

BUDGET UPDATE

You will have seen that Wayne Swan delivered the Commonwealth Budget for the 2011-12 year on Tuesday night, his fourth as Treasurer, and Prime Minister Gillard's first.

Aside from the record deficit, and an aim to return to surplus in 2012, there were many additional spending items which were flagged; however, there were also a number of savings highlighted, which could impact you. Following is a brief outline of some of these measures:

Individuals

- The Dependant Spouse Offset will be phased out where the non-working spouse is aged under 40 years. Recently, the Dependent Spouse Offset was only applicable to families with income under \$150,000, where the non-working spouse earned under approximately \$9,000 and the family was not claiming the Family Tax Benefit.
- The Family Tax Benefit Part A payment rate has been increased for families with older teenagers engaged in full time study. The upper age limit on families with children eligible to receive Family Tax Benefit has increased from 21 to 24. At the same time, the upper income thresholds have been frozen for another year.
- \$1,000 advance of Family Tax Benefit Part A recipients, to meet unexpected expenses.
- Education Tax Offset extended to include payments for uniforms in the total eligible expenditure. The eligibility and thresholds have not altered.
- Paid Paternity Leave Scheme implementation has been delayed by six months to 1 January 2013.
- Unearned income of minors (predominantly earned through investments or family trust distributions) will no longer attract the low income tax offset. Effectively reducing the tax free income able to be attributed to minors tax free to \$416 (down from \$3,300). Effective 1 July 2011.
- Medicare Levy income threshold reduced to \$18,839 for singles from 1 July 2010.
- The discount for paying HECS fees up front will be halved to 10%.
- There was a recent High Court case where a student won the right to claim self education expenses against youth allowance payments. The Government proposes to amend the legislation to prevent these deductions being made.
- Pensioners receiving the full aged pension may be entitled to a digital set top box in 2013.
- Flood Levy will be introduced (didn't come through the budget - was already passed)

Small Business

- Entrepreneur's tax offset (applicable to businesses turning over less than \$75,000) to be removed - replaced with an immediate tax deduction for the first \$5,000 of motor vehicles purchased for small businesses. This will be effective from the 2012-13 income year. This is not an additional deduction, but a bring forward of a deduction that would have otherwise been claimed through depreciation.
- The statutory rate of Fringe Benefit Tax on motor vehicles owned by businesses no longer changes with the amount of kilometres the car travels each year. It is to be replaced by one 20% deemed private usage percentage. This reform will be phased in over four years, and will initially apply to new contracts entered into after 7:30pm on 10 May 2011.
- Improving the reporting of payments to contractors - to try and catch more of the cash economy that misses the tax net.
- Reduction in the income tax instalment payments for the 2011-12 year. While this looks attractive, it is merely a deferral of the tax that will be due, there is no actual tax saving here.
- Minor amendments to the continuity of ownership tests which may make it easier to recoup losses in future years.

Superannuation Funds

- Trading stock valuation options removed - now all proceeds on sales of investments will be treated on capital account (i.e. Superannuation Funds won't be seen to be operating a share trading business).
- Minimum draw downs for income streams, 25% reduction in 2011-12, no reduction in 2012-13 (currently a 50% reduction in the minimum draw downs is in effect).
- Eligible individuals who have made excess concessional contributions for the 2011-12 income years and following of up to \$10,000 can elect to have their contribution refunded and taxed at their marginal rate, as opposed to incurring excess contributions tax (currently levied at a minimum of 46.5%).
- The supervisory levy will be increased for Self Managed Superannuation Funds from \$150 to \$180 for the 2010-2011 year.

Trusts

- Streaming of capital gains and franked dividends to be legislated from 1 July 2010. These measures, together with a re-write of the trust taxation rules, were flagged in a press release in April. No final legislation has been released at this stage.
- Legislated that the transfer of an asset from a Testamentary Trust will have a rollover of the cost base - legislating current ATO practice.

Not for Profit

- Income tax concessions will only apply to activities of an altruistic nature directly connected with their not for profit activities

Please contact us with any questions you may have concerning the above.