

# The 2014 Federal Budget



Issued 13 May 2014

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**Note:**

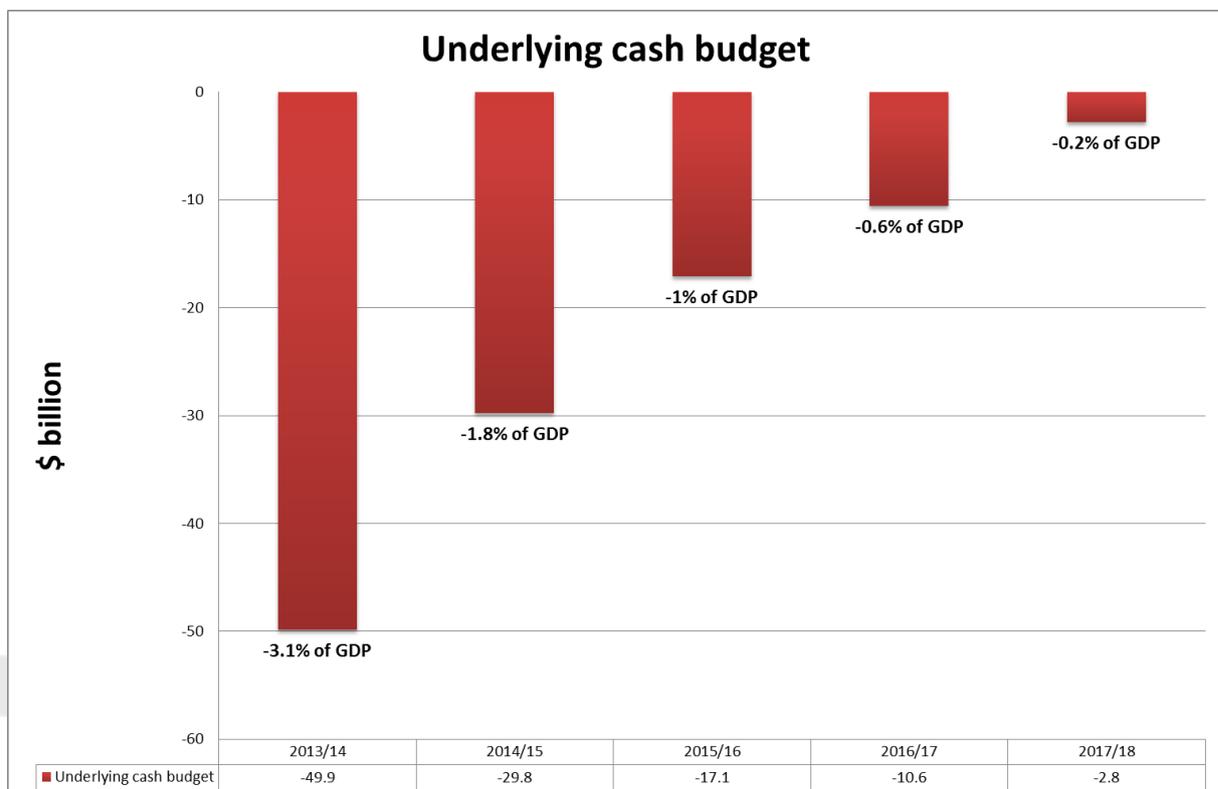
The measures outlined in this paper are all government proposals. The analysis and interpretation is based on information available in the Budget release which is sometimes quite limited. Further details may need to be released to clarify some aspects and legislation needs to be introduced to make the changes effective (unless otherwise indicated). These announcements could be subject to further change before being enacted or may not be implemented.

## 1. Economic insight

The Government delivered a tough budget that was described as the start of a long term repair job. The Government believes that repairing the Budget is necessary to protect living standards and prepare for an ageing population.

**Did you know...** Between 2010 and 2050 the number of people aged 65 to 84 is expected to double and the number of people 85 and older is expected to quadruple. Spending on the Age Pension is projected to increase by 70 per cent over the next decade based on current policies.

The measures announced aim to balance the fine line between repairing the budget and managing the impact of fiscal constraint on economic activity and employment. The budget deficit is forecast to improve substantially starting in the next financial year as illustrated by the graph below.



