

2011 Federal Budget

GFA Summary



Accountants & Business Advisers

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EXECUTIVE SUMMARY

2011-12 Federal Budget: \$45.7bn deficit, and many tax changes

While pre-Budget speculation was of a tough, even possibly austere, Budget, there was a mixture of taxation and related announcements that will both please and annoy taxpayers. There were a large number of tax changes announced covering areas such as superannuation, income tax, CGT, GST, FBT and charities. An outline of the major announcements is given in the report following.

Economic outlook

-by Thomson Reuters

For 2010-11, the deficit is estimated to be \$45.7bn, with the estimate for 2011-12 of a \$20.3bn deficit. The Treasurer said the Government "can return the Budget to surplus in 2012-13, despite recent natural disaster", and he predicted a surplus of \$3.5bn in 2012-13.

The Treasurer said the floods and Cyclone Yasi will cost the economy \$9bn in lost output and reduce real GDP growth by 1/2 of a percentage point in 2010-11. Mr Swan said the impact of disasters in New Zealand and Japan will increase this impact to 3/4 of a percentage point this year. In its Budget submission, the Institute of Chartered Accountants in Australia had recommended the creation of a permanent natural disaster relief fund to guard against the future need for one-off taxes, such as the recently enacted flood levy. The Institute's Tax Counsel, Yasser El-Ansary, said that although the Government had not adopted the Institute's submission, an opportunity now exists for it to be considered as part of the October tax forum.

Mr Swan also said that tax receipts had been revised down by \$16bn over the first 2 budget years, taking the total estimated revenue loss from the GFC to around \$130bn over 5 years. The Treasurer forecast an underlying cash deficit of \$22.6bn (1.5% of GDP) in 2011-12.

In the longer term, the Treasurer said the outlook for the economy in the years ahead is "very bright and Australians have good cause to be optimistic". He said the economy is forecast to grow at an "above-trend rate over the next 2 years, driven by an investment surge in the resources sector". Mr Swan said real GDP growth is forecast to increase to 4% in 2011-12 and 3.75% in 2012-13.

The Institute's Mr El-Ansary said that if the uneven performance of the manufacturing, services and retail sectors do not improve as quickly as the Government anticipates, the forecast return to surplus will be under threat.

Revenue measures announced

The major revenue measures proposed in the Budget included:

- significant tax changes affecting charities;
- superannuation: excess super contributions tax problem addressed; concessional contributions; minimum pension drawdowns - 25% reduction;
- Govt overcomes High Court Anstis decision on self-education expenses;
- small businesses to get tax deduction of \$5,000 for motor vehicles;
- FBT valuation method for cars to be one rate - 20% (phased in over 4 years);
- amendments re company loss recoupment rules;
- minors will no longer be entitled to low income tax offset on unearned income;
- CGT amendments: small business tax concessions; main residence exemption; trading stock; incentives for renewable resources;
- GST amendments: property in possession of mortgagee; supplies to health insurers; instalment system for small businesses;
- increase in Medicare levy thresholds;
- dependant spouse rebate for under 40s to be phased out;
- early access to be allowed to FMDs.

Budget seeks to harness mining boom, avoid inflation risk

- by Reuters News

The Budget sets a course for a small surplus in 2012-13, while seeking to alleviate labour shortages that threaten to fuel inflation as Australia rides an historic Asia-led resources boom.

Treasurer Wayne Swan said Australia, the only major developed nation to avoid recession during the global financial crisis, now faced major hurdles in handling the biggest resources boom in its history, a soaring Australian dollar and a 2-speed economy which has left non-mining industries struggling. "With the investment pipeline ramping up and unemployment falling, the boom will test our economy and our workforce, and price pressures will re-emerge," Swan told Parliament in delivering the 2011-12 budget.

"We need to bring our budget back into surplus in 2012-13 so as not to compound price pressures from a mining boom we have not witnessed before in our history." The Reserve Bank of Australia has warned interest rates - already up 7 times since late 2009 - will have to rise to keep a lid on inflation. Underlying inflation has already

bottomed out at just over 2% and the bank sees it rising to the upper end of its 3% target by the end of 2011.

Prime Minister Julia Gillard rules in a minority, but a handful of independent and Greens MPs have pledged not to block the budget, and bring the government down, but will seek some concession in return for continued support on other Labor policies like a planned mining tax and carbon price. "The economy cries out for workers. Just as our focus on jobs helped Australia beat the global financial recession, so too can a focus on jobs ensure we maximise our advantage in the Asian century," Swan said. Unemployment is nearing 4.5%, a level considered full employment, threatening to overheat the jobs market, fuel wage inflation and threaten the viability of key resource investments.

