. Don't go thinking you can salary package your way around it either, because the Fringe Benefits Tax rate will also increase by 2% to compensate.

- **Pensioners:** Pensions to be indexed only to CPI and not average weekly earnings starting on 1 July 2014. The eligibility thresholds for the aged pension, carer pension, disability pension and veterans pension will be frozen for three years from 1 July 2017, and the pension age to rise to 70 in the year 2035.

- **Motorists:** The fuel excise nets the government 38.10¢ from every litre of fuel you purchase. This amount is set to increase in line with inflation from 1 August 2014, costing you more at the pump.

- **The Sick:** The cost of visiting your GP, diagnostic imaging, and pathology services will cost an extra $7 each visit. Additionally, the low income threshold for the Medicare Levy Surcharge will be frozen for 3 years from 1 July 2015, forcing low income earners to pay more tax or pay for private cover.

- **Families** who rely on the Family Tax Benefit (FTB) scheme will find that these concessions have been either scaled back or are harder to access. Annual increases in payment rates will pause for two years, while the increase in maximum and base rates will pause for four years. There will be tighter restrictions surrounding FTB part B, while the "per child add-on" component of FTB part A has been removed altogether.

- **Students:** Not only has the government deregulated university fee structures, the interest rate charged on HECS/HELP loans is set to increase, and the income threshold for loan repayments has been reduced.

- **Young Unemployed** will find it harder to access Newstart and Youth allowances from January 2015.

The Winners

- **Small to Medium Companies** will receive a 1.5% reduction in the company tax rate as planned. (Large companies will still pay 30% after taking into account the 1.5% paid parental leave levy).

- **New Mothers** can apply for paid parental leave of up to $50,000 over six months.

- **Self funded retirees** will be pleased to know that Self Managed Super Funds escaped the federal budget completely unscathed.

- **Construction firms** will benefit from $11 billion in infrastructure spending.

- **Medical research** will receive a $20 billion funding boost.

- **Defense Forces** will receive an extra $1.5 billion over coming years.

How tough is too tough?

(continued from page 1)

What we're not sure about, is the burden these spending cuts place on pensioners, unemployed and other vulnerable members of society.

Ultimately, how tough the budget is will depend on your individual situation (age, income, health, etc.).

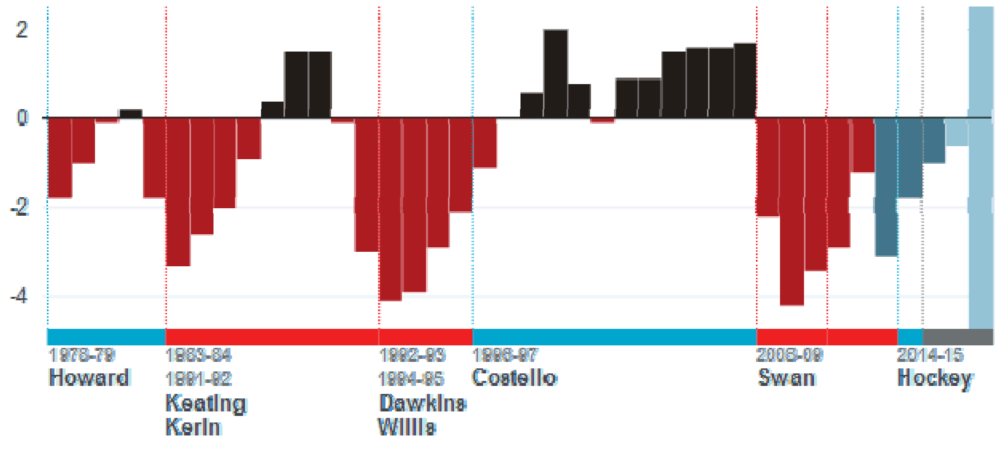
As you can see on the previous page, the number of losers outweighs the number of winners.

So how did we get here?

It's evidently clear in this budget that the governments top priority is reigning in the national debt, even if some measures prove highly unpopular. So how did we get here? See the chart below...

The spending initiatives introduced by the Rudd & Gillard governments certainly did their bit to erode away any surplus left behind by Howard & Costello. There are some who would argue that said surpluses could've been greater if it weren't for "overly generous" tax and super concessions introduced by Howard & Costello.

We'll let you decide...



Federal budget history (Source: Sydney Morning Herald)

Don't forget!!

Even though the following tax measures predate the 2014 federal budget, they commence on 1 July 2014:

- The Superannuation guarantee rate will increase to 9.5%
- The Medicare Levy Surcharge will increase from 1.5% to 2.0%
- New penalty regime for SMSF trustees carrying a maximum penalty of $10,200 for compliance breaches.

Instant asset write-off threshold still in limbo!

When the mining tax was first introduced by the Gillard government, it contained associated income tax measures, one of which was increasing the instant asset write-off for small businesses from $1,000 to $6,500.

When the Abbot government came to power, it set about removing the mining tax (along with the $6,500 write-off threshold) from 1 January 2014. However the proposed legislation was defeated in the Senate on 25 March 2014.

Therefore, the current $6,500 write-off threshold still stands despite the Government's intention that it be scaled back to $1,000 from 1 January 2014.

This creates a dilemma for small businesses. Many will have purchased assets and installed them ready for use before 1 January 2014 to ensure the $6,500 threshold applies. Others may not have done so, or not been able to do so in time.

What if If the mining tax and this associated amendment are passed after 1 July 2014 by the incoming Senate, will the 1 January 2014 application date still apply?

Watch this space...

Final thoughts

- The fact that self funded retirees have gotten off lightly compared to those receiving the aged pension sends a clear message… the government would prefer that you were responsible for your own retirement, making self managed super funds look more attractive than ever.
- As promised during the 2013 election, the GST has not changed (one of the few promises left intact). But you can bet they're still thinking about it! Budget cuts to state health and education funding is set to leave large gaps in future state budgets. This has prompted some commentators to speculate whether the government has sneakily ignited debate (by the states) pushing for an increase to the GST.
- 16,500 full time public service jobs will be axed over three years. Ironically 3,000 of those jobs are ATO positions. This is interesting given that in the past the ATO have stated that for every $1 spent on auditors, they collect an extra $4 in tax revenue. We doubt the ATO would lay off 3,000 auditors, but we live in hope.
- The national broadcasters ABC and SBS budgets have been cut by a combined total of $43.5 million. This is gentler than expected. As recently as a month ago the government was considering combined cuts of $250 million. Maybe this was an attempt to reduce unfavorable media coverage?
- We thought the government wanted mature age workers to keep working? So it seems odd that they would scrap the mature age workers tax offset. Not only will you be working until you're 70, you'll also be taxed more for doing so. Double Whammy!

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SMSF Top Tip...

If you manage your own super and are turning 65, the increase in the contribution caps for next year will provide a special opportunity for those planning to use the bring forward rule before turning 65.

For someone under 65, triggering the 3 year bring forward rule on 30 June 2014 will lock in a total non-concessional cap of **$450,000**.

If the same person under 65 can delay until 1 July 2014 they can lock in in the non-concessional cap of **$540,000**, which is an increase of $90k without facing the excess contributions tax. The use of this strategy is limited, but may be of significant use to a few.

Please contact Optima Partners to see if you can make use of this strategy.