

# Carnegie

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Financial Services



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# Federal Budget 2011

Part of the:

## Wealth Education Bulletin

by

Carnegie Financial Planning

### How to read this document

Making smart decisions about your money to meet your daily needs and steer towards your long term goals can be a complex task. There are so many issues to consider such as taxation, legislation, protecting your wealth and assets, associated costs involved with any decision, the inherent risks of choosing one path over others to achieve your money goals.

Developing, Implementing and Acting on a Financial Plan to achieve your goals requires you to understand how these issues will impact on you and what you should expect over time.

This document provides some additional information to help you understand financial planning concepts and provides general information on the topic above.

It is very important that you read this document to help you understand the benefits of the strategies recommended to you, and the associated costs and risks.

If you do not understand something or need further clarification, please contact us.

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## An Overview of Budget 2011

*The Federal Budget is an annual announcement of the Government's spending policies and how they intend to fund them. Like even the most basic of budgets it is a way of allocating money coming in (from our taxes) to the demands for money going out (in social security and social services, health, education and national infrastructure and other public services).*

- Federal Treasurer Wayne Swan handed down his fourth Budget promising to return the Budget to surplus by 2012-13.

*A Budget surplus means that what the Government collects in taxes and income is less than what they spend. The Budget Deficit for 2011-2012 is estimated to be \$22.6 billion. Australia is in an enviable position relative to other major developed economies who are still in deficit.*

- This is a conservative Budget that focuses on building Australia's workforce and limiting government spending to a number of key areas and cutting spending in other areas.
- The resilience of our local economy has withstood the worst of the Global Financial Crisis, and the impact of recent natural disasters.
- The Australian Economy and Employment is expected to grow strongly over the next two years with the resources and mining sector speeding ahead resulting in some inequality among sectors and regions.
- The Government is making a point of redistributing the benefits of the two speed economy as it formulates spending and revenue earning policies. On the one hand our resources and mining sector is booming while other sectors are struggling such as those hurt by the high Australian Dollar (Tourism, Manufacturing and Retail).
- The response to this challenge is to spend on initiatives that will build Australia's workforce with spending announced to:
  1. **Boost workforce participation** with changes to Social Security encouraging part time work, a skilled migration program, spending on education and training.
  2. **Invest in infrastructure** with \$36 million over four years spent
  3. **Fund hospitals and health care** targeting mental health and disability
  4. **Focus Government spending** and Tax offsets on the Disabled, Low Income earners and Regional Australia.
- Other key initiatives announced include limited relief for investors who breach superannuation concessional contribution caps, Social Security changes to the work bonus and family payments as well as changes to Fringe Benefits rates affecting car leases.

## The Background and Context of Budget 2011

In delivering the Federal Budget the Government also provides an insight into how the Australian Economy is going using key indicators such as:

**Economic Growth** measured by Gross Domestic Product (GDP) which is expected to be 3.25% in 2011-2012 and 2012 – 2013.

**Unemployment** which is expected to be 4.75% by June 2012 and 4.5% by mid 2013. The budget initiatives and economic growth is expected to generate an additional 500,000 jobs. There is a risk that there will be more jobs than people to work.

**Inflation** is expected to fall from 3.25% currently to 2.75% in 2011-2012.

Let's look at the changes announced in the following areas: Taxation, Superannuation and Social Security and how this will affect, Investors and Social Security Recipients, Individuals and Families, Business Owners .

## Taxation

### Tax Breaks

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Tax advantages for Families Using Special Disability Trusts

Instant Write off on Business Motor Vehicle Purchases

Increase in the Low Income Tax Offset

Increase in the Medicare Levy Low Income Threshold

### Tax Changes

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Disallowing Deductions against Government Assistance Payments

Reduction in the discount for HECS upfront payments and HELP bonus voluntary payments

FBT on motor vehicles will be calculated at one flat rate

No more Low Income Tax Offset for children on unearned income. Phase out of the Dependant Spouse Tax Offset

## Social Security – Welfare Recipients

### Disability Reforms

Disability Support Pensioners permitted to travel overseas without losing their pension from 1 July 2012

Disability Support Pensioners can work 30 hours per week without losing their pension

Employer incentives and subsidies to employ a Disability Support Pensioner

Tighter monitoring of Disability Support Pensioners under 35 to get them into some paid work

### Age Pensioners

Digital Set Top boxes and installation for all Age Pensioners

Pensioners can earn \$250 per fortnight from work exempt from income test

\$250 exempt income can accrue in an Employment Income Concession Bank

The bank can be used to average employment income per year to \$6500

## Superannuation

### New Rules

Low Income Earners Super Tax Offset starts 1 July 2012

Employers must report contributions on payslips

Stronger Super SMSF reforms will go ahead

A \$30 increase in the ATO SMSF Levy to \$180 p.a

### Amendments

\$50,000 Concessional Contributions for over 50's continue if they have less than \$500k in super

