The Mischel & Co. Group
Accountants & Advisors

We enclose a summary of the Federal Budget 2014-15
for the exclusive use of clients of
The Mischel & Co Group of Companies.

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Federal Budget 2014-15

The Initial Commentary

The Federal Budget leaves Australia waiting for a long-term tax reform plan that is vital to ensure that the country is well positioned for the challenges of the decades ahead. The statement was remarkably light on tax related measures.

The Budget bias towards cutting welfare for individuals and families whilst doing almost nothing to fix the flaws in the tax system – most of which favour the wealthy - enhanced an over-riding impression that the Budget was lacking in fairness

The Government has attempted to tackle half of our Budget problem: expenditure, without committing to a timeline in which to address the other crucial half of the equation: revenue.

The major tax announcement was the introduction of a debt reduction tax (or "levy") on incomes over $180,000. Given the relatively toothless nature of this tax – it will affect only 400,000 taxpayers, will result in an increased tax bill of just $400 for those earning $200,000 and will be extraordinarily easy to avoid for those affected who are self employed operating through corporate entities.

The 2% income tax 'levy' is the wrong direction to be taking Australia's tax system. It would place an even greater reliance on income tax revenue, when the Government should be relying less on income tax revenue and instead moving more towards relying on revenue from consumption taxes like the GST.

This highlights the need for structural reform of our tax system, because it shows that the current system is not raising sufficient revenue to meet the spending decisions of Government.

The promised Tax Reform White Paper process is the appropriate way to address the tax system's shortcomings rather than relying on the quick 'sugar hit' of an income tax levy. The Government has missed an opportunity to set a timeline for this process in the Budget.

The Tax Reform White Paper and closely-related Commonwealth-State Relations Paper on the Federation are crucial levers in generating a community-wide public debate.

The Tax Institute has been a strong advocate for reforming the excess superannuation contribution laws so that inadvertent breaches of the caps are not unfairly penalised.

The Government is to be congratulated for taking further action to permit correction of inadvertent breaches of the non-concessional contributions cap.

For small businesses, there was virtually nothing. The long-ago announced 1.5% tax cut is welcome but will be unfavourably highlighted in the wake of the hard measures imposed on individuals and families.

The Government's commitment to reduce the company tax rate is a positive step in relying less on company tax revenues.

Cutting the company tax rate will reduce taxes on investment, driving an increase in savings and capital as well as innovation and entrepreneurship. It will also reduce the incentive for profit shifting out of Australia, allowing us to retain a greater share of the profits generated here in Australia.

The Government's decision to index fuel excise was recommended by the Henry Tax Review, and will ensure its value is not eroded by inflation.

The Government's decision to move the tax complaints function from the Office of the Ombudsman to the Inspector-General of Taxation is a sensible move that should assist in addressing tax administration issues.

The Highlights in Brief

The Federal Treasurer, Mr Joe Hockey, handed down his first budget on 13 May 2014. In a budget intended to reduce the deficit from its current $49.9b to $29.8b next year, he said that he was “delivering balanced and credible budget repair”. The budget contained few tax and superannuation measures but included a range of austerity measures, especially in relation to social security and health.

Here are the tax, superannuation, social security and health highlights.

Individuals and Families

- A three year temporary levy of 2% will be imposed on individuals’ taxable income *in excess of* $180,000 pa, from 1 July 2014 until 30 June 2017.
- The dependent spouse tax offset (DSTO) will be abolished for all taxpayers from 1 July 2014.
- The mature age worker tax offset will be abolished from 1 July 2014.
- The Medicare levy low-income threshold for families will be increased from the 2013/14 income year.
- The First Home Saver Accounts scheme will be abolished from 1 July 2015.
- From 1 July 2014, taxpayers will receive a tax receipt showing how and where their tax dollars were used.
- The income threshold at which students commence repayment of their Higher Education Loan Programme (HELP) debts will be reduced with effect from 1 July 2016. In addition, HELP debts will be indexed at a rate equivalent to the yield on 10-year government bonds (up to a 6% maximum) instead of CPI from 1 June 2016. Loan fees for undergraduate FEE-HELP and VET FEE-HELP will be abolished.

