BUDGET UPDATE 2011

GOODMAN
CHARTERED ACCOUNTANTS

16 May 2011, Volume 1, Issue 1

Summary

Compared with previous years, the 2011 Federal Budget was relatively mild; with few surprises or major changes. The Gillard Government, handing down its first Budget, confirmed a range of previously announced tax, super and social security policy changes. And while the Budget has been received as relatively restrained, some new measures were outlined which may impact how you manage your finances today as well as plan for your retirement.

The key announcements include:

- Unlike in previous years there have been no changes made to the personal tax thresholds or rates.
- People under 18 will no longer be able to access the low income tax offset to reduce tax payable on unearned income such as trust distributions, dividends, interest and rent.
- Lower income earners will receive a greater proportion of the low income tax offset through their pay packets.
- Those who exceed their concessional contribution caps for the first time by less than $10,000 will be able to avoid paying excess contributions tax.
- People aged 50 and over with less than $500,000 in super will be able to contribute an extra $25,000 in pre-tax dollars each year.
- Fringe benefits tax on salary packaged cars will be simplified to a single rate of 20%.

Personal Taxation

1. Tax Rates for 2011-2012

There is no change to the personal tax rates and they will stay as per 2010-2011 for the 2011-2012 year. The only difference will be the flood levy from 1 July 2011 for one year. Individuals are exempt if they were affected by a natural disaster during 2010-2011 and received a Government Disaster Recovery Payout.

Tax Rates for 2011-2012

From 1 July 2010	%	Tax on this Income
$0 - 6,000	0	Nil
$6,001 - 37,000	15	15 cents for each $1 over $6,000
$37,001 - 80,000	30	$4,650 plus 30 cents for each $1 over $37,000
$80,001 - 180,000	37	$17,550 plus 37 cents for each $1 over $80,000
$180,001 +	45	$54,550 plus 45 cents for each $1 over $180,000

Tax Rates for 2011-2012 (for those subject to Flood Levy)

From 1 July 2010	%	Tax on this Income
$0 - 6,000	0	Nil
$6,001 - 37,000	15	15 cents for each $1 over $6,000
$37,001 - 50,000	30	$4,650 plus 30 cents for each $1 over $37,000
$50,001 - 80,000	30.5	$8,550 plus 37 cents for each $1 over $50,000
$80,001 - 100,000	37.5	$17,700 plus 37.5 cents for each $1 over $80,000
$100,001 - 180,000	38	$25,200 plus 38 cents for each $1 over $100,000
$180,001 +	46	$55,600 plus 46 cents for each $1 over $180,000

2. Minors

The government will remove the ability of minors to access the low income tax offset to reduce tax payable on their unearned income from 1 July 2011. This is to discourage income splitting in discretionary trusts. This means the effective tax free threshold of $3,333 on unearned income will no longer apply. Any unearned income exceeding $416 would result in tax at the top marginal tax rate on all unearned income.

3. Deductions Against Government Assistance Payments

The Government will amend the tax law to prevent deductions being claimed against all Government Assistance Payments, with effect from 1 July 2011, in response to the 2010 High Court decision in FCT v Anstis [2010] HCA 40. The Government says the change is designed to maintain the integrity of the deductions system and provide certainty as to the scope of eligible deductions.

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3. Deductions Against Government Assistance Payments (Cont)

Commencing the denial of deductions from 1 July 2011 is designed to allow individuals who receive Youth Allowance (Student) to claim a deduction for expenses incurred in gaining their payment for the 2010-11 income year. This is to ensure individuals who have maintained records of their expenditure following the High Court decision are not precluded from claiming a deduction. For each of the years 2006-2007 to 2009-2010, the Commissioner of Taxation has determined that he will administer the law to allow eligible taxpayers to receive an automatic deduction of $550 or make potentially higher claims if expenses can be substantiated.

4. Dependent Spouse Rebate for Spouses Under 40 to be Phased Out

The Government announced it will phase out the tax offset for dependent spouses aged less than 40 (ie born on or after 1 July 1971) "to help encourage more Australians into paid employment". This change will mean taxpayers with a dependent spouse aged less than 40 years will no longer be eligible for the dependent spouse tax offset (DSTO) from 1 July 2011.

Exceptions: The change will not affect taxpayers whose dependent spouse is a carer, who is an invalid, or permanently unable to work; and taxpayers with children (eligible for Family Tax Benefit B), or eligible for the zone, overseas forces or overseas civilian tax offsets. Dependent spouses with children are not affected by this measure because they receive Family Tax Benefit B rather than the DSTO.

5. Medicare Levy Thresholds Increased for 2010-2011

From the 2010-2011 income year, the Medicare levy low-income thresholds will be increased for singles to $18,839 (up from $18,488 for 2009-10) and to $31,789 for those who are members of a family (up from $31,196 for 2009-2010). The additional amount of threshold for each dependent child or student will also be increased to $2,919 (from $2,865).

