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flash International Executive Alert

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Australia – 2014-15 Budget Unveiled by New Abbott Government
by KPMG, Australia (a KPMG International member firm)

For coverage of last year's budget, see *Flash International Executive Alert* 2013-079, 15 May 2013.

On 13 May 2014, the Commonwealth Treasurer delivered the Australian Federal Budget 2014-15.[1] The Budget contains measures that will impact individuals – including those on international assignment – and their employers and may raise their tax burdens.

Why This Matters

Modifications introduced by this Budget (some temporary in nature) and previous announcements, impact the rate of tax paid by individuals and the Fringe Benefits Tax rates over a number of years. These changes are likely to raise tax burdens for employees (including those on international assignment subject to Australian taxation) and their employers.

International assignment cost projections and budgeting for assignments to Australia and for assignees outside Australia still subject to Australian taxation should reflect the changes in the Budget.

Where appropriate, adjustments by payroll administrators to withholdings should also be made. With some of these changes due to take effect from 1 July 2014, employers only have a short period of time to make necessary payroll adjustments, including revising hypothetical tax calculations for outbound tax equalized assignees from Australia. Communication with impacted assignees will also be important at this stage.

Below we describe the main measures in the Budget affecting individuals and their employers. (All dollar figures expressed are Australian dollars.)

Temporary Budget Repair Levy

From 1 July 2014 until 30 June 2017, a 2-percent levy will be imposed on individuals' taxable income above $180,000. This means that for an individual with earnings of $250,000 in the 2015 financial year, they will pay an additional levy of $1,400.

Personal Income Tax Rates and Thresholds

Taxable income thresholds and marginal tax rates for residents for the year commencing 1 July 2014, remain the same as for 2013-14 and are shown in the table on the following page.

2014-2015

Taxable income ($)	Rate
0 – 18,200	0
18,201 – 37,000	19c for each dollar over $18,200
37,001 – 80,000	$3,572 plus 32.5c for each dollar over $37,000
80,001 – 180,000	$17,547 plus 37c for each dollar over $80,000
180,001+	$54,547 plus 45c for every dollar over $180,000

Note: Excludes 2.0 percent Medicare levy (increases from 1.5 percent by 0.5 percent from 1 July 2014). And, as noted above, an additional Temporary Budget Repair Levy of 2.0 percent is payable on taxable income above $180,000 from 1 July 2014 until 30 June 2017. This effectively lifts the highest tax rate to 49 percent (including Medicare Levy and Temporary Budget Repair Levy).

Fringe Benefit Tax (FBT)

With the introduction of the Temporary Budget Repair Levy to apply from 1 July 2014, there will also be an increase in the FBT rate to 49 percent. This increase is due to take effect from 1 April 2015.

KPMG Note

Employers should also note that in addition to the increase in the FBT rate, there is a consequential adjustment to the FBT gross-up rates of 2.1463 where an employer is entitled to an input tax credit and 1.9608 where an employer is not entitled to a credit.

With the increase in FBT rate not due to take effect until 1 April 2015, employers who typically provide a grossed-up cash allowance to assignees on the top marginal tax bracket may consider providing the same net value to the employee by way of a fringe benefit in order to avail of the lower FBT rate of tax up until 1 April 2015.

Other Measures

Other measures announced include:

- Individuals will have the opportunity to withdraw excess non-concessional superannuation contributions rather than pay additional tax for contributions made from 1 July 2013. These earnings will then be taxed at the individual's marginal rate.
- The superannuation guarantee rate will increase to 9.5 percent effective 1 July 2014. No further increases to superannuation guarantee will occur until 1 July 2018.
- Changes to the Higher Education Loan Program repayment scheme.
- Plans were also announced for a bilateral social security agreement with India to apply from 1 July 2015.

KPMG Note

India-Australia Social Security Agreement

The announcement of a bilateral social security agreement with India should assist in reducing assignment-related costs with respect to India-Australia cross-border assignments/business.

Subject to the finalization of the agreement, there may be an opportunity to obtain a Certificate of Coverage from the Australian Taxation Office for outbound international assignees from Australia to India and eliminate the requirement to make social security contributions in India from 1 July 2015.

Some Quick Observations on the Budget

- Employers should ensure that they remain compliant with the superannuation guarantee legislation following the increase in the compulsory employer contribution amount from 9.25 percent to 9.5 percent from 1 July 2014.
- The widening differential between the top marginal rate of tax (49 percent) for individuals and the lower corporate tax rate (28.5 percent from 1 July 2015) may result in the more frequent use of companies as investment vehicles.
- Australian employers may find it more difficult to attract and retain key talent due to higher tax rates, relative to most other countries.
- The government has not addressed the impact (oftentimes adverse) that the current employee share scheme rules have on innovation; in particular, Australia's taxation of employee share options at the time a real risk of forfeiture no longer exists (vest). It should be noted that exercise is generally the time at which the taxing point arises in relation to employee share options in most jurisdictions outside Australia.

Next Steps

The package of Temporary Budget Repair Levy Bills passed the House of Representatives on 28 May 2014, and will now move to the Australian Senate for consideration.

The Bills containing the remaining tax measures will be introduced into Parliament over the coming months.

For a complete summary of the Budget, see the Web page for the 'Federal Budget 2014' published by the Australian member firm of KPMG International. Also, see: http://www.kpmg.com/au/budget

Footnote:

1 For more on the budget, see: http://www.budget.gov.au .

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A$1 = US$0.93
A$1 = £0.554
A$1 = €0.682
A$1 = ¥94.58

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