2014-2015 Budget Release
Not-for-Profit and Salary Packaging Focus

Overview:

The 2014 – 2015 Federal Budget released Tuesday 13 May 2014 contained a number of revenue and expense measures with possibly the key revenue measure being the introduction of the ‘deficit levy’ that is to be known as the ‘Temporary Budget Repair Levy’. This levy is to apply from 1 July 2014 to individuals with a taxable income in excess of $180,000 per annum. Whilst this levy will apply to a relatively small percentage of the population, it is the way it is being implemented that will impact upon the salary packaging landscape.

Essentially the deficit levy results in a change to the highest personal marginal rate of income tax, which is mirrored in the Fringe Benefits Tax Rate. Because the Fringe Benefits Tax Rate is used to calculate salary packaging amounts (the ‘gross up rate’) any change to this rate has the potential to impact upon the amount individuals are able to salary package. This occurred at the beginning of the current Fringe Benefits Tax year where the introduction of the NDIS Levy resulted in a reduction in the salary packaging cash component from $16,050 to $15,900 for $30,000 threshold organisations and from $9,095 to $9,010 for $17,000 threshold organisations.

The Government has considered this potential impact and has undertaken to protect the cash value of benefits available by increasing the legislative threshold. Budget Paper No 2, under the heading Personal Income Tax, contains the following undertaking:

“The cash value of benefits received by employees of public benevolent institutions and health promotion charities, public and not-for-profit hospitals, public ambulance services and certain other tax-exempt entities will be protected by increasing the annual FBT caps. In addition, the fringe benefits rebate rate will be aligned with the FBT rate from 1 April 2015.”

The Budget Papers are (not surprisingly) lacking in detail about what the threshold will be increased to, however we note that to maintain the current cash value of benefits received that the threshold would need to be increased from $30,000 to $31,177, and from $17,000 to $17,667. We have done some modelling based on what we anticipate the new rates and thresholds will be and note that under some circumstances this will actually result in an increase in the salary packaging benefits available.

We will monitor the actual changes and provide updates as information becomes available.

Consequent upon this change is the increase in the Reportable Fringe Benefit Amount which may impact upon child support payments and HELP repayments.

Other changes to both revenue and expense measures include:

- Not proceeding with the 2011 – 2012 Federal Budget announcement that the tax concessions provided to charities and other not-for-profits organisations would be targeted only at those activities which directly further the entity’s altruistic purpose.
- Increasing the Superannuation Guarantee Rate to 9.5% on 1 July 2014 instead of ‘pausing’ it at its current level of 9.25%.
- Changing access to income support for people under 30 years of age (with exemptions for recipients who have a partial capacity to work, are the principal carer of a child, are part-time apprentices, are in education or are job seekers in Disability Employment Services or Job Services Australia Streams 3 and 4).
- Changing the eligibility (and payments) for the Family Tax Benefit Part A and B.
- Continuing the move to increase the Age Pension entitlement age to 67 by 1 July 2023, then further increasing it to 70 by 1 July 2035.
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➢ Reintroducing indexation to the fuel excise.
➢ Abolishing most dependant tax offsets.
➢ Introducing a Paid Parental Leave scheme that has an income cap of $100,000 (inclusive of superannuation) per annum.
➢ Continuing or implementing a temporary pause on the indexation of many payments including eligibility thresholds for Family Tax Benefit and Newstart; thresholds for the Medicare Levy Surcharge, and Private Health Insurance Rebate.

Some of these changes may well result in an increased demand for services from the not-for-profit sector, in particular community and welfare service providers.

It should be noted however that all announcements within the Federal Budget must be passed in the Senate … and this may prove to be challenging for the Government given the composition of the Senate with a larger number of “cross-bench” Senators.

Specific Not For Profit Sector Announcements

Ageing
In the short term, aged care funding has been maintained, with the Government reprioritising funding from the Aged Care Workforce Supplement through an increase in aged care subsidies for home and residential care providers and relevant community programmes.

Medicare Locals
The Government will refocus primary care funding by replacing Medicare Locals with Primary Health Networks from 1 July 2015. Once the implications of this change are more clearly understood further information will be provided.

National Disability Insurance Scheme (“NDIS”)
There does not appear to be any change to the planned roll-out of the NDIS.

Disability Employment Services (“DES”)
All current DES contracts due to expire on the 30th June 2015 will be extended to March 2018.

Family and Children’s Services
New five-year funding agreements will be offered to a number of Families and Children’s services, including Family and Relationship Services, Communities for Children Facilitating Partners and Family Law Services.