Deficit envy

"Our public debt is a tiny fraction of that carried by comparable economies, our fiscal position the envy of the developed world," said Swan. The Treasurer predicted the deficit would total \$49.4bn in 2010-11 - 3.6% of GDP - then more than halve to \$22.65bn in 2011-12 before hitting a surplus of \$3.5bn in 2012-13, in part with the aid of a planned mining tax. Australia's 2011-12 deficit is projected at 1.5% of GDP, well below the 10.8% forecast for the United States and the 8.6% expected for the United Kingdom. The government capped spending growth at 2% in 2011-12, but this comes as its economic stimulus packages during the global financial crisis come to an end and it will be more difficult to keep spending down in future years. Any major fall in commodity prices or a sustained appreciation in the local dollar could threaten Australia's narrow 2012-13 surplus forecast, say economists.

Australia's economy is forecast to grow by 4% in 2011-12 and 3.75% in 2012-13, after recovering from a series of natural disasters in 2011 which chopped 0.75 percentage points off growth. Many of Australia's major miners, like BHP Billiton, Rio Tinto Ltd and Xstrata, were forced to curb iron ore and coal mining and exports after floods and cyclones flooded pits, damaged transport lines and closed ports. Australia is the world's biggest exporter of iron ore and coking coal. Its biggest miners have placed big bets on the commodities boom, committing over \$130bn over the next 5 years.

Jobs, jobs, jobs

Australia's economy is benefiting from a record terms of trade and climbing dollar - up 19% in the past year to

A\$1.07 to the US - but it has created a "two-speed" economy. Mining investment will rise to \$76bn in 2011-12, benefiting the resource dependent states of Queensland and Western Australia, but the sector employ less than 2% of Australia's workforce. "For some talk of an investment boom seems divorced from reality. Wages are growing, yet many live pay cheque to pay cheque. Not every region prospers," Swan said.

Economists say Australia's mining boom is masking the state of the real economy, with weakness becoming entrenched in key sectors such as retail, housing and construction. The non-mining sectors make up 90% of the economy and struggling with rising interest rates, the high dollar, rising oil prices and a fall in consumer confidence. In the past year, 300,000 jobs were created and the unemployment rate was forecast to fall further to 4.5% by mid-2013, creating another half a million jobs, said Swan. "The centrepiece of this budget is jobs, jobs and jobs," he said. But total skilled migration will only rise by 10,000 to 125,850 in 2011-12 and net migration will be static at around 180,000. The government's own employment department has said Australia needs almost 1.3m workers by 2015-16.

Budget political risk

Gillard's one-seat majority government, reliant for its existence on a handful of rural MPs, allocated \$36bn for road, rail and port infrastructure and \$4.3bn for regional hospitals, health care, universities and roads. "This budget delivers for regional Australia like no budget before it," said Swan, a comment directed squarely at those key regional MPs who only agreed to back the Labor government after it committed to increase spending on rural Australia. The Greens party will control the balance of power in the Senate from 1 July 2011 and its support is crucial if the government is to introduce its 30% mining profits tax, which is expected to raise \$7.7bn in the first 2 years from July 2012, and a carbon price to cut greenhouse gas emissions. Struggling in opinion polls, but with no election due until 2013, Gillard will be hoping this budget will convince voters her government is a good economic manager and shore up its minority government. "It's got to the point that this budget is a survival test for the Gillard government," Dennis Shanahan, political editor of The Australian newspaper wrote on 10 May 2011. (Written by Michael Perry; Additional reporting James Grubel, Victoria Thieberger; Editing by Balazs Koranyi and Terry Hayes.)

Tax

Low income tax offset upfront changes

Effective from 1 July 2011

More of the low income tax offset (LITO) will be received during the financial year via reduced PAYG obligations. The aim is to increase cashflow during the financial year for taxpayers.

Currently, taxpayers receive 50% of LITO upfront via reduced PAYG obligations, that is, 50% of LITO is already factored into the PAYG withholding schedules. The remaining amount of LITO is received when the tax return is lodged, whereby the ATO balance the tax withheld against a client's overall liability including LITO.

The Government proposes to increase the rate of LITO to be received during the financial year from 50% to 70%. The Government estimates a taxpayer earning \$30,000 pa will receive an extra \$300 during the year in their regular pay, rather than receiving this amount via their tax return.

There are no changes to the amount of LITO (\$1,500) and the income thresholds (\$30,000 and \$67,500).

Implications for our clients:

- More of LITO is received during the financial year, rather than at the end of the financial year

Low income tax offset scaled back for minors

Effective from 1 July 2011

From 1 July 2011 minors will no longer have access to the low income tax offset for non-working (unearned) income that is taxed at penalty rates, e.g. dividends, interest, rent, royalties or trust distributions.

Non-working income up to \$416 would be tax-free under the changes. Any non-working income exceeding this threshold would incur punitive tax rates for minors.

Non-working income of minors who are orphans or disabled, as well as compensation payments and inheritances received by minors will not be affected.

Minors will continue to be able to use the low income tax offset to reduce tax on working income.

