

2011 Budget Highlights

Personal Tax Rates – No Change (but beware of flood levy)

Tax threshold levels - flood levy comparison			
<i>Current, and from 1 July 2011 for those NOT subject to the flood levy</i>		<i>2011-12 (for those subject to the flood levy)</i>	
<i>Taxable income (\$)</i>	<i>Rate (%)</i>	<i>Taxable income (\$)</i>	<i>Rate (%)</i>
0 - 6,000	0	0 - 6,000	0
6,001 - 37,000	15	6,001-37,000	15
37,001 - 80,000	30	37,001 - 50,000	30
80,001 - 180,000	37	50,001 - 80,000	30.5
180,001 +	45	80,001 - 100,000	37.5
		100,001 - 180,000	38
		180,001 +	46

Note: The rates above exclude Medicare levy.

Flood levy

Generally, the flood levy will apply to individual taxpayers, both resident and non-resident, who have a taxable income over \$50,000 in the 2011-12 financial year. By virtue of the levy, for the 2011-12 financial year, the effective top personal marginal tax rate will be 47.5%, including the flood levy and the Medicare levy.

Minors no longer entitled to low income tax offset on unearned income

The Government will remove the ability of minors (children under 18 years of age) to access the low income tax offset (LITO) to reduce tax payable on their *unearned income*, such as dividends, interest, rent, royalties and other income from property, *with effect from 1 July 2011*. This is designed to discourage income splitting between adults and children, the Government said.

Medicare Levy thresholds increased for 2010-2011

From the 2010-11 income year, the Medicare levy low-income thresholds will be increased for singles to \$18,839 (up from \$18,488 for 2009-10) and to \$31,789 for those who are members of a family (up from \$31,196 for 2009-10).

The additional amount of threshold for each dependent child or student will also be increased to \$2,919 (from \$2,865).

The Medicare levy low-income threshold for pensioners below Age Pension age will also be increased from 1 July 2010 to \$30,439 (from \$27,697). This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy while they do not have an income tax liability.

Date of effect:

The measure will apply from 1 July 2010.

Family Tax Benefit, Baby Bonus and related changes

The 2011-12 Federal Budget provides an increase in Family Tax Benefit (FTB) Part A for 16-19 year olds.

From 1 January 2012, the new maximum rate of FTB Part A for 16-17 year olds in secondary school will be increased from the current \$52.64 per fortnight to \$214.06 per fortnight, ie by around \$160 per fortnight - an increase of around \$4,200 per year. For 18-19 year olds in school, the rate will be \$3,741 per year. This will align with the 13-15 year old rate and ensure assistance for families does not drop when children turn 16. The increases to FTB Part A will only be available for families where their teenager is in full-time secondary study, or the vocational equivalent.

From 1 January 2012, the Government will lower the maximum age of eligibility for FTB Pt A from 24 to 21. This will bring FTB Pt A into line with the reduction in the Youth Allowance age of independence to 22 from 1 January 2012.

From 1 July 2011, families will be able to advance a maximum of 7.5% of their total rate of FTB Pt A payment, up to \$1,000. For example, a family with 2 children under 12 will be able to receive an advance payment of up to \$644.

Excess contributions tax: refund option for contributions up to \$10,000

The Government will provide eligible individuals who breach the concessional contributions cap by up to \$10,000 with a one-off option to request that these excess contributions be refunded to them. This new refund option will only apply to first time breaches from 1 July 2011.

The changes will give individuals the option to take excess concessional contributions out of their superannuation fund and have them assessed as income at their marginal rate of tax, rather than the excess concessional contributions tax rate of 31.5% (in addition to the 15% contributions tax for the fund).

Minimum pension drawdowns: 25% reduction for 2011-12

The minimum annual payment amounts for pensions and annuities will be reduced by 25% for 2011-12 and will return to normal in 2012-13. In this respect, the Government will begin to phase out the 50% pension drawdown relief that has been provided for 2008-09, 2009-10 and 2010-11 financial years.

Reducing the minimum payment amounts by 25% for account-based, allocated and market linked (term allocated) pensions from 1 July 2011 seeks to provide some assistance to holders of these products to recoup capital losses incurred as a result of the global financial crisis. This measure has an estimated cost to revenue of \$7m over 2 years and is also expected to increase Government expenditure by \$9m in 2011-12 through higher pension outlays.

Date of effect:

The measure will apply from 1 July 2011.

Small business motor vehicle tax write-off to replace Entrepreneur's Tax Offset

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. The Treasurer said that, for example, a tradesman on a 30% marginal tax rate, buying a new \$33,960 ute would receive an extra tax benefit of \$1,275 in the year they purchased the vehicle. The remainder of the purchase value can be transferred into the general small business depreciation pool, which is depreciated at 15% in the first year and 30% in later years.

- 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.

FBT and cars - flat 20% valuation rate to apply

The Government announced what would amount to implementation of Henry Tax Review Recommendation 9(c) that the current statutory formula 4-percentage rate scale method for valuing car fringe benefits be replaced with a single statutory rate of 20%, regardless of the number of kilometres travelled.

Date of effect

The changes will apply to new vehicle contracts entered into after 7:30pm (AEST) on 10 May 2011, and will be phased in over 4 years as follows: FBT statutory rate method

FBT statutory rate method					
Statutory rate (x cost of car to determine person's car fringe benefit)					
Distance travelled during FBT year (1 April - 31 March)	<i>Existing contracts (%)</i>	<i>New contracts from 10 May 2011 (%)</i>	<i>New contracts from 1 April 2012 (%)</i>	<i>New contracts from 1 April 2013 (%)</i>	<i>New contracts from 1 April 2014 (%)</i>
0 - 15,000km	26	20	20	20	20
15,000 - 24,999km	20	20	20	20	20
25,000km - 40,000km	11	14	17	20	20

Small business tax concessions amendments

The Government will amend the small business tax concessions so that trusts will not be able to avoid being treated as connected entities for the purpose of testing eligibility for the concessions on the basis that the trusts do not own assets for their own benefit. These changes will also ensure that some small businesses will be able to access the small business CGT concessions because the changes will make their business assets *active*.

Date of effect

The measures will have effect for CGT events happening after 7.30pm (AEST) on 10 May 2011.

Instalment system for small businesses

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.

Date of effect

The measure will come into effect following assent of the enabling legislation.