Specific Budget Confirmations or Announcements

Increase in the Fringe Benefits Tax Rate
As noted above, this rate is to increase from 1 April 2015 from the current 47% to 49%. This may impact upon individuals and organisations in a number of ways:

1. Where an organisation pays Fringe Benefits Tax, that liability will increase, commencing in the Fringe Benefits Tax year ending 31 March 2016;

2. Whilst the current cash value of benefits received are to be protected, there may still be amendments required to individuals salary packaging arrangements. This is likely to be the case where the individual is salary packaging for GST Items and has a car provided by their employer or has a novated lease. As noted above, our modelling indicates that these people will not be worse off.
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Individuals who are salary packaging with an organisation that is rebatable will need to have their salary packaging arrangements reviewed prior to this change as a consequence of both of the above points.

*Personal Tax Rates and Low Income Tax Offset*

This is best represented as what is currently legislated, plus the deficit levy that was announced in the Budget, noting that the income tax rates in the table below exclude the Medicare Levy:

<table>
<thead>
<tr>
<th>Personal income tax rates and thresholds</th>
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<tbody>
<tr>
<td><strong>2013-2014</strong></td>
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<td>Threshold</td>
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<td>1st rate</td>
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<td>3rd rate</td>
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<td>4th rate</td>
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<tr>
<td>Low Income Tax Offset ('LITO')</td>
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Including the Medicare Levy would result in the top marginal rate being 49% for the 2014 – 2015 to 2016 – 2017 financial years (inclusive).

It will be interesting to see if the Government attempts to reintroduce legislation to cancel the income tax reductions and changes to the Low Income Tax Offset that are scheduled to occur on 1 July 2015. These changes were part of the *Clean Energy (Income Tax Rates and Other Amendments) Bill 2013* that were defeated in March this year, but had they passed would have (from 1 July 2015 in all the following cases):

- Retained the current tax-free threshold of $18,200 instead of it increasing to $19,200;
- Retained the current 32.5% tax rate (for incomes between $37,000 and $80,000) instead of it increasing to 33%; and
- Retained the current $445 threshold and current 1.5% withdrawal rate on incomes over $37,000 for the Low Income Tax Offset.

*Superannuation Guarantee Rate*

The Superannuation Guarantee rate will increase from its current rate of 9.25% to 9.5% of Ordinary Time Earnings on 1 July 2014.

This rate will remain in place until 30 June 2018 when it will then increase at 0.5% per annum to a rate of 12% (the 2022 – 2023 Financial Year).

*Family Tax Benefits*

*Part B Benefits*

The primary income earner limit for eligibility for the Family Tax Benefit Part B will be reduced from $150,000 per annum to $100,000 per annum, and Part B benefits will be restricted to families where the youngest child is less than 6 years of age.

Both these measures are planned to apply from 1 July 2015.
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For families whose youngest child is aged more than five years old at 30 June 2015 there are transitional arrangements that ensure the family will remain eligible for Part B benefits for a further 2 years after 30 June 2015.

**Part A Benefits**

The ‘per child add-on’ to the higher income free threshold for each additional child for Family Tax Benefit Part A will be removed from 1 July 2015.

**New Allowance**

The Government will introduce a new allowance of $750 for single parents on the maximum rate of Family Tax Benefit Part A whose youngest child is aged between 6 and 12 years old from the point when they become ineligible for the Part B allowance. This allowance will be provided for each child aged between 6 and 12 years old from 1 July 2015.

**Paid Parental Leave**

From 1 July 2015 the Paid Parental Leave Scheme will provide for 6 months paid leave to women (inclusive of superannuation) with the maximum payment of $50,000 for those earning $100,000 and above.

**HELP Debts and Repayments**

A new minimum threshold will be established for the repayment of HELP debts meaning that HELP repayments will commence at lower income levels. This new minimum will be set at 90% of the minimum threshold that would otherwise have applied in the 2016-17 financial year, and is currently estimated to be $50,638. A repayment rate of 2% will be applied to debtors in this new HELP Repayment Income band.

In addition, from 1 June 2016 the annual indexation applied to HELP debts will be the rate equivalent to the yields on 10 year bonds issued by the Australian Government, capped at 6% per annum.

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**Please note**: Information, advice or guidance provided in this fact sheet, is general in nature and provided without reference to your organisation policies or your circumstances. It is not and should not be considered to be organisational or personal advice to you. Please contact your accountant, tax agent or legal adviser to determine how the information in this fact sheet may apply to your circumstances. Alternatively you can contact AccessPay with any queries about how the information in this fact sheet may apply to your circumstances.