

TECHknow

Special Budget Update, May 2011

Key highlights

- No changes to personal income tax rates
- Removal of low income tax offset for minors on earned income
- Changes to fringe benefit tax treatment of motor vehicles
- Limited ability to overcome excess concessional contributions

Overview

On 10 May 2011, the Federal Government handed down its Budget for 2011/12.

From a financial planning perspective, it would be fair to say that there were only a few announcements that will impact the majority of clients. No doubt, this will be a relief for many, given the recent announcements and continued focus on the Future of Financial Advice reforms.

As always, there was a lot of speculation pre-Budget as to what measures it would contain, ranging from removal of the 30% private health insurance rebate for high income earners, through to reinstatement of the old contribution cap limits and, at the extreme, the closure of the transition to retirement opportunity. None of these changes were announced, but there were others that will be relevant for many clients.

For the first time in eight years, there were no announced changes to the existing personal marginal tax rates or thresholds. However, minors will no longer be eligible for the low income tax offset on any unearned income.

In superannuation, many of the previous Future Tax System (Henry Tax review) and Stronger Super (Cooper Super Review) announcements were restated, however the Government has provided some relief, albeit minor, in relation to excess concessional contributions.

More details on the relevant announcements are contained in this special edition of TECHknow. However, it's always important to remember that most measures will still need legislation to be introduced, so the final version of the changes may differ to the announcements made in the Budget.

If you have any questions about the 2011/12 Budget and its impact on strategies you are employing or considering for your clients, call the Technical Services team on 1800 655 901.

Taxation

Personal tax rates

Effective date: not applicable as no change

No changes have been announced to personal income tax rates, thresholds or tax offset amounts for future income years. Until further advised, personal income tax rates and thresholds will remain at the levels in the following table, and the low income tax offset will remain at a maximum of \$1,500.

Taxable income	Rate
0- \$6,000	0%
\$6,001 - \$37,000	15%
\$37,001 - \$80,000	30%
\$80,001 - \$180,000	37%
\$180,001+	45%

Changes to the operation of the Low Income Tax Offset (LITO)

Effective date: 1 July 2011

From 1 July 2011, those under the age of 18 will no longer be eligible to access the LITO, currently worth a maximum benefit of \$1,500, to reduce tax payable on their unearned income (ie effectively income from non employment sources). This change does not impact income earned from inheritances or distributed from testamentary trusts.

The most significant impact will be in relation to distributions to minors from family trusts – a widely used strategy to reduce the overall level of tax paid on distributions from these trusts. Currently a minor could receive a distribution of \$3,333 from family trusts and pay no tax on that distribution. If the same amount was distributed to a minor in income years commencing 1 July 2011 or later, that distribution would result in a tax liability of \$1,500.

Where these income splitting arrangements are currently in place, a distribution to an adult on a marginal tax rate below the highest rate (of 45% or at \$180,000 of other taxable income) will now produce a more tax effective result.

For other taxpayers who remain eligible for the LITO and have tax withheld from wage payments throughout the year, changes to the existing PAYG withholding rules will be made to pass more of the benefit of the future LITO entitlement back through regular payments. This will provide up to \$300 additional income during

the year, with any adjustments for “overpayments” being addressed through annual tax return lodgements.

Increase in the Medicare Levy low income thresholds

Effective date: 1 July 2010

The Government has announced new Medicare levy thresholds that are applicable for the current financial year (ending 30 June 2011). These are \$18,839 for individuals (previously \$18,488) and \$31,789 for families (previously \$31,196). The increase on these thresholds for each dependent child or student will be \$2,919.

The low income threshold for single pensioners below age pension age has been increased to \$30,439 (previously \$27,697) for the year ending 30 June 2011. This will ensure such pensioners do not pay the Medicare levy when they do not have an income tax liability.

Phase out and removal of dependent spouse rebate

Effective date: 1 July 2011

The Government has announced that the dependent spouse rebate will be removed for taxpayers who have a dependant spouse born on or after 1 July 1971 (ie aged 40 or less on the commencement date. The intent is that the removal of this offset benefit will result in the spouse actively looking to rejoin the workforce.

