Federal budget 2015: So what does it all mean for you?

By John Collett
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Dan Steiner would have liked some restrictions on the superannuation tax concessions that go to the very well off. Photo: Jay Cronan

The budget contains some goodies, particularly for anyone willing to "give it a go".

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There are substantial tax breaks for micro businesses, those with annual turnovers of less than $2 million.

That is on top of the 1.5 percentage point cut to the company tax rate for smaller businesses and substantial tax breaks for start-ups.

There is the removal of the fringe benefits tax on portable electronic devices such as phones, tablets and laptops.

And the government estimates that 91,000 pensioners with "modest" assets will receive about $30 more a fortnight, on average, with the changes to the age pension.

After last year's budget, widely derided as unfair, the government wants us to know this time around that it has listened to the criticism.

Treasurer Joe Hockey says there will be no changes to the superannuation tax concession by the Abbott government.

And the roundly criticised measure from last year's budget to change the age pension indexation so that the pension would have grown at a slower pace than it does now is confirmed as buried in the budget. The winners from the age pension changes arise from the increase in the "lower" threshold of the assets test. From January 1, 2017, this will be increased to $375,000 from the $286,500 that it would be by the time of the change.

This is the threshold for a home-owning couple. The thresholds for single pensioners have also been increased. These changes will mean 50,000 part-pensioners will, for the first time, receive the full age pension from January 1, 2017.

The other change to the assets threshold concerns the "higher" threshold; at which the age pension cuts out altogether.

The bad news

For a home-owning couple the higher threshold – currently $1.15 million – will be reduced to $823,000. As a result, about 91,000 wealthier retirees on a part age pension will lose access to the pension. A further 235,000 will receive a smaller part age pension.

However, the impact of the lowering of the threshold to $823,000 will be felt by many more retirees than it first appears.

This is because of the change to the "taper rate"; the rate at which the pension reduces for every $1000 in additional assets over the lower threshold.

Whereas now, the fortnightly pension payment reduces by $1.50 for each additional $1000 of assets, under the changes from January 1, 2017, the taper rate will be $3.

For example, the change means a home-owning couple with assets of $500,000, excluding the family home, will lose $1892 a year of age pension. A couple with $600,000 will lose $5792 a year.

Retirees with assets of more than $500,000, excluding the family home, are a relatively small portion of the retiree population. However, over the next 10 years, their ranks will swell as they benefit from a higher superannuation guarantee for more of their working lives.

As a trade-off to those retirees who will lose their pension, they will have guaranteed eligibility for the Commonwealth Seniors Health Card, which provides the same concessional access to pharmaceuticals as the pensioner concession card.

However, the pensioner card, depending on the state or territory, usually provides discounts on property and water rates and energy bills, among other things.

Strategies

Phillip Gillard, a financial planner at Shadforth Financial Group, says those picking up a part age pension who will lose the pension from January 2017, should consider home renovations or a holiday.

Those wealthier retirees who will lose the part age pension also need to reassess how they are investing their money.

Gillard says that conservatively invested retirees should invest more of their savings into higher-returning investments.

Of course, it would be prudent to wait and see if the budget measures concerning the age pension are passed into law.

Laura Menschik, a financial planner and director of WLM Financial Services, says retirees who find themselves just over the assets threshold for the age pension could consider funeral bonds.

The funeral bond allowable limit in the current financial year is $12,000 and is indexed in line with pension increases each July.

"Two people can divest themselves of $24,000, if they feel that is appropriate," Menschik says.

Care needs to taken in selecting funeral bond providers as there have been problems with some providers in the past.

Money can also be gifted, Menschik says.

There are strict limits on how much can be gifted before affecting age pension entitlements.

Centrelink allows a retiree to give away as much as $10,000 in any one financial year (the $10,000 rule) and up to $30,000 (the $30,000 rule) over five consecutive years.

If more is given away, the excess is counted as an asset under the pension assets test. It is also subject to "deeming" under the income test for five calendar years from the date that the money is gifted.

Menschik says it is important to maintain records to show how the money is spent, such as invoices for work that has been done.

She says that Centrelink is asking for proof of expenditures.

Home front

New mothers who receive parental leave benefits from their employers will not be able to also collect the government scheme.

