

## 2011-2012 Commonwealth Budget Report

### PERSONAL TAX RATES

The Government has not announced any further changes to personal tax rates currently legislated for 2011-2012. However, the flood levy will apply to taxpayers with a taxable income of \$50,000 and above. The income tax thresholds and tax rates for residents (excluding the 1.5% Medicare levy and the flood levy) are:

Taxable income	Tax payable
(\$)	(\$)
0 - 6,000	Nil
6,001 - 37,000	Nil + 15% of excess over 6,000
37,001 - 80,000	4,650 + 30% of excess over 37,000
80,001 - 180,000	17,550 + 37% of excess over 80,000
180,001+	54,550 + 45% of excess over 180,000

Generally, the **flood levy** will apply to individual taxpayers (both resident and non-resident) with a taxable income over \$50,000 in the 2011 – 2012 year. This will apply as follows:

- Individuals with a taxable income between \$50,000 and \$100,000 will pay a 0.5% levy on that part of taxable income above \$50,000;
- Those with a taxable income \$100,000 or more will pay a 0.5% levy on that part of their income between \$50,001 and \$100,000, and a 1% levy on that part above \$100,000.

Individuals who were affected by a natural disaster during the 2010- 2011 year and received an Australian Government Disaster Recovery Payment are *exempt* from the flood levy.

The comparative effective tax rates for those subject to the levy are as follows;

2011-2012 & Future Income Years – No Flood Levy		2011 – 2012 Flood Levy	
Taxable income	Rate	Taxable income	Rate
(\$)		(\$)	
0 - 6,000	0%	0 - 6,000	0%
6,001 - 37,000	15%	6,001 - 37,000	15%
37,001 - 80,000	30%	37,001 - 50,000	30%
80,001 - 180,000	37%	50,001 - 80,000	30.5%
180,001+	45%	80,001 – 100,000	37.5%
		100,001 – 180,000	38%
		180,001+	46%



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### **CHANGES TO LOW INCOME TAX OFFSET**

Whilst the low income tax offset remains unchanged at \$1,500, equating to an effective tax free threshold of \$16,000 for adults, minors (children under 18 years of age) will no longer be able to apply it to reduce the tax payable on their *unearned income* such as dividends, interest, rent and distributions from discretionary trusts.

Income earned by minors from work will still be eligible for the full benefit of the low income tax offset.

The method of payment of the low income tax offset to workers will also change. The proportion of the low income tax offset that is paid to them through their pay packet will increase from 50% to 70%, reducing the tax paid during the year. The remaining 30% will be paid as a lump sum on assessment of the income tax return.

*Date of effect - 1 July 2011*

### **MEDICARE LEVY THRESHOLDS INCREASED FOR 2010-2011**

The Medicare levy low-income thresholds will be increased for singles to \$18,839, and to \$31,789 for members of families. These were \$18,488 and \$31,196 respectively in the previous year.

The threshold increases for each dependent child or student to \$2,919. This was \$2,865 in the prior year.

The Medicare levy low-income threshold for pensioners below Age Pension age will be increased to \$30,439. This was \$27,697 in the prior year.

*Date of effect – 1 July 2010*

### **HECS/HELP – REDUCTION IN DISCOUNT FOR UP-FRONT AND VOLUNTARY PAYMENTS**

The discount available to students for up-front payment of their HECS/HELP will reduce from 20% to 10%.

The bonus on voluntary payments of \$500 or more will be reduced from 10% to 5%.

*Date of effect – 1 July 2012*



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### **DEPENDENT SPOUSE REBATE FOR SPOUSES UNDER 40 TO BE PHASED OUT**

The tax offset for dependent spouses aged less than 40 (those born on or after 1 July 1971) will be phased out to “encourage more Australians into paid employment”.

The change will not affect taxpayers whose dependent spouse is a carer, an invalid, or permanently unable to work. Nor will it apply to taxpayers with children (eligible for Family Tax benefit B) or eligible for the zone, overseas forces or overseas civilian tax offset.

