2011 Federal Budget Brief

Summary

On 10 May 2011 the Federal Government released the 2011 Budget with few significant changes. As a result of a sharp decline to the revenue base, primarily the result of natural disasters and the ongoing affects from the Global Financial Crisis, the Budget deficit for 2010/2011 was $50 billion, with an estimated deficit of $22.6 billion in 2011/2012, and an expectation that the Budget will return to surplus ($3.5 billion) in 2012/2013.

The Government announced $22 billion in cuts over four years, with $3.84 billion to be made in 2011/2012.

The major savings/inflows from this contractionary Budget include:

- stricter requirements around family welfare payments ($2 billion)
- a flood levy tax ($1.7 billion)
- reduced Defence spending ($2.5 billion)
- reforming the rules for Car Fringe Benefits ($954 million)
- phasing out the Dependant Spouse Tax Offset ($755 million), and
- removing access to LITO for unearned income of minors ($740 million).

The major spends include:

- a Building Australia's Future Workforce package ($3 billion)
- national Mental Health reform ($2.2 billion), and
- investments in regional hospitals, health care, universities and roads ($4.3 billion).

Australia's medium-term prospects are expected to be strong, with the economy forecast to grow at an above-trend rate over the next two years driven by an investment surge in the Resources sector. High prices for Australia's commodity exports have pushed terms of trade (the ratio of export to import prices) toward historic highs. While the medium-term outlook is for Australia's terms of trade to decline as the global supply of iron ore and coal increases, it is expected that this fall will be gradual.

While the Resources sector is driving strong aggregate real GDP growth, conditions in other sectors are expected to be made more difficult by the relative strength of the Australian dollar, tightened macroeconomic policy settings and increasing competition for labour and other inputs.

In the coming months the Government will release the policy detail of its Carbon Tax which will require some of the 2011 Budget estimates to be updated. The size and scope of these updates is unknown.

Forecasts / projections at a glance

- Growth (Real GDP) is projected to be 4% in 2011/2012 and 3.75% in 2012/2013.
- Unemployment is projected to be 4.75% in 2011/2012 and 4.5% in 2012/2013.
- Inflation is projected to be 2.75% in 2011/2012.

Individuals & personal taxation

Dependant Spouse Rebate

The Dependent Spouse Rebate will be phased out for individuals with a dependent spouse born on or after 1 July 1971. Individuals with an invalid or permanently disabled spouse and are supporting a carer, or people who are eligible for the zone, overseas forces and overseas civilian tax offsets will not be affected by this change.

Comment: *This measure seeks to addresses an employment participation barrier by progressively removing the tax concession for individuals with a non-working spouse and no children.*

Low Income Tax Offset

The amount of the Low Income Tax Offset (LITO) that is delivered to low and middle income earners through their regular pay during the year will be increased from 50% to 70% of their total entitlements. The remaining 30% of their LITO benefit will still be paid as a lump sum on assessment of income tax returns. This measure will take effect from 1 July 2011.

Comment: *Individuals receiving the maximum LITO of $1,500 will see an additional $300 per annum ($11.54 per fortnight) brought forward throughout a financial year instead of needing to wait for the completion of their tax return. Their total LITO entitlement in any one year will remain unchanged.*

Minors accessing LITO

The Government will limit the ability of minors (children under 18 years of age) to access the LITO to reduce tax payable on their unearned income (such as dividends, interest, rent, royalties and other income from property) with effect from 1 July 2011.

Unearned income of minors who are orphans or disabled, as well as compensation payments and inheritances received by minors will not be affected by this measure.

Comment: *This measure will discourage income splitting between adults and children (including through family trusts). Income earned by minors from work will still be eligible for the full benefit of the LITO.*

Self-education expenses against Youth Allowance payments denied

The tax law will be amended to disallow self-education expenses against all Government assistance payments. As proposed changes will take effect from 1 July 2011, students who receive Youth Allowance will be able to claim a deduction for expenses incurred in gaining their payment for the 2010/2011 financial year.

Comment: *The change was introduced in response to a High Court decision against the ATO. From 2006/2007 to 2009/2010 the ATO had previously announced that eligible students receive an automatic deduction of $550.*

Medicare levy low income thresholds

The Medicare levy low income thresholds will be increased from 1 July 2010.

The increase will be:

	Current amount	Amount from 1 July 2010
Individual	$18,488	$18,839
Married or sole parent	$31,196	$31,789
For each additional dependent child or student	$2,865	$2,919
Pensioners below Age Pension age	$27,697	$30,439

HECS / HELP

From 1 January 2012, the Government will reduce HECS / HELP concessions for students.

