

ALERT

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2014 Federal Budget

Introduction

After more than a decade of comparative economic prosperity, the 2014 Federal Budget reflected a fundamental readjustment in the public's revenue versus expenditure equation. The pervasive sentiment was that we must all 'share the pain' and collectively end the 'age of entitlement' to bring the public's consolidated revenue or 'public purse' back to surplus. Significant cuts were made to welfare, which were balanced against a three year 'budget repair levy' that will increase the top marginal tax rate by two per cent for those taxpayers earning over \$180,000 annually from 1 July 2014.

The Budget was relatively innocuous for private clients and businesses. The government made a commitment to cut the company tax rate by one per cent from 1 July 2015 but otherwise sensibly deferred major decisions regarding tax reform until the root and branch federal review of the tax system has concluded. The re-write of the trust taxation regime has also evidently been postponed, which will at least delay the compliance costs associated with adapting to the changes implemented by the re-write for those small and medium enterprises that operate through a trust structure. The

proposed expenditure outlined in the Budget is widely tipped to be a forward-thinking, tactical move to increase pressure on the states to support an increase in goods and services tax as part of broader fundamental tax reforms.

Below is a selection of the key measures that were announced in the Budget.

Temporary Budget Repair Levy

In addition to the increase in the top marginal rate affecting high income earners, the fringe benefits tax (FBT) rate will also be increased from 47 per cent to 49 per cent from 1 April 2015 as an integrity measure to prevent high income earners from utilising fringe benefits to avoid triggering the temporary budget repair levy.

Various other tax rates that are currently based on the top marginal rate will also be increased. For example, the non-resident tax rate will similarly increase by two per cent and the trustee tax rate (which will apply to trust income that beneficiaries have not been made presently entitled to) will increase by two per cent.

The 'budget repair levy' may give high income earners extra



incentive to maximise their pre-tax concession superannuation contributions, given that industry funds have historically had a significant appetite for investments in listed equity and therefore also stand to benefit from the proposed reduction in the corporate tax rate.

Fuel excise indexation

The government plans to reintroduce biannual fuel excise indexation and excise-equivalent customs duty on fuels (commencing 1 August 2014) to generate funds for road infrastructure development. In a further show of commitment to investment in public infrastructure, the *Excise Act 1901* (Cth) will also be amended to ensure that the amount spent on building road infrastructure is more than the amount derived from the reintroduction of fuel indexation.

Medical Research Future Fund

On the whole, the Budget was relatively heavy on numbers and light on policy. However, the establishment of a new Medical Research Future Fund (**MRFF**) signalled the government's intention to invest significantly in an industry that was previously untargeted and underfunded, with reference to international standards. In particular, the government has committed to accumulating over \$270 million in capital investment in the MRFF to fund medical research in the medium to long term. This is a significant short term expenditure that will provide approximately \$1 billion annually from 2022/2023 to allow a constant funding stream to support medical research in Australia.

Repeal of the minerals resource rent tax

The government has proposed to repeal both the carbon tax and the minerals resource rent tax (**MRRT**). Given that the MRRT was designed to provide funding for the scheduled increase in the superannuation guarantee rate, the MRRT's demise will impact directly on the increase to the compulsory superannuation guarantee rate.

As a result of the repeal, the proposed timetable for increasing the superannuation guarantee rate to 12 per cent has been changed. The superannuation guarantee rate will increase from 9.25 per cent to 9.5 per cent from 1 July 2014 as currently legislated. The rate will remain at 9.5 per cent until 30 June 2018 and then will increase by 0.5 percentage points each year until it reaches 12 per cent in 30 June 2023.

Mining interest realignments

The government has proposed a reform of the tax-treatment of realignments of interests between joint venture partners in the extractive and resources industries. In particular, changes are proposed to allowable deductions claimable for mining rights. This measure will only apply to changes of ownership within a common project.

Integrity measures

The government proposes to introduce taxation and superannuation measures that were announced by former governments but are not yet legislated. The government has also decided not to implement various measures initially announced following consultation with the ATO and key stakeholder groups, by proposing to:

- not proceed with changes that would have applied to multiple entity consolidated groups;
- modify integrity measures in the foreign resident capital gains tax (**CGT**) regime;
- modify integrity measures in the consolidation regime;
- defer the start date of the new tax system for managed investment trusts by 12 months to 1 July 2015;
- defer the start date of reforms to the offshore banking unit regime to income years commencing on or after 1 July 2015; and
- defer the start date of the legislative elements of the measure to improve tax compliance through third party reporting and data matching to 1 July 2016.



Research and tax incentives

The government has re-confirmed its commitment to cutting the company tax rate by 1.5% to 28.5% from 1 July 2015. Currently, companies under the R & D Tax Incentive scheme are entitled to either a refundable or a non-refundable tax offset of 45% and 40% respectively. As part of the Budget, the government has announced that it will reduce the rates of the refundable and non-refundable offsets by 1.5 percentage points to 43.5% and 38.5% respectively. The change will apply for a company's income years commencing on or after 1 July 2014.

Superannuation excess contributions tax

Currently, individuals cannot make non-concessional contributions to their superannuation funds in excess of their non-concessional contributions cap. Any amount over the non-concessional cap will be taxed at 46.5% (and 47% from the 2014/15 income year). The individual is personally liable to pay this tax and must use the release authority to release the amount of non-concessional contributions tax from their super fund to fund the payment of tax. However, the individual is unable to unwind or withdraw the excess contributions. As part of the Budget, the government will allow individuals the option of withdrawing superannuation contributions in excess of the non concessional contributions cap made from 1 July 2013 and any associated earnings, with these earnings to be taxed at the individual's marginal tax rate. Final details of the policy will be settled following consultation with key stakeholders in the superannuation industry.

For more information please contact any member of our Revenue Law Team:

Michael Kohn, Partner and Head of Revenue Law
Phone (direct) **+61 3 9608 2160**
Email m.kohn@cornwalls.com.au

Julie Ngan, Senior Associate
Phone (direct) **+61 3 9608 2246**
Email j.ngan@cornwalls.com.au

Meng Lee, Lawyer
Phone (direct) **+61 3 9608 2157**
Email m.lee@cornwalls.com.au

Lesley Naik, Lawyer
Phone (direct) **+61 3 9608 2179**
Email l.naik@cornwalls.com.au

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