The offset will remain available where the taxpayer:

- Has a spouse born before 1 July 1971
- Has a spouse who is an invalid or permanently disabled
- Is supporting a carer, or
- Is eligible for the zone, overseas forces and overseas civilian tax offsets.

Flood and Cyclone Reconstruction Levy

Effective date: 1 July 2011

The Government reaffirmed the implementation of the temporary Flood and Cyclone Reconstruction Levy in the Federal Budget. The levy will apply to taxable income included in both resident and non-resident individuals' tax returns for the 2011/12 financial year only.

Tax Laws Amendment (Temporary Flood and Cyclone Reconstruction Levy) Bill 2011 and Income Tax Rates Amendment (Temporary Flood and Cyclone

Reconstruction Levy) Bill 2011 passed the Senate on 22 March 2011 and will give effect to the levy from 1 July 2011.

The table below outlines the income thresholds and rate of levy applicable.

Individual's taxable income	Flood Levy
Up to \$50,000	Nil
\$50,001 to \$100,000	0.5% of taxable income exceeding \$50,000
Over \$100,000	1% of taxable income exceeding \$100,000 plus \$250 (being 0.5% of taxable income between \$50,000 and \$100,000)

The table below shows the amount of Flood Levy payable for the 2011/12 financial year for a range of taxable incomes.

Flood Levy Payable in 2011/12	
Taxable Income (\$)	Flood Levy (\$)
0-50,000	0
60,000	50
80,000	150
100,000	250
120,000	450
140,000	650
160,000	850
180,000	1,050
200,000	1,250
220,000	1,450
250,000	1,750

Certain individuals will be exempt from paying the Flood Levy. These are persons who have a taxable income of \$50,000 or less for the 2011/12 financial year or those who are in receipt of an Australian Government Disaster Recovery Payment from Centrelink for a declared natural disaster that occurred during 2010/11.

Fringe Benefit Tax – reforms of the car fringe benefit rules

Effective date: 7:30pm (AEST) 10 May 2011

The Government has announced they will reform the statutory formula method for determining the taxable value of car fringe benefits. Instead of determining the fringe benefit value based on the number of kilometres travelled, the Government

has proposed to replace this with a single rate of 20% regardless of the distance travelled. This measure will be phased in over four years and will impact clients who enter into new salary sacrifice car arrangements as well as those who have an employer provided vehicle post 7:30pm (AEST) 10 May 2011.

The table below outlines the phased in rates

Kilometres travelled through the FBT year (1 April-31 March)	Statutory rate (multiplied by the cost of the car to determine a person's car fringe benefit)				
	Existing Contracts	New contracts entered into after 7:30 pm (AEST) on May 2011			
		From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0-14,999	26%	20%	20%	20%	20%
15,000-24,999	20%	20%	20%	20%	20%
25,000-40,000	11%	14%	17%	20%	20%
40,001 and over	7%	10%	13%	17%	20%

For example, Max salary packaged a car with a base value of \$30,000. Based on the current statutory method Max's FBT taxable value would be calculated based on the number of kilometres he travels in the year. However from 1 April 2014 a flat rate of 20% will apply. The table below illustrates the impact this measure will have on the FBT taxable value of the car if Max packages the car after 1 April 2014.

Kms pa	Current statutory percentage	Taxable Value	Proposed from 1 April 2014	Taxable Value
0 – 14,999	26%	\$7,800	20%	\$6,000
15,000 – 24,999	20%	\$6,000	20%	\$6,000
25,000 – 40,000	11%	\$3,300	20%	\$6,000
40,001 and over	7%	\$2,100	20%	\$6,000

Under this proposal, the FBT liability associated with Max's car would be \$5,761 regardless of the number of kilometres travelled. The existing statutory formula method would see the FBT liability range from \$2,016 if he travels more than 40,000 kms to \$7,488 if he travels less than 15,000km.

This measure will have a greater impact for those clients who travel more kilometres and will also cause clients who turn their leases over frequently to reassess the costs associated with the lease.

Income tax treatment of instalment warrants and similar arrangements

Effective date: 1 July 2007

In the 2010/11 Budget, the Government announced an amendment to the taxation law surrounding instalment warrants to ensure that for capital gains tax purposes the owner of an instalment warrant over an exchange traded security will be treated as the owner of the security.

