

# Federal Budget Update 2011

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## Key points on Economics

### 1. Budget Overview 2010-11

What a difference a year makes! Last year's Budget was framed in a time of severe crisis. It was less than eight months after the bankruptcy of Lehman Brothers, an event that precipitated financial-market meltdown and a steep drop in world economic output. There was widespread speculation that the global economic recession would be a multi-year event, and it was generally accepted that Australia was also in a severe recession. Accordingly, last year's crisis budget was of the "all hands to the pumps" variety, designed to stimulate now with any harmful consequences to be addressed and remedied later.

The extent of the perceived crisis can be seen from the Treasury's economic forecasts that accompanied the Budget. For the first time ever, Treasury forecast a fall in GDP in the first financial year covered by the Budget. While Australia has had negative growth years before, we have never forecast such an event. The weakness in GDP was dominated by a fall in mining investment, and the unemployment rate was projected to rise to 8.5-9%.

It has to be said that this always seemed a touch pessimistic. Indeed, in last year's summary I expressed the view that unemployment was likely to peak below 8%. Just a few months earlier, when the GFC was clearly underway, Treasury had put its name to a forecast in the MYEFO (Mid-Year Economic and Fiscal Outlook) that even at the time appeared to be way too optimistic. Possibly the mandarins were determined not to make that mistake again, and over-compensated.

They were not alone at the time. World and Australian economic forecasts had been plunging in the first half of last year. Ironically, they stabilised in May 2009 and then began rising again. So last year's Budget forecast was made at the very nadir of the view about our economic future.

It's a year later, and times are very different. The world economy is in recovery, and Australia officially never even had a recession (I still think we did, given that the unemployment rate went up by 1.8 percentage points. It was, perhaps, the recession we hardly had as opposed to the one we had to have). There are still economic concerns out there, particularly relating to sovereign debt and to China. It is also an election year. Usually that means handouts, but these days it means "demonstrate fiscal rectitude and outline the path back to surplus."

All of these considerations were important in framing this year's Budget. In addition, there is the pesky Henry Tax Review to deal with. Nine days before the Budget, the Government had finally released the Review and all of its 138 recommendations, and then cherry-picked about 3 of them. A further 20-25 were identified as likely to be adopted on the very day that hell freezes over. All of the rest were put in the "we'll get back to you on that" category. One of the Government's responses—the increase in the Superannuation Guarantee Levy—was explicitly not a recommendation of the Henry Review. One of the Review's recommendations supported by the Government was the "super profits tax" for the resources sector. This announcement has aroused a furore that still goes on. But at least it didn't start on Budget night! The above paragraphs were written before the Treasurer stood up to speak. Given how much was already known from the Government's "pre-announcement" of tax initiatives, there were unlikely to be many surprises. Perhaps the biggest was the expectation that the Budget would return to surplus as early as 2012-13, three years earlier than in last year's Budget.

As the table shows, the deficit for 2009-10 is expected to be a record \$57.1 billion, with revenues actually falling in that year, but this improves to \$40.8 billion in 2010-11 and to (small) surplus in 2012-13. This surplus is, of course, well within the margin for error. Relative to last year, all of the improvement in the bottom line has come from the revenue side, and this solely reflects "parameter variations", which is code for the improved outlook for the economy.

**Table 1: Key Budget Parameters**

	Actual	Estimates			Projections	
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Revenue (\$b)</b>	<b>298.9</b>	<b>294.2</b>	<b>321.8</b>	<b>356.4</b>	<b>381.9</b>	<b>407.2</b>
Per cent of GDP	23.7	22.7	22.9	24.0	24.3	24.6
<b>Expenses (\$b)</b>	<b>324.6</b>	<b>343.1</b>	<b>354.6</b>	<b>364.6</b>	<b>381.0</b>	<b>398.0</b>
Per cent of GDP	25.8	26.5	25.2	24.5	24.3	24.0
Net operating balance (\$b)	-25.6	-48.9	-32.8	-8.2	0.9	9.2
Net capital investment (\$b)	4.1	5.8	6.8	3.9	-1.0	2.9
<b>Fiscal balance (\$b)</b>	<b>-29.7</b>	<b>-54.8</b>	<b>-39.6</b>	<b>-12.1</b>	<b>2.0</b>	<b>6.3</b>
Per cent of GDP	-2.4	-4.2	-2.8	-0.8	0.1	0.4
<b>Underlying cash balance (\$b)(a)</b>	<b>-27.1</b>	<b>-57.1</b>	<b>-40.8</b>	<b>-13.0</b>	<b>1.0</b>	<b>5.4</b>
Per cent of GDP	-2.2	-4.4	-2.9	-0.9	0.1	0.3
<i>Memorandum item:</i>						
Headline cash balance (\$b)	-31.3	-59.2	-48.0	-14.6	-2.2	4.1