Government debt is forecast to reduce as a result of the reigning in of the deficit. Debt in 2023-24 is projected to be nearly \$300 billion lower, even when assuming future tax relief, at \$389 billion compared with the \$667 billion at the 2013-14 Mid-Year Economic and Fiscal Outlook.

## Economic impact

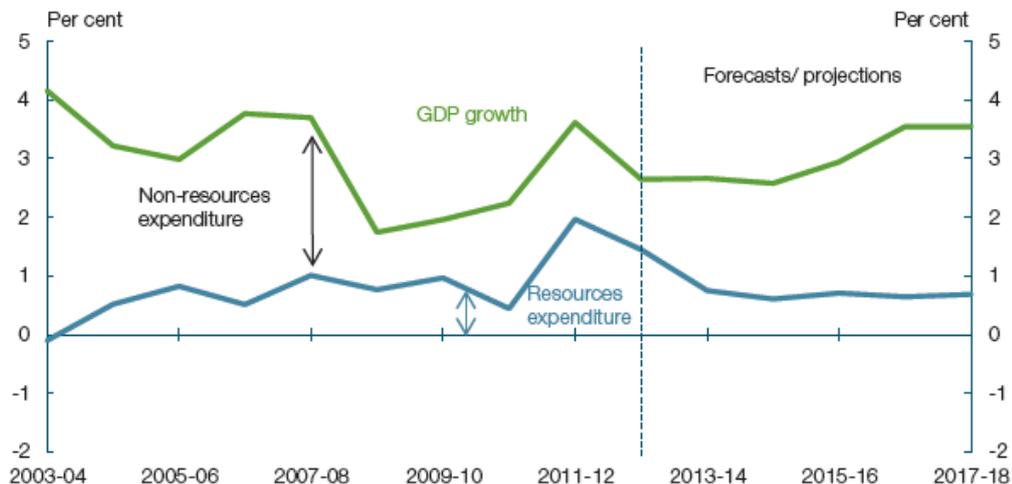
The motivation of the Budget is built on the premise of securing a stronger economy particularly by increasing activity in the non-resources sectors. Economic growth in Australia has been growing below trend for four of the past five years and the unemployment rate has risen as a result.

The economic forecasts contained in the budget are summarised below.

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Real GDP (%)</b>	2.6	2.75	2.5	3	3.5	3.5
<b>Unemployment rate</b>	5.6	6	6.25	6.25	6	5.75
<b>Consumer Price Index (%)</b>	2.4	3.25	2.25	2.5	2.5	2.5
<b>Nominal GDP (%)</b>	2.5	4	3	4.75	5	5

Economic growth is forecast to improve significantly from 3% to 4.75% in 2015/16. The shift in economic activity to non-mining sectors is illustrated by the graph below.