- Various reforms will be introduced to the pension system including increasing the qualifying age for the Age Pension to 70 by 1 July 2035.
- The eligibility age for the Newstart Allowance and Sickness Allowance will increase from 22 to 24 years from 1 January 2015.
- Various reforms to the Family Tax Benefit (FTB) Part A and Part B payments will be introduced, including reducing the FTB Part B primary earner income limit to $100,000 pa and changing certain eligibility requirements. A new $750 allowance will be introduced for single parents on the maximum FTB Part A rate, but who will no longer receive FTB Part B payments due to eligibility changes. These measures largely commence on 1 July 2015, with some transitional arrangements.
- Changes will be made to the Medicare system relating to patient contributions, indexation of fees and thresholds, and Medicare safety net arrangements.
- Two organisations have been added to the list of specifically listed deductible gift recipients.
- Round 5 of the National Rental Affordability Scheme (NRAS) will not proceed.

Companies, Finance and Not-for-Profits

- The start date of the new system for managed investment trusts (MITs) will be deferred by 12 months to 1 July 2015.
- The rates of the refundable and non-refundable offsets for the R&D Tax Incentive will be reduced by 1.5 percentage points.
- The consolidation integrity package announced in the 2013/14 Budget will be modified.
- The measure addressing inconsistencies in the tax treatment multiple-entry consolidated (MEC) groups will not proceed.
- The measure announced in the 2013/14 Budget to amend the principal asset test in the foreign resident CGT regime will be modified.
- No decision has yet been made on a proposed targeted anti-avoidance provision to address certain conduit arrangements.
- Alternatives to the previous government's better targeting of not-for-profit tax concession measures are not required at this time.
- The seafarer tax offset will be abolished from 1 July 2015.

Superannuation

- Individuals will be given 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.
- The schedule for increasing the superannuation guarantee rate to 12% will be changed.

Tax Administration

- The tax and superannuation laws will be amended to correct technical defects, remove anomalies and address unintended outcomes.
- The start date of the legislative elements of the measure to improve tax compliance through third party reporting and data matching will be deferred to 1 July 2016.
- The Commonwealth Ombudsman's case management of tax complaints will be transferred to the Inspector-General of Taxation.
- A number of government bodies will be abolished or merged, resulting in a reduction of 36 bodies.
- The planned reduction in 1,600 ATO staff that was due to occur in 2015/16 will be brought forward to achieve savings of $142.8m over three years.

Fuel, Oil and Mining

- The income tax treatment of realignments of interests between joint venture partners in the minerals and petroleum industry will be clarified for changes of ownership within a common project.
- The Product Stewardship for Oil scheme levy will be increased to a rate of 8.5 cents per litre of oil, or kilogram of grease, from 1 July 2014.
- Changes to the tax treatment of biodiesel commence from 1 July 2015.

In More Detail

1. Individuals and Families

• Temporary budget repair levy to be introduced

The government will introduce a three year temporary levy (ie the Temporary Budget Repair Levy) on high income individuals from 1 July 2014 until 30 June 2017. The Temporary Budget Repair Levy will apply at a rate of 2% on individuals' taxable income *in excess of* $180,000 pa.

A number of other tax rates that are currently based on calculations that include the top personal tax rate will also be increased. With the exception of the fringe benefits tax (FBT) rate, these tax rates will be increased for the same period that the Temporary Budget Repair Levy is in place.

To prevent high income earners from utilising fringe benefits to avoid the levy, the FBT rate will be increased from 47% to 49% from 1 April 2015 until 31 March 2017 to align with the FBT income year. 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.

This measure is expected to increase revenue by $3.1b over the forward estimates period.

• Dependent spouse tax offset to be abolished

The dependent spouse tax offset (DSTO) will be abolished for all taxpayers from 1 July 2014.

A 2011/12 Mid-Year Economic and Fiscal Outlook (MYEFO) phase-out measure limited access to the DSTO to those whose dependent spouse was born before 1 July 1952, effective from 1 July 2012. Taxpayers who are eligible to receive the Zone Tax Offset (ZTO), Overseas Civilians

Tax Offset (OCTO) or Overseas Forces Tax Offset (OFTO) were exempt from the phase-out and can currently receive the DSTO regardless of the age of their dependent spouse.

Currently, taxpayers eligible for the ZTO, OCTO or OFTO can also claim eight other dependency offsets. For all other taxpayers, a 2012/13 Budget measure replaced these eight other dependency offsets with the Dependent (Invalid and Carer) Tax Offset (DICTO), effective from 1 July 2012. This measure will also replace these dependency offsets with the DICTO for ZTO, OCTO and OFTO taxpayers from 1 July 2014.

