STRATEGIC PROSPERITY GROUP
FINANCIAL PLANNING SPECIALISTS

ALERT 11th May 2011

Federal Budget 2011 Summary

The Federal Budget Analysis prepared by MLC Technical, a division of GWM Adviser Services (GWMAS) appears below.

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.

Note: Unlike previous years, this Budget was delivered by a minority Government that may find it more difficult than usual to get some of these measures through both Houses of Parliament.

Summary

The key announcements include:

- Unlike in previous years there have been no changes made to the personal tax thresholds or rates.
- 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.
- The 50% pension minimum drawdown relief will be reduced to 25% in 2011/12 and will return to normal levels from 1 July 2013.
- People under 18 will no longer be able to access the low income tax offset to reduce tax payable on unearned income such as dividends, interest and rent.
- Lower income earners will receive a greater proportion of the low income tax offset through their pay packets.
- Fringe benefits tax on salary packaged cars will be simplified to a single rate of 20%.

Superannuation changes

Refund of excess concessional contributions

Date of effect: 1 July 2011

Changes were outlined to reduce the impact of excess contributions tax on people who exceed their concessional cap for the first time.

Those meeting certain conditions can opt to have their excess concessional contributions taken out of their super fund and assessed as income at their marginal tax rate, rather than incurring the 46.5% excess contributions tax.

This measure will apply to excess concessional contributions up to $10,000 (unindexed) and only for the first year in which an excess contribution occurs. The Government has indicated that consultation on the implementation of this measure will occur.

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Minimum pension draw down relief phased out

Date of effect: 1 July 2011

The minimum pension withdrawal you are required to make has been halved in recent years as a result of the Global Financial Crisis and its impact on super balances. This draw down relief will be phased out, reducing to 25% for the 2011/12 financial year and returning to the normal rate from 1 July 2013 as per the following table.

Age at start of pension (and 1 July each year)	In 2010/11	In 2011/12	In 2012/13
Under 65	2%	3%	4%
65 – 74	2.5%	3.75%	5%
75 – 79	3%	4.5%	6%
80 – 84	3.5%	5.25%	7%
85 –89	4.5%	6.75%	9%
90 – 94	5.5%	8.25%	11%
95 +	7%	10.5%	14%

Higher pre-tax contribution caps at age 50

Date of effect: 1 July 2012

People aged 50 and over with less than $500,000 in super will be able to contribute an extra $25,000 in pre-tax (concessional) contributions each year.

Eligibility requirements do apply, and the change is scheduled to apply from 1 July 2012.

Those over 50 can make pre-tax contributions of up to $50,000 until 1 July 2012 under concessions previously announced, regardless of their super balance.

Extension of co-contribution freeze

Date of effect: 1 July 2011

Changes introduced in the previous Federal Budget to curb eligibility for the Government co-contribution scheme have been extended out by an additional year.

This means the current income eligibility levels of $31,929pa for a full contribution and $61,920pa for a partial contribution will remain in place until 2012/13.

Reporting of employer contributions on payslips

Date of effect: 1 July 2012

Employers will be required to include the amount of super contributions actually paid into employees' super accounts on payslips. Super funds will also be required to notify employees and employers on a quarterly basis if regular payments cease.

Personal tax changes

For the first time in nine years, there were no changes to the personal income tax rates and thresholds. This means the 2010/11 rates and thresholds will apply in 2011/12 as tabled below.

Taxable income range	Tax payable in 2011/12 (excluding Medicare)
$0 – $6,000	Nil
$6,001 – $37,000	15% on amount over $6,000
$37,001 – $80,000	$4,650 + 30% on amount over $37,000
$80,001 – $180,000	$17,550 + 37% on amount over $80,000
$180,001 +	$54,550 + 45% on amount over $180,000

Removal of low income tax offset for under 18s

Date of effect: 1 July 2011

Children under the age of 18 will no longer be able to access the low income tax offset (LITO) to reduce tax payable on unearned income such as dividends, interest and rent.

This measure won't impact income earned by children from work, unearned income of orphaned or disabled children and compensation payments and inheritances received by children.

Comment:

This measure will reduce the attractiveness of investing on behalf of minors or making trust distributions to minors. This is because currently it's possible for a minor to receive a maximum tax-free income of $3,333 pa when the low income tax offset is taken into account.

However from 1 July 2011, unearned income will be taxed as follows:

Unearned income	Tax payable
$0 – $416	Nil
$417 – $1,307	66% of excess over $416
$1,308 +	45% of entire unearned income

Changes to distribution of low income tax offset

Date of effect: 1 July 2011

Lower income earners will be taxed less during the financial year, rather than being compensated after their tax return is filed.