The amendments provided certainty that a capital gains tax event would not be realised once the legal ownership of the asset transferred to the investor.

In this year's Budget, this relief has been extended to instalment warrants and receipts over direct and indirect interests in listed and unlisted securities.

This treatment provides further certainty for the tax treatment of instalment arrangements within superannuation funds under the 2007 amendments that allowed gearing within superannuation.

Small business instant write-off

Effective date: 1 July 2012

Small businesses that purchase a vehicle on or after 1 July 2012 will be able to immediately write off up to \$5,000 of the purchase price in the first year.

The measure complements the previous reforms for small business, also set for introduction from 1 July 2012, including:

- an immediate write off on all assets under \$5,000;
- a write-off on all other assets above \$5,000 (except buildings) in a single depreciation pool at 30%.
- a reduction in the company tax rate to 29% for small business taxpayers.

As an example, a tradesman on a marginal tax rate of 30% purchasing a new ute for \$33,960, would receive an additional tax benefit of \$1,275 in the year of purchase. The remainder of the purchase price can then be depreciated within the general small business depreciation pool, at 15% in the first year and 30% in later years.

The write off will be available to all small businesses, regardless of the operating entity, and replaces the Entrepreneurs Tax Offset.

Special Disability Trusts

Effective date: 1 July 2006

Expanding on a measure announced in last year's Budget, which allowed the principle residence capital gains tax exemption to be maintained where the main residence was transferred to a Special Disability Trust (a trust to enable parents and immediate family members to put money aside for the future care and accommodation needs of a family member with a severe disability).

This exemption has been backdated 5 years to 1 July 2006.

In addition, there will be no capital gains tax liability realised when assets are transferred into a special disability trust for no consideration.

Superannuation

Refund of excess concessional contributions

Effective date: 1 July 2011

Currently if a superannuation member exceeds their concessional contribution cap they are subject to excess concessional contributions tax of 31.5%. This is in addition to the 15% contributions tax. This liability may be paid from the superannuation account or paid by the member. This measure has impacted a considerable number of contributors, particularly those who inadvertently breached the cap.

The Government has announced that from the 2011/12 financial year and onwards, if a person breaches the concessional contribution cap by less than \$10,000 (not indexed) they will have the option to have the excess contributions taken out of their superannuation account and assessed against their marginal tax rate, rather than incurring the additional 31.5% excess concessional contributions tax. This measure will only apply once and to breaches in the 2011/12 financial years and onwards. This measure will ensure that the most a person will pay on an excessive concessional contribution (within the \$10,000 limit) will be at their marginal rate of tax as opposed to the top marginal rate of tax.

For example, Kate is on the 37% marginal tax rate. She is 48 and her total concessional contributions for the financial year totalled \$32,500, of which \$7,500 is excessive. Under the existing rules Kate would be subject to excess

concessional contributions tax of \$2,363. In addition to the 15% contributions tax paid on the contribution the total tax payable on this excess concessional contribution would be \$3,488. If this contribution was made in the 2011/12 financial year, the maximum tax payable would be \$2,888 as a result of this measure.

Those who exceed the cap by more than this amount will be subject to the existing provisions.

Reduction in the minimum payment amounts for account-based pensions in 2011/12

Effective date: 1 July 2011

The Government initially provided a 50% pension draw down relief in the 2008/09 financial year to assist account based pension holders to recoup capital losses experienced as a result of the global financial crisis. This measure was extended for the 2009/10 and 2010/11 financial years. The Government proposes to phase out this drawdown relief by reducing the minimum pension payment by 25% for the 2011/12 financial year. For example a 64 year old would be required to draw 3% of the account balance as a minimum pension payment instead of the standard minimum of 4%. For the 2012/13 financial year onwards, the standard minimums will operate.

Changes to government co-contribution

Effective date: 1 July 2012

In last year's Budget the Government announced that the thresholds applying for co-contribution eligibility will be frozen for 2010/11 and 2011/12. As a result, the maximum co-contribution is only available for those with income levels of up to \$31,920, and no co-contribution will be available once the individual's qualifying level of income reaches \$61,920.

In this year's Budget, the Government has announced that the threshold limits will be frozen for an additional 12 months, now covering 2012/13.

