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Global Employment Solutions

Global InSight

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Australia:
Federal Budget 2014/15

Overview

The Australian government has delivered the toughest federal budget since 1997, with taxes raised and spending cuts to generate policy savings on a scale not seen for the better part of two decades.

A number of these measures affecting individual taxpayers and employers are summarized below.

Temporary Budget Repair Levy (TBRL)

If this measure is legislated, from 1 July 2014, until 30 June 2017, what will formally be known as the TBRL will be payable by individuals whose taxable income exceeds $180,000 at a rate of 2 percent on the excess of more than $180,000.

What impact will this have on income tax rates for resident individuals? – The TBRL is effectively a two-percentage-point increase in the top marginal rate. An indication of the additional tax payable under the TBRL is summarized in the following table.

Taxable income ($)	Additional tax ($)
180,000	Nil
200,000	400
250,000	1,400
300,000	2,400
350,000	3,400
400,000	4,400

As a legacy from the former labor government, the tax-free threshold will increase from $18,200 to $19,400 beginning 1 July 2015. As a result, the personal income tax rates for the 2014 – 2015 and 2015 – 2016 and later years are as follows*:

2014 – 2015 (Current)		2015 – 2016 (And later)	
Income range	Rate %	Income range	Rate %
0 – 18,200	0	0 – 19,400	0
18,201 – 37,000	19	19,401 – 37,000	19
37,001 – 80,000	32.5	37,001 – 80,000	33
80,001 – 180,000	37	80,001 – 180,000	37
180,001+	47	180,001+	47

*Including the TBRL, but excluding the Medicare levy (and the Medicare levy surcharge, if applicable).

Taking into consideration that the Medicare levy will increase from 1.5 percent to 2 percent from 1 July 2014, the top marginal rate plus the TBRL and the Medicare levy will be 49 percent for resident individuals. In addition, individuals whose income exceeds the relevant surcharge threshold and do not hold an appropriate level of private patient hospital coverage with an Australian registered health insurance provider may also be required to pay the Medicare levy surcharge (up to an additional 1.5 percent).

What impact will this have on income tax rates for foreign resident individuals? – The top marginal rate for foreign resident individuals is effectively increased to 47 percent with the introduction of the TBRL at two percentage points on taxable incomes exceeding $180,000.

2014 – 2015 (Current)		2015 – 2016 (And later)	
Income range	Rate %	Income range	Rate %
0 – 80,000	32.5	0 – 80,000	33
80,001 – 180,000	37	80,001 – 180,000	37
180,001+	47	180,001+	47

The legislation introducing the TBRL measure has been referred to a senate committee for comment by 16 June 2014. Following the committee's report, we should have further guidance as to whether this measure will proceed as originally announced in the budget. This will affect the Fringe Benefits Tax and Departing Australia Superannuation Payment measures discussed in further detail below.

Fringe Benefits Tax (FBT)

As the government has introduced the 2 percent TBRL payable by individuals whose taxable income exceeds $180,000 per annum, it is not surprising that they also announced in the budget an increase in the FBT rate from 47 percent to 49 percent. This increase is applicable to FBT years commencing 1 April 2015, onward.

This change will ensure that the FBT rate remains aligned to the top marginal tax rate plus the Medicare levy plus the TBRL, so that there is no advantage to an employee and no loss to the government's revenue if a benefit is provided by an employer instead of the employee acquiring it using their after-tax income. However, we note that there is a nine-month window where the FBT rate (47 percent) will remain lower than the top marginal tax rate plus levies (49 percent, disregarding any Medicare levy surcharge, which pay be payable).

The increase in the FBT rate will directly affect both the Type 1 and Type 2 gross-up factors. The Type 1 gross-up factor applies to employers who are entitled to claim GST input tax credits in respect of the fringe benefits provided and will increase from 2.0802 to 2.1463. The Type 2 gross-up factor applies to benefits where the provider is not entitled to claim a GST input tax credit and will increase from 1.8868 to 1.9608.

From 1 April 2015, the taxable value of benefits will be grossed up by the new Type 2 factor of 1.9608, for the purpose of reporting fringe benefit amounts on employee payment summaries. This will apply where the taxable value of the aggregate fringe benefits of an employee exceeds $2,000.

Employee Share Schemes (ESS)

There were no changes announced with respect to the simplification of Division 83A of the Income Tax Assessment Act 1997, which governs the ESS rules.

Superannuation

Superannuation guarantee contributions – The budget announced that the rate of superannuation guarantee (SG) will increase to 9.5 percent from 1 July 2014, and will be in place for four years. The rate will then increase annually at a rate of 0.5 percent from 1 July 2018, to 1 July 2022.

Excess nonconcessional contributions – For excess nonconcessional contributions made from 1 July 2013, an individual will be given the option to withdraw the excess contributions together with any earnings on those contributions and to pay tax at their marginal tax rate on those earnings. No excess nonconcessional contributions tax would apply in this case.

If the individual does not exercise this choice, the excess nonconcessional contributions will be subject to the excess nonconcessional contributions tax at the top marginal rate. It is not clear at this stage whether there will be a time limit for the individual to exercise their choice or what the process for the return of contributions and earnings will be. These are to be settled after consultation with key stakeholders in the industry.

Social Security Agreement – The government will establish a new bilateral Social Security Agreement with the Republic of India to commence from 1 July 2015. The expected Social Security Agreement will cover the age pension and remove the double coverage of superannuation contributions for workers seconded to either country.

Departing Australia Superannuation Payment (DASP) – Temporary residents who work in Australia and have superannuation contributions paid by their employer may be entitled to receive their superannuation benefits once they permanently depart Australia. This payment is called a DASP.