Super Pensions: Age based minimums will return to normal

Excess Concessional Contributions of \$10,000 or less can be refunded and taxed at marginal rates

Government Co Contribution thresholds frozen till 30 June 2013

## Social Security – Family Payments

### Working Families

Paid Paternity Leave deferred for six months. Fathers will not be able to claim until 1 January 2013

Simplified rules for Family Tax Benefit B for families with children aged 16-19

Advance Payment of Family Tax Benefit part A \$1000 p.a can be paid as a lump sum from 1 July 2011

Youth Allowance on an independent basis exempt from parents income for all children after 21

### Families on Social Security

Parenting Payment & Bereavement allowance paid for 14 weeks after death of partner

Parenting payment will cease once youngest child in a family turns 12

Single Parents on Newstart reward part time work with lower income test taper rate

Child health assessments a condition of receiving end of year Family Tax Benefit Part A Supplement

## Investors

### Super Contributions

From 1 July 2011, individuals who breach the concessional contributions cap by up to \$10,000 can request that these excess contributions be refunded to them. This new refund option will only apply for first time breaches of the concessional caps.

The excess contribution will be subject to income tax at marginal rates. This reform is expected to reduce the number of occasions where the concessional contribution caps are exceeded resulting in a tax assessment and penalty tax in excess of the marginal tax rate.

The Government wants this measure to complement the other reforms including the increase in the concessional caps for the over 50s (with balances under \$500,000) from 1 July 2012, the gradual increase in the SG rate to 12 per cent, and the new super contribution of up to \$500 for low income earners. These measures aim to increase retirement savings and engagement in superannuation.

### Minimum Pension Drawdown Relief

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 (term allocated) pensions will be reduced by 25 per cent for 2011/12 and will return to normal in 2012/13.

### Self Managed Super Fund Reforms

From 2010/11 to 2014/15, the ATO will be provided with \$40.2 million and ASIC with \$8.4 million to implement a range of measures that will improve the operation, efficiency and integrity of the self managed superannuation fund sector. The increased funding will be fully offset by a \$30 increase to the self managed superannuation fund levy, from \$150 to \$180, with effect from the 2010/11 income year, and by the collection of fund auditor registration fees.

### Government Co-Contribution

The Government will continue the freeze, for an additional year to 2012/13, of the indexation applied on the income threshold above which the maximum superannuation co-contribution begins to phase down.

Under the superannuation co-contribution scheme, the Government provides a matching contribution for contributions made into superannuation out of after-tax income. The matching contribution is up to \$1,000 for people with incomes of up to \$31,920 in 2010/11 (with the amount available phasing down for incomes up to \$61,920). This measure will continue to freeze these thresholds at \$31,920 and \$61,920 respectively.

### Increase Taxation of Trusts

The Government will 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 reduce opportunities for taxpayers to reduce their tax liabilities and implements the recommendations of the Board of Taxation to take interim steps to improve the trust income tax provisions.

### Special Disability Trusts

The Government will introduce legislation to remove further income tax barriers that impede families from making financial contributions to a Special Disability Trust (SDT). These changes are designed to ease the financial burden on families by assisting them to provide for the care and accommodation needs of a person with severe disability. To make SDTs more beneficial for families, the Government will:

- Provide a capital gains tax (CGT) exemption for assets transferred into an SDT for no consideration
- Backdate the application of the 2009/10 Budget measure that provides a CGT main residence exemption for SDTs to 2006/07
- Provide a CGT exemption for the recipient of the principal beneficiary's main residence, if disposed of within two years of the principal beneficiary's death
- Ensure equivalent taxation treatment amongst SDTs established under different Acts.

These changes will apply from the 2006/07 income year, to align with when SDTs were first able to be established.

## Social Security Recipients & Low Income Earners

### CHANGES TO ELIGIBILITY FOR PARENTING PAYMENT

The Government will restructure income support for single parents to promote workforce participation.

From 1 January 2013, single parents on Newstart Allowance will get to keep up to an extra \$3,900 per year through a more generous income test.

Aimed to encourage parents to move into part-time work, the taper rate will be reduced from the current 50 or 60 cents in the dollar to 40 cents meaning single parents can keep up to \$3,900 more of their income from part-time work each year. Single parents will be able to earn up to nearly \$400 extra to a total of \$1346 per fortnight, before they lose eligibility for payment.

