

InScope

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Federal Budget 2011–2012

Federal Treasurer Wayne Swan has handed down a conservative Budget, promising to return it to surplus in 2012–13. The Budget focuses on building Australia's workforce and limiting spending in a number of key areas. We take a look at how the changes to superannuation, taxation and social security benefits may affect you.

Superannuation

Relief for unintentional breaches of contribution cap rules

From 1 July 2011, if you unintentionally breach the concessional contributions cap by up to \$10,000 you can request that these excess contributions be refunded to you. This new refund option will only apply for first time breaches of the concessional caps in 2011–12 and future financial years.

Instead of being subject to excess concessional contributions tax of 31.5% and 15% contributions tax within a super fund, the refunded excess contributions will be assessable personally and taxed at your marginal tax rate.

Higher pre-tax contribution caps for those at age 50

The government has amended its previous announcement regarding a permanently higher concessional (pre-tax) cap for those aged 50 or over with a total super balance of less than \$500,000.

From 1 July 2012, the higher concessional cap for eligible clients will be \$25,000 more than the standard concessional cap (ie \$25,000 per annum). While the standard cap is indexed, the higher concessional cap component will not be indexed. This ensures the total concessional cap for those aged 50 or over will continue to increase as the standard concessional cap is indexed.

There is still significant uncertainty around the operation of the proposed higher concessional cap and consultation with industry is ongoing about the operation of the \$500,000 total balance limit.

Reduced minimum payments for account-based pensions

Minimum payment amounts for account-based, allocated and market linked (term allocated) pensions will be set at 75% of legislated minimums for 2011–12 and will then return to normal in 2012–13.

If you have commenced a transition to retirement pension (ie draw down the minimum and then salary sacrifice) you may need to adjust your salary sacrifice levels over the next two years to compensate for the increased minimum pension drawdown requirements.

Government co-contribution income thresholds

The freeze on indexation of the government co-contribution income thresholds will extend until 30 June 2013 with co-contribution income thresholds remaining at \$31,920 (lower) and \$61,920 (higher).

Reporting of employer contributions on payslips

From 1 July 2012, employees must receive information through their pay slips on the amount of super contributions paid into their super account (including salary sacrifice contributions). In addition, the government plans to require super funds to notify employees and employers on a quarterly basis if regular contributions cease. This should provide greater transparency for some employees around when these contributions are actually made into their super fund.

Self Managed Super Fund (SMSF) levy increase

From 1 July 2010, the government will increase the annual SMSF levy by \$30 (to \$180 per year) to pay for a range of measures relating to the SMSF sector.

Definition of a Self Managed Super Fund (SMSF)

The government has announced it will amend the definition of an SMSF in the superannuation legislation (no start date has been provided) so that where the trustee of a SMSF is a body corporate, a parent or guardian may be director of the body corporate in place of a member that is a minor.

Currently, a parent or guardian can only act as an individual trustee on behalf of a minor. This change will allow SMSFs with members who are minors to use a corporate trustee.

Taxation

Changes to the low income offset (LITO) for minors

The government intends to remove access to LITO for minors (ie children under 18 years of age) for unearned income, including dividends, rent, royalties and other property income. This reduces the effective tax free threshold of a minor from \$3,333 to \$416, with all income above this amount taxed at child penalty tax rates.

From 1 July 2011, many family trusts will need to rethink making distributions of assessable income to minors, as the strategy will be far less tax effective.

Minors who are exempt from the unearned income rules (eg disabled minors) will retain access to LITO. In addition, minors receiving income that is exempt from the unearned income rules (eg income from work, compensation payments and inheritances) will be eligible for LITO on this income.

Lower income earners to receive a boost to their pay packet

The government proposes increasing the current PAYG withholding schedules from 50% of the low income tax offset (LITO) to 70% from 1 July 2011. This will allow a modest increase in a LITO recipient's take home pay throughout the financial year, instead of needing to wait for them to complete a tax return.

Valuing cars for Fringe Benefit Tax (FBT) purposes

Changes to how the taxable value of cars are calculated for FBT purposes will be phased in and will only apply to new contracts entered into from 10 May 2011. This is good news if you travel less than 15,000km per FBT year and use the statutory method, as you will see the packaged value of your car decrease. Conversely, if you travel 25,000km or more per FBT year and use the statutory method, you will see an increase. The option to use the operating cost or 'log book' method remains.

Instant tax write-off for small business motor vehicles

For small business owners who purchase motor vehicles, the government will provide an instant tax write-off equal to the first \$5,000 of the purchase price. The remaining purchase price can be depreciated in the general depreciation pool at a rate of 15% in the first year and 30% in future years (the current method for the whole vehicle value).

This measure will apply to all types of small business structures, including sole traders, companies, partnerships and trusts, and all types of motor vehicles used in the business.