This change will be delivered by increasing the proportion of the Low Income Tax Offset (LITO) delivered to lower income earners via their regular pay packets from 50% to 70%.

For example, someone with an annual income of $30,000 will pay $300 less tax during the financial year, rather than receiving an additional tax refund of $300 at tax time.

In other words, this measure impacts the timing of the LITO benefit, not the actual benefit amount received.

This measure won't impact:

- the maximum LITO available (currently $1,500)
- the maximum amount of tax-free income lower income earners can receive each year (currently $16,000), or
- the upper limit to which a partial low income tax offset can be claimed (currently $67,500).

Dependant spouse tax offset phase out

Date of effect: 1 July 2011

The dependant spouse tax offset will no longer be available for spouses born after 30 June 1971. Certain exceptions will apply, including where the spouse is an invalid or permanently disabled. The maximum offset is currently $2,243 pa.

Reduction in GDP adjustment factor for PAYG instalments

Date of effect: 1 July 2011

The Gross Domestic Product (GDP) adjustment factor for Pay-as-you-go (PAYG) instalment taxpayers who use the GDP adjustment method in 2011/12 will reduce from 8% to 4%.

The GDP adjustment factor for PAYG instalment taxpayers is used to determine the tax instalments to be paid in the income year by increasing the previous year's adjusted taxable income by the previous year's nominal GDP growth. This method is commonly used by small businesses, individual investors and self managed super funds.

CGT relief when principal residence held by estate

Date of effect: Not specified

The ATO will have discretion to extend the two-year ownership period in which the trustee of a deceased estate or beneficiary of such an estate must dispose of their interest in the deceased's dwelling to access a full capital gains tax main residence exemption, or a more generous partial exemption.

Reduced HECS discounts

Date of effect: 1 January 2012

For payments made under the Higher Education Contribution Scheme (HECS):

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

Other tax changes

Motor vehicle and other tax write-offs

Date of effect: 1 July 2012

Small businesses will be eligible to write -off the first $5,000 of any motor vehicle purchased after 1 July 2012, a significant increase on the current amount of $1,000.

This measure will replace the entrepreneur tax offset. The remainder of the purchase price can be transferred into the general small business depreciation pool, which is depreciated at 15% in the first year and 30% in later years.

Single rate for car fringe benefits

Date of effect: 10 May 2011

Changes were made to the way cars are treated under the fringe benefits tax; which will reduce the motivation to drive unnecessarily to receive more attractive tax treatment.

Currently, multiple statutory rates are used to determine the taxable value of car fringe benefits, which depend on distance travelled. These will be replaced with a single rate of 20%. This measure will apply to new contracts entered into after 7:30pm (AEST) on 10 May 2011 and will be phased in over four years, as follows:

Distance travelled	Current rate	From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 – 15,000 km	26%	20%	20%	20%	20%
15,000 – 25,000 km	20%	20%	20%	20%	20%
25,000 – 40,000 km	11%	14%	17%	20%	20%
> 40,000 km	7%	10%	13%	17%	20%

Comment:

There will be an immediate benefit for employees entering into salary sacrificed motor vehicle arrangements where they travel less than 15,000 km per year, as they'll gain the benefit of the new rate immediately. Employees on existing contracts who travel more than 25,000 km per year will gradually lose their current advantage over the next three years.

Social security changes

Greater support for families with teenaged children

Date of effect: 1 January 2012

Families with children aged between 16 and 19 who are studying full time will receive a raft of new support measures under changes to the Family Tax Benefit A.

These changes will:

- Remove the need to choose between Youth Allowance and Family Tax Benefit A.
- Match the payment rates for the benefit for dependent 16 to 19 year olds in full-time secondary study to the rates for 13 to 15 year olds. This will increase the level of support provided 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.
- Align the participation requirement for Family Tax Benefit B and the Multiple Birth Allowance with the existing Family Tax Benefit A participation requirement. This change will require 16 to 19 year olds to be undertaking full-time secondary study, or be exempt from this requirement, to be eligible for the payments.
- Include all 16 to 19 year olds in full-time secondary study for the purposes of calculating the Youth Allowance parental income test. This will ensure Youth Allowance recipients don't experience a lower rate of assistance as a result of siblings aged 16 to 19 years old in full-time secondary study remaining in the Family Tax Benefit system.

Youth Allowance will continue to be available for 16 to 19 year olds who are independent, living away from home or not in full-time secondary study, and for people aged 19 years and older. All Youth Allowance recipients aged 16 to 19 on 1 January 2012 will have the option to remain on Youth Allowance.