Taxpayers with a dependant who is genuinely unable to work due to a carer obligation or a disability may be eligible for the DICTO.

This measure is estimated to have a gain to revenue of $320m over the forward estimates period.

- ## Mature age worker tax offset abolished

The mature age worker tax offset (MAWTO) will be abolished from 1 July 2014. This measure is estimated to have a gain to revenue of $760m over the forward estimates period.

A 2012/13 Budget measure began the phase out of the MAWTO from the 2012/13 income year, limiting it to taxpayers born before 1 July 1957.

The government considers that encouraging mature age workers to participate in the workforce can be achieved more effectively through direct payments or incentives. Savings from this measure will be redirected to the government's expanded seniors employment incentive payment called Restart to support mature age job seekers in re-entering the workforce. Under that measure, from 1 July 2014, a payment of up to $10,000 will be available to employers who hire a mature aged job seeker, aged 50 years or over who has been receiving income support for at least six months.

- ## Medicare levy low-income threshold for families increased

The Medicare levy low-income threshold for families will be increased from the 2013/14 income year. The threshold for couples with no children will be increased to $34,367, and the additional amount of threshold for each dependent child or student will be increased to $3,156 for the 2013/14 income year.

The increase in these thresholds takes into account movements in the consumer price index (CPI) and ensures that low-income families who were not liable to pay the Medicare levy in 2012/13 will continue to be exempt, unless their incomes have increased by more than the CPI.

The Medicare levy low-income thresholds for individuals and pensioners have already been increased by more than the growth in the CPI and therefore do not need to be further increased at this time.

This measure is estimated to have a cost to revenue of $48m over the forward estimates period.

- ## First Home Saver Accounts scheme to be abolished

The First Home Saver Accounts (FHSA) scheme will be abolished from 1 July 2015 due to lower than forecast take-up rates.

New accounts opened from Budget night 2014 will not be eligible for concessions.

The government co-contribution will cease from 1 July 2014. The government co-contribution was provided to individuals who made personal contributions to their FHSA to assist them in saving for their first home. Tax concessions, and the income and asset test exemptions for government benefits associated with these accounts, will cease from 1 July 2015.

Account holders will be able to withdraw their account balances without restriction from 1 July 2015.

Regulations will be made to ensure that anyone seeking to open a new account from Budget night 2014 is informed of these changes by the account provider. Existing account holders will continue to receive the government co-contribution, and all tax and social security concessions associated with these accounts, for the 2013/14 year.

Once the FHSA scheme is abolished from 1 July 2015, FHSA accounts will be treated like any other account held with a relevant provider.

The abolition of FHSA accounts will achieve savings of $134.3m over five years.

- ## Tax receipts for individuals

The ATO will issue taxpayers a tax receipt that shows in dollar terms how their taxes were spent on each budget area. In most circumstances, the tax receipt will be issued together with a taxpayer's notice of assessment. The government has indicated that this initiative will help to ensure that pressure is maintained on governments to spend taxation revenues wisely.

- ## Changes to HELP repayment thresholds, indexation, loan fees

a) New minimum repayment threshold

The income threshold at which students commence repayment of their Higher Education Loan Programme (HELP) debts will be reduced with effect from 1 July 2016.

The new minimum repayment threshold will be set at 90% of the minimum threshold that would otherwise have applied in 2016/17. The new minimum threshold is currently estimated to be $50,638 in 2016/17.

A new repayment rate of 2% of repayment income will be applied to debtors with incomes above the new minimum threshold. There will be no other change to current repayment rates.

By way of comparison, the minimum repayment threshold for the 2013/14 income year is set at $51,309 and the minimum repayment rate is 4%.

b) Annual indexation changes

The annual indexation applied to HELP debts will be adjusted from the Consumer Price Index (CPI) to a rate equivalent to the yield on 10-year bonds issued by the Australian Government (capped at 6% per annum) from 1 June 2016.

c) Loan fees

The 25% loan fee applied to FEE-HELP loans for fee-paying undergraduate courses, and the 20% loan fee applied to VET FEE-HELP loans for eligible full fee-paying students in higher level vocational education and training courses, will be removed from 2015/16.

