

Budget in Brief

Overview of 2011 Federal Budget

May 2011



BUDGET
OVERVIEW



It was the 'tough love' budget but for all the hype there is little for small business and working taxpayers to get very interested in. Here we have summarised some key changes that will impact a wide variety of taxpayers – for more information please call one of our Accountants or email: Budget2011@phillipsons.com.au

\$5,000 immediate write-off

The Government has announced the introduction of an immediate tax write off for the first \$5,000 of any motor vehicle purchased by a small business, which will accelerate the tax deduction on the capital purchase. But you will have to wait for it take effect on 1 July 2012 so it will be the 2013 tax year that it will be of benefit.

Minors lose tax offset

Among the more significant changes aimed directly at taxpayers distributing income across low tax family members, is the removal of the low income tax offset for minors on unearned income. This change reduces the opportunity for family trusts to distribute to minors and utilise the tax free zone create by the LITO.

Low income tax offset increased

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

Dependent spouse tax offset

The Government will phase out the dependent spouse tax offset (DSTO) for taxpayers with a dependent spouse born on or after 1 July 1971.

'The Government will phase out the dependent spouse tax offset ...'

Entrepreneurs' tax offset

The Entrepreneurs' Tax Offset (ETO) will be abolished with effect from the 2012-13 income year. This tax offset provided a tax benefit to small business operators with turnover under \$75,000.

Personal tax changes

With the exception of tax offsets there were very few other changes to personal tax rules; of note is the removal of deductions against Government assistance payments, the Medical levy threshold increase, the reduction in HECS discounts and Pacific Seasonal Worker Pilot Scheme amendments.

Flood and cyclone reconstruction levy

The Government will introduce a temporary flood and cyclone reconstruction levy from 1 July 2011 to contribute towards the cost of rebuilding flood and cyclone affected regions.

This measure will apply only for the 2011-12 income year. The levy is estimated to generate \$1.725 billion over the forward estimates period.

'The [flood and cyclone reconstruction] levy is estimated to generate \$1.725 billion over the forward estimates period.'

(continued overleaf)

Budget in Brief

(cont. from page 1)

Taxpayers with a taxable income in 2011-12 of \$50,000 or less will not pay the levy. Taxpayers with taxable income between \$50,001 and \$100,000 will pay 0.5 per cent of their taxable income above \$50,000. Taxpayers with taxable income over \$100,000 will pay 0.5 per cent of their taxable income between \$50,001 and \$100,000 and 1.0 per cent of their taxable income over \$100,000.

Farm management deposits

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

Other changes to the administration of the FMD scheme will require more accurate reporting from authorised deposit taking institutions holding FMDs and allow primary producers to hold FMDs with more than one financial institution.

'... changes to the administration of the FMD scheme will require more accurate reporting from authorised deposit taking institutions holding FMDs ...'

Trust beneficiaries

The income tax law will be amended to ensure that trust beneficiaries can continue using the primary production averaging and farm management deposits provisions in a loss year, with effect from 1 July 2010.

'... trust beneficiaries can continue using the primary production averaging and farm management deposits provisions in a loss year ...'

Fringe benefit tax

Over the next four years, the current statutory formula method of calculating the taxable value of a car fringe benefit will be replaced progressively with a single statutory rate of 20% to be applied, regardless of the distance travelled in a year.

'... method of calculating the taxable value of a car fringe benefit will be replaced ... with a single statutory rate of 20% ...'

Company loss recoupment rules

The company loss recoupment rules will be amended from the 2011-12 income year to make it easier for companies to satisfy the continuity of ownership test in certain circumstances.

'... easier for companies to satisfy the continuity of ownership test ...'

Changes to HECS payments

From 1 January 2012, discounts applying to payments made under the Higher Education Contribution Scheme (HECS) will be reduced. The discount available to students electing to pay their student contribution up-front will be reduced from 20 to 10 per cent; and the bonus on voluntary payments to the Australian Taxation Office of \$500 or more will be reduced from 10 per cent to 5 per cent.

'... discounts applying to payments made under HECS will be reduced.'

Higher concessional superannuation contributions cap

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. This means those eligible Australians over 50 will be able to contribute \$25,000 more per year than other workers. The general concessional contribution cap is set at \$25,000. When it increases due to indexation, the higher cap will increase by the same dollar amount.

'... those eligible Australians over 50 will be able to contribute \$25,000 more per year than other workers.'

Superannuation

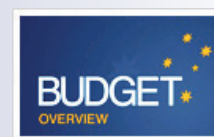
The Budget provides initial funding for some structural reforms of the industry such as implementing a low frills super option which will be a low cost option aimed at individuals with low balances.

Superannuation pension drawdown relief ending

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 per cent for 2011-12 and will return to normal in 2012-13.

'The Government will phase out the pension drawdown relief that has been provided over the last three years.'

For full budget details, click on the Budget Overview link.



For information about the budget or any of our services, phone Phillipsons and speak to one of our taxation experts.

Phillipsons Accounting and Financial Planning

388 Raymond Street, Sale All correspondence to: PO Box 859, Sale Vic. 3853
Phone: 03 5144 4566 Fax: 03 5144 5403 Web: www.phillipsons.com.au

To unsubscribe, email: queries@phillipsons.com.au

In preparing this information, Phillipsons has not taken into account any particular person's objectives, financial situation or needs. Investors should, before acting on this information, consider the appropriateness of this information, having regard to their personal objectives, financial situation or needs. We recommend investors obtain financial advice specific to their situation before making any financial investment or insurance decision.