The reductions include:

- up-front student contribution discount will reduce from 20% to 10%, and
- the bonus on voluntary payments of $500 or more will be reduced from 10% to 5%.

Small business

Tax write-offs

Small business owners will receive a tax write-off of up to $5,000 (up from $1,000 presently) for those wanting to buy a motor vehicle from 2012/2013.

Other changes include:

- an immediate write-off of all assets valued 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%, and
- a reduction in company tax rate to 29% for incorporated small businesses.

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

Comment: *A tradesman on a 30% marginal tax rate will receive a tax break of $1,275 when buying a new $33,960 car.*

Entrepreneurs Tax Offset

The Government will abolish the Entrepreneurs Tax Offset (ETO) from 1 July 2012.

Comment: *The ETO was poorly targeted, complex for taxpayers and deterred businesses from growing beyond the size that benefited from the concession.*

Fringe Benefits Tax (FBT)

Car Fringe Benefit

Over the next four years the current statutory fractions (ranging from 7% to 26%) that were used when working out the taxable value of a Car Fringe Benefit (using the 'statutory formula') will be phased out, and replaced by a flat rate of 20%.

Under the 'statutory formula' method, the taxable value of a Car Fringe Benefit depends on the relevant statutory fraction applied to the cost of the car. Currently, this statutory fraction decreases as the distance travelled by the vehicle increases.

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

Distance travelled during the FBT year (1 April – 31 March)	From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 – 15,000 km	0.20	0.20	0.20	0.20
15,000 – 25,000 km	0.20	0.20	0.20	0.20
25,000 – 40,000 km	0.14	0.17	0.20	0.20
More than 40,000 km	0.10	0.13	0.17	0.20

The 20% flat rate will only apply to new vehicle contracts entered into from 10 May 2011, and will be phased in over four years as shown in the table above.

Comment: *This measure will remove the incentive for individuals to drive more than necessary to access higher tax concessions. There will be an immediate benefit for individuals who travel less than 15,000 km per year, as they will gain the benefit of the new rate immediately. Individuals who genuinely drive long distances will still have the option to use the 'log-books' method to further reduce their FBT.*

Trusts

Taxation of trust income

The Government has announced it will introduce legislation to:

- enable the streaming of capital gains and franked distributions, and
- target the use of low tax and exempt entities to reduce the tax payable on the taxable income of a trust.

Comment: *This measure will reduce opportunities for individuals to reduce their tax liabilities. The measure will also improve the trust income tax provisions, a recommendation made by the Board of Taxation.*

Limiting concessions for trusts

The Government announced measures that will limit access to a range of small business concessions for trusts. The measures will also ensure that some small businesses will be able to access CGT concessions as the changes will make their business assets 'active'. This measure is effective from 10 May 2011.

Comment: *Trusts avoided being treated as connected entities (for the purpose of testing eligibility for the concessions) on the basis that trusts do not own assets for their own benefit.*

Script for script roll-over

The Government announced measures that will ensure that the script for script roll-over integrity provisions that apply to individuals and companies will also apply to trusts, superannuation funds and life insurance companies. These provisions apply to transactions where stakeholders have the ability to influence both the target and acquiring entities. This measure is effective from 10 May 2011.

Comment: *This measure has been introduced as some trusts, superannuation funds and companies believed the provisions didn't apply to them, as they owned the interests on behalf of others (ie. beneficiaries).*

International Tax

The list of countries with residents eligible to access a reduced rate of withholding tax on certain distributions from managed funds (excluding dividends, interest and royalty income) will be expanded.

The list will include residents of:

- Belize
- the Cayman Islands
- the Commonwealth of the Bahamas
- the Principality of Monaco
- the Republic of San Marino
- the Republic of Singapore
- St Christopher and Nevis, and
- St Vincent and the Grenadines.

Superannuation

Refund of excess concessional contributions

Eligible individuals will be provided with the option of having excess concessional contributions taken out of their superannuation fund and assessed as income at their marginal rate of tax, rather than incurring excess contributions tax.

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. Excess concessional contributions are taxed at 31.5% in addition to the 15% tax when contributions are made to the fund.

The measure will apply where an individual has made excess concessional contributions of up to $10,000 (not indexed) in a particular year and is only available for breaches in respect of 2011/2012 or later years, and only for the first year, commencing from 2011/2012, in which a breach occurs.