- ## Pension age increase and other pension reforms

a) Qualifying pension age increases

The Age Pension qualifying age will continue to increase by six months every two years, such that it will reach a qualifying age of 70 by 1 July 2035. This measure will not affect those born before 1 July 1958.

The following table sets out the Age Pension eligibility age by date of birth:

Date of birth between	Age at which eligible for Age Pension
1 July 1952 and 31 December 1953	65½
1 January 1954 and 30 June 1955	66
1 July 1955 and 31 December 1956	66½
1 January 1957 and 30 June 1958	67
1 July 1958 and 31 December 1959	67½
1 January 1960 and 30 June 1961	68
1 July 1961 and 31 December 1962	68½
1 January 1963 and 30 June 1964	69
1 July 1964 and 31 December 1965	69½
1 January 1966 and later	70

b) Income test

The government will change how it deems the return from a person's financial assets for the purposes of the pension income test. The deeming thresholds will be reset from $46,600 to $30,000 for single pensioners and from $77,400 to $50,000 for pensioner couples from 1 September 2017.

c) Indexation changes

The indexation of income and assets test free areas for the pension will be paused for three years from 1 July 2017.

From 1 September 2017, pension increases will be linked only to the Consumer Price Index (CPI).

d) Commonwealth Seniors Health Card changes

The income thresholds for the Commonwealth Seniors Health Card will be indexed annually to the CPI from 20 September 2014. Payments of the Senior Supplement will also cease after the June 2014 payment.

- ## Increased Newstart eligibility age

The eligibility age for the Newstart Allowance and Sickness Allowance will increase from 22 to 24 years from 1 January 2015. Current recipients of these allowances aged 22 to 24 on 31 December 2014 will remain on those allowances.

The eligibility thresholds for the Newstart Allowance will also be maintained for three years from 1 July 2014.

- ## Family Tax Benefit reforms and new single parent benefit

In a bid to ensure that family payments support those most in need of assistance and that the welfare system remains sustainable, the government has introduced a range of reforms to the family tax benefit payments:

- the Family Tax Benefit (FTB) Part B primary earner income limit will be reduced from the current $150,000 pa to $100,000 pa. This measure will also reduce the income threshold for the Dependent (Invalid and Carer) Tax Offset (DICTO) to $100,000. The reduced limits will apply from 1 July 2015.
- From 1 July 2015, the FTB Part B payments will be limited to families whose youngest child is younger than six years of age. A transitional arrangement will ensure families with a youngest child aged six and over on 30 June 2015 remain eligible for the payments for two years.
- A new allowance of $750 per child aged between six and 12 years will be introduced for single parents on the maximum rate of FTB Part A whose youngest child is between six and 12 years of age from the point when they become ineligible for the FTB Part B. This allowance will commence from 1 July 2015.
- The FTB Part A Large Family Supplement (currently $313.90 per child pa) will be limited to families with four or more children and will be paid in respect of the fourth and each subsequent child in the family. This change will apply from 1 July 2015.
- FTB payment rates will be maintained for two years by pausing the indexation of the maximum and base rates of FTB Part A and the rate of FTB Part B from 1 July 2014 until 1 July 2016.
- Income thresholds for the FTB Part A lower income free area and maintenance income free area and the FTB Part B secondary earner income free area will remain unchanged for three years from 1 July 2014 as a result of an indexation pause.
- From 1 July 2015, the FTB Part A and FTB Part B end-of-year supplements will return to their original amounts of $600 pa for each FTB Part A child and $300 pa for each FTB Part B family and cease indexation.
- The FTB Part A per child add-on to the higher income free threshold for each additional child will be removed from 1 July 2015.

- ## Changes to the Medicare system

Changes will be made to the Medicare system relating to patient contributions, indexation of fees and thresholds, and Medicare safety net arrangements.

a) Patient contributions

The Medicare Benefits Schedule (MBS) rebates will be reduced from 1 July 2015 by $5 for standard general practitioner consultations and out-of-hospital pathology and diagnostic imaging services, while providers of these services will be allowed to collect a patient contribution of $7 per service. For patients with concession cards and children under 16 years of age, the MBS rebate will only be reduced for the first 10 services in each year, after which it will return to current benefit levels. A new Low Gap Incentive will replace bulk billing incentives for providers of these services. The Low Gap Incentive will be paid to providers where they provide services to patients with concession cards or children under 16 years of age and only charge the $7 patient contribution — for the first 10 services in a year, or where they charge no patient contribution — for additional services in that year.

