

AXA's Federal Budget 2011/12 overview

There were very few surprises in the 2011/12 Federal Budget. In fact the usual pre-budget leaks were quite accurate. The effect on the financial planning industry and clients is minimal, however there are a few issues for advisers to consider and communicate to their clients.

The budget is forecasted to return to surplus in 2012/13. Tax receipts are lower, particularly from companies due to losses built up during the global financial crisis, a higher dollar and record mining investment and associated tax deductions. Spending initiatives and tax benefits to individuals are very modest due to the desire to achieve a surplus.

Real gross domestic product (GDP) growth is forecast to be 4 per cent in 2011/12 and 3.75 per cent in 2012/13, although the Treasurer did point out the variability of this growth between different regions and industries. The impact of natural disasters in Australia and nearby regions is expected to have a 0.75 per cent negative impact on GDP this year.

Unemployment is expected to be low with a forecast of 4.5 per cent in mid-2013. Skills shortages will be an issue as significant mining investment continues. Programmes aimed at solving this skills shortage are numerous and include more spending on vocational education and training, accelerating apprenticeships and more skilled migration.

Increased Family Tax Benefit Part A payments apply for dependent 16 to 19 year olds in full-time secondary study, however a tightening of eligibility for Family Tax Benefit Part A will occur from 1 January 2012 due to it being limited to children up to the age of 21 years. The indexation of the upper thresholds and limits, and supplements for Family Tax Benefit Part A and Part B will be suspended at the current 2010/11 levels for the next three years. This will affect many people by stealth. The low income tax offset will no longer be available to children under the age of 18 from 1 July 2011 in respect of unearned income such as dividends, interest and rent.

Following the 50 per cent reduction in minimum payments over the past three years, minimum payment amounts for account-based pensions will be reduced by 25 per cent for 2011/12 and will return to normal in 2012/13.

It seems that the concern of many in relation to excess superannuation contributions have been heard, with the Government announcing that eligible individuals will be able to have excess concessional contributions of up to \$10,000 assessed as income at their marginal rate of tax, rather than incurring excess contributions tax. This applies to contributions made on or after 1 July 2011. There is no mention of a solution for historical breaches of contribution caps.

The taxable value of car fringe benefits under the statutory formula method will be a simpler flat rate of 20 per cent. The change will apply to new contracts entered into after 7.30 pm AEST on 10 May 2011 and will be phased in over four years. Small businesses will be able to deduct up to \$5,000 for motor vehicles acquired on or after 1 July 2012.

Overall, while the direct effect on most clients from the 2011/12 Federal Budget will be minimal, it is strongly suggested that financial advisers contact their clients to re-iterate the benefits of superannuation contribution concessions, the low tax superannuation environment, and the Centrelink treatment, tax-free earnings and flexibility of account-based pensions. Regular communications are the most effective method of ensuring your clients understand and appreciate the ongoing value of your advice.

Please note that the changes outlined in this summary are proposals only at this stage, and will not take effect until the passage of relevant legislation.



redefining /
financial services

Taxation

1 Increasing Medicare levy low income thresholds

Proposed start date: 1 July 2010

The Government will increase the Medicare levy low income thresholds to \$18,839 (up from \$18,488) for individuals and \$31,789 (up from \$31,196) for couples. The additional amount for each dependent child or student will also increase to \$2,919 (up from \$2,865). The increase in these thresholds takes into account movements in the Consumer Price Index.

The Medicare levy threshold for single pensioners below Age Pension age will also be increased to \$30,439 (up from \$27,697), with effect from 1 July 2010.

2 Low income tax offset

Proposed start date: 1 July 2011

The Government will increase the proportion of the low income tax offset (LITO) that is available to taxpayers through their regular pay from 50 per cent to 70 per cent. This change means instead of being compensated after they put in their tax return at the end of the year, lower income earners are taxed less during the year.

Implication/comment

An individual with annual income of \$30,000 will get an extra \$300 during the year in their regular pay.

The maximum low income tax offset of \$1,500 is unchanged in this year's budget.

3 Low income tax offset for minors

Proposed start date: 1 July 2011

Minors, ie children under 18 years of age, will no longer be able to access the LITO to reduce tax payable on their unearned income such as dividends, interest, rent, royalties and other income from property.