Comment: *While this measure is a welcomed change to the punitive excess contribution tax regime, it falls short of delivering a solution to a very serious problem. Individuals will need to exercise considerable caution. Second and subsequent concessional contribution cap breaches will attract the full 46.5% penalty, irrespective of the excess amount.*

Higher superannuation contribution caps for over 50s

The Government has amended its previous announcement regarding the introduction of a permanently higher concessional cap for those aged 50 or over with a total super balance of less than $500,000.

From 1 July 2012, the Government has proposed that the higher concessional cap for eligible individuals ($50,000) will now be indexed. This replaces the Government's existing proposal that a non-indexed cap of $50,000 would apply.

Comment: *The Government is currently consulting on the framework of this measure. The requirement to have a balance less than $500,000 to be eligible for the higher concessional cap is a disappointing measure that will add further complexity to an already complex superannuation system.*

Superannuation information on payslips

From 1 July 2012, employees will receive information on their payslips about the amount of superannuation paid into their account. Employees and employers will also receive quarterly notification from their superannuation fund if regular payments cease.

Comment: *This was an election commitment from the Government and it will help individuals to track their contributions to ensure they don't inadvertently breach a superannuation contribution cap.*

Reduction in minimum pension payments

The Government has announced that minimum payment amounts for account based, allocated and market linked (term allocated) pensions will be set at 75% of the legislated minimums for the 2011/2012 financial year, and will then return to normal in 2012/2013.

The minimum annual income payment for an account-based pension will be calculated as a percentage of the account balance.

Minimum annual payment			
Age	Current limits 2010/2011	Proposed limits 2011/2012	Normal limits 2012/2013
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 or older	7%	10.5%	14%

Comment: *Individuals who have commenced a pension, draw the minimum and then salary sacrifice enough of their salary and wages to leave them with the same after tax income may need to adjust their salary sacrifice levels over the next two years to compensate for the increased minimum pension drawdown requirements.*

Government Co-contribution

The Government will continue to freeze the indexation applied on the co-contribution income thresholds for another year.

Under the superannuation co-contribution scheme, the Government provides a matching contribution for contributions made into superannuation out of after-tax income. The matching contribution is up to $1,000 for people with incomes of up to $31,920 in 2010/2011 (with the amount available phasing down for incomes up to $61,920).

This measure will continue to freeze these thresholds at $31,920 and $61,920 respectively until 1 July 2012.

Trustees of self-managed super funds (SMSF)

Under the current provisions of Super law, only parents or guardians of a child under 18 can be trustees of a SMSF in their capacity and not as directors of a corporate trustee. The law will be amended to allow parents or guardians of a child to be directors of a corporate trustee of a SMSF.

Comment: *This will correct an anomaly in the law that currently exists. This measure will allow SMSFs with members who are minors to use a corporate trustee.*

SMSF levy

The Government has announced that it will increase the annual SMSF levy to $180 (a $30 increase) to pay for the ATO and ASIC to implement a range of measures relating to the SMSF sector. These measures include the introduction of administrative penalties for non-compliance, competency requirements for SMSF providers, registration of SMSF auditors and improved data collection.

Social security & family payments

Freeze to indexation of the family payment income thresholds

The Government will freeze the indexation of family payment higher income thresholds at their current level until 1 July 2014.

This will affect:

- the Family Tax benefit (FTB) Part B primary earner income limit, which will remain at $150,000
- the income limit for receiving the dependency tax offsets, which will remain at $150,000
- the Baby Bonus eligibility limit, which will remain at $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, which will remain at $150,000 in the financial year before the birth or adoption of a child, and
- the higher income-free threshold of FTB Part A, which will remain at $94,316 of family income (with an additional $3,796 provided for each child after the first).

Comment: *Income limits are the amount a family can earn before they are no longer eligible for family payments. This measure is expected to save $1.2 billion over the next four years, and is the Government's controversial reform on middle-class welfare.*

Increase in FTB Part A

The Government will increase the maximum rate of FTB Part A paid in respect of a child aged 16 to 19 who attends full-time 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 years olds, and up to $3,741 a year for 18 and 19 year olds.

Flexible advance for FTB Part A

From 1 July 2011, families in receipt of Family Tax Benefit (FTB) Part A will be eligible for an advance of up to 7.5% (up to a maximum of $1,000) of their annual FTB Part A entitlement. This will be subject to the family's ability to repay the advance from future fortnightly payments without falling into financial hardship.

From 1 January 2012, the eligibility for FTB Part A will be limited to children up to the age of 21 years.

