



## BUDGET ALERT 2011

The following comments are based on extracts taken from the Treasurer's Speech and various Treasury budget papers and highlight changes affecting individuals, families and small businesses.

### Individuals and families

First and foremost is that there are no new income tax cuts.

#### *Rebates and offsets*

- The rebate for dependent spouse rebate is to be age tested. Taxpayers will no longer be able to claim the rebate if their spouse is born after 30 June 1971.
- There is to be an increase in the low income tax offset from 50% to 70% of their total entitlements.
- Children under 18 years of age will no longer have access to the low income tax offset in respect of their unearned income, such as dividends, interest, rent, royalties and other income from property (from 1 July 2011).

#### *Deductions*

- Self-education expenses will no longer be deductible against all government assistance payments (from 1 July 2011).

#### *Concessions for HECS payments*

- The discount available for students paying their HECS student contribution up-front will be reduced from 20% to 10%. The bonus on voluntary payments to the Tax Office of \$500 or more will be reduced from 10% to 5%. (from 1 January 2012).

#### *Family Tax Benefits and Youth Allowance changes*

- Family Tax Benefit Part A recipients will be eligible for an advance payment of up to 7.5% (maximum of \$1,000), of their annual Family Tax Benefit Part A entitlement (from 1 July 2011).
- The indexation of Part A and B Family Tax Benefit supplements will be suspended until 1 July 2014.
- The family payment higher income thresholds and limits will remain at their current level until 1 July 2014 (and no longer be indexed).
- Family Tax Benefit Part A will be limited to children up to the age of 21 years (from 1 January 2012).

#### *FTB and Youth Allowance changes*

- These payments will be changed to match the payment rates of FTB Part A 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 support provided by FTB 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 changes will align the participation requirement for FTB Part B and the Multiple Birth Allowance with the existing FTB Part 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, in order to be eligible for these payments.
- The changes will apply to all 16 to 19 year olds in full time secondary study for the purposes of calculating the Youth Allowance parental income test. Youth Allowance

---

will continue to be available for 16 to 19 year olds who are independent, 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.

#### *Paid Maternity Leave*

- The Government will defer the implementation of Paid Paternity Leave by six months from 1 July 2012 until 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 for children born on or after 1 January 2013.

#### *Family payments*

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

- Family Tax Benefit (FTB) Part B primary earner income limit - \$150,000;
- the income limit for receiving the dependency tax offsets - \$150,000;
- the Baby Bonus eligibility limit - \$75,000 of family income in the six months following the birth or adoption of a child;
- the Paid Parental Leave primary carer income limit - \$150,000 in the financial year before the birth or adoption of a child;
- the higher income-free threshold of FTB Part A - \$94,316 of family income, with an additional \$3,796 provided for each child after the first.

#### *Medicare levy*

- The low income thresholds for the Medicare Levy will be \$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 increase to \$2,919.
- The Medicare levy threshold for single pensioners below Age Pension age will be \$30,439 (from 1 July 2010).

*Source: Budget Paper No 2*

### **PAYG instalment payers**

The adjustment factor for PAYG instalment taxpayers who use the gross domestic product (GDP) adjustment method will be reduced from 8% to 4% for the 2011-12 income year.

The GDP adjustment factor increases the previous year's adjusted taxable income by the previous year's nominal GDP growth, to determine the PAYG tax instalments to be paid in the income year.

*Source: Budget Paper No 2*

### **Superannuation**

#### *Excess concessional contributions*

Where a taxpayer makes excess contributions (of up to \$10,000) to a super fund they will be provided with the option of:

1. having excess concessional contributions taken out of their superannuation fund and assessed as income at their marginal rate of tax; or
2. incur the excess contributions tax (31.5%).

The option will only be available for breaches in respect of 2011-12 or later years, and only for the first year, commencing from 2011-12, in which a breach occurs.

Excess contributions tax is incurred where an individual exceeds their concessional contributions cap. Concessional contributions include compulsory superannuation guarantee payments, salary sacrifice contributions, and other deductible contributions.

*Source: Budget Paper No 2*

---

### *Superannuation contribution caps increased for over 50s*

Individuals aged 50 and over with a total superannuation balance of less than \$500,000, will have a superannuation cap of \$50,000 from 1 July 2012.

All other taxpayers will be limited to \$25,000 per year. Remember, this includes the 9% employer contributions.

Source: Budget Paper No 2

### *Superannuation information on payslips*

- All employers will be required to notify employees on their payslips of the amount of superannuation actually paid into their superannuation account.
- Superannuation funds will be required to provide employees and employers with a quarterly notification if regular payments cease (from 1 July 2012).