Implication/comment

This measure will discourage income splitting to children. 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.

4 Fringe benefits tax – changes to statutory formula method

Proposed start date: contracts entered into after 10 May 2011

Currently under the statutory formula method there are four different rates (all based on kilometres travelled) that may be used to work out the grossed-up taxable value of a car fringe benefit. Under these rules, the more kilometres driven, the lower the car fringe benefit and hence the fringe benefits tax (FBT) payable decreases and the tax concessions increase.

The Government intends to change the current rules by applying a single rate of 20 per cent regardless of the distance travelled. This change will apply to new contracts entered into on or after 7.30 pm (AEST) on 10 May 2011 and will be phased in over four years.

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 7.30 pm (AEST) on 10 May 2011			
		From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 – 15,000 km	0.26	0.20	0.20	0.20	0.20
15,000 – 25,000 km	0.20	0.20	0.20	0.20	0.20
25,000 – 40,000 km	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

Compared to the current rates under the statutory formula method, a single rate of 20 per cent will:

- increase the tax concession provided for vehicles driven less than 15,000 kilometres per year
- maintain the tax concession provided for vehicles driven between 15,000 and 25,000 kilometres per year, and
- decrease the tax concession provided for vehicles driven more than 25,000 kilometres per year.

Implication/comment

Employees who use their vehicle for a significant amount of work-related travel can still use the operating cost method if that is more advantageous.

5 Instant write-offs on purchases of motor vehicles

Proposed start date: 1 July 2012

Small businesses will be able to instantly write-off the first \$5,000 for any motor vehicle purchased from 1 July 2012. For example, a tradesman – on a 30 per cent marginal tax rate – buying a new \$33,960 ute would receive an extra tax benefit of \$1,275 in the year he purchased the vehicle. The remainder of the purchase value can be transferred into the general small business depreciation pool, which is depreciated at 15 per cent in the first year and 30 per cent in later years.

This measure builds on the Government's existing tax reforms for small businesses to be introduced in 2012/13 that allow:

- an immediate write-off of all assets valued at under \$5,000 (up from \$1,000)
- a write-off of all other assets (except buildings) in a single depreciation pool at a rate of 30 per cent. Currently, small businesses allocate assets to two different depreciation pools, with two different depreciation rates (30 per cent and 5 per cent), and
- a reduction in company tax rate to 29 per cent for incorporated small businesses.

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

The new small business instant write-off for the first \$5,000 of any motor vehicle will replace the Entrepreneurs' Tax Offset.

6 Higher Education Contribution Scheme – reduction in discounts

Proposed start date: 1 January 2012

Discounts applying to payments made under the Higher Education Contribution Scheme (HECS) will be reduced as follows:

- the discount available to students electing to pay their student contribution up-front will be reduced from 20 to 10 per cent, and
- the bonus on voluntary payments to the Australian Taxation Office (ATO) of \$500 or more will be reduced from 10 per cent to 5 per cent.

Under HECS, students electing to pay their student contribution up-front will receive a 10 per cent discount on the payment. Students choosing not to pay up-front can take out a concessional loan to pay their student contribution under the Higher Education Loan Programme (HELP).

Under HELP, students accrue an outstanding debt which is repaid gradually when their assessable income exceeds a minimum repayment threshold. Students can also elect to make additional voluntary payments through the ATO to further reduce their outstanding HELP debt. From 1 January 2012, payments of \$500 or more will attract a five per cent bonus so that a payment of \$500 would reduce an individual's outstanding HELP debt by \$525.

Implication/comment

Clients may wish to consider making voluntary payments prior to 1 January 2012 in order to take advantage of the higher discounts.

7 Disallowing deductions against government assistance payments

Proposed start date: 1 July 2011

The Government will amend the tax law to 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.

Commencing the measure from 1 July 2011 will allow individuals who receive Youth Allowance (Student) to claim a deduction for expenses incurred in gaining their payment for the 2010/11 financial year.

For the 2006/07 to 2009/10 years, the Commissioner of Taxation will allow eligible taxpayers to receive an automatic deduction of \$550 or make higher claims if expenses can be substantiated.

