



Federal Budget 2011: A mixture of changes

On 10 May 2011, the Treasurer handed down his fourth Federal Budget. It contains a mix of changes that will affect a range of issues relevant to businesses.

Following are a selection of the changes.

Reduction in tax-free trust distributions to children

The government has removed the low income tax offset ('LITO') for children. From 1 July 2012 this means that the maximum amount your trust can distribute to each child tax free is only \$416, rather than the current amount of \$3,300.

The LITO is still available for personally earned income of children such as wages. It will also still be available for certain trust income allocations for orphans and disabled children.

Small business motor vehicle write-off

From 1 July 2012, small businesses will be able to immediately deduct the first \$5,000 of the cost (exclusive of any GST credit) of any vehicle purchased. "Small business" generally means business with a turnover of less than \$2 million. The remainder of the cost can be depreciated in the normal way or under the small business pool, which is 15% in the first year and 30% diminishing value thereafter.

This is not a bonus deduction like the investment tax break deduction, but rather a bringing forward of depreciation deductions that would otherwise be deducted in later years. Accordingly, it is a timing benefit only.

FBT and cars – flat 20% statutory formula rate

For cars subject to the FBT rules, the calculation of FBT, unless a log book is used, will generally be based on a percentage of the car's cost. The percentage bands range from 7% to 26%, with the lower percentages and therefore lower FBT liability, applying where higher annual kilometres are travelled. A single 20% rate will be phased in over the next few years.

The current percentage bands will continue to apply to all cars acquired before 10 May 2011. For cars acquired between 10 May 2011 and 31 March 2014, the bands will change each FBT year, converging towards a single 20% band. For cars acquired from 1 April 2014, a single rate of 20% will apply, regardless of the annual kilometres travelled.

The impact on FBT liability can be summarised as follows:

Cars that travel this many kms per year	FBT liability
Less than 15,000 kms	Lower
15,000 to 25,000 kms	No change
More than 25,000 kms	Higher

The option remains to adopt the log book method where this will produce a lower FBT liability. This change in valuing car fringe benefits will also impact the reportable fringe benefits disclosures in employees' payment summaries.

Personal tax rates and Flood Levy

There has been no change to the individual income tax rates for the 2010-11 year and following years. However, the previously announced flood levy will apply to the 2011-12 tax year. The flood levy will apply on a marginal rate basis to your taxable income as follows:

Taxable Income	Tax Rate
0 – \$50,000	Nil
\$50,001 – \$100,000	0.5%
Above \$100,001	1%

Certain persons affected by the floods will not be liable.

Income test on private health insurance rebate

Although not formally announced in the budget, it has been confirmed that the government will again seek to introduce an income test for the 30% private health insurance rebate. Based on the previous income tests, the private health rebate will be determined according to the following tiers:

Tier 1	Up to 65 years	65-70 years	Above 70 years
Single \$75,001 - \$90,000	20%	25%	30%
Family \$150,001 - \$180,000	20%	25%	30%

Tier 2	Up to 65 years	65-70 years	Above 70 years
Single \$90,001 - \$120,000	10%	15%	20%
Family \$180,001, - \$240,000	10%	15%	20%

No rebate will be available on single incomes above \$120,000 and family incomes above \$240,000.

For singles with income below \$75,000 and families with a combined income of below \$150,000 existing private health rebate arrangements will remain unchanged.

HECS discount

From 1 July 2012 the following reduction in discounts will apply to payments made towards HECS:

- the discount for paying up-front will be reduced from 20% to 10%; and
- the bonus on voluntary payments of \$500 or more to an accumulated debt will be reduced from 10% to 5%.

You may consider paying down a HECS debt prior to 1 July 2012 to take advantage of the higher discounts.

Superannuation

Excess contributions tax

From 1 July 2011, eligible individuals who breach the concessional contribution caps (i.e. \$25,000 or \$50,000) by up to \$10,000 can request the excess amount be refunded. This applies on a one-off basis for a first time breach only. Instead of the potentially higher excess contributions tax ('ECT') rate applying, personal tax rates will instead be applied.

Concessional contributions generally include employer contributions and personal contributions for which the taxpayer intends to claim a deduction.

The excess contributions tax is unnecessarily punitive and can result in tax of over 93% for simple mistakes in over contributing. Given this, the token measure described above is very disappointing.

Minimum pension drawdowns

The pension drawdown relief that has been provided for over the last three years will begin to be phased out from 1 July 2011. The normal minimum payment amounts for account-based, allocated and market linked pensions are presently reduced by 50%. For 2011/12, they will be reduced by only 25% and will return to normal in 2012/13.

This measure will assist the holders of such products in recouping capital losses incurred as a result of the global financial crisis.

Concessional contributions

For individuals above 50 with total superannuation balances of less than \$500,000, a higher concessional contributions cap of \$25,000 above the general concessional cap will apply. This will allow individuals who are over 50 with a balance below \$500,000 to continue making up to \$50,000 per year in concessional contributions from 1 July 2012.

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