The measure will also remove the restriction on State and Territory governments from charging patients presenting to hospital emergency departments for general practitioner-like attendances.

Date of effect: The MBS rebates will be reduced from 1 July 2015. Providers will be allowed to collect the patient contribution from 1 July 2015.

b) Pausing of indexation

The indexation of some MBS fees will be paused for two years from 1 July 2014. The indexation for income thresholds for the Medicare Levy Surcharge and Private Health Insurance Rebate will be paused for three years from 1 July 2015.

General practice MBS fees will be excluded. MBS fees which are not currently indexed, such as pathology and diagnostic imaging services, will not be affected.

Date of effect: The indexation of some MBS fees will be paused for two years from 1 July 2014, while the indexation of income thresholds will be paused for three years from 1 July 2015.

c) Medicare safety net arrangements

From 1 January 2016, the existing Original Medicare Safety Net, Extended Medicare Safety Net and Greatest Permissible Gap will be replaced by the new Medicare Safety Net. There will be new safety net thresholds of $400 for concessional singles and concessional families, $700 for non-concessional Family Tax Benefit Part A (FTB-A) families and non-concessional singles, and $1,000 for non-concessional families who do not receive FTB-A.

The Medicare Safety Net assists families and singles by contributing towards out-of-pocket costs for Medicare eligible out-of-hospital services. Once the annual thresholds have been reached in a calendar year, Medicare will pay 80% of any subsequent out-of-pocket costs, capped at 150% of the MBS fee. The out-of-pocket costs that accumulate in reaching the safety net thresholds will also be capped at 150% of the MBS fee.

Date of effect: The new Medicare Safety Net will be introduced on 1 January 2016.

• New deductible gift recipients approved

Two organisations have been added to the list of specifically listed deductible gift recipients.

Since the 2013/14 Mid-Year Economic and Fiscal Outlook, the following organisations have been approved as deductible gift recipients (DGRs):

- Minderoo Foundation Trust, from 1 January 2014, and
- East African Fund (School of St Jude), from 1 July 2014.

• National Rental Affordability Scheme - discontinuing incentives

Round 5 of the National Rental Affordability Scheme (NRAS) will not proceed. The government will achieve savings of $235.2m over three years by not proceeding with this.

Funding for incentives from earlier rounds that are uncontracted or not used within agreed time frames will be returned to the Budget. Funding for tenanted NRAS properties is not affected.

The savings from this measure will be redirected by the government to repair the Budget and fund policy priorities.

2. Companies, Finance & Not for Profits

- ### MIT system: start date deferred

The start date of the new system for managed investment trusts (MITs) will be deferred by 12 months to 1 July 2015.

The tax law will also be amended to allow MITs and other trusts treated as MITs to continue to disregard the trust streaming provisions for the 2014/15 income year. This will ensure these interim arrangements for MITs continue to apply until the commencement of the new tax system for MITs.

Exposure draft legislation is expected to be available in June 2014.

The decision is estimated to have a gain to revenue of $75m over the forward estimates period.

- ### R&D tax incentive: rates reduced for refundable and non-refundable tax offsets

The rates of the refundable and non-refundable offsets for the Research and Development (R&D) Tax Incentive will be reduced by 1.5 percentage points.

Currently, there is a:

- 45% refundable tax offset for eligible entities with an aggregated group turnover of less than $20m, provided they are not controlled by income tax exempt entities, and
- 40% non-refundable tax offset for all other eligible entities.

This measure is estimated to provide a gain to the Budget of $620m in fiscal balance terms over the forward estimates period.

Date of effect: This measure will take effect from 1 July 2014.

- ## Consolidation: integrity measures modified

The consolidation integrity package announced in the 2013/14 Budget will be modified.

A measure will be added to clarify that accounting liabilities relating to securitised assets held by a subsidiary will be disregarded in certain situations where the subsidiary leaves and/or joins a consolidated group.

The double deductions measure, the churning measure and the deductible liabilities measure will be amended so that they apply to arrangements that commence on or after the date of announcement of the original measure (ie 14 May 2013), rather than to the exit or entry of a subsidiary that takes place on or after 14 May 2013.