8 Phase out of dependent spouse tax offset

Proposed start date: 1 July 2011

The Government will phase out the dependent spouse tax offset for individuals who have a dependent spouse who was born on or after 1 July 1971. Taxpayers with an invalid or permanently disabled spouse, supporting a carer, and those who are eligible for the zone, overseas forces and overseas civilian tax offsets will be unaffected by this change.

9 Removal of tax impediments in relation to special disability trusts

Proposed start date: backdated to 1 July 2006

The Government will extend the 2009/10 Budget measure that provides a capital gains tax (CGT) main residence exemption to special disability trusts (SDTs) for income tax assessments for the 2006/07 and later financial years.

In particular, this measure backdates the CGT main residence exemption for SDTs and provides equivalent taxation treatment amongst SDTs established under different Acts. It also provides a CGT exemption for assets transferred into an SDT for no consideration.

In addition the measure will provide a CGT exemption in the advent of the death of the principal beneficiary for the intended recipient of the principal beneficiary's main residence, if the recipient disposes of the dwelling within two years of the principal beneficiary's death.

10 Look-through treatment for instalment warrants and similar arrangements

Proposed start date: backdated to 1 July 2007

The Government will extend the look-through treatment of instalment warrants for income tax purposes, with effect for income tax assessments for the 2007/08 and later financial years.

This measure will extend look-through treatment beyond single exchange-traded securities to instalment warrants and receipts over direct and indirect interests in listed securities, as well as unlisted securities in widely held entities and bundles of these assets.

This will confirm the practice of treating an investor in an instalment warrant or instalment receipt over specified assets as the owner of the security for income tax purposes. As a result, there will be no CGT applicable at the time the last instalment is paid for instalment warrants over these types of assets.

11 New tax system for managed investment trusts

Proposed start date: 1 July 2012

The Government will defer the start date and clarify aspects of the new tax system for managed investment trusts (MITs) announced in last year's budget. This measure will defer by 12 months the start date of the new tax system for MITs to 1 July 2012. This will provide MITs and other parts of the financial services industry with sufficient time to make any necessary trust deed amendments and system changes to operate effectively within the new tax system.

12 Early access to farm management deposits

Proposed start date: unknown

The Government will allow primary producers affected by natural disasters to access their farm management deposits within 12 months of making a deposit while retaining concessional tax treatment under the scheme. This measure extends the taxation relief provided to primary producers affected by severe drought to those who are affected by other types of natural disaster.

Superannuation

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

Proposed start date: 1 July 2011

In the 2008/09, 2009/10 and 2010/11 financial years, the Government provided pension drawdown relief by halving the minimum payment amounts for account-based pensions.

The Government will phase out the pension drawdown relief that has been provided over the last three years. Minimum payment amounts for account-based, allocated and market-linked (term allocated) pensions will be reduced by 25 per cent for 2011/12 and will return to normal in 2012/13.

Implication/comment

Reducing the minimum payment amounts for account-based pensions is intended to assist holders of these products to recoup capital losses incurred as a result of the global financial crisis and provide additional flexibility with payment options.

2 Refund of excess concessional contributions

Proposed start date: 1 July 2011

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 per cent, in addition to 15 per cent tax when contributions are made to the fund.

The Government will provide eligible individuals with the option to have 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. 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 2011/12 or later financial years, and only for the first year in which a breach occurs.

Implication/comment

Note that there are no changes to the rules relating to excess non-concessional contributions or breaches of the contribution caps prior to 1 July 2011.

3 Operation of the concessional contributions cap

Proposed start date: 1 July 2012

As announced in the 2010/11 Federal Budget, the \$50,000 transitional concessional contributions cap will be extended permanently for individuals aged 50 or over with total superannuation balances of less than \$500,000.

The standard concessional contributions cap is set at \$25,000. When the standard concessional contributions cap is indexed, the higher cap will be \$25,000 more than the standard concessional contributions cap, ie if the standard concessional contributions cap is indexed to \$30,000, the higher cap will increase to \$55,000.

Implication/comment

This will allow older clients with total superannuation balances under \$500,000 to continue to take advantage of personal deductible contributions, salary sacrifice and transition to retirement strategies.

4 Superannuation co-contribution income thresholds

Proposed start date: 1 July 2012

Under the superannuation co-contribution scheme, the Government provides a matching contribution for contributions made into superannuation using after-tax income. The matching contribution is up to \$1,000 for individuals with total income of up to \$31,920 in 2010/11, with the amount available phasing down for incomes up to \$61,920.

