

2011-2012 Budget Summary

Another budget and, as usual, most of these were leaked well before the budget announcement. The most important new tax changes (not ones previously (officially) announced) include:

Change to the car fringe benefit rules

As recommended by the Henry Review, over the next four years the 'statutory formula' method for determining the taxable value of car fringe benefits will be changed to a single rate of 20 per cent that applies regardless of the distance travelled. This applies to new contracts entered into after 7:30pm on 10 May 2011. On 31 March 2015 we will never need to ask for closing odometers again.

Distance travelled during the FBT year (1 April – 31 March)	Statutory rate (multiplied by the cost of the car to determine a person's car fringe benefit)				
	Existing contracts	New contracts entered into after 7:30pm (AEST) on 10 May 2011			
		From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 – 15,000	0.26	0.20	0.20	0.20	0.20
15,000 – 25,000	0.20	0.20	0.20	0.20	0.20
25,000 – 40,000	0.11	0.14	0.17	0.20	0.20
More than 40,000 km	0.07	0.10	0.13	0.17	0.20

Removing minors' eligibility for low income tax offset on unearned income

The Government is going limit the benefit of distributing certain income from a discretionary trust to a minor. This change will remove the ability of minors (children under 18 years of age) to access the low income tax offset (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. So many of us will be back to \$416...

Income earned by minors from work will still be eligible for the full benefit of the LITO. 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.

Freeze thresholds for FTBA and increasing FBTA for teenagers

The Government has announced that it will freeze certain thresholds for Family tax benefits for up to three years. Also the Government has announced it will increase the Family Tax Benefit Part A for teenagers by up to \$4,208 per year, with more flexible access arrangements by being able to get up to \$1,000 in advance.

Abolish the Entrepreneurs' Tax Offset

The Government has announced it will abolish the Entrepreneurs' Tax Offset, with effect from the 2012-13 income year as recommended by the Henry Review.

Phase out of the Dependent Spouse Tax Offset

The Government has announced it will phase out the dependent spouse tax offset for taxpayers with a dependent spouse born on or after 1 July 1971. Taxpayers with an invalid or permanently disabled spouse, 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.

Bringing forward the effect of the Low Income Tax Offset

The Government has announced it will increase the amount of the low income tax offset (LITO) that is delivered through regular pay during the year from 50 per cent to 70 per cent of their total entitlements. The remaining 30 per cent of their LITO benefit will still be paid as a lump sum on assessment of income tax returns.

Small business CGT changes

The Government has announced it will ensure the provisions that limit access to a range of small business tax concessions, the connected entity rules, are fully effective in that trusts will not be able to avoid 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. These changes will also ensure that some small businesses will be able to access the small business CGT concessions because the changes will make their business assets 'active'.

Better targeting of not for profit tax concessions

The Government has announced it will reform the tax concessions provided to not-for-profit (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.

Reduction in the gross domestic product (GDP) adjustment factor for Pay As You Go (PAYG) instalment taxpayers

The Government has announced it will reduce the GDP adjustment factor for PAYG instalment taxpayers who use the GDP adjustment method, from 8 per cent to 4 per cent for the 2011-12 income year.

Disallow deductions against government assistance payments

The Government has announced it will prevent deductions being claimed against all government assistance payments, with effect from 1 July 2011, in response to the 2010 High Court decision in Commissioner of Taxation v Anstis.

Increasing the Medicare levy low income thresholds

The Government will increase the Medicare levy low-income thresholds to \$18,839 for individuals and \$31,789 for families, with effect from 1 July 2010. The Government will also increase the Medicare levy threshold for single pensioners below Age Pension age to \$30,439, with effect from 1 July 2010.

Small business depreciation - accelerated initial deduction for motor vehicles

The Government has announced it will allow small businesses to claim up to \$5,000 as an immediate deduction for motor vehicles, with effect for vehicles acquired from the 2012-13 income year. The remainder of the motor vehicle value will be pooled in the general small business pool (depreciated at 15 per cent in the first year and then 30 per cent).

Tax compliance - reporting taxable payments

The Government has announced it will require certain businesses to report annually on payments made to contractors in the building and construction industry, with effect from 1 July 2012. The Government will also consult publicly on options to introduce a similar reporting regime for payments to contractors in the commercial cleaning industry.

Superannuation Regulators to be given more money

The Regulators (APRA, ATO, and ASIC) are to be given additional funding to introduce a range of initiatives including measures relating to SMSFs, the development of a business case to support the SuperStream measures, and an SMSF auditor registration regime.

These initiatives will be funded in part by a increase in the regulatory fee paid by APRA regulated funds, and the introduction of an Auditor Registration Fee from 1 July 2012. The SMSF regulatory fee will increase by \$30 pa with effect from the 2010/11 income year.

SMSFs and Collectibles

Tighter legislative standards (as previously announced) will apply to investments in collectibles held by SMSFs. The standards will apply to new investments made from 1 July 2011. Existing investments in collectibles will have to comply with the tighter standards from 1 July 2016.

Government co-contribution

The current freeze on indexation of the income thresholds applying to the government co-contribution will continue to apply for the 2011/12 income year. The income threshold at which the co-contribution commences to be phased out will therefore remain at \$31,920, with the cut off point for the co-contribution remaining at \$61,920.

Superannuation pension drawdown relief

For the past three years, the minimum amount of income required to be drawn from an account based pension has been reduced by 50%. For the 2011/12 income year, the minimum pension drawdown factor will be reduced by 25%, with the full minimum drawdown factors returning to normal from 1 July 2012. For an account based pension, the minimum drawdown factors for the financial year commencing 1 July 2011 will be:

Age	Minimum 2011/12	Thereafter
Under 65	3%	4%
65 – 74	3.75%	5%
75 – 79	4.5%	6%
80 – 84	5.25%	7%
85 – 89	6.75%	9%
90 – 94	8.25%	11%
95 and older	10.5%	14%

Lost super

Greater use of Tax File Numbers will be made by superannuation fund trustees to locate lost superannuation fund members.

Excess Concessional Contributions

Superannuation fund members who exceed their concessional contribution cap will have the option to withdraw their excess contributions from superannuation and have it taxed at their marginal tax rate rather than at the current rate of 31.5% (plus 15% contributions tax). This opportunity will only apply to excess contributions of up to \$10,000 (un-indexed) and will apply to breaches of the concessional contribution cap occurring after 30 June 2011. The concession will only apply for the first year in which the breach occurs. It appears that people who breach their concessional contribution cap will only be able to take advantage of this option once.

Concessional contribution cap for people aged 50 and older

The Government has reaffirmed its previous announcements that from 1 July 2012, people with less than \$500,000 in superannuation will be able to contribute an additional \$25,000 over and above the concessional contribution cap of \$25,000, effectively retaining the \$50,000 concessional contribution cap beyond the end of the current transitional period.

An options paper was recently released by Government that explored the different options for administering the \$500,000 threshold.

Instalment Warrant look-through

As previously announced by the Treasurer, the proposal to treat the underlying investor as the owner of the security for income tax purposes is confirmed. As a result a capital gains tax event will not arise when the final instalment is made under an instalment warrant arrangement. This will bring certainty to people using a limited recourse borrowing arrangement through a SMSF structure in addition to others using traditional instalment warrants as part of their investment portfolio.