### MOVING PEOPLE WITH A DISABILITY INTO WORK

#### *Compulsory Centrelink interview for DSP recipients*

People receiving the Disability Support Pension under the age of 35 with some capacity to work will, for the first time, be required to attend regular interviews with Centrelink to develop participation plans tailored to their individual circumstances.

The participation interviews – to be introduced from 1 July 2012 – will be compulsory and penalties may apply for those who fail to attend.

#### *DSP recipients able to work 30 hours a week and keep benefits.*

From 1 July 2012, DSP recipients will be able to work up to 30 hours a week without their payment being cancelled or suspended. Currently these recipients can only work 15 hours a week.

#### *Fast-tracking changes to DSP assessments*

Reforms to DSP assessments announced last budget will now apply from 3 September 2011, rather than 1 January 2012. While eligibility for DSP will not change, applicants will be required to provide sufficient evidence that they are unable to work independently, even with assistance and support.

### LOW INCOME TAX OFFSET

From 1 July 2011, the Government will increase the proportion of the low income tax offset (LITO) that is delivered through workers' week-to-week pay packets from 50 per cent to 70 per cent. This change means instead of being compensated after they put in their tax return at the end of the year, lower income earners are taxed less during the year.

Someone with annual income of \$30,000 will get an extra \$300 during the year in their regular pay. A person's total LITO entitlement for any one tax year will remain unchanged.

### CHANGES TO LOW-INCOME TAX OFFSET FOR NON-WORKING MINORS

This budget measure is designed to discourage tax avoidance that currently occurs when high-income earners allocate their income to children under 18 years of age.

From 1 July 2011, minors will no longer be able to use the low income tax offset to reduce income tax due on their non-work income, such as that from dividends, interest, rent or royalties. Minors will continue to be able to use the low income tax offset to reduce income tax due on their work income. This means that children under 18 will face the same tax rates on their income from work as those over 18 years.

## Individuals and Families

### **DEPENDENT SPOUSE TAX OFFSET PHASE-OUT**

Taxpayers with a dependent spouse aged less than 40 years will no longer be eligible for the dependent spouse tax offset from 1 July 2011.

The change will not affect taxpayers whose dependent spouse is a carer, who is an invalid, or permanently unable to work; and taxpayers with children (eligible for Family Tax Benefit B), or eligible for the zone, overseas forces or overseas civilian tax offsets.

Dependent spouses with children will continue to receive Family Tax Benefit B rather than the Dependent Spouse Tax Offset.

### **INCREASE MEDICARE LEVY THRESHOLD**

From the 2010/11 financial income year, the Medicare levy low-income threshold will increase to \$31,789 (up from \$31,196) for couples, and to \$18,839 (up from \$18,488) for singles.

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

The Medicare levy low-income threshold for pensioners below Age Pension age will also be increased. From 1 July 2010, the threshold will rise to \$30,439 (up from \$27,697).

This will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

### **FAMILY TAX BENEFIT (FTB)**

The budget announced an increase in Family Tax Benefit (FTB) Part A for 16-19 year olds with families receiving up to an additional \$4,200 a year for each eligible teenager that stays in school (full-time secondary study, or the vocational equivalent).

From 1 January 2012, the new maximum rate of FTB Part A for 16-19 year olds will increase by around \$160 per fortnight. This will align with the 13-15 year old rate and ensure assistance for families does not drop when children turn 16.

## Business Owners

### **FRINGE BENEFITS TAX (FBT)**

The fringe benefit treatment of cars will be changed to remove the incentive for people to drive their vehicle further to obtain a larger tax concession.

Currently, the sliding scale of rates provides an increased tax concession for salary-sacrificed or employer-provided vehicles that are driven further.

Existing FBT rates will move to the existing 20 per cent rate, which applies to vehicles travelling 15-25,000 kilometres a year.

This represents a decrease in the tax rate for vehicles travelling less than 15,000 kilometres a year and an increase in the rate for those travelling more than 25,000 km.

The change will only apply to new vehicle contracts entered into after 7:30pm (AEST) on 10 May 2011.

### **SMALL BUSINESS**

Small business owners will receive a tax write-off of up to \$5,000 (up from \$1,000 presently) for those wanting to buy a motor vehicle from 2012/13.

The write-off will cost the government \$350 million and will mean, for example, that a tradesman on a 30 per cent marginal tax rate will receive a tax break of \$1275 when buying a new \$33,960 ute.

Other changes include:

- 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 two different depreciation pools, with two different depreciation rates (30% and 5%); and
- a reduction in company tax rate to 29 per cent for incorporated small businesses.

These tax reforms will be available to all small businesses, including sole traders and businesses operating through trusts, partnerships and companies. Further this measure will replace the Entrepreneurs Tax Offset (ETO).

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May 2011.