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Aligning Family Tax Benefit A and Youth Allowance eligibility

Date of effect: 1 January 2012

The eligibility for Family Tax Benefit Part A (FTB-A) will be limited to children up to 21 years of age. This recognises that young people aged 22 and over are considered independent. This means that when a child turns 22, parents will no longer be able to receive Family Tax Benefit A for that child.

However, the child may be eligible to receive Youth Allowance. This will bring Family Tax Benefit A in line with the Youth Allowance age of independence.

Pausing of family payment income test indexation

Date of effect: until 1 July 2014

The following higher income thresholds and limits will remain fixed until 1 July 2014:

- $150,000 for Family Tax Benefit Part B primary earner
- $150,000 for Dependency Tax Offsets
- $75,000 for Baby Bonus (family income in the six months following the birth or adoption of a child, which is equivalent to $150,000 a year)
- $150,000 for Paid Parental Leave primary carer in the financial year before the birth or adoption of a child, and
- $94,316 for the higher income-free threshold of Family Tax Benefit A family income, with an additional $3,796 provided for each child after the first.

Pausing of Family Tax Benefit supplement indexation

Date of effect: until 1 July 2014

Indexation of the Family Tax Benefit Part A and B supplements will be fixed at the current 2010/11 levels of:

- $726.35 pa per child for Family Tax Benefit Part A, and
- $354.05 per annum for Family Tax Benefit Part B.

Flexible advances for Family Tax Benefit Part A

Date of effect: 1 July 2011

To help families meet unexpected expenses, they'll be able to receive an advance up to $1,000 of their annual Family tax Benefit A entitlement.

Advances will be repaid over six months by reducing future fortnightly Family Tax Benefit payments. Families will also be able to apply to receive an advance of around $160 on a regular basis, paid every six months.

Paid Paternity Leave scheme delayed

Date of effect: 1 January 2013

The implementation of Paid Paternity Leave will now take effect from 1 January 2013. The measure will provide eligible working fathers, and other partners who are providing full-time care or sharing the child's care, with two weeks paternity leave paid at a rate equivalent to the national minimum wage where children are born on or after 1 January 2013.

Disability Support Pension changes

Date of effect: Various

These changes include:

- Allowing people who were granted the Disability Support Pension (DSP) after 10 May 2005 to work up to 30 hours a week and remain eligible for a part-pension for up to two years.
- From 1 July 2012, requiring all unemployed DSP recipients under 35 and assessed as having a partial work capacity of eight or more hours per week to attend Centrelink interviews. They'll also be required to create a participation plan to engage in community interaction and, potentially, employment.
- DSP claimants to provide evidence they have tested their future work capacity by participating in training or work related activities (from 3 September 2011). This activity test will, however, not apply to claimants who are clearly unable to work due to, for example, profound disability.
- Indefinite portability of DSP from 1 July 2012 where a recipient has a severe and permanent disability and no future capacity to work. This will allow eligible DSP recipients to continue to receive payments while living overseas.

Changes to Child Support income assessment

Date of effect: 1 July 2011

Under new arrangements, Child Support payers who are late lodging or fail to lodge a tax return for two years or more will have their income assessment based on their last known taxable income, indexed by growth in average wages during the period since their last return.

Currently, for such clients, the assessment is based on a default income of two thirds of Male Total Average Weekly Earnings (MTAWE), often resulting in an underestimation of their actual income.

Encouraging workforce participation

Date of effect: various

A number of measures will be introduced to encourage workforce participation by many people receiving Government benefits. These include:

- From 1 July 2012, the parental means test for Youth Allowance (Other) recipients will be extended to 21 years of age (currently 20). Newstart Allowance will be closed to new applicants under 22 years of age (currently under 21). To improve returns from work, this measure will also raise the Youth Allowance (Other) income free area from $62 to $143 per fortnight and the maximum available Working Credit bank limit will increase from $1,000 to $3,500.
- From 1 January 2013, the income test rates will be reduced for single principal carers on Newstart with a youngest child under 16. The new rate will reduce payments by 40 cents for every dollar of income earned above $62 per fortnight. Recipients currently have payments reduced by 50 cents in the dollar for income from $62 dollars per fortnight and 60 cents for income above $250 per fortnight.

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Several DVA changes

Date of effect: various

- From 20 September 2011, a new Prisoner of War Recognition supplement of $500 per fortnight will be paid to eligible former World War 2 POWs of Japan and Europe, as well as former Korean War POWs. This new non-taxable payment will complement existing special benefits available to former POWs. It will not be assessed as income for means test purposes.
- From 1 January 2012, a Pharmaceutical Reimbursement Scheme will be introduced. An annual tax exempt payment will be provided to eligible veterans with qualifying service for 'out of pocket' expenses relating to pharmaceutical prescriptions.

More information?

For more information on how any of these changes may impact your personal situation, please feel free to call or email us.

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