In addition, the deductible liabilities measure will be amended so that retirement villages' residential loan liabilities are excluded from the measure.

This decision is estimated to have an unquantifiable revenue impact over the forward estimates period.

Date of effect: The new measure relating to securitised assets will apply to arrangements that commence on or after 7.30 pm (AEST) 13 May 2014. Meanwhile, transitional rules will apply to arrangements that commence before this time.

The double deductions measure, the churning measure and the deductible liabilities measure will apply to arrangements that commence on or after 14 May 2013.

- ## Consolidation: measure on MEC groups not to proceed

The measure to remove inconsistencies in the tax treatment for multiple-entry consolidated (MEC) groups and ordinary consolidated groups will not proceed. The measure was originally announced in the 2013/14 Federal Budget. This is estimated to have a cost to revenue of $140m over the forward estimates period.

A tripartite review chaired by Treasury concluded that there was limited scope to address the inconsistencies in the tax treatment of MEC groups and consolidated groups.

Treasury, however, will shortly begin consultation on an amendment to extend a modified form of the unrealised loss rules to MEC groups, and on other measures identified by the tripartite review.

The report of the tripartite review is available from www.treasury.gov.au.

- ## Foreign resident CGT regime: integrity measures modified

The measure announced in the 2013/14 Budget to amend the principal asset test in the foreign resident CGT regime will be modified.

To prevent the double counting of assets, the measure will now apply to interests held by foreign residents in unconsolidated groups as well as consolidated groups.

This measure is estimated to have no revenue impact over the forward estimates period.

Date of effect: For interests held by foreign residents in unconsolidated groups, the amendment will apply to CGT events occurring on or after the date the exposure draft legislation is released.

For interests held in a consolidated group or a multiple-entry consolidated (MEC) group, the measure will continue to have effect from 7.30 pm (AEST), 14 May 2013.

- ## Conduit arrangements and anti-avoidance: status

The government announced on 6 November 2013 that it would commence consultations on a targeted integrity rule to address certain conduit arrangements. This was in place of the abandoned measure to address aggressive tax structures that seek to shift profits by artificially loading debt into Australia and, in particular, the previous proposal to abolish the s 25-90 deduction.

The government says it has not yet made a decision on the targeted anti-avoidance provision to address certain conduit arrangements and is still seeking advice on this matter.

- ## Not-for-profit tax concessions: alternative measures not required

The government announced that it would not proceed with the original better targeting of not-for-profit tax concession measures on 14 December 2013. The government has now concluded that alternatives to the measures are not required at this time.

- ## Seafarer tax offset to be abolished

The seafarer tax offset will be abolished from 1 July 2015.

Currently, companies are eligible to claim the seafarer tax offset (a refundable tax offset linked to the concept of withholding payments paid to Australian seafarers for overseas voyages) in certain circumstances. The overseas voyage must be made by a certified vessel, and the seafarer must be employed by the company claiming the offset for at least 91 days in the income year.

The abolition of the offset will achieve savings of $12m over the forward estimates period.

3. Superannuation

- ## Superannuation excess contributions tax

For any excess superannuation contributions made after 1 July 2013 breaching the non-concessional cap, the government will allow individuals to withdraw those excess contributions and associated earnings.

If an individual chooses this option, no excess contributions tax will be payable and any related earnings will be taxed at the individual's marginal tax rate.

Individuals who leave their excess contributions in the fund will continue to be taxed on these contributions at the top marginal rate.

Final details of the policy will be settled following consultation with key stakeholders in the superannuation industry.

- ## Rescheduling increase in superannuation guarantee rate

The government will change the schedule for increasing the superannuation guarantee rate to 12%. Instead of pausing the rate at 9.25% as previously announced, the superannuation guarantee rate will now increase to 9.5% on 1 July 2014 (as currently legislated). The rate will remain at this level until 30 June 2018. The rate will then increase by 0.5 percentage points each year until it reaches 12% in 2022/23, one year later than previously proposed.

The government says that this change is necessary because the Senate has failed to pass the Minerals Resource Rent Tax Repeal and Other Measures Bill 2013 containing a measure to defer the increase scheduled for 1 July 2014.

4. Tax Administration

- **Minor amendments to tax laws**

A series of minor amendments to the tax and superannuation laws will be made to correct technical defects, remove anomalies and address unintended outcomes which have recently been identified.