Capital gains tax treatment of "trading stock" within superannuation funds

Effective date: 7:30pm (AEST) on 10 May 2011

Subject to some transitional arrangements, gains or losses made by superannuation funds on the sale of specified assets will be subject to the capital gains tax provisions. Assets flagged as being subject to these arrangements will include shares, units in trusts (eg managed funds) and land.

Currently, some funds treat any profits or losses from the sale of these assets as being the turnover of trading stock, and therefore subject to normal income rules. Where a gain was made and the asset had been held for less than 12 months, this would result in taxation of the gain at 15% instead of 10%, but where a loss occurred, the loss could offset any other profits in full.

The main intent of this measure will ensure that losses will be treated as capital losses and therefore only be eligible to offset capital gains.

Operation of the higher concessional contribution cap for over-50s **Effective date: 1 July 2012**

From 1 July 2012 individuals over 50 who have a superannuation balance of less than \$500,000 will have the ability to contribute up to \$50,000 of concessional contributions. Earlier this year the Government released a consultation paper seeking comment on the application of this previously announced measure. Currently it is unclear how this measure will operate.

Stronger Super measures re-announced

The following measures which were previously announced as part of the Government's Stronger Super reforms were confirmed in the Budget and funding has been allocated where required.

The Government will provide funding to the ATO and ASIC to implement the Stronger Super self managed superannuation fund reforms including the introduction of a new administrative penalty framework, improved data collection and an improved SMSF registration process. The cost of these changes will be funded by an increase in the self managed superannuation fund levy. The levy will increase from \$150 to \$180 with effect from the 2010/11 financial year.

From 1 July 2011 superannuation funds will be able to use tax file numbers to locate member accounts and to facilitate the consolidation of multiple member accounts. This measure will also assist superannuation funds to carry out more efficient consolidation of multiple member accounts, with effect from 1 January 2012, if not proclaimed earlier.

From 1 July 2012 employers will be required to report on employee's payslips the amount of superannuation actually paid into the employee's superannuation account. Superannuation funds will also be required from 1 July 2012 to provide quarterly notification to employers and employees if regular superannuation contributions cease.

Government funding will be provided to APRA and ASIC to introduce MySuper (a simple, low cost default superannuation product).

The Government will provide funding to the ATO to implement a mechanism for members to view details of their lost superannuation accounts and to begin to undertake detailed design of ATO IT systems to support SuperStream (a package of measures designed to improve the efficiency of superannuation administration processes).

Social security and welfare payments

Disability Support Pension – recipients allowed to work up to 30 hours

Effective date: unknown

Disability Support Pension (DSP) recipients will be allowed to work for up to 30 hours and continue to receive a part-pension for up to two years. From 11 May 2005 new applicants for DSP had to be assessed as having the capacity to work less than fifteen hours a week. As a result recipients under this '15-hour rule' who have the capacity are discouraged from working more hours and have their payments suspended as a result. This concession will encourage DSP recipients to work longer hours. Increased employment income will be means-tested and may result in a reduction of their benefits.

Disability Support Pension – Changes to Participating Requirements

Effective date: 1 July 2012

New participating requirements will be introduced for DSP recipients. These requirements will apply to new and existing recipients aged less than 35 years and assessed with a capability of working eight or more hours per week. They will be required to attend Centrelink participation interviews and formulate a plan to improve their work skills, participate in the community and possibly join the workforce.

Recipients will need to attend Centrelink interviews on a quarterly basis for the first 18 months after being granted the pension and twice yearly thereafter. DSP recipients who have not been assessed for work capacity will undergo the work capacity assessment. DSP recipients who have working capacity of less than eight hours or who are already working will be excluded from this requirement. This requirement aims to bring more participants into the work force.

Disability Support Pension - Portability Changes

Effective date: 1 July 2012

Currently DSP is payable only for up to 13 weeks while a recipient resides overseas either temporarily or permanently. It is proposed that certain DSP recipients may continue to receive the DSP while residing overseas indefinitely. To qualify for indefinite portability, DSP recipients must be severely and permanently disabled and have no future capacity to work. Other accompanying payments such as Rent Assistance and the Pension Supplement will cease after 13 weeks. Carer Payments and Carer Allowances paid to carers accompanying them overseas will also cease.