Implications for our clients:

- The strategy to make trust distributions or hold investments in the name of minors must be reviewed. It may be more tax effective to include the spouse or other entities in these arrangements, rather than minors
- This means the effective tax free threshold of

\$3,333 on unearned income will no longer apply. Any unearned income exceeding \$416 would result in tax at the top marginal tax rate on all unearned income

- Insurance bonds may be a tax effective savings vehicle in such circumstances

Small business proposals

Effective from 1 July 2012

Small businesses will receive an instant tax deduction for the first \$5,000 of the purchase price of a motor vehicle purchased from 2012/13.

The Government has announced a number of other small business proposals including:

- Cancellation of the Entrepreneurs' tax offset
- An immediate deduction for the purchase of all new business assets valued at under \$5,000 (increased from the current level of \$1,000)
- A deduction for all other business assets (except buildings) in a single depreciation pool at a rate of 30%. Small businesses currently allocate assets to two different depreciation pools, with two different depreciation rates (30% and 5%)
- A reduction in company tax rate to 29% for incorporated small businesses.

Implications for our clients:

- The tax deduction and reduced small business company tax rate aim to improve cash flows and help small business clients
- The removal of the Entrepreneurs' tax offset may increase your tax liability

Dependent spouse tax offset phased out

Effective from 1 July 2011

The tax offset for a dependent spouse born on or after 1 July 1971 (aged less than 40 for 2011/12 financial year) will be removed. The intention is to encourage more Australians into paid employment.

The tax offset continues to be available where one or more of the following applies:

- The dependant spouse is born before 1 July 1971
- The dependant spouse is a carer, an invalid or permanently unable to work
- The taxpayer has children eligible for Family Tax Benefit Part B
- the taxpayer is eligible for zone, overseas forces or overseas civilian tax offset.

Farm Management Deposits

Effective immediately

The Government will allow primary producers affected by natural disasters to access their farm management deposits (FMDs) within 12 months of making a deposit while retaining concessional tax treatment under the scheme.

FMD accounts that haven't been operated for at least seven years are only treated as unclaimed monies if the financial institution is unable to contact the FMD holder.

Further administrative changes will be introduced to permit primary producers to hold FMDs with more than one financial institution.

Implications for our clients:

- Greater access for primary producers affected by natural disasters

30% private health insurance rebate to be income tested

Effective from Royal Assent

Although not formally announced in the Budget, Treasury officials have confirmed that the Government plans to re-introduce a package of Bills (possibly in the Budget session) to income test the 30% private health insurance rebate.

The measures will be essentially the same as the Bills that were defeated in the Senate in February and March 2010, although it is understood the threshold levels will be indexed upwards (as originally proposed).

The essence of the proposed changes was to effectively income test the private health insurance rebate. The Fairer Private Health Insurance Incentives Bill 2009 [No 2] proposed to introduce 3 new "Private Health Insurance Incentive Tiers":

- Tier 1: Singles earning between \$75,001 and \$90,000 and couples/families earning between \$150,001 and \$180,000 would receive a 20% private health insurance rebate if they are aged up to 65 years (25% if they are aged over 65, and 30% if they are aged 70 years or over).
- Tier 2: Singles earning between \$90,001 and \$120,000 and couples/families earning between \$180,001 and \$240,000 would receive a 10% private health insurance rebate if they are aged up to 65 years (15% if they are aged over 65 and 20% if they are aged 70 years or over).
- Tier 3: Singles earning above \$120,000 and couples/families earning above \$240,000 would not receive any private health insurance rebate, regardless of age.

The defeated Bills had also proposed to increase the rate of Medicare levy surcharge that certain taxpayers would be liable for when they have income for surcharge purposes above specified thresholds and do not have complying health insurance:

Singles earning between \$90,001 and \$120,000 and couples/families earning between \$180,001 and \$240,000 would have been liable for a 1.25% Medicare levy surcharge.

Singles earning above \$120,000 and couples/families earning above \$240,000 would have been liable for a 1.5% Medicare levy surcharge.

The fate of the Bills will probably rest with the Independents in the House of Reps, as the Greens have previously stated they are opposed to the private health insurance rebate, so it could be expected that any re-introduced Bills may obtain Greens approval in the Senate (especially if the Bills are debated in the Senate after 1 July 2011).

Reforms to car FBT rules

Effective from 10 May 2011

The Government has announced a change to the fringe benefit tax (FBT) treatment of cars and will replace the current sliding rate scale under the statutory method with a single flat rate of 20%.

The changes will apply to all new vehicle contracts entered into after 10 May 2011 and will be phased in over four years.

Distance travelled in FBT year	Statutory rate (multiplied by the cost of the car to determine a person's car fringe benefit)				
	Current rate	From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 – 15,000 km	26%	20%	20%	20%	20%
15,000 – 25,000 km	20%	20%	20%	20%	20%
25,000 – 40,000 km	11%	14%	17%	20%	20%
More than 40,000 km	7%	10%	13%	17%	20%

There are two methods of calculating the taxable value of car fringe benefits – the statutory method and the operating cost method. The proposed changes to the statutory method will benefit people who travel less than 15,000 km per year and will maintain the current tax concessions for people who travel between 15,000 km and 25,000 km per year. There will be a decrease to the tax concessions provided under the statutory method for those who travel more than 25,000 km per year. However they still have the option of using the operating cost, or log book method.

