Summary of the 2014/2015 Federal Budget

14 May 2014
4 min. read

While the Federal Budget handed down last night does not contain any real surprises, a few points are worthy of note.

In this article, we summarise the pertinent aspects to the 2014/2015 Federal Budget from a taxation perspective (both corporate and personal), including a focus on the key impacts for mining projects.

Key Points

- The 2014/2015 Federal Budget has confirmed the introduction of an Exploration Development Incentive (**EDI**);
- The Government has announced that it will clarify the income tax treatment of realignments of interests of joint venture partners in common projects in the minerals and petroleum industry;
- A three year temporary budget repair levy for individuals with a taxable income of $180,000 per annum or more is proposed;
- The fringe benefit tax (**FBT**) rate will be increased by 2 percent from 47 percent to 49 percent from 1 April 2015 to 31 March 2017; and
- The company tax rate will be decreased by 1.5 percent from 30 percent to 28.5 percent.

Exploration Development Incentive

The 2014/2015 Federal Budget has confirmed the introduction of an EDI which will allow Australian resident investors in Australian "greenfield" mineral exploration projects to claim a refundable tax offset against their Australian taxable income in certain circumstances. The EDI is intended to stimulate investment in junior exploration companies by allowing those companies to convert income tax losses arising from exploration expenditure into a refundable tax credit that can be passed on to shareholders.

The EDI will be capped at $100 million over a period of three years commencing from 1 July 2014 and its introduction is consistent with the Federal Government's discussion paper *Exploration Development Incentive: Policy Design* released earlier this year.

Realignment of interests in mining projects

In the 2013/2014 Federal Budget, the Government announced that mining rights and information acquired from a third party and first used for exploration would not be eligible for an immediate deduction and instead would need to be deducted over 15 years or the life of the mine (whichever is shorter). This had an inequitable result where the interests of joint venture partners in a common project were realigned but the overall ownership of the project had not changed.

As part of this year's Federal Budget, the Government has announced that it will clarify the income tax treatment of realignments of interests of joint venture partners in common projects in the minerals and petroleum industry. The measure will apply from 7.30pm AEST on 14 May 2013.

Other noteworthy tax measures

- A three year temporary budget repair levy for individuals with a taxable income of

$180,000 per annum or more is proposed. The temporary budget repair levy will apply at a rate of 2 percent of an individual's taxable income in excess of $180,000 per annum and will apply from 1 July 2014 to 30 June 2017. Importantly, there will be a number of other tax rates that are calculated based on the top marginal tax rate which will also temporarily increase as a result of the proposed budget repair levy.
- The FBT rate will be increased by 2 percent from 47 percent to 49 percent from 1 April 2015 to 31 March 2017. While the increase is aimed at preventing high income earners from avoiding the temporary budget repair levy using the FBT regime, it will also impact individuals who are not earning $180,000 per annum or more. These individuals should carefully consider their contribution strategy (if applicable) in order to ensure that they are not adversely affected by the increase in the FBT rate.
- The company tax rate will be decreased by 1.5 percent from 30 percent to 28.5 percent. This should allow small businesses to benefit from a cash flow boost. For large companies, however, the 1.5 percent reduction in the company tax rate will be offset by a 1.5 percent paid parental leave levy. While the finer details are not yet known, it is expected that the change to the company tax rate and the imposition of the paid parental leave levy will have a number of consequences for large companies, including the company's ability to frank dividends given that franking credits are unlikely to be generated from the paid parental leave levy.

For further information regarding any budget changes, please contact the HopgoodGanim Taxation and Revenue team.

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