**Contributions to GDP growth from the resources and non-resources sectors**

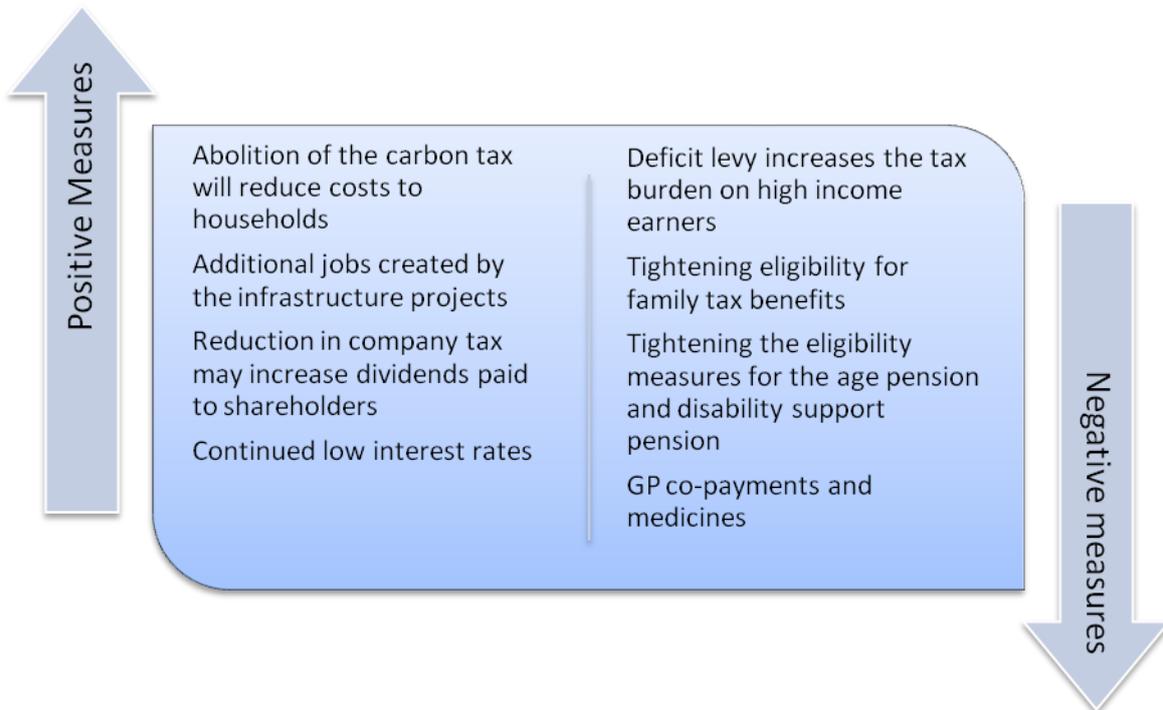


Note: Assumes that mining investment has an import share of 50 per cent.  
Source: ABS Cat. No. 5204.0, 5206.0 and 5302.0, BREE and Treasury.

Employment growth should also improve over time. The increases in employment from the infrastructure projects and higher economic activity should offset the 16,500 cuts to public servant employment. The unemployment rate is forecast to stabilise at 6.25% for the next year and only start to fall below 6% in 2017/18.

Consumer confidence has been affected in the lead up to the Budget according to the ANZ-Roy Morgan weekly consumer confidence index. This fall in consumer confidence may result in lower consumer spending which in turn should detract from economic growth in the short to medium term.

Consumer spending is likely to be impacted by a number of the announced measures both positively and negatively as illustrated in the diagram below:



The Budget announcements are unlikely to have a major impact on the Australian dollar. Foreign investors should be comforted by the Government's \$36 billion in cost savings over four years and the narrowing in the budget deficit achieved by spending discipline, taxation revenue and sustained economic expansion.

### Implications for RBA interest rates

The Reserve Bank of Australia is likely to push out any increase in official interest rates until next year at the earliest given the impact on the economy of the tighter Government measures. Continued low interest rates should support economic growth, house prices and the transition from mining led demand growth to broader private demand growth including infrastructure investment.

Lower interest rates should also reduce any pressure on the appreciation of the Australian dollar which negatively affects exports and export companies such as resources companies.

### Investment implications

- Australian shares are likely to be supported over the medium term by the higher economic growth and continued low interest rates projected in the Budget. The cut in the company tax rate effective next financial year will benefit smaller companies. However for large companies, the cut in the company tax rate will be offset by the parental care tax levy of 1.5%. Higher dividend paying smaller companies may pass

any tax cut to shareholders via higher dividends and this is likely to increase the attraction and prices of these companies. However clients need to be cautious to consider the investment merit of specific companies and not overpay for securities in the chase for competitive yields

- The continued low interest rates mean that retirees relying on cash and term deposits to generate income will see their returns fall further. Investors in maturing term deposits may need to accept lower rates to lock in their return or alternatively consider other investments which are likely to involve higher levels of risk. This particularly applies to SMSFs with a large overweight allocation to term deposits and/or cash
- The continued low interest rates may be welcome news for accumulators with debt especially a mortgage. Debt consolidation strategies may be considered to take advantage of lower interest rates. Advisers may also encourage clients with debt to reconsider their personal budgets and the clients' ability to make higher payments to potentially reduce the life of their loan
- Improved employment and low mortgage rates are likely to maintain the demand for property which should maintain the growth in house prices
- Lower Government debt and improving budget deficits should benefit bond rates particularly given the forecast for inflation to remain securely in the middle of the RBA's band of 2% - 3%. This should result in stable returns from Government bonds.