In last year's Federal Budget, the Government announced that it would freeze the 2010/11 and 2011/12 indexation applied to the income threshold above which the maximum superannuation co-contribution begins to reduce.

This year, the Government has announced an extension to the freezing of the indexation applied to these thresholds, for an additional year to 2012/13. This measure will continue to freeze these thresholds at \$31,920 and \$61,920 respectively.

5 Self-managed superannuation fund reforms

Proposed start date: 1 July 2012 (for most measures)

The Government will provide funding to the ATO and the Australian Securities and Investments Commission (ASIC) to implement the Stronger Super self-managed superannuation fund (SMSF) reforms, announced on 16 December 2010.

These reforms are intended to improve the operation, efficiency and integrity of this sector and increase community confidence. The reforms include:

- the introduction of administrative penalties that the ATO can apply in cases of non-compliance by SMSF trustees
- the introduction of knowledge and competency requirements on SMSF service providers, including the registration of SMSF auditors
- tightened legislative restrictions on SMSF investment in collectables and personal use assets
- requiring SMSFs to value their assets at net market value and the ATO to publish valuation guidelines
- the appointment of the ATO to collect and publish data on the sector; and changes to the registration and rollover processes, and
- illegal early release penalties to deter the use of SMSFs for illegal activity.

Most changes will have effect from 1 July 2012. Tighter legislative standards for investments in collectables and personal use assets will apply to new investments from 1 July 2011, with all holdings of collectables and personal use assets to comply by 1 July 2016. Amendments to the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 will have effect from 1 July 2013 and amendments to the SMSF registration and rollover processes will have effect from 1 July 2014.

The increased funding will be fully offset by a \$30 increase to the SMSF levy, from \$150 to \$180, with effect from the 2010/11 financial year, and by the introduction of SMSF auditor registration fees from 1 July 2012.

Further information is available on the **Stronger Super website**.

6 Superannuation information on payslips

Proposed start date: 1 July 2012

The Government will legislate to ensure that employees receive information on their payslips about the amount of superannuation paid into their account, and employees and employers will receive quarterly notification from their superannuation fund if regular payments cease.

Implication/comment

This measure is intended to help employees to keep track of their employer's contributions, and take action where there is a shortfall.

7 Greater use of tax file numbers

Proposed start date: 1 July 2011

The Government will allow superannuation fund trustees 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 administration by removing the existing requirement for fund trustees to use other methods of identification to locate accounts before TFNs can be used. It will also help fund trustees to carry out more efficient consolidation of multiple member accounts, with effect from 1 January 2012, if not proclaimed earlier.

Social security

1 Allowing Disability Support Pension recipients to work up to 30 hours per week

Proposed start date: 1 July 2012

Disability Support Pension (DSP) recipients will be allowed to work up to 30 hours a week and remain eligible for a part pension for up to two years. This will allow recipients granted DSP under the 15-hour a week rule (that is, on or after 11 May 2005) to maximise their working hours without the suspension of their DSP entitlement. This addresses the inconsistent treatment of people granted DSP before or after May 2005. Employment income received by DSP recipients will still be subject to the income test.

There are a number of other changes applying to DSP recipients. Please contact the AXA Technical Services team for further information.

2 Changes to eligibility criteria for Youth Allowance and Newstart Allowance

Proposed start date: 1 July 2012

The Government will improve study and work incentives for unemployed young people and extend strengthened participation requirements by changing the eligibility criteria for Youth Allowance job seeker (YA (Other)) and Newstart Allowance (NSA) recipients.

Under this measure, eligibility and the parental means test for YA (Other) recipients will be extended to 21 years of age (currently 20 years of age). NSA 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 YA (Other) income free area from \$62 to \$143 per fortnight and the maximum available Working Credit bank limit for YA (Other) will increase from \$1,000 to \$3,500.

3 Paid Paternity Leave

Proposed start date: 1 January 2013

The Government will defer the implementation of Paid Paternity Leave by six months from 1 July 2012 until 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 for children born on or after 1 January 2013.

4 Incentives for single parents and Parenting Payment reforms

Proposed start date: 1 January 2013

The Government will introduce reforms to encourage single parents receiving income support to transition into paid employment. Adjustments will be made to the income test rates for single principal carers with a youngest child under 16 years on NSA.