The rate of tax applied to a DASP is dependent on the makeup of the payment. The tax-free component will continue to be tax-free following the introduction of the TBRL.

The other two rates will be increased to incorporate the TBRL. A DASP from a taxed superannuation fund will be subject to a tax rate of 38 percent during the period in which the TBRL applies; whereas, a DASP from an untaxed superannuation fund will be subject to a rate of 47 percent.

Immigration

The government is looking to achieve savings over the next five years by modifying the size and composition of the 2014 – 2015 Migration Programme. The 2014 – 2015 Migration Programme will have 190,000 places and maintain the composition of 128,550 Skilled Stream places, 60,885 Family Stream places, and 565 Special Eligibility Stream places. The Skilled Stream allocation, which includes company-sponsored permanent residents, represents 68 percent of the entire Migration Programme.

The Skilled Stream will continue to focus on Australia's longer-term skills needs, including addressing labor shortages in Regional Australia. This targeted approach to directing skilled migration to where it is needed most will help employers who would otherwise find it difficult to locate suitably qualified local labor to work in regional areas of Australia.

The government will expand the Offshore Biometrics Programme beyond the 20 countries where it currently operates and introduce user-pays arrangements for visa services and biometric collection services with third-party service delivery partners. This measure will include processing of Subclass 457 (Skilled Temporary Business) and Subclass 400 (Short Stay Activity) visas and will therefore have some impact for businesses sourcing skilled labor from countries that participate in the program. However, it is hoped that the measures will improve processing timeframes. The government will provide $2 million in capital funding for more than two years for biometric systems software and equipment to expand the program.

The Outreach Officer Programme will cease operations 1 July 2014. This measure will reduce existing support available to some businesses that accessed the program to build a deeper understanding of the visa arrangements that affected them.

The government will provide funding to strengthen Australia's border protection services. Enhancements to Australia's border protection services will commence in 2014 – 2015 within the existing Australian Customs and Border Protection Service, including through:

- Improved trade and passenger facilitation by implementing more efficient processes;
- Better targeting and interception of illegal trade and travelers through enhanced Information Communication Technology systems, intelligence, and enforcement capabilities; and
- Strengthened integrity and capability of the border workforce.

The cost of this measure will be met from within the existing resources of the Immigration and Border Protection portfolio and improved revenue collection through the use of analytics and detailed data modelling, new processes for revenue collection, and targeted campaigns to improve compliance. It is unclear the impact that the increased use of analytics and data modelling and new processes for revenue collection will have on the business community.

The government will provide funding to extend the streamlined visa processing arrangements currently available to students who are enrolled in bachelor's, master's, or doctoral degree programs at participating universities to students who are enrolled in Advanced Diploma-level Vocational Education and Training (VET) courses at eligible Technical and Further Education (TAFE) institutes and other education providers.

Deloitte's View

- The possible introduction of the 2 percent TBRL from 1 July 2014, in addition to the increase in the Medicare levy to 2 percent (for resident individuals), will have an impact on gross-up calculations and an increase to the cost of employment, which should be considered by employers (particularly those operating a tax equalization/tax protection/guaranteed net salary arrangement).
- The associated increase in the FBT rate to 49 percent (and corresponding increase to FBT gross-up rates) from 1 April 2015, should also be considered by employers in terms of the additional cost of employment and relevance of certain benefits continuing (with the additional cost being accrued appropriately). For employers who pass on FBT costs to their employees, these increased costs should be recalculated and appropriately communicated to employees.
- Employers should bear in mind that there is a nine-month window during the period 1 July 2014, to 31 March 2015, where the FBT rate of 47 percent will remain lower than the top marginal tax rate (including the TBRL and Medicare levy).
- Employees earning more than $180,000 may wish to consider the structure of their remuneration packages to determine if there is any scope to take advantage of the lower FBT rate during the period 1 July 2014, to 31 March 2015 (refer above), or the increase to the concessional contributions cap.
- In addition, it would be pertinent for employers and resident individuals to review their private health insurance policy to ensure it qualifies for an exemption from the Medicare levy surcharge.
- The superannuation rate is proposed to be 9.5 percent from 1 July 2014. Therefore, employers should consider the potential change to staff costs and the impact on the nominated salary for visa applications. It would be a timely reminder to review employees' superannuation clauses in their employment contracts to ensure individuals in receipt of total remuneration packages are not in receipt of a lower salary from an immigration perspective as a result of the possible SG rate.
- From 1 July 2013, individuals will have an option to withdraw their excess contributions (including earnings on those contributions) and pay tax at their marginal tax rate on those earnings. Individuals should seek specific tax advice pertaining to their personal circumstances.
- Employers should consider reviewing their employment contracts for Australian employees working in India or for Indian nationals working in Australia to take advantage of the new Social Security Agreement with India. Employers may obtain Certificates of Coverage on behalf of these employees to avoid double superannuation coverage with effect from 1 July 2015.
- From 1 July 2014, temporary resident individuals who may be entitled to a DASP could now face a withholding tax of between 38 percent and 47 percent (depending on the component of the payment). These individuals should consider the impact that this increase in tax will have on their superannuation entitlements when they permanently depart Australia and may seek to apply for their DASP as soon as possible after departure from Australia (if departing before 1 July 2014).
- Deloitte welcomes the continuing focus on skilled migration, which should assist in directing skills to regional areas where they are required the most.
- Costs associated with visa services and biometric collection services with third-party service delivery partners may increase as a result of the Offshore Biometrics Programme, which should be considered by employers who utilize these services changes.

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