## **2. Superannuation**

There were no major policy changes to superannuation and a long awaited change to excess concessional contributions is welcomed. Proposed superannuation changes are summarised below.

### **a) Refund excess non-concessional contributions**

Following the abolition of the excess concessional contributions tax changes are now proposed for excess non-concessional contributions.

If a client makes non-concessional contributions from 1 July 2013 that exceed the cap it is proposed that they will have the option to withdraw the excess contributions and earnings to avoid paying excess contributions tax.

If withdrawn, the associated earnings on the contributions will be taxed at the client's marginal tax rate. If retained in super, excess non-concessional contributions tax will apply.

#### ***Advice implications:***

- It is still prudent to ensure clients do not exceed the relevant contributions caps but these changes will allow remedial action to be taken to minimise tax penalties if an error occurs.

- The details on how this measure will work are still scant and further detail is required to determine how earnings are to be calculated and whether penalty interest will apply.

**Commencement date:**

Contributions made from 1 July 2013

**b) Super guarantee (SG) increases delayed**

The Government is continuing to propose a one year delay in increasing the SG rate up to 12%. However, the delay is deferred by a year due to the Senate’s refusal to pass the previously announced plans to keep the SG rate at 9.25% for another financial year.

The proposed new schedule is:

Financial year	Proposed SG rate
2013/14	9.25%
2014/15	9.5%
2015/16	9.5%
2016/17	9.5%
2017/18	9.5%
2018/19	10%
2019/20	10.5%
2020/21	11%
2021/22	11.5%
2022/23	12%

**Advice implications:**

- Employers will need to fund an additional SG payment from 1 July 2014 but will then have a three year relief before the payments increase again.
- Employees whose remuneration package is quoted as a total cost may find their cash component decreases from 1 July 2014 unless allowance for a higher SG has been included into their employment contract.
- Review salary sacrifice arrangements for clients from 1 July 2014 to ensure they do not exceed the concessional contribution cap. This needs to take into account the increases in caps from 1 July 2014 (\$30,000 for clients under age 50 and \$35,000 for clients age 50 and over).

### c) Defence force superannuation indexation

Indexation of the Defence Force Retirement Benefits (DFRB) and Defence Force retirement and death benefits (DFRDB) superannuation payments received by members age 55 or over will change from 1 July 2014 to ensure payments stay in line with living expense increases.

Indexation will be based on the higher of CPI and the Pensioner and Beneficiary Living Cost Index, with benchmarking to the Male Total Average Weekly Earnings.

Additionally, the Government will exempt DFRB and DFRDB members from the higher contributions tax applied to people with incomes over \$300,000 (Division 293 tax liability) if it would otherwise apply due to the one-off increase in the capitalised value of the benefit arising from the new indexation arrangements.

Members of the Australian Defence Force (ADF) will also be able to choose their own super fund and transfer accumulated benefits to another fund if they leave the ADF. The MSBS scheme will be closed from 1 July 2016 and will be replaced by a fully funded accumulation scheme.

**Commencement date:**

1 July 2014

## 3. Taxation

The big headline here was the introduction of the temporary budget repair levy but the applicable income threshold has been increased significantly from early announcements so that it will only impact high income earners on the top marginal tax rate. Proposed taxation changes are summarised below.

### a) Temporary budget repair levy

Higher tax will apply to taxpayers who earn over \$180,000 for three years from 1 July 2014.

It is proposed to introduce a 2% levy on taxable income over \$180,000. This increases the top marginal tax rate to 49% from 1 July 2014, including the already legislated Medicare levy increase to 2%.

Clients with income of:

- \$180,000 - pay no levy
- \$200,000 - pay a levy of \$400 ( $\$20,000 \times 2\%$ )
- \$250,000 - pay a levy of \$1,400 ( $\$70,000 \times 2\%$ )

From 1 April 2015 the FBT rate will increase to 49% for three years to prevent people obtaining a tax arbitrage on packaged items.