*Date of effect - 1 July 2011*

### **SELF-EDUCATION EXPENSES AGAINST YOUTH ALLOWANCE PAYMENTS DENIED**

The tax law will be amended to disallow self-education expenses against all Government assistance payments. The change is being introduced in response to the 2010 High Court decision in *FC of T v Anstis* 2010.

Individuals who receive Youth Allowance (Student) will be able to claim a deduction for expenses incurred in gaining their payment for the 2010 - 2011 income year, but not in subsequent years.

For each of the tax years from 2007 to 2010, the Commissioner has determined that he will administer the law to allow eligible taxpayers to receive an automatic deduction of \$550 or make potentially higher claims if the relevant self-education expenses can be substantiated.

*Date of effect - 1 July 2011*

### **FAMILY TAX BENEFIT (FTB)**

#### ***Advance payment of FTB Part A***

Families in receipt of FTB Part A will be able to receive an advance payment of up to 7.5% of their FTB Part A annual entitlement, up to a maximum of \$1,000. Advances would be repaid over 6 months by reducing fortnightly payments.

*Date of effect – 1 July 2011*

#### ***FTB Part A for children under 22 years of age***

Eligibility for FTB Part A will only be available in respect of children under 22 years of age, as an individual 22 years of age is considered ‘independent’.

*Date of effect – 1 July 2012*



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### **SMALL BUSINESS MOTOR VEHICLE WRITE-OFF**

Small businesses will be provided with an instant tax write-off of the first \$5,000 of any motor vehicle purchased from 2012 - 2013. This write-off will replace the Entrepreneurs Tax Offset.

The motor vehicle write-off is in addition to the following proposed 2012 - 2013 tax reforms for small businesses :-

- An immediate write-off of all assets valued at under \$5,000
- A write-off of all other assets (except buildings) in a single depreciation pool at a rate of 30%
- A reduction in the company tax rate to 29% for incorporated small businesses.

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

*Date of effect - 1 July 2012*

### **FRAUDULENT PHOENIX ACTIVITIES BY COMPANY DIRECTORS**

Phoenix activity is typically associated with directors who transfer the assets of an indebted company into a new company of which they are also directors. The director then places the initial company into administration or liquidation with no assets to pay creditors, meanwhile continuing the business using the new company structure.

The Government proposes to introduce the following measures in regards to fraudulent phoenix activities by company directors:

- to extend the director penalty regime to superannuation guarantee amounts;
- if a company fails to pay employee superannuation, the directors will be made personally liable for the unpaid superannuation amount;
- the ATO will be given the power to commence recovery against directors under the director penalty regime, without providing a 21 day grace period, for certain unpaid company liabilities that remain unreported after three months of becoming due; and
- in certain circumstances, if a company fails to pay withheld amounts to the Tax Office, directors and associates of directors will be prevented from obtaining credits for withheld amounts in their individual tax returns

*Date of effect – 1 July 2011*



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### **BUILDING & CONSTRUCTION INDUSTRY**

Certain businesses in the building and construction industry will be required to report annually the payments they make to contractors. The Government believes that the information the businesses will be required to report should already have been collected under existing tax arrangements.

Increased funding will be given to the ATO to undertake data matching, reviews of contractors' tax liabilities and targeted audits.

*Date of effect – 1 July 2012*

### **FRINGE BENEFITS TAX (FBT)**

Currently, there are 4 different rates for employers who calculate car fringe benefits using the “Statutory Formula” method. The 4 different rates are based on the number of kilometres a vehicle travels (see Existing Contracts in the table below). The current method means that the more kilometres a vehicle travels in a year, the lower the amount of FBT that is payable.

The Government has announced it will replace the 4 different rates with a single statutory rate of 20%, regardless of the number of kilometres a car has travelled. This is to be phased in over the next 4 years and will apply only to new vehicle contracts. The table below outlines how this will be phased in.

