

## Superannuation

### Excess contributions tax relief from 1 July 2011

The Government has announced it will provide a once-only opportunity to withdraw excess concessional contributions made during the 2011/12 or later financial years. This withdrawal opportunity is limited to excess concessional contributions of up to \$10,000 (not indexed).

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

This measure should assist many clients who unintentionally breach their concessional contributions cap once in future financial years.

### Operation of higher concessional cap for those over 50 from 1 July 2012

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

The Government has now proposed that the higher concessional cap for eligible clients will be \$25,000 higher than the standard concessional cap.

### Reduction in the minimum payment amounts for account-based pensions in 2011/12

The Government has announced that minimum payment amounts for account based, allocated and market linked (term allocated) pensions will be set at 75 per cent of legislated minimums for 2011-12 and will then return to normal in 2012/13.

Clients who have commenced a transition to retirement pension and who 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 2 years to compensate for the increased minimum pension drawdown requirements.

### Government co-contribution income threshold indexation frozen until 2012/13

The Government has announced that it will extend the freeze on indexation of the co-contribution income thresholds to 2012/13. Therefore, the lower and upper co-contribution income thresholds will remain at \$31,920 and \$61,920 respectively until 30 June 2013.

### Stronger Super measures announces

The Government will provide funding to the ATO and ASIC to implement the Stronger Super self managed superannuation fund reforms including the introduction of a new administrative penalty framework, improved data collection and an improved SMSF registration process.

### Super contribution information disclosure from 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.

### Restatement of previous announcements

As previously announced, the Government will allow superannuation fund trustees to make greater use of tax file numbers to locate member accounts and to facilitate the consolidation of multiple member accounts. The Government also reiterated its recently announced extension of the temporary loss rollover relief for merging superannuation funds from 30 June 2011 to 30 September 2011.

There was no further mention of the following changes announced in last year's Budget, that have not yet been introduced, so we may assume these will be implemented as planned.

- increase in SG from 9% to 12%, to be phased in over the period from 2013 to 2019
- extend SG to workers aged between 70 and 74, from 1 July 2013
- introduction of an annual Government contribution of \$500 for workers paid up to \$37,000 a year, from 1 July 2012

## Taxation

### Personal Taxation

For the first time in 9 years there were no changes to the personal income tax rates or thresholds announced. 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
\$180,000 +	\$54,550 + 45% on amount over \$180,000

Increase in Medicare Levy low income thresholds

The thresholds will be increased with effect from 1 July 2010 (these always lag one year behind). The new Medicare levy low income thresholds will be as follows;

Taxpayer	From 1 July 2009	From 1 July 2010
Individual	\$18,488	\$18,839
Married or sole parent	\$31,196	\$31,789
For each dependent child or student add	\$2,865	\$2,919

### Temporary Flood and Cyclone Reconstruction Levy effective 1 July 2011

The Government reaffirmed the implementation of the temporary Flood and Cyclone Reconstruction Levy in the Federal Budget. The levy will apply to taxable income included in both a resident and non resident individual's tax return for the 2011/12 financial year only. The table below outlines the income thresholds and rate of levy applicable.

Individual's taxable income	Flood Levy
Up to \$50,000	Nil
\$50,001 to \$100,000	0.5% of taxable income exceeding \$50,000
Over \$100,000	1% of taxable income exceeding \$100,000 plus \$250 (being 0.5% of taxable income between \$50,000 and \$100,000)

Certain individuals will be exempt from paying the Flood Levy. These are persons who have a taxable income of \$50,000 or less for the 2011/12 financial year or those who are in receipt of an Australian Government Disaster Recovery Payment from Centrelink for a declared natural disaster that occurred during 2010/11.

### Minors ineligible for LITO on unearned income from 1 July 2011

The Government intends to remove access to the low income tax offset (LITO) for minors (i.e. children under 18 years of age) in respect of unearned income, including dividends, rent, royalties and other property income. The purpose of this measure is to discourage income splitting between adults and children, including through family trusts.

This will reduce 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 such a strategy will be far less tax-effective.

### Valuing cars for FBT purposes - change to flat 20% statutory percentage for new contracts entered into from 10 May 2011

The Government will change the statutory method of calculating the taxable value of cars for fringe benefits tax (FBT) purposes. The statutory percentage used to calculate the taxable value of a car for new contracts entered into from Budget time will be phased in as follows:

km travelled during FBT year	Current	10/5/11	1/4/12	1/4/13	1/4/14
Less than 15,000	26%	20%	20%	20%	20%
15,000 to 24,999	20%	20%	20%	20%	20%
25,000 to 40,000	11%	14%	17%	20%	20%
Over 40,000	7%	10%	13%	17%	20%

This is good news for those travelling less than 15,000 km per FBT year and using the statutory method, as they will see the packaged value of their car decrease. In contrast, clients travelling 25,000 km per FBT year or more will see an increase in their car's packaged value.

Importantly, there is still the option of instead using the operating cost or ('log book') method, which calculates the taxable value based on the total operating costs during each FBT year.

### **Instant tax write-off for small business motor vehicles from 1 July 2012**

For small business clients who purchase motor vehicles, the Government will provide an instant tax write-off equal to the first \$5,000 of the purchase price. As an example, a tradesman on a marginal tax rate of 30% purchasing a new ute for \$33,960, would receive an additional tax benefit of \$1,275 in the year of purchase. 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 businesses structures, including sole traders, companies, partnerships and trusts, and all types of motor vehicles used in the business.

### **Extension of main residence exemption – no start date provided**

The 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 CGT main residence exemption.

### **Phase out of dependent spouse tax offset for spouses under 40 from 1 July 2011**

This offset will be phased out for dependent spouses who are aged under age 40 (i.e. born on or after 1 July 1971). This amendment will not affect those people 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.