Implications for our clients:

- Existing contracts are protected from the proposals and continue as per the current rules
- For any new contracts created from 10 May 2011, the Government has reduced the incentive for employees to drive their vehicle for long distances to obtain a larger tax concession

Deceased Estates and Main Residence Exemption

Under the current law the trustee of a deceased estate is required to dispose of the main residence of the deceased within two years of death. The Commissioner of Taxation will be provided with discretion to extend the two year period for full or partial disposal of the main residence.

Medicare levy low income thresholds

The Medicare levy thresholds are proposed to change for low income earners. The Medicare levy is based on taxable income (excluding any lump sum super payments counting towards the low rate cap). Medicare levy will not be payable until the following income thresholds are breached:

	2009/10	2010/11
Single	\$18,488	\$18,839
Family	\$31,196	\$31,789

\$2,919 can be added for each dependent child or student (up from \$2,865). The thresholds will also move for those pensioners below age pension age from \$27,697 to \$30,439.

Minor change to the small business CGT concessions

There is to be a minor change to the rules for qualifying for the small business CGT concessions so that a company will be treated as a small business concession holder in situations where shares are jointly held in a company and where there has been no distribution from

a discretionary trust because of a tax loss or no net income for a year.

Improving the taxation of trust income

Effective from 1 July 2010

The Government will implement the recommendations of the Board of Taxation to take interim steps to improve the trust income tax provisions, with effect from 1 July 2010 while the Government updates and rewrites the trust income tax provisions of the Income Tax Assessment Act.

The Government will introduce legislation to:

- enable the streaming of capital gains and franked distributions; and
- target the use of low tax entities, especially exempt entities, to reduce the tax payable on the taxable income of a trust.

The measure will provide increased certainty and will reduce opportunities for taxpayers to manipulate their tax liabilities.

Further information relating to this measure was released by the Government in a Press Release of 13th April 2011.

Countering 'phoenix' activities

Effective from 1 July 2011

Tax laws will be strengthened to counter fraudulent 'phoenix' activity. This involves companies intentionally avoiding debt by liquidating after accumulating debts to improve their position.

Afterwards the business continues as a different entity but controlled by the same individuals or group but free of debts & obligations.

Measures include:

- Extension of the director penalty regime to Super Guarantee (SG) amounts, making directors personally liable for unpaid employee super;
- ATO power to start recovery against directors (without a grace period) for certain unpaid company liabilities that remain unreported after three months of becoming due; and
- In certain circumstances prevention of directors and their associates from obtaining credits for withheld amounts in their individual tax returns where the company has failed to pay withheld amounts to the ATO.

Implications for our clients:

- The proposal makes directors involved in such activities personally liable for their company's unpaid Superannuation Guarantee and open to ATO action for recovery of and prevention of tax credits for certain unpaid debts

Remove impediments to private investment in infrastructure

Effective from Royal Assent

The Government has proposed special taxation provisions for infrastructure projects of national significance designed to encourage private and superannuation sector investment. Losses generated by designated infrastructure projects will be exempt from the Continuity of Ownership Test and the Same Business Test and will be uplifted at the Government bond rate.

Implications for our clients:

- As a result of these measures, you may have an increased direct or indirect investment in designated infrastructure projects

Company loss recoupment rule amendments

Effective from 1 July 2011

The company loss recoupment rules will be amended to make it easier for companies to satisfy the continuity of ownership test in certain circumstances.

This measure will modify the continuity of ownership test so that ownership does not need to be traced through certain superannuation entities. It will also remove technical deficiencies in the modified rules for widely held entities where:

- an entity is interposed between certain stakeholders and the loss company in certain circumstances;
- an interposed entity demerges;
- an interposed foreign entity issues bearer depository receipts; or
- a corporate change arising from the issue of new shares happens.

The measure will also ensure that all membership interests held in an entity are treated as a single asset for the purpose of applying the low value asset exclusions under the loss integrity rules.

Company loss recoupment rule amendments

Retrospectively and later from 2008 tax returns

The Government will exempt from CGT any gains or losses arising from a right to a financial incentive granted to taxpayers under an Australian government (Commonwealth, State or Territory) scheme that encourages them to acquire renewable resource assets (e.g. photovoltaic solar cells or solar hot water systems) or for their agreeing to preserve a part of Australia's environmental amenity (e.g. for refraining from removing remnant vegetation). This measure will also turn off the income tax recoupment rules in relation to any underlying assets (e.g. a solar hot water system) to ensure that the incentive keeps its full financial value.

GST Instalment system for small businesses

Effective from Royal Assent

The Government will extend the current GST instalment system to allow access for small businesses that are in a net refund position.

The current legislation does not allow a business that is in a net refund position to pay GST by instalments. A business is in a net refund position when it is entitled to receive more input tax credits on its purchases than it is required to pay GST on its sales. This measure is intended to allow small businesses in a net refund position to choose to access the GST instalments system, with an instalment amount each quarter of zero. Any refunds or liability due to the taxpayer will be reconciled in their annual GST return.