**Example**

Ron has taxable income of \$190,000. In 2013/14, he will pay tax of \$61,897 (including Medicare levy) on this amount.

In 2014/15, if he earns the same income he will pay tax of \$63,047 (\$59,047 tax + \$3,800 Medicare levy + \$200 debt levy).

**Did you know ...**

The Medicare Levy is already set to increase to 2% from 1 July 2014, so most people will pay a bit more tax next year. The FBT rate for 1 April 2014 to 31 March 2015 has increased to 47%.

**Advice implications:**

The levy will be imposed on taxable income. So strategies that reduce taxable income may help to save tax. This includes:

- Holding investments in the name of the lower income spouse
- Investing in growth assets that are not realised until after the levy is removed
- Negative gearing
- Deferring tax deductions until after 30 June 2014

**Commencement date:**

1 July 2014

**b) Reduction in company tax**

Companies will pay lower tax with the tax rate proposed to reduce from 30% to 28.5% from 1 July 2015.

For large companies, the cut in the company tax rate is proposed to be offset by the parental care tax levy of 1.5%. Therefore the tax reduction is only likely to benefit smaller companies.



**Example**

The ABC Pty Ltd has taxable income of \$100,000 in 2014/15. Tax of \$30,000 (\$100,000 x 30%) is payable. If this income is paid out to shareholders franking credits totalling \$30,000 are also made available.

The company earns the same taxable income again in 2015/16. Tax for that year will reduce to \$28,500 (a saving of \$1,500). If paid to shareholders, the franking credits totalling only \$28,500 are made available. This means income earners on a marginal rate above 28.5% will need to pay a bit more personal tax.

**Advice implications:**

- For smaller companies not required to pay the parental care tax levy, the lower company tax rate will reduce the amount of franking credits paid on franked dividends. However, it may leave higher net income available to pay higher dividends. These companies may also benefit from increased cash flow due to the lower tax rate. This may help to increase the amount of capital available for re-investment.
- Companies (including small business owners operating under a company structure) may have improved cash flow due to lower PAYG instalments in 2015 and onwards.
- The valuations of smaller companies not required to pay the parental care tax levy may increase due to lower company tax rate. However the investment merits of the specific company should be considered before making investment recommendations.
- This may increase the tax effectiveness of insurance bonds for higher income earners who have a 10 year plus investment time horizon.

**Commencement date:**

1 July 2015 (to impact 2015/16 financial year and later)

**c) Private health insurance tax offset**

The private health insurance tax offset is income tested. The income tier thresholds are proposed to be frozen for three years from 1 July 2015.

**Commencement date:**

1 July 2015

**d) Medicare levy surcharge**

The Medicare Levy Surcharge is levied on Australian taxpayers who are not covered by a complying private hospital policy, and who have income above certain thresholds.

The Medicare Levy Surcharge thresholds will be frozen for three years from 1 July 2015.

**Commencement date:**

1 July 2015

**e) Dependent tax offsets**

The dependent spouse tax offset is proposed to be abolished.

The eligibility income threshold for the dependent (invalid and carer) tax offset is proposed to be reduced from \$150,000 to \$100,000.

**Commencement date:**

1 July 2014

**f) Mature age worker's tax offset**

The mature age worker's tax offset is proposed to be abolished for everyone from 1 July 2014.

This offset provided an offset up to \$500 for people born before 1 July 1957 who continued to be employed. This benefit will be lost.

The savings from this offset will be used to fund a subsidy (called Restart) for employers who employ older workers who have been receiving income support for more than six months. This aims to open up job opportunities for older job seekers.

A subsidy up to \$10,000 will be provided to the employer over a two year period to help cover employment costs for each eligible employee.

**Commencement date:**

1 July 2014

**g) Medicare levy low income thresholds**

Medicare is payable if taxable income exceeds thresholds announced in each year's Budget. The table below shows the 2013/14 thresholds.

	No Medicare if taxable income is equal to or less than:
Individuals	\$20,542
Pensioners eligible for SAPTO	\$32,279
Couple (combined)	\$34,367
Additional for each dependent child/student	\$3,156

#### **h) First Home Savers Accounts discontinued**

The take-up on this scheme has been very low so it will be discontinued from 13 May 2014. New accounts opened from that date will not be eligible for concessions.