FBT statutory rate method					
	Statutory rate (x cost of car to determine person's car fringe benefit)				
Distance travelled during FBT year (1 April - 31 March)	Existing contracts (%)	New contracts from 10 May 2011 (%)	New contracts from 1 April 2012 (%)	New contracts from 1 April 2013 (%)	New contracts from 1 April 2014 (%)
0 - 15,000km	26	20	20	20	20
15,001 - 24,999km	20	20	20	20	20
25,000 - 40,000km	11	14	17	20	20
More than 40,000km	7	10	13	17	20

Individuals who use their vehicle for a significant amount of work related travel may wish to maintain a log book. This would allow the Fringe Benefit to be calculated under the Operating Cost Method rather than the Statutory Formula method which may result in a lower amount of FBT payable. Note, if a log book is maintained for a continuous 12 week period, it is valid for 5 years unless the circumstances change.

*Date of effect – 10 May 2011*



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### **SUPERANNUATION – CONCESSIONAL CONTRIBUTIONS**

Individuals aged 50 and over with total superannuation balances below \$500,000 will be allowed to contribute up to \$50,000 per year in concessional contributions.

The general concessional contributions cap will be set at \$25,000 per annum.

*Date of effect - 1 July 2012*

### **SUPERANNUATION CO-CONTRIBUTIONS**

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

*Date of effect - 1 July 2010*

### **SUPERANNUATION REPORTING**

Employees will receive information on their payslips about the amount of superannuation actually paid into their account. Employees and employers will also receive quarterly notification from their superannuation fund if regular payments cease.

*Date of effect - 1 July 2012*

### **GREATER USE OF TAX FILE NUMBERS**

The Government will allow superannuation fund trustees and retirement savings account (RSA) providers to make greater use of tax file numbers (TFNs) to locate member accounts and to facilitate the consolidation of multiple member accounts.

This measure will improve superannuation industry administration by removing the existing requirement for fund trustees and RSA providers to use other methods of identification to locate accounts before TFNs can be used. It will also assist fund trustees and RSA providers to carry out more efficient consolidation of multiple member accounts, with effect from 1 January 2012, if not proclaimed earlier.

*Date of effect - 1 July 2011*



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### **SUPER FUNDS – LIMITING THE TRADING STOCK EXCEPTION**

A small number of complying superannuation entities are seeking to treat shares as trading stock, so as to deduct their share losses against income other than capital gains. The Government will remove the trading stock exception for complying superannuation entities for certain assets (primarily shares, units in a trust and land).

Gains or losses on those assets will therefore be subject to Capital Gains Tax (CGT) which is consistent with CGT being the primary code for taxing gains and losses of complying superannuation entities.

However, transitional rules will apply to ensure that assets held or accounted for as trading stock before the time of announcement are unaffected.

*Date of effect – 10 May 2011*

### **EXCESS CONCESSIONAL SUPERANNUATION CONTRIBUTIONS**

Eligible individuals who breach their concessional superannuation contribution cap by up to \$10,000, will have a one-off option to have the excess contribution refunded to them and assessed as income at their marginal rate, rather than the excess contributions tax rate (currently 31.5%, and in addition to the 15% contributions tax for the fund). It will apply to first time breaches only in respect of the 2011 - 2012 or later years.

*Date of effect – 1 July 2011*

### **MINIMUM PENSION DRAWDOWNS RELIEF**

The minimum pension drawdown relief for superannuation pensions for the 2011 - 2012 year will be reduced by 25%. This was 50% in the previous year. It is expected that this drawdown relief be completely phased out by the 2012 - 2013 year as it has been provided since 2008 - 2009.

*Date of effect – 1 July 2011*



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### **DECEASED ESTATES – DISPOSAL OF MAIN RESIDENCE**

The Commissioner will be granted the discretion to extend the 2 year ownership period in which the trustee of a deceased estate must dispose of the deceased individual's main residence while having access to the CGT main residence exemption.

*Date of effect – TBA*

### **NOT FOR PROFIT (NFP) SECTOR REFORM**

Income tax concessions will be limited in cases where a NFP entity conducts unrelated commercial activities, such that the income tax concessions will only apply to profits generated by unrelated commercial activities that are directed back to the NFP entity in order for it to carry out its altruistic work.

Furthermore, FBT concessions and rebates, GST concession and DGR support will not be available in respect of the unrelated commercial activities.

The measures will initially apply only to new unrelated commercial activities that commence after 10 May 2011.

*Date of effect – 1 July 2011*

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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