Superannuation

Higher superannuation caps for anyone 50 and over

Effective from 1 July 2012

The Government has confirmed that from 1 July 2012 a higher concessional contributions cap will apply for anyone 50 and over who has total superannuation balances of less than \$500,000.

The higher cap for over 50s will always be \$25,000 above the standard cap, which applies to everyone.

When the general concessional cap increases because of indexation, the higher cap will increase by an additional \$25,000. Details of the calculation of the \$500,000 superannuation balance are currently being determined.

Example

Sam (age 54) has a total superannuation balance in his three superannuation funds of \$470,000 as at the relevant time. As the total of his superannuation balances is less than \$500,000 he is eligible to have total concessional contributions of \$25,000 under the general concessional cap plus additional concessional contributions of another \$25,000 made to superannuation.

One-off option to refund excess concessional contributions

Effective from 1 July 2011

From 1 July 2011 individuals who breach the concessional contributions cap by up to \$10,000 (not indexed) have the option of requesting that these excess contributions be refunded to them and taxed at their marginal rate instead of incurring excess contributions tax. This option is only available for the first breach commencing from 1 July 2011.

The Government will consult with the superannuation industry on how to implement this proposed measure.

This measure will assist clients who mistakenly breach the concessional contributions cap for the first time. But it does not address the ongoing problem faced by employees who breach the cap each year because multiple employers are making compulsory Superannuation Guarantee payments.

Example 1

Anne is 45 and has total Superannuation Guarantee (SG) and salary sacrifice contributions of \$24,500 for the 2011/12 financial year.

Her employer pays \$1,000 for the annual premium on her life and total and permanent disability (TPD) insurance held within her superannuation fund. This \$1,000 employer contribution is a concessional contribution (which Anne has not taken into account when planning the amount of her salary sacrifice contributions).

This means Anne's total concessional contributions are \$25,500, which exceed her concessional contributions cap of \$25,000 by \$500. As her excess contributions do not exceed \$10,000 and it is her first breach after 1 July 2011, she is able to request the \$500 excess contributions to be refunded to her and taxed at her marginal rate.

Example 2

Bob is 52 and intends to make the following contributions:

2011/12 financial year

- \$50,000 concessional contributions
- \$150,000 non-concessional contributions

2012/13 financial year

- \$450,000 non-concessional contributions

Inadvertently Bob doesn't factor in an additional SG payment of \$1,000 in the 2011/12 financial year from casual work. This means his total concessional contributions are \$51,000 for the 2011/12 year and the excess of \$1,000 counts towards his non-concessional contributions cap.

As a result, his non-concessional contributions for the 2011/12 year are \$151,000 and he has triggered the 3 year cap. The \$450,000 non-concessional contribution is now subject to the 3 year cap. The total excessive contributions tax is $(31.5\% \times \$1,000) + (46.5\% \times \$151,000) = \$70,530$.

Now under the proposed rules, Bob may opt to have his \$1,000 excess concessional contributions refunded and taxed at his marginal rate. Assuming his marginal tax rate is 46.5% his tax bill would only be \$465.

Implications for our clients:

- The proposal assists clients who inadvertently breach the concessional contributions cap by up to \$10,000 for the first time and who pay tax at a marginal rate lower than 46.5% or the excess results in a breach of the non-concessional contributions cap

Reduction in minimum amount for account based pensions for 2011/12

Effective from 1 July 2011

During the last three years the minimum amount of account based pensions and market linked income streams have been set at 50% of the 'standard rate' due to the impact of the Global Financial Crisis. For the 2011/12 financial year the minimum rate of these pensions will be reduced by 25% of the standard rate. After that time it is proposed to return the minimum amount of pensions to the standard rate.

Age as at 1 July	Standard Minimum Pension Rate	Minimum rate for 09-11 financial years	Minimum rate proposed for 2012 financial year
Under 65	4%	2%	3%
65 - 74	5%	2.5%	3.75%
75 - 79	6%	3%	4.5%
80 - 84	7%	3.5%	5.25%
85 - 89	9%	5%	6.75%
90 - 94	11%	6%	8.25%
95 and older	14%	7%	10.5%

Example

Barbara was age 62 on 1 July 2010 and the balance in her account based pension account was \$500,000. The minimum amount of her pension for the 2010/11 financial year is \$10,000 ($\$500,000 \times 2\%$). If we assume the balance in her account based pension account as at 1 July 2011 is \$450,000 the minimum account based pension would be \$13,500 ($\$450,000 \times 3\%$).

Limiting the CGT trading stock exemption

Effective from 7:30pm 10 May 2011

The Government will remove the trading stock exception for super funds for specified assets, with effect from 7.30 pm 10 May 2011. This will ensure that gains or losses on specified assets (primarily shares, units in a trust and land) are subject to CGT, consistent with CGT being the primary code for taxing gains and losses of complying superannuation entities.