6. Low Income Tax Offset: Bring Forward - More in Pay Packets

From 1 July 2011, the Government will increase the proportion of the low income tax offset (LITO) that is delivered through workers' week-to-week pay packets from 50% to 70%. This change means instead of being compensated after they put in their tax return at the end of the year, lower income earners are taxed less during the year. The remaining 30% of their LITO will still be paid as a lump sum on assessment of income tax returns.

Someone with annual income of $30,000 will get an extra $300 during the year in their regular pay. A person's total LITO entitlement for any one tax year will remain unchanged. An individual's total LITO entitlement in any one year remains unchanged.

7. Family Tax Benefit, Baby Bonus and Related Changes

The 2011-2012 Federal Budget provides an increase in Family Tax Benefit (FTB) Part A for 16-19 year olds. From 1 January 2012, the new maximum rate of FTB Part A for 16-17 year olds in secondary school will be increased from the current $52.64 per fortnight to $214.06 per fortnight, ie by around $160 per fortnight - an increase of around $4,200 per year. For 18-19 year olds in school, the rate will be $3,741 per year. This will align with the 13-15 year old rate and ensure assistance for families does not drop when children turn 16. The increases to FTB Part A will only be available for families where their teenager is in full-time secondary study, or the vocational equivalent.

From 1 January 2012, the Government will lower the maximum age of eligibility for FTB Pt A from 24 to 21. This will bring FTB Pt A into line with the reduction in the Youth Allowance age of independence to 22 from 1 January 2012.

From 1 July 2011, families will be able to advance a maximum of 7.5% of their total rate of FTB Pt A payment, up to $1,000. For example, a family with 2 children under 12 will be able to receive an advance payment of up to $644.

The Government also said it would extend indexation pauses on higher income limits for a further 2 years until 30 June 2014 in the following areas:

- the FTB Pt B primary earner income limit will remain at $150,000;
- the income limit for receiving dependency tax offsets will remain at $150,000;
- the Baby Bonus eligibility limit will remain at $75,000 family income in the 6 months following the birth or adoption of a child;
- the Paid Parental Leave income limit will stay at $150,000 for the primary carer in the previous financial year before the birth of the child;
- the higher income-free area of FTB Pt A will remain constant.

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7. Family Tax Benefit, Baby Bonus and Related Changes (Cont)

Fortnightly payment rates for Family Tax Benefit and the Baby Bonus will continue to be indexed every year. The annual end of year FTB supplements will be held at the current levels for the next 3 years. The FTB supplements will be fixed at the current 2010-11 levels of $726.35 per annum per child for FTB Pt A and $354.05 per annum for FTB Pt B until 1 July 2014.

8. HECS Reduction in Discounts

The Government will reduce the following discounts applying to payments made under the Higher Education Contribution Scheme (HECS):

- the discount available to students electing to pay their student contribution up-front
- will be reduced from 20% to 10%; and
- the bonus on voluntary payments to the Tax Office of $500 or more will be reduced from 10% to 5%.

Under HECS, students electing to pay their student contribution up-front will continue to receive a 10% discount on the payment. Students choosing not to pay up-front can take out a concessional loan to pay their student contribution under the Higher Education Loan Program (HELP).

Under HELP, students accrue an outstanding debt which is repaid gradually when their assessable income exceeds a minimum repayment threshold. Students can also elect to make additional voluntary payments through the Tax Office to further reduce their outstanding HELP debt. Payments of $500 or more will now attract a 5% bonus so that a payment of $500 would reduce an individual's outstanding HELP debt by $525.

Superannuation

1. Excess Contributions Tax: Refund Option for Contributions up to $10,000

The Government will provide eligible individuals who breach the concessional contributions cap by up to $10,000 with a one-off option to request that these excess contributions be refunded to them. This new refund option will only apply to first time breaches from 1 July 2011.

The changes will give individuals the option to take excess concessional contributions out of their superannuation fund and have them assessed as income at their marginal rate of tax, rather than the excess concessional contributions tax rate of 31.5% (in addition to the 15% contributions tax for the fund).
The Government expects that this reform will help to reduce the number of occasions where the concessional contributions are exceeded resulting in an excess contributions tax (ECT) assessment.

The Government said it will consult with the superannuation industry on the implementation of this measure. This is supported by the Institute of Chartered Accountants in Australia, which will be actively involved in the implementation consultation. According to the Institute's head of superannuation, Liz Westover, if the measure is effectively implemented, the onerous nature of ECT will be avoided for many taxpayers who have made inadvertent errors and contributed too much into super. Westover believes the change will reduce the number of taxpayers caught out by the existing law and provide relief for those whose small breaches of the concessional cap might otherwise have resulted in significant tax penalties.