Co-contributions on existing accounts will cease to be paid from 1 July 2014 and social security concessions will be withdrawn from 1 July 2015. Withdrawals can be made without penalty from 1 July 2015.

**Commencement date:**

Immediate, but some measures are to be phased in

#### **i) Fuel tax excise**

Indexation is proposed to recommence on the fuel tax excise. While this is not a tax directly paid by clients, it has been estimated that this will increase the cost of petrol. The extra tax collected is proposed to be used to fund roads.

**Commencement date:**

1 August 2014

#### **j) Changes for uni students**

Several changes are proposed that will affect the cost of university study. These include:

- It is proposed to allow universities to set their own fees
- Students who pay fees using a HELP debt may start to repay these debts at lower levels of income from 1 July 2016. The threshold at that date is expected to be around \$51,309 (set at 90% of what it was due to increase to).
- The repayment rate will apply at only 2% instead of the current 4%.
- Indexation of the outstanding debt will be applied at the 10 year rate on bonds issued by the Commonwealth Government (capped at 6%) instead of CPI.

**Advice implications:**

- The higher indexation rate applied to outstanding debts will increase the cost of university study and provides an incentive to repay these debts as quickly as possible.
- Parents and grandparents who wish to help children with a head start in life may wish to help repay HELP debts.

**Commencement date:**

1 July 2016

## 4. Social security

Changes have been made to reduce reliance on age pensions and other welfare payments but most changes to pensions will not apply for another three years. The message is clear that clients need to have greater self-reliance to fund a comfortable lifestyle in retirement.

### a) Age pension age

Age pension age is on the rise again. Currently eligibility age is 65 for both men and women but has previously been legislated to gradually increase to 67 for anyone born on or after 1 July 1952.

In this Budget, the age pension age is proposed to increase further to age 70 with a full phase-in by 2035. This increase will affect anyone born after 30 June 1958 (currently age 55).

The age increases do not affect veterans applying for the DVA service pension. Eligibility age remains at 60 for these clients. Proposed increases are shown in the table below, with the new proposals marked by the asterisk:

People born between:	Eligibility age:
Before 1 July 1952	60
1 July 1952 and 31 December 1953	65.5
1 January 1954 and 30 June 1955	66
1 July 1955 and 31 December 1956	66.5
1 January 1957 and 30 June 1958	67
1 July 1958 and 31 December 1959	67.5*
1 January 1960 and 30 June 1961	68*
1 July 1961 and 31 December 1962	68.5*
1 January 1963 and 30 June 1964	69*
1 July 1964 and 31 December 1965	69.5*
1 January 1966 and later	70*

\* Changes proposed in this Budget.



### Example

Joanne was born on 1 January 1970 and is currently age 44. Under current legislation she was expecting to qualify for the age pension at age 67 but if the proposed changes are passed she will have to wait until age 70.

**Did you know ...**

- When the age pension was introduced in 1909 the male life expectancy at birth was 55, which was 10 years **below** the age pension age. The aim was to help people who lived longer than the average.
- A male born today has a life expectancy of just under 80 years which is 15 years **over** age pension age.

**Advice implications:**

- Communicate with clients who are currently under age 55 to make them aware of the changes and the potential need to adjust plans for their retirement.
- On the upside, if super savings in the accumulation phase continue to be exempt under age pension age the increased age provides a longer exemption for affected clients.
- Clients who want to retire before their age pension age may need to be fully self-sufficient for the first few years. This may require greater savings.

**b) Means-testing threshold freezes**

Means-testing changes will reduce access to Centrelink and Veterans' Affairs entitlements over time. But the good news is that homes will not be included in the assets test threshold.

Changes that have been proposed include:

- A three year freeze on the lower income and asset test thresholds for pensions from 1 July 2017
- A three year freeze on income and asset test thresholds for allowances from 1 July 2014. This will cancel the alignment of lower asset thresholds for pensions and allowances.
- Resetting deeming thresholds from 20 September 2017 down to \$30,000 for a single person, \$50,000 for a couple combined and \$25,000 for each member of a non-pensioner couple.