This measure will be introduced to prohibit superannuation funds seeking to treat shares as trading stock, so as to deduct losses on their shares against income other than capital gains. Transitional rules will ensure that assets held or accounted for as trading stock before the time of announcement are unaffected.

Co-contribution income thresholds are not indexed

2010/11 and 2011/12 financial years

As announced in the 2010 Budget (and legislated in June 2010) the co-contribution income thresholds will not be indexed for the 2010/11 and 2011/12 financial years.

The lower income threshold (at which the co-contribution begins to reduce) remains at \$31,920 and the higher income threshold (at which the co-contribution cuts off) remains at \$61,920.

Indexation of the income thresholds is expected to recommence for the 2012/13 and later financial years.

Employer superannuation contributions on employee payslips

Effective from 1 July 2012

The Government proposes to ensure employees receive information on their payslip on the amount of employer contributions paid to their superannuation fund. This will assist employees keep track of whether their employer has met their Superannuation Guarantee obligations. In addition, it is proposed that superannuation funds will notify employees and employers on a quarterly basis if regular payments cease.

Implications for our clients:

- Employees will be able to keep track of their employer's contributions and to take action on any shortfalls
- Employers will need to comply with payslip reporting requirements and to take action if their superannuation fund reports that payments have ceased

Greater use of TFNs

Effective from 1 January 2011

The Government will allow superannuation fund trustees and retirement savings account (RSA) providers 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 superannuation industry administration by removing the existing requirement for fund trustees and RSA providers to use other methods of identification to locate accounts before TFNs can be used, with effect from 1 July 2011.

It will also assist fund trustees and RSA providers to carry out more efficient consolidation of multiple member accounts, with effect from 1 January 2012, if not proclaimed earlier.

Self Managed Super Funds

Trustees of SMSFs

Under the current provisions of the SIS legislation only parents or guardians of a child under age 18 can be trustees of a self managed superannuation fund in their personal capacity and not as directors of a corporate trustee. The legislation is to be amended to allow parents or guardians of a child to be directors of a corporate trustee of a self managed superannuation fund. This will correct the anomaly that currently exists.

Increase to SMSF levy

Effective from 2010/11 financial year

The self managed superannuation fund (SMSF) supervisory levy collected via the SMSF annual return will increase from \$150 to \$180 with effect from the 2010/11 financial year. The increase to the levy and auditor registration fees collected by the Government will be used to implement the SMSF reforms such as a new administrative penalty framework, registration of fund auditors and improvements to the SMSF registration process. More information on the reforms is available at www.strongersuper.treasury.gov.au

Limiting the trading stock exemption for super funds

Effective from 10 May 2011

The Government will remove the trading stock exception to the CGT primary code rule for complying superannuation entities for specified assets. This measure will ensure gains or losses on specified assets (primarily shares, units in a trust and land) are subject to CGT, consistent with CGT being the primary code for taxing gains and losses of complying superannuation entities. A small number of complying superannuation entities are seeking to treat shares as trading stock, so as to deduct losses on their shares against income other than capital gains.

Transitional rules will apply to ensure that assets held or accounted for as trading stock before the time of announcement are unaffected

Welfare

Family Tax Benefit Part A increased for 16 – 19 year olds

Effective from 1 January 2012

The maximum rate of Family Tax Benefit Part A for 16 – 19 year olds will be aligned with the 13 – 15 year old rate.

Based on current rates, this represents an increase of up to \$4,208 a year for 16 and 17 year olds, and up to \$3,741 a year for 18 and 19 year olds. The increase will only be available for families where the child is in full-time secondary study, or the vocational equivalent.

Implications for our clients:

- Clients with children aged 16 – 19 may have an increased Family Tax Benefit Part A of up to \$4,208 per eligible child. This increased cashflow may provide new investment opportunities.
- Currently, client's with children turning 16 may experience a drop in Family Tax Benefit Part A. This will cease from 1 January 2012.

Advanced payments of Family Tax Benefit Part A

Effective from 1 July 2011

Families may claim an advance payment of their Family Tax Benefit Part A entitlements of up to 7.5%, up to a maximum \$1,000. This advanced payment is repaid over 6 months by reducing future fortnightly Family Tax Benefit payments. An application for an advance

payment can be made at any time and are subject to the family's ability to repay the advance.

Families can apply to receive an advance on a regular basis, paid every six months (minimum \$160). One off advances may be taken in addition to a regular advance.