Treasurer Joe Hockey has said that it was "basically fraud" that women can access both the government scheme and their employer scheme, if they have access to one.

The change will take effect from July 2016.

It is believed that most of the "double dippers", as Hockey chose to call them, earn more than $90,000.

The government scheme was introduced by Labor in 2011. It provides 18 weeks of leave at the minimum wage to primary care givers earning $150,000 a year or less, which is worth about $11,500.

That is a far cry from Prime Minister Tony Abbott's more generous "signature" paid parental leave plan. It was all but dumped after last year's budget and included superannuation entitlements.

The government scheme does include super and employers are not obliged to pay it as part of their schemes either. The elimination of double dipping will mean about 80,000 new mothers will lose part, or all, of their access to the government scheme when the change occurs in July 2016.

Low and middle-income families will receive a higher rebate on their out-of-pocket childcare costs.

The changes in the childcare rebate have been positively received.

However, even with these changes, there is a catch.

In exchange for the higher rebates, recipients must meet "activity" tests to show they are either working, looking for work or furthering their prospects through study.

Government figures show families on incomes of between $65,000 and $170,000 will be about $30 a week better off.

Families on incomes of less than $65,000 can be eligible for additional financial support through the Child Care Safety Net.

Under the changes announced in the budget, benefits and rebates will be brought into one Child Care Subsidy.

For families with incomes of up to $65,000, the subsidy will be 85 per cent per child of the actual fee or a benchmark price, whichever is lower.

The subsidy will gradually reduce to 50 per cent for those with family incomes of more than $170,000. Families on incomes of less than $185,000 will no longer have a cap on the amount of subsidy they receive.

For those with family incomes of more than $185,000, there will be a cap of $10,000 per child.

This change is to take effect from July 1, 2017.

However, the government has said it is contingent on the Senate passing measures from last year's budget on the freezing of eligibility thresholds and payments of family tax benefits and the dumping of some supplements.

Other hip pocket measures

The budget contains a measure to create a level playing field on the GST by extending the tax to some digital purchases.

GST is likely to apply to digital purchases on services such as those of the movie download service Netflix and car-sharing service Uber, for example.

The elimination of fringe benefits tax on mobile devices such as phones and laptops is likely to spur a big increase in salary packaging these items.

The unpopular measure from last year's budget, where unemployed under 30s would have to wait six months for the dole, has been dropped.

Unemployed under 25-year-olds will have to wait four weeks.

And university graduates living overseas will have to repay their debts, under the same rules as those graduates who remain at home.

Happy self-funded retiree

Dan Steiner is not pressed for a dollar but he has to watch his budget carefully.

The 68-year-old retiree is a former public servant, who held management roles.

The Canberran came to Australia from the United States in 1974 and retired in 2005. He has a government pension, which he will receive until he dies. He also has a self-managed superannuation fund.

The divorcee has a mortgage on his apartment and is planning to have his mortgage paid off next year. The government pension is his foundation and pays the bills. That means he can afford to take a bit more investment risk with his DIY fund.

"Overall, I think the budget leaves me more relaxed than I was two weeks ago," he says. "It leaves me confident that there are not going to be any announcements before the next election that is going to have an adverse impact on me."

The budget has no changes to the self-managed superannuation fund rules.
And Commonwealth Seniors Health Card, which he has, is unaffected.

Steiner would have liked to have seen some restrictions on the superannuation tax concessions that go to the very well off. However, the government has ruled out any changes to the concessions.

Relieved' full-rate pensioner

Cate Turner is a full-rate age pensioner and a long-time advocate for pension rights.

The 86-year-old Sydneysider and former personnel manager enjoys good health and is very active in the community.

She rents and her only income is from the single rate full pension.

She recently gave up her car as she could not renew her registration, but it helps her financially. She uses public transport and walks a lot more.

"I have to watch my pennies," Turner says.

"I manage on the pension because I do not spend much on clothes," she says. "I go to Vinnies."

She cannot afford to go to all of the entertainment that she would like because it is too expensive.

She is "greatly relieved" that the government has scrapped its plan to index the age pension in way that would have seen the age pension increase at a slower rate.

"Overall, from a full pensioner's point of view, I am quite happy," Turner says.

"Much happier than I was this time last year," she says.