Baby Bonus

Effective date: 1 July 2011

The Government has announced an increase in the proportion of the Baby Bonus that can be received as an upfront payment. Baby bonus claimants who become eligible on or after 1 July 2011 will be able to receive \$879.77 out of the total of \$5,294 (per child) upfront in the 2011/12 year. In subsequent years the amount will be 16.18% of the total baby bonus.

Family Tax Benefit / Youth Allowance

Effective date: 1 January 2012

Currently, the maximum rate of Family Tax Benefit Part A will be reduced from \$208.46 per fortnight to \$51.24 per fortnight. This amount is the basic rate payable when a child reaches age 16. Above age 18, the rate increases to \$68.74 for each qualified child. In many cases the child is eligible to claim Youth Allowance.

The Government has announced that from 1 January 2012 Family Tax Benefit Part A paid in relation to a child in full-time secondary schooling or equivalent, between the ages of 16 and 19, will receive an increased rate in line with the amount paid for a child between ages 13 to 15.

This measure will increase the level of support provided by Family Tax Benefit by up to:

- 16 and 17 year olds - \$4,208 per year and
- 18 and 19 year olds - \$3,741 per year.

The effect of this change is to make Family Tax Benefit the primary payment where a child under 19 is in full-time secondary school study. There will be no

income test for a Family Tax Benefit child under 19 in full-time secondary school study; however the Youth Allowance personal income test will remain.

Eligibility for Family Tax Benefit Part A will cease for children aged 22 years and over. However, the child may be able to claim Youth Allowance.

The participation requirement for Family Tax Benefit Part B and the Multiple Birth Allowance will be brought into line with Family Tax Benefit Part A. 16 to 19 year olds will be required to undertake full time secondary study or be exempted, to be eligible for these payments.

Youth Allowance will only continue to be available to 16 to 19 year olds who are:

- Independent
- Living away from home
- Not in full time secondary study
- Current recipients who opt to remain on Youth Allowance

Family Tax Benefit Advances

Effective date: 1 July 2011

Families in receipt of Family Tax Benefit Part A will be able to access an advance of their entitlements. An advance from \$160 to \$1,000 but not more than 7.5% of total entitlement may be claimed at any time in the year. Repayment will be over 6 months by reducing fortnightly Family Tax Benefit payments.

Family Tax Benefit A & B Indexation

Effective date: 1 July 2011

Family Tax Benefit Parts A and B supplements are normally indexed by the Consumer Price Index from 1 July each year. This indexation will be paused for 3 years until 1 July 2014. The current levels, which will remain until 1 July 2014 are:

- Part A supplement \$726.35 per child
- Part B supplement \$354.05 per child

Family Tax Benefit Parts A and B are paid according to assessable income which is generally indexed each year. The indexation of the upper limits and thresholds are currently paused and the pause will be extended for another 2 years – until 1 July 2014.

The indexation pause also applies to:

- Baby Bonus eligibility limit
- Paid Parental Leave carer income limit

Paid Paternity Leave Implementation Date

Effective date: 1 July 2012

The measure to provide eligible working fathers or other partners who provide a child care with two weeks leave paid at the minimum wage has been deferred from 1 July 2012 to 1 January 2013 for children born on or after 1 January 2013.

Other

Child Care Assistance – Awareness Campaign

Effective date: 1 July 2011

The Government will fund an awareness campaign to ensure eligible families are aware of current child care assistance available. In addition to this, the government will communicate the availability of fortnightly payment of the child care rebate from 1 July 2011.

Child Care Rebate – additional payment option

Effective date: 1 July 2011

Families in receipt of the child care rebate will have the additional option of receiving the rebate directly into their bank account on a fortnightly basis.

Other minor changes

Effective date: not stated

A couple of other changes were announced that may not have a significant impact from a taxation point of view, but may have an impact on some client arrangements:

- the ATO will be provided with a discretion to extend the current two-year timeframe available to trustees of deceased estates (or beneficiaries of those estates) to dispose of the deceased principal residence and enjoy the CGT exemption.
- the superannuation legislation will be amended to confirm that where there is a self managed superfund with a corporate trustee, a parent or guardian may be a director of the body corporate in place of a member that is a minor.

Questions?

If you have any questions, please contact please contact [Technical Services](#) on 1800 655 901.

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