Implications for our clients:

- Advanced payments that may assist families with unexpected expenditure, subject to the family's ability to repay the advance payment
- Remember, advanced payments are repaid over 6 months by reducing future fortnightly Family Tax Benefit payments

Family Tax Benefit Part A and B Supplement frozen for 3 years

Effective from 1 July 2011

The Family Tax Benefit Part A and B incorporate a supplement of \$726.35 and \$354.05 respectively, paid at the end of the financial year. The rate of the supplement will be frozen for 3 years, to 1 July 2014. Ordinarily the supplement is indexed to the Consumer Price Index. Assuming CPI is 3% per annum, over the next 3 years, the rate of the supplement would have been indexed to:

Financial Year	Family Tax Benefit Part A – Supplement (per eligible child)	Family Tax Benefit Part B – Supplement
2010/11	\$726.35	\$354.05
2011/12	\$748.14	\$364.67
2012/13	\$770.58	\$375.61
2013/14	\$793.70	\$386.88

Implications for our clients:

- Assuming CPI is indexed at 3% and Family Tax Benefit Part A and B is payable for the full 3 years in respect of a child, the supplement would be reduced by \$133.38 per eligible child and \$65.01 for Family Tax Benefit Part A and B over the 3 years respectively

Family Tax Benefit Part A Supplement – pre-school health check

Effective from 1 July 2011

The Family Tax Benefit Part A supplement paid to parents with a child turning 4 will be conditional on the child undergoing a pre-school health assessment. The

health check must be completed within 2 years after the end of the year the child turns 4 before losing eligibility for the Family Tax Benefit Part A Supplement.

Implications for our clients:

- If the health check is not completed within 2 years after the end of the year the child turns 4 eligibility for the Family Tax Benefit Part A Supplement will be lost. Currently the Supplement is \$726.35 per annum

A range of tax and family assistance income thresholds and limits frozen for 3 years

Effective from 1 July 2011

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

- Family Tax Benefit Part B primary earner income limit will remain at \$150,000
- the dependency tax offsets income limit will remain at \$150,000
- the Baby Bonus income test will remain at \$75,000 of family income in the six months following the birth or adoption of a child
- the Paid Parental Leave primary carer income limit will remain at \$150,000 in the financial year before the birth or adoption of a child
- the higher income-free threshold of Family Tax Benefit Part A will remain at \$94,316 of family income with an additional \$3,796 provided for each child after the first.

Ordinarily these income thresholds and limits are indexed to the Consumer Price Index.

Implications for our clients:

- Freezing the income limits for Family Tax Benefit Part B, dependency tax offsets, Baby Bonus and Paid Parental Leave could have a significant impact on your client. A single dollar over these income limits and the entitlement is lost
- Over the next 3 years, Family Tax Benefit Part A may decrease for those with income exceeding \$94,316 (assuming their income increases)

Family Tax Benefit Part A ceasing when a child turns 22 years of age

Effective from 1 January 2012

Currently, Family Tax Benefit Part A can be received up to age 24 with respect to a dependant full time student. From 1 January 2012, parents will no longer be able to

receive Family Tax Benefit Part A when a child turns 22 years of age.

The child may qualify for Youth Allowance, subject to the usual eligibility criteria.

Implications for our clients:

- As a result of this measure, families may lose Family Tax Benefits Part A (currently \$2,518.50 for each eligible child between 18 - 24) for children turning 22 years of age on or after 1 January 2012. This could have a significant impact on a family's cashflow
- Children turning 22 may apply for Youth Allowance or Newstart Allowance

Alternate payment options for the Child Care Rebate

Effective from 1 July 2011

From 1 July 2011 the Child Care Rebate can be paid weekly or fortnightly (depending on when the child care service provider submits their approved child care service's usage report). Alternatively, the Child Care Rebate can be paid to the approved child care service provider and be passed on as reduced fees.

Actual entitlement to the Child Care Rebate will still be reconciled at the end of the financial year.

Weekly / fortnightly payments of the Child Care Rebate are reduced by 15% to avoid creating a debt at the end of the financial year.

An election to change the way in which the child care rebate will be paid applies to the following financial year, unless exceptional circumstances apply. During the 2011/12 financial year, it appears that exception circumstances include not being aware of the ability to change the method of payment.

Implications for our clients:

- You will need to review their financial position to determine which payment method of the Child Care Rebate best suits their financial needs

Commencement of paid Paternity Leave delayed

Effective from 1 January 2013

Paid paternity leave provides eligible working fathers and other partners providing full-time care or sharing the child's care, with 2 weeks paternity leave paid at a rate equal to the national minimum wage. Initially, Paid Paternity leave was to be paid for children born on or

after 1 July 2012. Paid Paternity Leave will be delayed by 6 months and will now be payable with respect to children born on or after 1 January 2013.

Implications for our clients:

- Paid Paternity leave will no longer be payable for children born between 1 July 2012 and 31 December 2012 (inclusive). Given paid paternity leave is 2 weeks pay at a rate equivalent to the national minimum wage, it is anticipated that this will have a minimal impact

Apprentices and training

Effective from Royal Assent

The Government announced it will allocate some \$558m to a Workforce Development Fund designed to deliver 130,000 training places over 4 years. The Budget also delivers a \$101m national mentoring program to help 40,000 apprentices finish training and better meet the needs of industries and regions. The Government said it is also investing \$100m in more flexible training models, allowing apprenticeships to be fast-tracked as they acquire critical trade skills.