Comment: *Reducing the eligibility age of FTB Part A is designed to align the eligibility with the Youth Allowance age of independence.*

Commencement of Paid Paternity Leave delayed

Paid Paternity Leave provides eligible working fathers and other partners providing full-time care or sharing the child's care, with two weeks paternity leave paid at a rate equal to the national minimum wage.

Initially, Paid Paternity Leave was to be paid for children born on or after 1 July 2012. Paid Paternity Leave will be delayed by six months and will now be payable with respect to children born on or after 1 January 2013.

Comment: *Paid Paternity Leave will no longer be payable for children born between 1 July 2012 and 31 December 2012. Given Paid Paternity Leave is two weeks pay at a rate equivalent to the national minimum wage, this measure is unlikely to cause a significant impact on individuals who would have been eligible under the previous proposal.*

Work Bonus enhanced

The Government has confirmed a pre-election announcement concerning the Work Bonus. From 1 July 2011 the first $250 of employment income per fortnight (rather than 50% of the first $500) will be excluded from the Pension Income Test under the new Work Bonus proposal.

The introduction of an employment 'income bank' will allow pensioners to accrue unused amounts of the fortnightly Work Bonus up to a maximum of $6,500. This 'income bank' can be used to offset employment income in future years.

Eligibility for Parenting Payment

The Government will restructure income support for single parents to promote workforce participation.

From 1 January 2013, single parents on Newstart Allowance will be able to keep up to an additional $3,900 per year through a more generous income test. Aimed to encourage parents to move into part-time work, the taper rate will be reduced from the current 50 cents in the dollar (for income earned above $62 a fortnight) or 60 cents in the dollar (for income earned above $250 a fortnight) down to 40 cents in the dollar. This means single parents will be able to keep up to $3,900 more of their income from part-time work each year.

Single parents will be able to earn up to $400 extra (to a total of $1,346 per fortnight), before they lose eligibility for payment.

Compulsory Centrelink interview

Individuals receiving the Disability Support Pension (DSP) under the age of 35 (with some capacity to work) will be required to attend regular interviews (from 1 July 2012) with Centrelink to develop participation plans tailored to their individual circumstances. The participation interviews will be compulsory and penalties may apply for those who fail to attend.

DSP recipients can work longer

From 1 July 2012, Disability Support Recipients (DSP) will be able to work up to 30 hours a week without their payment being cancelled or suspended. Currently these recipients can only work 15 hours a week.

Special disability trusts (SDT)

There will be a CGT exemption for assets transferred into a SDT for no consideration. For *inter vivos* transfers, ie. transfers between living people, the transferor will disregard any gains or losses on the asset when it is transferred into the SDT.

For testamentary transfers, ie. transfers between the deceased and a trust, the asset's cost base (in the hands of the trustee) will be equal to the market value of the asset on the day the transferor died.

Comment: *These changes will apply from the 2006/2007 financial year to align the law to when SDTs were first able to be established.*

Not-for-profit sector

The Government has announced a range of reforms to the Not-for-profit (NFP) sector, including a statutory definition of "charity", a new Charities and Not-for-profits Commissioner and reforms to ensure that the concessions are targeted only at those activities that directly further an NFP's altruistic purpose.

Better targeting of not-for-profit concessions

Under this measure the Government will reform the tax concessions provided to NFP entities to ensure they are targeted only at those activities that directly further a NFP's altruistic purposes. The new arrangements will commence on 1 July 2011 and will initially affect only new unrelated commercial activities that commence after 10 May 2011.

Statutory definition of a charity

The Government will consult on and introduce a statutory definition of "charity" for all Commonwealth laws to take effect from 1 July 2013.

Charities and Not-for-profits Commission

From 1 July 2012, the Government will establish a new independent statutory agency called the Australian Charities and Not-for-profits Commission (ACNC). The Commissioner of the new ACNC will have sole responsibility for determining charitable, public benevolent institution, and other not-for-profit status for all Commonwealth purposes.

Please note: the Budget changes outlined in this document are proposals only and will not take effect until the passing of relevant legislation.

PFS

If you have any questions regarding the 2011 Budget or require any further information, please contact your Adviser.

Partnership Financial Service Pty Ltd
ABN 90 009 015 874 | AFSL No. 220381
Level 28 Central Park 152 - 158 St Georges Tce Perth Western Australia
Telephone 1300 100 737 Facsimile (08) 9288 1001
adviserservices@partnershipfs.com
www.partnershipfs.com