

# 2011-2012 BUDGET NEWSLETTER

11 MAY 2011

Welcome to KD Partners' Federal Budget Newsletter. We have outlined the key announcements from last night's budget.

After all the scare-mongering by the current Government, the Budget did not contain any shocks with the more topical changes flagged in advance such as the change to the Excess Contributions Tax and removal of the incentive for employees to travel more kilometres to access concessional FBT treatment.

If there are any questions you would like to ask or wish to seek clarification of the impact of this Budget on your own circumstances, please don't hesitate to contact us.

Enjoy

Kim Buttenshaw  
David Woodhouse  
KD Partners Pty Limited



## INDIVIDUALS AND FAMILIES

### Dependent Spouse Rebate to be Phased Out

The rebate for dependent spouses born on or after July 1971 (younger than 40 years of age) will be phased out to encourage more Australians into paid employment. This measure will apply from July 2011.

### Low Income Tax Offset Brought Forward

The amount of the low income tax offset that is delivered to low and middle income earners through their regular pay during the year will be increased from 50% to 70% of their total entitlements. The remaining 30% will still be paid as a lump sum on assessment of income tax returns.

### Minors and Low Income Tax Offset

The government will limit the ability of minors (children under 18 years of age) to access the low income tax offset to reduce tax payable on their unearned income such as dividends, interest, rent, royalties, and income from property, with effect from 1 July 2011.

### Self-Education Expenses Against Youth Allowance Payments Denied

From 1 July 2011, self-education expenses will no longer be deductible against all government assistance payments.

### HECS Discount

From 1 January 2012, the discount available to students electing to pay their HECS student contribution up-front will be reduced from 20% to 10%, and the bonus on voluntary payments to the Tax Office of \$500 or more will be reduced from 10% to 5%.

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## FTB and Family Payments Adjustments

From 1 July 2011, families in receipt of Family Tax Benefit Part A will be eligible for an advance of up to 7.5%, up to a maximum of \$1,000 of their annual Family Tax Benefit Part A entitlement.

Indexation of the FTB Part A and B supplements will be suspended for 3 years. Indexation of family payment higher income thresholds and limits will also be paused at their current level until 1 July 2014 rather than being CPI indexed.

From 1 January 2012, the eligibility for Family Tax Benefit Part A will be limited to children up to the age of 21 years.

## Medicare Levy Thresholds Increased

From 1 July 2010, the Medicare levy low-income thresholds will be increased for singles to \$18,839 (up from \$18,488) and to \$31,789 for those who are members of a family (up from \$31,196).

The additional amount of threshold for each dependent child or student will also be increased to \$2,919 (from \$2,865).

## Personal Tax Rates

The Government did not make any changes to the currently legislated tax rates which apply for the 2010/11 and later years noting that the Flood Levy will apply in the 2011/12 income year. A table comparing these rates is set out below:

Personal Marginal Tax Rates Comparison (Flood Levy)			
Current, and from 1 July 2011 (not subject to Flood Levy)		2011/12 (subject to 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

## Small Business Tax

The Government will provide Australian small businesses with an instant tax write-off of the first \$5,000 of any motor vehicle purchased from 2012/13. This is in addition to the Government proposed tax reforms for small businesses to be introduced 2012/13 that would allow:

- An immediate write-off of all assets valued at under \$5,000 (up from \$1,000 presently);
- A write-off of all other assets (except buildings) in a single depreciation pool at a rate of 30%. Currently small businesses allocate assets to two different depreciation pools, with 2 different depreciation rates (30% and 5%); and
- A reduction in company tax rate to 29% for incorporated small businesses.

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## CORPORATE TAX

### More Flexible Loss Recoupment Rules

The continuity of ownership test (COT) rules restrict the recoupment of losses by companies whose ownership has changed.

The COT rules will be amended such that companies need not trace owners through certain superannuation entities. The amendments will also remove technical deficiencies in the modified rules for widely held entities in certain circumstances.

These amendments will be effective from the 2011/2012 income year.

## CAPITAL GAINS TAX

### Small Business CGT Concessions

Trusts will not be able to avoid being treated as connected entities for the purpose of testing eligibility for the CGT small business concessions on the basis that trusts do not own assets for their own benefit. The changes will also ensure that some small businesses will be able to access the concessions because the changes will make their business assets "active".

This measure will have effect for CGT events happening after 7:30pm (AEST) on 10 May 2011.