The Government said it will provide up to \$1.75bn over 5 years from 2012-13 to states and territories under a national partnership, on top of its existing \$7bn investment, to drive reforms of the vocational education and training system. The Budget also funds 30,000 more places in the Language, Literacy and Numeracy Program to provide the basic skills essential for a job. Also, to get the very long-term unemployed into work, the Budget will invest \$233m in 35,000 targeted wage subsidies and extended work experience programs.

Tax-free apprenticeship payments

The 2011-12 Budget includes \$281m for additional tax-free payments to encourage apprentices in critical trades to complete their qualifications. The Government expects the \$1,700 Trades Apprentice Income Bonus to support 200,000 trade apprentices over 4 years in skills shortage occupations to stay in their training and get a skilled job.

From 1 January 2011, eligible Australian Apprentices have received an additional tax-exempt bonus of up to \$1,700 as they reach milestones in their training, including an \$800 completion bonus, bringing them to a total of a maximum of \$5,500 over the course of their apprenticeship.

The incentive payments were announced in the 2010 Election as part of a package to support Australian Apprentices and as at May 2011, the PM said more than 34,000 Australian Apprentices had already benefited from this new payment.

Work bonus enhanced

Effective from 1 July 2011

The Government has confirmed a pre-election announcement concerning the work bonus. From 1 July 2011 the first \$250 of employment income per fortnight (rather than 50% of the first \$500) will be excluded from the pension income test under the new work bonus proposals. The introduction of an employment 'income bank' will allow pensioners to accrue unused amounts of the fortnightly work bonus up to a maximum of \$6,500. This 'income bank' can be used to offset employment income in future years.

Self education expenses against all Government assistance payments are denied

Effective from 1 July 2011

The tax law is to be amended to disallow self education expenses against all Government assistance payments from 1 July 2011.

This amendment follows on from a High Court decision which permitted self education expenses to be claimed against Youth Allowance.

For the financial years 2006/07 to 2009/10 the Commissioner has applied a standard deduction of \$550 (although higher can be claimed if qualifying expenses can be determined).

Implications for our clients:

- The proposal won't come into effect until 1 July 2011, and won't alter the current standard deduction

Reduction in discounts for HECS/HELP

Effective from 1 July 2012

The following reductions in discounts to HECS/HELP are proposed:

- the discount available to students electing to pay their student contribution up-front will be reduced from 20% to 10%.
- the bonus on voluntary payments to the ATO of \$500 or more will be reduced from 10% to 5%.

Example

Payments of \$500 or more will now attract a 5% bonus so that a payment of \$500 would reduce an individual's outstanding HECS/HELP debt by \$525.

Under the current rules a voluntary payment of \$500 would reduce an individual's outstanding HECS/HELP debt by \$550.

Disability Support Payment changes

Mostly 1 July 2012

A number of changes to the Disability Support Pension (DSP) were proposed.

DSP recipients (when the payment was granted after 11 May 2005) will be allowed to work for up to 30 hours a week for up to two years and remain eligible for a part pension. Currently they may only work up to 15 hours a week.

There will also be increased participation requirements for DSP recipients under age 35 with the ability to work at least eight hours a week. Centrelink interviews will be required to create a participation plan to engage in the community and potential gain employment.

DSP recipients with a severe and permanent disability who have no future capacity to work will be able to continue receiving payments indefinitely whilst overseas. Some add-on payments (such as Rent Assistance and the Pension Supplement) will cease after 13 weeks.

Changes to Youth Allowance (other) and Newstart Allowance eligibility

Effective from 1 July 2012

The parental means test for Youth Allowance (other) recipients will be extended from 20 to 21 years of age. Accordingly, the minimum age for Newstart will move from 21 to 22.

Additionally the income free area for Youth Allowance (other) recipients will move from \$62 to \$143 per fortnight. The maximum available Working Credit bank limit for these recipients will also increase from \$1,000 to \$3,500.

Newstart Allowance for single carers

Effective from 1 January 2013

This change impacts Newstart Allowance recipients who are single principal carers with a youngest child under 16. The rate at which their benefit reduces for each dollar earned per fortnight above \$62 will drop to 40c. Currently it is 50c for every dollar from \$62 to \$250 per fortnight and 60c for every dollar above \$250.

Not-for-profit reforms

Reforms are proposed to deliver more regulation and increased accountability in the sector via targeting tax concessions, introducing a standard definition of charity and establishing a new commission.

Better targeting of tax concessions

Effective from 1 July 2011

Reforms are proposed to tax concessions offered to not-for-profit entities to ensure they are targeted only at activities that directly relate to the entities altruistic purposes.

This means that not-for-profit entities will pay income tax on profits from unrelated commercial activities that are unrelated to their altruistic purposes.

Disclaimer

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All assumptions and examples are based on the Federal Budget measures and GFA's interpretation of them. Not all measures announced in the Federal Budget may be enacted into law in the form announced.

Note: The Government's fiscal outlook does not take into account the ramifications associated with any future introduction of an Emissions Trading Scheme, otherwise known as a Carbon Tax, therefore the net effect of such a tax has not been considered in any calculation.