**Commencement date:**

Pension changes commence in 2017 but allowance changes commence in 2014

**c) Indexation of pensions**

Indexation of Centrelink pensions and the Veterans' Affairs service pension is proposed to be linked only to CPI.

These pensions are currently indexed by CPI but are also benchmarked against wages growth. For example, the single pension rate is benchmarked at 27.7% of the total average

weekly earnings. Under current rules, if the AWE increase is higher than CPI this is the measurement used to index payments. It is proposed to have no link back to the AWE.

**Did you know ...**

Between 2005 and 2011 average wages increased by 23% compared to a CPI increase of 17%.

**Advice implications**

- Wage increases have driven six of the past ten pension increases, so pegging pension indexation to CPI only is likely to see lower levels of indexation and greater financial stress for clients who rely on the age pension.
- The message is clear that clients should focus more on being self-sufficient to ensure a comfortable lifestyle in retirement.

**Commencement date:**

20 September 2017

**d) Disability support pension eligibility review**

Recipients of the disability support pension who are under age 35 will need to have a participation plan to ensure those who can move back into the workforce are supported to do so.

These recipients may also have eligibility reviewed under current impairment tables. This may see some clients move back to Newstart Allowance or into the workforce.

The ability to continue to receive payments whilst overseas is also being tightened, but recipients will still be able to leave Australia for up to four weeks each year. People who are terminally ill or are assessed with a severe impairment will not have this condition imposed.

**Did you know ...**

Figures for December 2013 estimate there were around 832,000 recipients of the disability support pension, an increase of more than 10,000 since June last year.

Of these recipients, mental illness is the most significant cause with over 256,000 receiving the DSP for this impairment category.

**e) Income support bonus abolished**

The income support bonus is proposed to be abolished.

This is currently paid as a twice-yearly lump sum to recipients of eligible Centrelink and Veterans' Affairs payments.



**Example**

Ray is single and currently receives Newstart allowance. Twice a year (20 March and 20 September) he receives the income support bonus of \$107.80\*. If legislation is passed this additional payment will no longer be paid, making him worse off by \$215.60\* per annum.

\*Based on current rates

**Advice implications:**

- The loss of this bonus will see single clients will lose \$215.60 and couples lose \$179.80 each per year.

**Commencement date:**

As soon as legislation is passed

**f) Impacts for Commonwealth Seniors Health Card (CSHC)**

From 1 January 2015 deemed income on account-based pensions will be included in the income definition to test eligibility for the CSHC. Existing cardholders will continue to receive an exemption for account-based pensions commenced before this date.

Two other changes which are proposed to impact holders of the CSHC include:

- Eligibility thresholds will index from 20 September 2014. This may allow some currently ineligible clients to qualify and also allows clients who are at the top end of eligibility to continue to qualify even if income is indexed.
- Seniors Supplement will be abolished as soon as legislation is passed. It is an annual payment of \$876.20 for a single person and \$660.40 for each member of a couple.

**Advice implications:**

- Fewer self-funded clients will be eligible for the pharmaceutical and health concessions provided by the CSHC once the new income assessment rules apply.
- Review account-based pensions for existing cardholders before 1 January to ensure they are happy to stay in these accounts for the long term
- Self-funded clients in receipt of the CSHS but who are still in accumulation phase may wish to commence an account-based pension before 1 January 2015.

**Commencement date:**

Various as outlined above

### **g) Tougher eligibility for Newstart and Youth allowance**

Access to these payments will be restricted with new proposals:

- Eligibility age for Newstart is proposed to increase from 22 to 24 from 1 January 2015
- From 1 October 2014 payments will cease for students who travel overseas except in circumstances such as studying or a family emergency
- People under age 30 may need to wait six months before qualifying for Newstart or youth allowance. School leavers will have the full six month wait applied but other applicants who have work experience may have a reduced waiting period applied. This will not apply to parents with 35% or more care of a child.
- After the initial six month wait, people under age 30 will need to work for the dole.

#### ***Advice implications:***

- Younger people will find it harder to qualify for Centrelink support and may need to rely more on parents for longer if they are studying or unable to attain work after leaving school. This may need to be factored into planning for your clients who are parents of this age group.