The amendments include technical corrections to the uniform penalty rules that prevent certain penalties that are levied under the law from being collected, and a number of amendments to address issues raised by industry in relation to the consolidation regime.

- **Tax compliance through third party reporting and data matching: start date deferred**

The start date of the legislative elements of the measure to improve tax compliance through third party reporting and data matching will be deferred to 1 July 2016.

The legislative elements of the measure that are being deferred involve the creation of new third party reporting regimes relating to:

- taxable government grants and other specified government payments
- sales of real property, shares (including options and warrants) and units in managed funds, and
- sales through merchant debit and credit services.

The elements that do not require legislation will proceed as announced.

The measure is estimated to have a cost to the Budget of $113.1m over the forward estimates period.

- ## Inspector-General of Taxation to manage certain tax complaints

The Commonwealth Ombudsman's case management of tax complaints will be transferred to the Inspector-General of Taxation (IGT). This measure will enhance the IGT's systematic review role, and provide taxpayers with more specialised and focused complaint handling of their tax matters.

Date of effect: This measure will apply from the 2014/15 year.

- ## Abolition of government bodies

A number of government bodies will be abolished or merged, resulting in a reduction of 36 bodies.

In particular, the government will amalgamate all of the Commonwealth merits review tribunals with the exception of the Veterans Review Board, from 1 July 2015. The amalgamated body will take on the functions of the:

- Administrative Appeals Tribunal
- Classification Review Board
- Migration Review Tribunal
- Refugee Review Tribunal, and
- Social Security Appeals Tribunal.

Details of the new arrangements will be developed in consultation with key stakeholders.

- ## ATO to bring forward staff reductions

The planned reduction in 1,600 ATO staff that was due to occur in 2015/16 will be brought forward to achieve savings of $142.8m over three years.

These reductions had already been factored into the forward estimates as part of the planned reduction in 4,700 ATO staff that was due to occur because of efficiency dividends and decisions of the previous government.

However, these staffing reductions do not include the impact of an additional 0.25% efficiency dividend announced by the government in the 2013 federal election.

5. Fuel, Oil and Mining

- ## Fuel excise indexation reintroduced

Biannual indexation to the consumer price index (CPI) of excise and excise-equivalent customs duty for all fuels except aviation fuels will be reintroduced to secure funding for additional road infrastructure projects.

This will generate $2.2b over the forward estimates period for building new and upgrading existing road infrastructure. This includes allowance for a $1.8m increase in Ethanol Production Grants in 2014/15, administered by the Department of Industry, and a $0.7m increase in the Cleaner Fuel Grants Scheme.

The government will amend the *Excise Act 1901* to ensure that the amount spent on road infrastructure funding is greater than the net revenue from the reintroduction of indexation on fuel excise and excise-equivalent customs duty.

Date of effect: Biannual indexation will commence from 1 August 2014.

- ## Realignment of minerals and petroleum joint venture interests

The income tax treatment of realignments of interests between joint venture partners in the minerals and petroleum industry will be clarified. This measure will only apply to changes of ownership within a common project (which includes combining neighbouring fields into one project and sharing expenditure in planning, research and construction of infrastructure).

Date of effect: The measure will apply from 7.30 pm (AEST) 14 May 2013.

- ## Product Stewardship for Oil scheme levy modified

The Product Stewardship for Oil scheme levy will be increased to a rate of 8.5 cents per litre of oil, or kilogram of grease, from 1 July 2014. The rate of the benefit for category 8 oils (category 8 benefits provide a mechanism to refund levies paid on oils that are being put to particular uses (ie exempt uses)) will also be increased to ensure it continues to match the rate of the levy.

This measure is estimated to have a gain to the Budget of $70m over the forward estimates period.

- ## Changes to the tax treatment of biodiesel

The excise on biodiesel will reduce to zero for the 2015/16 year. Grants made under the Cleaner Fuels Grant Scheme will reduce to zero from 1 July 2015.

From 1 July 2016, the excise rate for biodiesel will be increased for five years until it reaches 50% of the energy content equivalent tax rate.

The excise equivalent customs duty for imported biodiesel will continue to be taxed at the full energy content equivalent tax rate.

This measure will achieve net savings of $156m over four years.

The content of this information memorandum does not reflect all the announcements outlined in 2013 Federal Budget but simply highlights those points which are most likely to affects our clients.

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