

Beans & Business



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Budget 2011 Edition

Federal Budget 2011/2012 Summary of key points

Compared with previous budgets the 2011/2012 Federal budget aims for subtle adjustments rather than significant changes. A perceptible focus on increasing workforce participation as well as tightening eligibility for a range of welfare and family assistance payment is also evident.

Small business will benefit from additional depreciation concessions including access to an immediate write-off of assets costing \$5000.00 or less as well as being able to claim \$5,000 outright in the year of purchase of a business motor vehicle. The reduction by 1% in the company tax rate to 29% in the 2013 income year, whilst reducing company tax payable on profits, will also reduce the maximum franking credit percentage that can be attached to dividends to 29%.

The move to a single 20% statutory rate for calculating car fringe benefits will affect many employers and will mean a greater number opting to use the operating cost method to calculate the fringe benefits tax liability.

In response to an increase in distributions to minors, (particularly from family discretionary trusts), due to increases to the low income tax offset, (LITO), minors will no longer be able to utilise the LITO to reduce tax payable on unearned, (investment), income.

Further details are outlined below

Individuals and families

- The government will limit the ability of minors (children under 18 years of age) to access the LITO to reduce tax payable on their unearned income, such as dividends, interest, rent, royalties and other income from property, (such as distributions from family trusts), with effect from 1 July 2011. This measure is designed to discourage income splitting between adults and 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.
- The rebate for dependent spouses aged less than 40, (ie born after 1 July 1971), will be phased out to help encourage more Australians into paid employment. Taxpayers with an invalid or permanently disabled spouse, supporting a carer, or people who are eligible for Family Tax Benefit Part B, zone, overseas forces and overseas civilian tax offsets will not be affected by this change.
- 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% of their LITO benefit will still be paid as a lump sum on assessment of income tax returns. This measure will have effect from 1 July 2011.
- From 1 July 2011, self-education expenses will no longer be deductible against all government assistance payments.

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- 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%.
- Indexation of the Family Tax Benefit (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 FTB Part A will be limited to children up to the age of 21 years, as young people aged 22 and over are considered independent. When a child turns 22 years of age, parents will no longer be able to receive FTB Part A for that child but the child may be eligible to receive Youth Allowance subject to usual means testing and academic progress rules.
- From 1 July 2011, families in receipt of Family Tax Benefit (FTB) Part A 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. Payment of advances will be subject to an assessment of a family's ability to repay the advance without falling into financial hardship. Advances can be taken at any point throughout the year.

Small Business

- 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 new write-off is in addition to the Government's proposed tax reforms for small businesses to be introduced in 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 2 different depreciation pools, with 2 different depreciation rates (30% and 5%); and
 - a reduction in 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.

The Government will abolish the Entrepreneurs' Tax Offset (ETO), with effect from the 2012-13 income year.

Capital Gains Tax

- The rules governing access to the small business CGT concessions will be tightened for trusts and broadened for some small businesses.
- 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. These changes will also ensure that some small businesses will be able to access the concessions because the changes will make their business assets "active".
- Minor amendments will be made to the tax laws to ensure the CGT provisions operate as intended. including legislating the current Tax Office practice of allowing a testamentary trust to distribute an asset of the deceased person without a CGT taxing point occurring.
- Gains or losses from renewable resource assets or preserving environmental amenity will be CGT exempt.
- Various concessions will apply to special disability trusts to make them more beneficial to families. 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

- **FBT**
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- A flat rate of 20% will replace the scale of statutory rates currently used to calculate the taxable value of a car fringe benefit under the "statutory formula" method.
- Over the next four years, the existing statutory fractions ranging from 7% to 26% 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 the "statutory formula" 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 during the year, removing the incentive for people to drive more than necessary to access higher tax concessions.
- The 20% flat rate will only apply to new vehicle contracts entered into after 7:30 pm (AEST) on 10 May 2011, and will be phased in over four years as shown in the table below.

Statutory rate (multiplied by the cost of the car to determine a person's car fringe benefit) applied to new contracts entered into after 7:30pm (AEST) on 10 May 2011

Distance travelled during the FBT year (1 April - 31 March)	From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 - 15,000 km	0.20	0.20	0.20	0.20
15,000 - 25,000 km	0.20	0.20	0.20	0.20
25,000 - 40,000 km	0.14	0.17	0.20	0.20
More than 40,000 km	0.10	0.13	0.17	0.20

Superannuation

- 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. This measure will likely bring relief to around 80 per cent of future breaches of the concessional caps.
- 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 years, and only for the first year, commencing from 2011/12, in which a breach occurs.
- 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 set the higher concessional superannuation contributions cap for eligible individuals aged 50 and over with total superannuation balances of less than \$500,000, due to apply from 1 July 2012, to \$25,000 above the general concessional cap.
- 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.
- 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.
- The freeze to the indexation of the income threshold for superannuation co-contribution purposes will be extended for an additional year to 2012/13.

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% (which is the rate that would apply for the 2011/12 income year under the current law) 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. The GDP adjustment method is used by the overwhelming majority of taxpayers required to pay quarterly income tax instalments, mainly small businesses, but also some individual investors, certain trustees and small superannuation funds.

Tax compliance improvements

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

With effect from 1 July 2012, certain businesses will be required to report payments to contractors in the building and construction industry annually.

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.

The Tax Office will be provided with additional resources to, among other things, enhance refund fraud detection and monitor accounting of government grants and payments.

Minor tax law amendments

- The government will make various minor amendments to the tax law as follows:

The Commissioner will have the discretion to extend the two-year ownership period by which a trustee of a deceased estate or its beneficiary must dispose of their interest in the deceased's dwelling to have access to the full capital gains tax main residence exemption or a greater partial exemption.

A parent or guardian of a self-managed superannuation fund member who is a minor can be a director of that fund's body corporate trustee.