#### ***Commencement date:***

1 January 2015 for new applicants and 1 July 2015 for existing recipients

### **h) Housing help for seniors – proposal abandoned**

An announcement contained in the 2013/14 Budget to introduce a Housing Help for Seniors project will not proceed. The intention of this scheme was to allow pensioners to sell their homes to downsize without impacting age pension.

## **5. Health**

### **a) GP co-payments**

Co-payments of \$7.00 per visit to a general practitioner (GP) are proposed to be introduced from 1 July 2015. \$5 of this amount is proposed to be paid into a new Medical Research Future Fund

Concession card holders and children under age 16 will only need to make this co-payment for the first 10 visits in a year – a total of up to \$70 per year.

Patients who are not bulk-billed will have their Medicare refund reduced by \$5.

The government has also proposed a \$5 increase for pharmaceuticals on the PBS scheme, with pensioners paying an additional 80 cents per script.

**Advice implications:**

- These changes may impact on expenditure needs of clients.

**Commencement date:**

1 July 2015

## 6. Families

### a) Paid parental leave (PPL) scheme

The Government's election commitment to improve the Paid Parental Leave scheme is proposed to be implemented but with a lower salary cap.

The original commitment was to increase payment beyond the minimum wage (paid for 18 weeks) to the mother's actual salary, capped at earnings of \$150,000 per year with the payment extended to 26 weeks (maximum payment of \$75,000).

In the Budget, the government has proposed to implement a maximum payment of \$50,000 over the 26 weeks. Superannuation will also be paid.



**Example**

Lisa earns \$120,000 per annum. She is due to have a baby in March 2015.

Under the original proposals, Lisa could have received up \$60,000 in PPL entitlements over 26 weeks. Under the new proposals, she will only receive up to \$50,000. This is still more than the current scheme which would see her eligible for \$11,198 over 18 weeks.

In addition Lisa will receive superannuation payments on her behalf.

**Advice implications:**

- This proposal will see most eligible mothers receiving higher PPL payments than is currently available but is not as generous as originally proposed for those earning over \$100,000 a year.
- The more generous PPL scheme may help couples to afford to have children. It is likely to act as a disincentive for women who earn \$100,000 or less from going back to work within the first six months.
- The current scheme pays a maximum of \$622.10 per week (\$11,198 over 18 weeks) while the proposed scheme will pay a maximum of \$1,923.08 per week (\$50,000 over 26 weeks)

**Commencement date:** 1 July 2015

## b) Family tax benefits

Family tax benefit income thresholds will be frozen at current levels for three years from 1 July 2014. The payment rates (excluding supplements) will also be frozen until 30 June 2016. The clean energy supplement is to be renamed the Energy Supplement and because the carbon tax will be abolished, it will not receive any further indexation.

Family Tax Benefit Part B (FTBB) is proposed to be wound back so that it is only paid until the youngest child reaches age six, although families currently eligible may continue to receive the payment until 30 June 2017. To qualify for FTBB the higher income earner (of a couple or the single parent) will need to have income less than \$100,000 per annum.

From 1 July 2015, single parents who receive the maximum FTBA and whose youngest child is age six or older may receive a \$750 per year payment for each child aged six to twelve.



### Example

Trevor and Cathy are married with three children aged 10, 8 and 6. Trevor earns \$120,000 per annum and Cathy earns \$12,000 per annum.

Under the current rules, they receive the following family tax benefits:

- FTB A - nil
- FTB B - \$102.20\* per fortnight (\$2,657 per annum)

Under the proposed rules, they will not be eligible to receive any FTB payments.

They will be worse off by \$2,657 per annum.

### **Advice implications:**

- Families may need to redo budgets to manage expenditure.

## c) Schoolkids bonus

The schoolkids bonus is proposed to be abolished.

This is currently an automatic payment every six months to eligible families at the current rates of:

- \$205 for primary school children, and
- \$410 for high school children.

### **Commencement date:**

This payment will be abolished as soon as legislation is passed. The next payment is due on July 2014. If abolished before then, this payment will not be paid.

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