5 Social security agreements with Hungary

Proposed start date: 1 July 2012

The new Social Security Agreement with Hungary will improve access to the Age Pension for people who have spent part of their working life in both Australia and Hungary. These arrangements also deal with 'double coverage' of social security or superannuation contributions where employees are seconded to work overseas. To avoid social security or superannuation contributions being paid by employers in both jurisdictions, the agreement clarifies that the obligation will only apply in the employee's home country.

Families

1 Improving Family Tax Benefit Part A

Proposed start date: 1 July 2012

The Government will improve the adequacy of Family Tax Benefit Part A for dependent 16 to 19 year olds in full-time secondary study. This will simplify the assistance provided to families with children in this age group, removing the need to choose between Youth Allowance and FTB.

FTB and Youth Allowance will be changed to:

- match the payment rates of FTB Part 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 by up to \$4,208 per year for 16 and 17 year olds, and up to \$3,741 per year for 18 and 19 year olds
- align the participation requirement for FTB Part B and the Multiple Birth Allowance with the existing FTB Part 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, and
- include all 16 to 19 year olds in full-time secondary study for the purposes of calculating the Youth Allowance parental income test. This will ensure Youth Allowance recipients do not 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 Youth Allowance recipients aged 16 to 19 on 1 January 2012 will have the option to remain on Youth Allowance.

2 Advance payments of Family Tax Benefit Part A

Proposed start date: 1 July 2011

Families will be eligible for an advance of up to 7.5 per cent, up to a maximum of \$1,000, of their annual FTB Part A entitlement. Advances will be repaid over six months by reducing future fortnightly FTB payments and can be taken at any point throughout the year. Payment of advances will be subject to an assessment of a family's ability to repay the advance without falling into financial hardship.

Implication/comment

An advance payment is a lump sum paid from an individual's future entitlements and is repaid from their fortnightly payments. It is not an extra payment. Advance payments could be used to assist clients to better manage their finances over time.

3 Indexation of Family Tax Benefit supplements

Proposed start date: 1 July 2011

The Government will suspend indexation of the Family Tax Benefit Part A and B supplements for three years. The FTB supplements will be fixed at the 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.

Implication/comment

The supplements would ordinarily be indexed by the Consumer Price Index and the suspension in indexation needs to be taken into account when modelling clients' cash flows.

4 Indexation of family payment upper limits and thresholds

Proposed start date: 1 July 2011

The Government will suspend indexation of family payment upper income thresholds and limits at their current level until 1 July 2014.

The following higher income thresholds and limits will remain fixed until 1 July 2014:

- 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, equivalent to \$150,000 per year
- 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.

Income limits are the amounts that 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 depends on the number and age of the children.

FTB Part A lower income threshold (currently \$45,114) and the FTB Part B secondary earner income threshold (currently \$4,745) will continue to be indexed.

Implication/comment

These thresholds and limits would ordinarily be indexed by the Consumer Price Index and the suspension in the indexation of family payment higher income thresholds and limits should be taken into account when modelling clients' cash flows. The greatest impact will be on medium to higher income earners.

5 Aligning Family Tax Benefit Part A eligibility with Youth Allowance age of independence

Proposed start date: 1 January 2012

The Government will limit the eligibility for Family Tax Benefit (FTB) Part A to children up to the age of 21 years, deeming young people aged 22 and over to be independent. When a child turns 22 years of age, parents will no longer be able to receive FTB Part A for that child. However, the child may be eligible to receive Youth Allowance subject to usual means testing and academic progress rules.

6 Assessment of income for Child Support

Proposed start date: 1 July 2011

The Government will change the method under which a Child Support payer's income is assessed to more accurately reflect their actual income. The changes will only apply to those payers who have not lodged a tax return for two or more years.

Implication/comment

Child support payments and family assistance payments are closely linked. The more child support an individual receives, the less Family Tax Benefit Part A a parent may receive and vice versa. Centrelink has an **online estimator** available to help individuals with finding out what family assistance or child support they may receive.

For more details on any of the above information and the implications for your clients, please contact the AXA Technical Services team on 1800 644 644 or axatechservices@axa.com.au.

Important information

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