### **Reduction in Higher Education Contribution Scheme (HECS) discounts from 1 January 2012**

Discounts applying to payments made under the Higher Education Contributions Scheme will reduce as follows:

- the discount for up-front payments will reduce from 20 per cent to 10 per cent, and
- the bonus on voluntary payments to the ATO of \$500 or more will reduce from 10 per cent to 5 per cent.

### **Increased Medicare levy low income threshold from 1 July 2010**

The Government will increase the Medicare levy low income threshold to \$18,839 for individuals and \$31,789 for families. 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 by:

- providing a CGT exemption for assets transferred into a special disability trust for no consideration
- backdating the application of the CGT main residence exemption to 2006/07
- providing a CGT exemption for the recipient of the principal beneficiary's main residence, if disposed of within two years of the principal beneficiary's death
- ensuring equivalent tax treatment of special disability trusts under different Acts.

## **Social security**

### **Disability support pension work and participation requirements from 1 July 2012**

The Government plans to introduce two measures relating to eligibility for disability support pension (DSP).

The first of these 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. This will allow those granted DSP since May 2005 (who can only work up to 15 hours per week before their payment is affected) to test whether they can work more hours but are worried about losing their eligibility for DSP.

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

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interviews and to engage in relevant participation activities. These activities, specific to those with a disability, may include working with employment services to improve job readiness, searching for employment, undertaking training, volunteering or rehabilitation.

## **Youth Allowance and Newstart Allowance – changes to eligibility criteria from 1 July 2012**

### **Youth Allowance (other)**

- Eligibility and the parental means test for recipients will be extended to 21 years of age (currently 20).
- Income free area will increase from \$62 to \$143 per fortnight.
- Working Credit bank limit will increase from \$1,000 to \$3,500.

### **Newstart Allowance**

- Will be closed to new applicants under 22 years of age (currently 21).

### **Increased obligations for very long term unemployed job seekers**

- Those who are in their second year in the Work Experience Phase will be required to undertake work experience for 11 months of the year.

With the increased capacity to earn income before YA (other) is reduced, and the additional participation requirements, there is a much greater incentive to reenter the work force.

### **Paid Paternity Leave deferred implementation start date to 1 January 2013**

The Government will defer the implementation of Paid Paternity Leave 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.

### **Increase in family tax benefit part A for certain children aged 16-19 and cap eligibility to child under 22 from 1 January 2012**

The Government will increase the maximum rate of family tax benefit part A paid in respect of 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.

### **Advance payment of family tax benefit part A from 1 July 2011**

The Government will allow families to take:

- One-off advance payment of up to 7.5% subject to a maximum of \$1,000 of annual FTB part A entitlement at any point throughout the year; and/or
- A continuous advance payment of at least \$160 every six months.

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.

### **Incentives for single parents and parenting payment reforms**

The Government will introduce reforms to encourage single parents receiving income support to transition into paid employment. Single principal carers with a youngest child aged less than 16 on Newstart Allowance (NSA) will be subject to a more generous income test from 1 July 2013. NSA payments will reduce by 40 cents for every dollar of income earned above \$62 per fortnight as opposed to 50 cents in the dollar for income from \$62 dollars per fortnight and 60 cents for income above \$250 per fortnight. This will bring the taper rate for single parents receiving NSA in line with that of Parenting Payment Single (PPS), and reward part time work.

From 1 January 2013, parents who were on PPS or Parenting Payment Partnered (PPP) prior to 1 July 2006 will be eligible for PPS or PPP until their youngest child turns 12 rather than the current 16 years. Parents that transition onto NSA will be eligible for the more generous income test taper.

The following transitional arrangements will apply to parents whose youngest child will be above the threshold age on implementation:

- Parents with a youngest child born before 1 January 2000 (so has turned 13 before 1 January 2013) will continue to be assessed under current arrangements and will remain on Parenting Payment until their youngest child turns 16 years of age;
- Parents with a youngest child born between 1 January 2000 and 1 January 2001 (so has turned 13 during 2013) will cease to be eligible for Parenting Payment once their youngest child turns 13 years of age; and
- Parents with a youngest child born before after 1 January 2001 (so turns 12 on or after 1 January 2013) will cease to be eligible for Parenting Payment once their youngest child turns 12 years of age.

In addition to these transitional arrangements, children born after 1 July 2011 will extend Parenting Payment eligibility for parents in receipt of payment before 1 July 2006 in the same way as for parents who came onto payment after 1 July 2006. This means they will extend eligibility until they turn six (partnered parents) or eight (single parents).

### **Pause indexation of Family Tax Benefit supplements for three years**

Indexation of FTB Part A and B supplements will be paused for three years. These payments will be fixed at the current 2010-11 levels of \$726.35 per annum per child for FTB Part A and \$354.05 per annum for FTB Part B until 1 July 2014.

### **Pause indexation of upper limits and thresholds for a further two years**

The higher income thresholds and limits for family payments will remain fixed until 1 July 2014 (as opposed to being indexed in line with CPI). This means that:

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

Income limits are the amount a family can earn before they are no longer eligible for family payments, and the higher income free area for FTB Part A is the income level at which FTB payments begin to reduce. The FTB Part A income cut off for each family varies depending on the number and age of their children.

### **Prisoner of War Recognition Supplement effective from 20 September 2011**

The Government has announced a new measure that will introduce a Prisoner of War Recognition Supplement of \$500 per fortnight for eligible former POWs.

Eligible POWs include those of Japan and Europe from the Second World War and former POWs from the Korean War.

This new payment will be non-taxable and will not be included as assessable income for the purposes of means testing of other government payments administered by DVA and Centrelink.

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