Source: Budget Paper No 2

### *Superannuation co-contribution indexation to remain frozen*

The government will continue the *co-contribution indexation* freeze, for an additional year to 2012-13.

The indexation applied on the income threshold above which the maximum superannuation co-contribution begins to phase down will remain until 30 June 2013.

The matching contribution of up to \$1,000 applies to incomes of up to \$31,920 in 2010-11 and phasing down for incomes up to \$61,920.

Source: Budget Paper No 2

### *Self Managed Superannuation Funds*

- The ATO now will be able to apply administrative penalties in cases of non-compliance by SMSF trustees;
- Restrictions will be placed on SMSF investments in collectables and personal use assets;
- SMSFs will be required to value their assets at net market value and the ATO will publish valuation guidelines;
- Tighter legislative standards for investments in collectables and personal use assets will apply to new SMFS investments from 1 July 2011. All collectables and personal use assets will need to comply by 1 July 2016.

### *Minor members of SMFs*

The superannuation legislation will be changed to permit a parent or guardian to be a director of a body corporate trustee in place of a member that is a minor.

Source: Budget Paper No 2

## **Various Small Business measures**

### *Abolition of the Entrepreneurs' Tax Offset*

The Entrepreneurs' Tax Offset (ETO) will cease from 1 July 2012.

### *Motor vehicle write-off*

Small businesses will be able to write-off the first \$5,000 of a motor vehicle acquired on or after 1 July 2012. The remainder of the motor vehicle value will be pooled in the general small business pool and depreciated at 15 per cent in the first year and then at 30 per cent for the remainder of its effective life.

### *Income streaming of Trusts*

The Government will improve the trust income tax provisions from 1 July 2010, by ensuring that trusts will be able to stream capital gains and franked distributions.

Source: Budget Paper No 2

---

## Fringe Benefits Tax changes

### *Changes to the statutory formula for car fringe benefits*

The current statutory fractions ranging from 7% to 26% for working out the taxable value of a car fringe benefit will be phased out and replaced by a flat rate of 20%.

The rate of 20% will apply regardless of the distance travelled during the year.

The 20% rate will only apply to new vehicle contracts entered into after 7:30 pm (AEST) on 10 May 2011, and will be phased in over four years as follows:

The statutory rate to be applied to new contracts entered into after 7:30pm (AEST) on 10 May 2011 is as follows:

| <b>Distance travelled (kms)</b> | <b>From 10 May 2011</b> | <b>From 1 April 2012</b> | <b>From 1 April 2013</b> | <b>From 1 April 2014</b> |
|---------------------------------|-------------------------|--------------------------|--------------------------|--------------------------|
| 0 – 15,000                      | 0.20                    | 0.20                     | 0.20                     | 0.20                     |
| 15,000 – 25,000                 | 0.20                    | 0.20                     | 0.20                     | 0.20                     |
| 25,000 – 40,000                 | 0.14                    | 0.17                     | 0.20                     | 0.20                     |
| More than 40,000                | 0.10                    | 0.13                     | 0.17                     | 0.20                     |

*Source: Budget Paper No 2 and Treasurer's Press Release: Reforms to car fringe benefit rules*

## Personal tax rates

As mention earlier there are no changes to personal tax rates. The following rates remain applicable for 2011-12:

\$0 - \$6000 - nil

\$6,001 to less than \$37,000 - 15%

\$37,001 to less than \$80,000 - 30%

\$80,001 to less than \$180,000 - 37%

\$180,001 and over - 45%

The Medicare levy remains unchanged (1.5%) and is in addition to the above.

## Flood levy

Back in January the Prime Minister announced that the Government will introduce a flood levy for 2011-12.

The levy will not be paid by those affected by the floods and will not be paid by lower income earners.

The levy will be based on an individual's ability to pay:

- Anyone earning under \$50,000 will not pay the levy.
- People earning between \$50,000 and \$100,000 will pay 0.5 per cent of taxable income in excess of \$50,000.
- People earning over \$100,000 will pay 0.5 per cent of taxable income in excess of \$50,000 and 1 per cent of taxable income in excess of \$100,000.

For those subject to the levy the following rates will apply:

\$0 - \$6000 - nil

\$6,001 to less than \$37,000 - 15%

\$37,001 to less than \$50,000 - 30%

\$50,001 to less than \$80,000 – 30.5%

\$80,001 to less than \$100,000 – 37.5%

\$100,001 to less than \$180,000 – 38%

\$180,001 and over - 46%