

2011-12 FEDERAL BUDGET REPORT

On 10 May 2011, the Federal Treasurer, the Hon Wayne Swan MP, handed down the 2011-12 Federal Budget. While pre-Budget speculation was of a tough Budget, there was a mixture of taxation and related announcements that will both please and frustrate taxpayers. There were a large number of tax changes announced covering areas such as superannuation, income tax, CGT, GST, FBT and charities.

Detailed below are a number of the superannuation and taxation measures announced.

SUPERANNUATION

\$50,000 concessional contributions cap for those over 50

Currently there is a transitional concessional contributions cap of \$50,000, for those aged 50 or over, which ends on 30 June 2012.

The Government has reconfirmed their intention to replace this from 1 July 2012, with a concessional contributions cap of \$50,000, provided the individual is aged 50 or over and has less than \$500,000 in superannuation. Unlike the current transitional cap which is fixed at \$50,000, the new cap will increase over time, remaining \$25,000 higher than the standard concessional contributions cap for those under 50 years of age.

Key Considerations

The Government has not released any further details on how the \$500,000 balance is to be calculated and whether or not it will count back withdrawals and/or pension payments.

Refund of Excess concessional contributions

Effective 1 July 2011, for those who breach their concessional contributions cap by less than \$10,000, there will be a one off opportunity to have their excess contributions refunded from their superannuation Fund and taxed as income at their marginal rate as opposed to 46.5%.

The \$10,000 threshold will not be indexed and is available for breaches in respect of contributions made in the 2011-12 financial year or later years. The refund is only available in the first year an individual breaches their cap by less than \$10,000 from the 2011/12 financial year.

The introduction of the measure is intended to reduce the number of individuals who breach the cap and to avoid penalising less significant and inadvertent breaches.



Key Considerations

This measure provides no relief to individuals who may have incurred excess contributions tax by breaching the concessional contribution cap in the 2007/08, 2008/09, 2009/10 and 2010/11 financial years. It will also provide no relief for individuals who inadvertently breach their non-concessional contribution cap either before or after 1 July 2011.

Clients who fall into this scenario will need to assess their tax position to determine the impact of having the refunded excess contribution amount included as income (and potentially submitting an amended tax return) before deciding to utilise this option.

Current minimum pension reduction to be phased out

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.

Age	Percentage of account Balance		
	2010/2011	2011/2012	2012/2013
Under 65	2.00%	3.00%	4.00%
65-74	2.50%	3.75%	5.00%
75-79	3.00%	4.50%	6.00%
80-84	3.50%	5.25%	7.00%
85-89	4.50%	6.75%	9.00%
90-94	5.50%	8.25%	11.00%
95 or more	7.00%	10.50%	14.00%

Key Considerations

The increase in minimum pension minimums from 1 July 2012 may have the following affects on:

- Age pensioners - for those who are income tested, their Government pension entitlements may decrease*
- Aged under 60 – may result in higher taxable income and thus greater tax (and flood levy)*
- Those in transition to retirement strategies – may need to review salary sacrifice arrangements to optimise cash flow and tax position*

No indexation to Co-Contribution income thresholds

Start date 1 July 2012

The Government has determined that the lower co-contribution threshold will remain frozen at the current level of \$31,920 for another (or third) financial year.



Stronger Super measures

The following Stronger Super measures were reconfirmed in the Budget and funding has been allocated where required.

- The Government will provide funding to the ATO and ASIC to implement the Stronger Super self managed superannuation Fund reforms including the introduction of a new administrative penalty framework, improved data collection and an improved SMSF registration process. The cost of these changes will be funded by an increase in the self managed superannuation fund levy. The levy will increase from \$150 to \$180 with effect from the 2010/11 financial year.
- From 1 July 2011 superannuation funds will be able to use tax file numbers to locate member accounts and to facilitate the consolidation of multiple member accounts. This measure will also assist superannuation funds to carry out more efficient consolidation of multiple member accounts, with effect from 1 January 2012 (if the regulations do not proclaim earlier).
- From 1 July 2012 employers will be required to report on employee's payslips the amount of superannuation actually paid into the employee's superannuation account. Superannuation funds will also be required from 1 July 2012 to provide quarterly notification to employers and employees if regular superannuation contributions cease.
- Government funding will be provided to APRA and ASIC to introduce MySuper (a simple, low cost default superannuation product).
- The Government will provide funding to the ATO to implement a mechanism for members to view their super accounts that have been reported to the ATO and to begin to undertake detailed design of ATO IT systems to support SuperStream (a package of measures designed to improve the efficiency of superannuation administration)



TAXATION

No Change in Personal Income Tax Rates and Thresholds

Effective date: 1 July 2011

Current income tax rates and thresholds for residents and non-residents will continue to apply for 2011/12. The rates applying to resident taxpayers are shown in the table below.

1 July 2010 and later years	
Taxable income	Rate
0- \$6,000	0%
\$6,001- \$37,000	15%
\$37,001- \$80,000	30%
\$80,001- \$180,000	37%
\$180,001+	45%

These rates apply to Australian residents for taxation purposes and do not include the Medicare Levy of 1.5%

The Low Income Tax Offset will also remain unchanged at \$1,500 for 2011/12, phasing out after \$30,000 by 0.04 cents in the dollar to a maximum of \$67,500.

There will also be no change to the amount of income that a Senior Australian Tax Offset (SATO) recipient can receive without paying tax. In 2011/12 a single pensioner can receive up to \$30,684 tax free and a couple can receive up to \$53,360 (combined).

Increase in the Medicare Levy low income thresholds

The Government has announced new Medicare levy thresholds that are applicable for the current financial year (ending 30 June 2011). These are \$18,839 for individuals (previously \$18,488) and \$31,789 for families (previously \$31,196). The increase on these thresholds for each dependent child or student will be \$2,919. The low income threshold for single pensioners below age pension age has been increased to \$30,439 (previously \$27,697) for the year ending 30 June 2010. This will ensure such pensioners do not pay the Medicare Levy when they do not have an income tax liability.

Changes to the operation of the Low Income Tax Offset

From 1 July 2011, those under the age of 18 will no longer be eligible to access the LITO, currently worth a maximum benefit of \$1,500, to reduce tax payable on their unearned income (ie effectively income from non employment sources). This change does not impact on income earned from inheritances or distributed from testamentary trusts.



The most significant impact will be in relation to distributions to minors from family trusts – a widely used strategy to reduce the overall level of tax paid on distributions from these trusts.

For other taxpayers who remain eligible for the LITO and have tax withheld from wage payments throughout the year, changes to the existing PAYG withholding rules will be made to pass more of the benefit of the future LITO entitlement back through regular payments. This will provide up to \$300 additional income during the year, with any adjustments for “overpayments” being addressed through annual tax return lodgements.

Phase out and removal of dependent spouse rebate

The Government has announced that the dependent spouse rebate will be removed for taxpayers who have a dependant spouse born on or after 1 July 1971 (ie aged 40 or less on or after 1 July 2011) effective 1 July 2011. The intent is that the removal of this offset benefit will result in the spouse actively looking to rejoin the workforce.

The offset will remain available where the taxpayer:

- has a spouse who is age 40 or over on 1 July 2011,
- has a spouse who is an invalid or permanently disabled,
- is supporting a carer, or is eligible for the zone, overseas forces and overseas civilian tax offsets.

Please do not hesitate to contact Evolution Super on 08 8271 2711 for further information

Sources:

- BT Financial Group 2011 Federal Budget De-Brief released 11 May 2011
- www.budget.gov.au