Removal of Entrepreneurs Tax Offset (ETO)

From 1 July 2012 the ETO, which provides a tax offset for eligible small businesses with aggregated turnover under \$75,000, will be abolished.

Removal of deductions against government assistance payments

The tax law will be amended from 1 July 2011 to prevent deductions being claimed against all government assistance payments.

Students who receive Youth Allowance and who have maintained records of their expenditure will be able to claim a deduction for expenses incurred in gaining their payment for the 2010-11 income year.

Extension of main residence exemption

The Australian Taxation Office (ATO) will have discretion to extend the two year ownership period in which the trustee or beneficiary of a deceased estate must dispose of their interest in the deceased's dwelling in order to access a Capital Gains Tax (CGT) main residence exemption. No start date has been provided.

Dependent spouse tax offset to be phased out for those under 40

This offset will be phased out for dependent spouses who are aged under 40 (ie born on or after 1 July 1971). This change will not affect those whose dependent spouses are carers, taxpayers with children eligible for Family Tax Benefit B, people who are permanently unable to work and taxpayers eligible for the zone, overseas forces or overseas civilian tax offsets.

Reduced discounts for Higher Education Contribution Scheme (HECS)

From 1 January 2012, discounts applying to payments made under HECS will reduce. For up-front payments the discount reduces from 20% to 10%. The bonus on voluntary payments to the ATO of \$500 or more will reduce from 10% to 5%.

Increased Medicare levy low income threshold

The Medicare levy low income threshold will increase to \$18,839 for individuals and \$31,789 for families from 1 July 2010. The additional amount of threshold for each dependent child or student will also increase to \$2,919.

The Medicare levy threshold for pensioners below Age Pension age will also increase to \$30,439.

Special disability trusts – extension to CGT relief

The government will extend the CGT relief for special disability trusts announced in the 2010 Budget.

Improved taxation of trust income

The government plans to introduce legislation effective 1 July 2010 to improve the taxation of trust income. This interim measure is in line with recommendations by the Board of Taxation while the trust tax provisions of the Tax Act are rewritten.

CGT and trading stock exception for super funds

To ensure assets such as shares, units in a trust and land held within a complying super fund are subject to CGT, the government will remove the trading stock exception to the CGT primary code rule with immediate effect.

So, if you have an SMSF that operates a share trading business, it will no longer be able to deduct its losses against other non-CGT income.

Look-through treatment for instalment warrants

The government has reconfirmed that it will extend the look-through treatment of instalment warrants for income tax purposes, with effect for income tax assessments for the 2007–08 income year and later income years.

Social security

Disability support pension changes

The government plans to introduce two measures relating to eligibility for Disability Support Pension (DSP) from 1 July 2012.

The first will allow all DSP recipients to work up to 30 hours per week for up to two years and remain eligible for a part pension.

Under the second measure, the government intends to introduce participation requirements for all (new and existing) DSP recipients under the age of 35 with some work capacity.

Those who are assessed as having a partial work capacity of eight or more hours per week and are not working will be required to attend Centrelink interviews and to engage in relevant participation activities.

Youth Allowance and Newstart Allowance

The government will change eligibility criteria from 1 July 2012. The changes include an increased capacity to earn income before Youth Allowance is reduced and additional participation requirements for those on the Newstart Allowance, designed to give a greater incentive to re-enter the workforce.

Paid Paternity Leave scheme delayed

The implementation of Paid Paternity Leave will be deferred by six months from 1 July 2012 until 1 January 2013. This scheme will provide two weeks paternity leave paid at a rate equivalent to the national minimum wage to eligible working fathers, and other partners who are providing full time care or sharing the child's care, for children born on or after 1 January 2013.

Family tax benefit (FTB) part A

From 1 January 2012, the government will increase the maximum rate of family tax benefit part A paid for a child aged 16 to 19 (who attends full time school or vocational study) to the same rate paid for 13 to 15 year olds. This will increase the FTB part A by up to \$4,208 a year for 16 and 17 year olds, and up to \$3,741 a year for 18 and 19 year olds.

The eligibility for FTB part A will be limited to children up to age of 21 years irrespective of whether they are a dependent full time student or not.

The government will also allow families to access advance payment of FTB part A from 1 July 2011. These advance payments will be subject to an assessment of a family's ability to repay the advance without falling into financial hardship. The advances will be repaid over six months by reducing future fortnightly FTB payments.

Speak to us if you would like to discuss how the Federal Budget announcement may be impacting your investments.

Important information

This general advice has been prepared without taking into account your particular financial needs, circumstances or objectives, and is based on Financial Wisdom Limited's understanding of the economic situation as at 11 May 2011. While every effort has been made to ensure the accuracy of the information, it is not guaranteed. All investments are subject to risk, including loss of income and capital invested. Past performance is no guarantee of future performance. You should obtain professional advice before acting on the information contained in this publication.

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