Concessional contributions generally include employer contributions (those made under salary sacrifice arrangements and super guarantee contributions) and personal contributions for which the taxpayer intends to claim a deduction. However, less obvious concessional contribution include notional taxed contributions for defined benefit interests, transfers of certain fund reserves and payments by employers of fund expenses (eg life insurance premiums).

Since 2009-10, the "concessional contributions cap" has been set at $25,000 (or $50,000 for those aged 50-74 until 30 June 2012). Note that the Government has proposed to allow individuals aged 50 and over with less than $500,000 in super to contribute $25,000 more per year than other individuals from 1 July 2012: see para [662] of this Bulletin. As a result, when the general concessional contributions cap increases with indexation from $25,000 to $30,000, the higher cap will increase by the same dollar amount.

2. Concessional Contributions: Higher Cap for Those 50 and Over

The Government will set the proposed higher concessional contributions cap at $25,000 above the general concessional cap for eligible individuals aged 50 and over with total superannuation balances of less than $500,000.

The proposal to allow individuals aged 50 and over with total superannuation balances below $500,000 to continue making up to $50,000 per year in concessional contributions from 1 July 2012 was previously announced as part of the Government's response to the Henry Tax Report on 2 May 2010.

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2. Concessional Contributions: Higher Cap for Those 50 and Over (Cont)

The Government has confirmed that the higher cap will enable eligible persons over 50 to be able to contribute $25,000 more per year than other workers subject to the general concessional contributions cap of $25,000. As a result, when the general concessional contributions cap increases with indexation from $25,000 to $30,000, the higher cap will increase by the same dollar amount.

Business Taxation

1. Small Business Motor Vehicle Tax Write-off to Replace Entrepreneur's Tax Offset

The Government will provide Australian small businesses with an instant tax write-off of the first $5,000 of any motor vehicle purchased from 2012-13. The Treasurer said that, for example, a tradesman on a 30% marginal tax rate, buying a new $33,960 ute would receive an extra tax benefit of $1,275 in the year they purchased the vehicle. The remainder of the purchase value can be transferred into the general small business depreciation pool, which is depreciated at 15% in the first year and 30% in later years.
The Treasurer said this new write-off was in addition to the Government's proposed tax reforms for small businesses to be introduced in 2012-13 that would allow:

- an immediate write-off of all assets valued at under $5,000 (up from $1,000 presently);
- a write-off of all other assets (except buildings) in a single depreciation pool at a rate of 30%. Currently, small businesses allocate assets to 2 different depreciation pools, with 2 different depreciation rates (30% and 5%); and
- a reduction in company tax rate to 29% for incorporated small businesses.

These reforms will be available to all small businesses, including sole traders and businesses operating through trusts, partnerships and companies.

The new small business instant write-off for the first $5,000 of any motor vehicle will effectively replace the Entrepreneurs Tax Offset (ETO), which will be abolished with effect from the 2012-13 income year. The Henry Tax System Review recommended abolition of the ETO because of its poor targeting and high compliance costs. The Henry Report concluded that ETO provided a disincentive for businesses to grow because the benefit available started to decline at $50,000 of annual turnover and cut out completely at $75,000. The ETO was also only available to individuals with incomes under $70,000 and the Government said its poor targeting and complexity meant 2.3m small businesses missed out on any benefit.

2. FBT and Cars - Flat 20% Valuation Rate to Apply

The Government announced what would amount to implementation of Henry Tax Review Recommendation 9(c) that the current statutory formula 4-percentage rate scale method for valuing car fringe benefits be replaced with a single statutory rate of 20%, regardless of the number of kilometres travelled. This announcement is also consistent with recent recommendations made by the Institute of Chartered Accountants in Australia to align the operation of these FBT rules with the Government's long-term climate change policy.

Date of Effect

The changes will apply to new vehicle contracts entered into after 7:30pm (AEST) on 10 May 2011,
and will be phased in over 4 years as follows:

FBT Statutory Rate Method					
	Statutory rate (x cost of car to determine person's car fringe benefit)				
Distance travelled during FBT year (1 April - 31 March)	Existing contracts (%)	New contracts from 10 May 2011 (%)	New contracts from 1 April 2012 (%)	New contracts from 1 April 2013 (%)	New contracts from 1 April 2014 (%)
0 - 15,000km	26	20	20	20	20
15,000 - 24,999km	20	20	20	20	20
25,000km - 40,000km	11	14	17	20	20
More than 40,000km	7	10	13	17	20

People who use their vehicle for a significant amount of work-related travel will still be able to use the "operating cost" (or "log book") method to ensure their car fringe benefit excludes any business use of the vehicle.