2011 Federal Budget summary

10 May 2011

The 2011 Federal Budget contained no major surprises. The Government confirmed a range of previously announced tax, super and social security policy changes and introduced some new measures that could impact clients.

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.

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Summary

The key announcements include:

- eligible individuals will have the option to have 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
- the 50% pension minimum drawdown relief will be reduced to 25% in 2011/12 and will return to normal from 1 July 2013
- minors 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
- the proportion of the low income tax offset delivered to lower income earners via their regular pay packets will increase from 50% to 70%
- the current 'statutory formula' method for determining the taxable value of car fringe benefits will be replaced with a single rate of 20%
- changes to Family Tax Benefit Part A will be made for families with children aged 16 to 19 in full-time secondary study
- people who were granted the Disability Support Pension after 10 May 2005 will be able to work up to 30 hours a week and remain eligible for a part-pension for up to two years, and
- measures will be introduced to encourage workforce participation by many people receiving Government benefits.

Personal taxation changes

For the first time in nine years, there were no changes to the personal income tax rates and thresholds. The 2010/11 rates and thresholds will apply in 2011/12 as shown 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 LITO eligibility for minors

Date of effect: 1 July 2011

Minors (ie children under 18 years of age) 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 will not impact income earned by minors from work, unearned income of minors who are orphans or disabled and compensation payments and inheritances received by minors.

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 LITO is taken into account, whereas 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

LITO timing changes

Date of effect: 1 July 2011

The proportion of the Low Income Tax Offset (LITO) that is delivered to lower income earners via their regular pay packets will increase from 50% to 70%. This measure will not 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).

This change ensures that lower income earners will be taxed less during the financial year, rather than being compensated after their tax return is filed. 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 (or reduction in tax payable) of $300 at tax time. In other words, this measure impacts the timing of the LITO benefit, not the actual benefit amount received.

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 up-front 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 taxation changes

Motor vehicle 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 FBT statutory formula

Date of effect: 10 May 2011

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 will gain the benefit of the new rate immediately. Employees who travel more than 25,000 km per year will lose their current advantage over the next three years. Furthermore, employees on existing contracts will retain their current FBT rate until they enter a new contract.

Superannuation changes

Refund of excess concessional contributions

Date of effect: 1 July 2011

Eligible individuals will have the option to have excess concessional contributions taken out of their super fund and assessed as income at their marginal tax rate, rather than incurring excess contributions tax at 46.5%. 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.

Comments:

- This remains an area where clients should exercise considerable caution. Second and subsequent concessional contribution cap breaches will attract the full 46.5% penalty, irrespective of the excess amount.
- The Budget did not mention the impact the refund of excess concessional contributions will have on the non-concessional contribution caps or the excess non-concessional contribution penalty tax.

Phased increase in account based pension minimums

Date of effect: 1 July 2011

The minimum pension draw down relief will be phased out. The 50% relief will be reduced to 25% for the 2011/12 financial year and returned to normal 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%

Comment:

Where clients are combining a transition to retirement pension with salary sacrifice and are drawing the minimum pension income, you will need to ensure:

- they comply with the phased minimum income requirements, and
- don’t breach the concessional contribution cap when increasing salary sacrifice amounts to ‘match’ pension payments.

Higher concessional contribution caps at age 50

Date of effect: 1 July 2012

Eligible individuals age 50 and over with total superannuation account balances of less than $500,000 will be able to make concessional contributions (CCs) of $25,000 pa (unindexed) above the indexed CC cap of $25,000 pa that is currently scheduled to apply from 1 July 2012.

Comments:

- It's anticipated that when this measure takes effect on 1 July 2012, the CC cap for eligible individuals age 50 or over with less than $500,000 in super will remain at $50,000 pa. However, when the indexed cap increases to $30,000, the total CCs eligible individuals can make will increase to $55,000.
- The Budget did not mention whether the $500,000 account balance threshold is indexed, nor did it outline how withdrawals will be treated.

Extension of co-contribution freeze

Date of effect: 1 July 2011

The indexation applied to the shade-out and cut-out income thresholds for the superannuation co-contribution will be frozen at the current levels of $31,920 and $61,920 respectively until 2012/13. This represents an additional year, when compared to the announcement in the 2010 Federal Budget.

Extension of CGT loss relief for fund mergers

The end date for the temporary loss relief available when complying super funds merge has been extended by three months until 30 September 2011. This will provide additional time for mergers in progress to be completed in an orderly manner and reduce the risk of inadvertent breaches of the eligibility requirements.

Greater use of tax file numbers

Date of effect: 1 July 2011 and 2012

Superannuation fund trustees and retirement savings account providers will be permitted greater use of tax file numbers to:

- locate lost member accounts from 1 July 2011, and
- facilitate consolidation of multiple member accounts from 1 July 2012.

Reporting of employer contributions on payslips

Date of effect: 1 July 2012

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

Additional funding for regulators

Date of effect: 1 July 2011 and 2012

From 1 July 2011, APRA and ASIC will receive over four years an additional $26.2 million and $3.7 million respectively to introduce the MySuper changes. This will be funded by an increase in the levy on APRA regulated superannuation funds.

From 1 July 2011, the ATO will receive an additional $14.6 million over two years to support the SuperStream measures.

From 1 July 2012, the ATO will receive an additional $40.2 million over five years and ASIC an additional $8.4 million over four years to implement the SMSF Stronger Super changes. These costs will be funded by a $30 increase to the SMSF levy effective from the 2010/11 income year and the introduction of an SMSF auditor registration fee from 1 July 2012.

Social security changes

FTB-A changes

Date of effect: 1 January 2012

Changes to Family Tax Benefit Part A (FTB-A) will be introduced for families with children aged 16 to 19 in full-time secondary study. These changes will:

- Remove the need to choose between Youth Allowance (YA) and FTB-A.
- Match the payment rates for FTB-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 level of support provided by FTB-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.
- Align the participation requirement for FTB Part B and the Multiple Birth Allowance with the existing FTB-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 these payments.
- Include all 16 to 19 year olds in full-time secondary study for the purposes of calculating the YA parental income test. This will ensure YA 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 FTB system.

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 YA recipients aged 16 to 19 on 1 January 2012 will have the option to remain on YA.

Aligning FTB-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 years of age, parents will no longer be able to receive FTB-A for that child. However, the child may be eligible to receive Youth Allowance. This will bring FTB-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 Part A family income, with an additional $3,796 provided for each child after the first.

Pausing of FTB 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 FTB Part A

Date of effect: 1 July 2011

To allow families to better meet unexpected expenses, advances of up to 7.5% or up to a maximum of $1,000 of their annual Family Tax Benefit Part A entitlement will be allowed. 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 the minimum amount of around $160 on a regular basis, paid every six months.

New start date for paid paternity leave

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.
- Requiring all DSP recipients (from 1 July 2012) who are under age 35 and assessed as having a partial work capacity of eight or more hours per week and are not working, to attend Centrelink interviews 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 years of age). Newstart Allowance will be closed to new applicants under 22 years of age (currently under 21 years of age). 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 for single principal carers with a youngest child under 16 years on Newstart Allowance 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.

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.

References

10 May 2011 Budget Papers

Please note that this document is a summary only and is only intended to be of a general nature. Accordingly, reliance should not be placed on this document for making any investment or financial decision. It is not guaranteed as accurate or complete and should not be relied upon as such.