### CGT Exemption for Renewable Resources or Environmental Benefits

Gains or losses arising from a right to a financial incentive granted to taxpayers under an Australian government scheme that encourages taxpayers to acquire renewable resource assets or to agree to preserve a part of Australia's environmental amenity will be exempt from CGT.

The measure will apply to income tax assessments for the 2007/08 and later income years.

## Special Disability Trusts and CGT

The government will extend the 2009/10 Budget measure that provides a CGT main residence exemption to special disability trusts (SDTs). This concession applies where a dwelling owned by an SDT is used by a principal beneficiary as their main residence.

Equivalent taxation treatment will be provided to SDTs established under different Acts.

There will be a CGT exemption for assets transferred into a SDT for no consideration. For certain transfers, the transferor will disregard any gains or losses on the asset when it is transferred into the SDT.

These changes will apply from the 2006/07 income year to align with the time when SDTs were first able to be established.

## FRINGE BENEFITS TAX

### Statutory Formula Reforms for Car Fringe Benefits

Over the next four years, the existing statutory fractions ranging from 7% to 25% applied when working out the taxable value of a car fringe benefit using the "statutory formula" method will be phased out and replaced by a flat rate of 20%.

Under this method, the taxable value of a car fringe benefit depends on the relevant statutory fraction applied to the cost of the car. Currently, this statutory fraction decreases as the distance travelled by the vehicle increases. The new flat rate of 20% will apply regardless of the distance travelled through the year, removing the incentive for people to drive more than necessary to access higher tax concessions.

This measure will apply to new vehicle contracts entered into after 7:30pm (AEST) on 10 May 2011 and will then be phased in over four years as shown below:

Distance Travelled	From 10/5/11	From 1/4/12	From 1/4/13	From 1/4/14
0-15,000 km	0.20	0.20	0.20	0.20
15-25,000 km	0.20	0.20	0.20	0.20
25-40,000 km	0.14	0.17	0.20	0.20
> 40,000 km	0.10	0.13	0.17	0.20

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## SUPERANNUATION

### Refund of Excess Concessional Contributions

Eligible individuals will be provided with the option of having 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 in a year and is only available for breaches in respect of 2011/12 or later years, and only for the first year in which a breach occurs.

### Higher Superannuation Contributions Cap for over 50s

The government will set the higher concessional superannuation contributions cap for eligible individual aged 50 and over with total superannuation balances of less than \$500,000 due to apply from 1 July 2011 to \$25,000 above the general concessional cap (currently \$25,000). This measure clarifies the operation of the higher cap for the over 50s which was introduced in the 2010/11 Budget. .

### Superannuation Information on Payslips

Employees will receive information on their payslips about the amount of superannuation actually paid into their account; and employees and employers will receive quarterly notification from their superannuation fund if regular payments cease, with effect from 1 July 2012.

### Reduction in Minimum Payment Amounts for Account-Based Pensions in 2011/12

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 pensions will be reduced by 25% for 2011/12 and will return to normal in 2012/13.

### Freeze on Superannuation Co-contribution Indexation Extended

The government will continue the freeze for an additional year to 2012/13, of the indexation applied on the income threshold above which the maximum superannuation co-contribution begins to phase down. The threshold will be frozen at \$31,920.

## TAX ADMINISTRATION

### PAYG Instalment Payers: GDP Adjustment Method

The GDP adjustment factor for PAYG instalment taxpayers who use the GDP adjustment method will be reduced from 8% to 4% for the 2011/12 income year.

The GDP adjustment factor for the PAYG instalment taxpayers increases the previous year's adjusted taxable income by the previous year's nominal GDP growth, to determine the tax instalments to be paid in the income year.

### Tax Compliance Improvements

In an effort to improve tax compliance, various measures will be introduced as follows:

- Tax law to counter fraudulent phoenix activity will be strengthened. With effect from 1 July 2011, the director penalty regime will be expanded, including making company directors personally liable for unpaid employee superannuation and being prevented from using their individual withholding credits if the company has withholding amounts owing to the Tax Office.
- With effect from 1 July 2012, certain businesses will be required to annually report payments to contractors in the building and construction industry.
- The Tax Office will be provided with additional resources to enhance refund fraud detection and monitor accounting of government grants and payments.
- The Government will also publicly consult on the introduction of a reporting regime for payments to contractors in the commercial cleaning industry.

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