**Table 2: Major Initiatives in the 2010-11 Budget**

	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m	Total \$m
<b>Spending</b>					
Infrastructure Fund	0	0	700	735	1435
Hospital Beds	234	318	447	626	1625
<b>Revenues</b>					
Lower Company Tax Rate	0	0	-300	-2000	-2300
Small Business Assets Write-Off and Resource Exploration Tax Offset	0	-522	-603	-1711	-2836
Superannuation Measures	-23	-24	-607	-1928	-2583
50% discount for interest income	-5	-53	-516	-526	-1100

**Table 3: Major Savings in the 2010-11 Budget**

	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m	Total(a) \$m
Resource Super Profits Tax	0	0	3000	9000	12000
Increased Tobacco Taxes	1130	1170	1200	1250	4980
PBS and other pharmacy changes	156	301	658	667	1780
(a) Total includes amounts collected prior to 2010-11					

This is an incomplete list, of course, but it does highlight the major areas addressed by the Budget. In total, the new spending initiatives announced total \$30.5 billion in the next four years, with the savings totalling slightly less. The changes can therefore be said to be funded.

Almost all of these changes had carefully been signalled days and weeks beforehand. Small surprises came in the form of the reduced tax on interest income and in the announcement of a standard deduction for taxpayers, which is part of an attempt to simplify the process of paying

taxes.

## 2. The Economic Background

The economic environment is certainly a lot better than it was a year ago although, somewhat ironically, the unemployment rate now (5.3%) is only a touch lower than it was a year ago (5.4%). What's different, of course, is the direction. Last year, as mentioned, the outlook was for a year of negative growth in 2009-10, followed by a moderate 2.25% growth in 2010-11. Instead, the economy probably grew by about 2% in 2009-10, and the forecast for 2010-11 has been lifted to 3.25%, followed by 4% growth in 2011-12. In the first two years, growth is led by capital spending, a lot of which will be in mining. Business investment is forecast to increase by 7% in 2010-11 and by 12.5% in 2011-12, with mining investment rising by a full 1.5% of GDP in just the next two years.

In last year's Budget, growth in the "out years" was projected to accelerate to 4.5%-- compared with the usual working assumption of trend growth. This was justifiable; after all the economy was still expected to be weak and hence had greater capacity for growth in those years, but it did lead some to claim that the return to Budget surplus was being attained by sleight of hand. This year, the out-year projection has reverted to the traditional assumption of trend growth.

**Table 4: Major Economic Parameters**

	Forecasts			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14
Real GDP	2	3.25	4	3	3
Employment	2.5	2.25	2	1.5	1.75
Unemployment Rate	5.25	5	4.75	5	5
CPI	3.25	2.5	2.5	2.5	2.5
Nominal GDP	2.75	8.5	5.75	5.5	5.5

There are several other features worthy of note. First, the outlook for employment and unemployment has improved out of sight. Employment is now expected to be about 4% higher in 2012-13 than forecast last year and the unemployment rate 1.5 percentage points lower.

Second, inflation is projected to return to the centre of the RBA's target range, which is more optimistic than the RBA's own forecast released last week, in which inflation was expected to settle down at 3%.

Third, the sharp rise in nominal GDP in 2010-11 sends a message that a rise in the terms of trade (of about 14% in that year) will have a significant effect on income growth. Indeed, we are effectively getting two years income growth in one this calendar year, something that needs to be managed by the macro-policy makers.

One final point: despite the improved path back to surplus, debt outstanding will increase, and the uninformed will continue to bleat about how bad this is. The table shows the starting position, as estimated by the IMF. Australia stands out as a paragon of virtue. In gross terms, debt is likely to exceed \$200 billion, but the ratio of net debt to GDP is expected to increase only to 6.1%, compared with the 10% peak projected last year.

	Budget Deficit FY09 as % of GDP	Net Government Debt FY10 as % of GDP
Portugal	-9.3%	81.6%
Ireland	-11.4%	47.8%
Italy	-5.3%	116.0%
Greece	-12.9%	104.3%
Spain	-11.4%	57.5%
Germany	-3.3%	68.6%
United Kingdom	-10.9%	71.6%
United States	-12.5%	66.2%
Australia	-4.1%	5.4%

Source: IMF

### 3. Market Reaction

How will anyone be able to tell? Australian markets are caught up in the volatility currently affecting world markets. The announcement of the Super Profits Tax for the resource sector has already had its impact, and whatever happens to the Australian bond market in the next several days will depend much more on the US market than on this Budget.

**Chris Caton**  
Chief Economist

## Key points on Superannuation

### 1. Refund of excess concessional contributions where breach less than \$10,000

**Effective Date: 1 July 2011**

The Government has announced a one-off opportunity for those who breach their concessional contributions cap by less than \$10,000 to have their excess contributions refunded from their superannuation fund and taxed as income at their marginal rate as opposed to 46.5%.

The \$10,000 threshold will not be indexed and is available for breaches in respect of contributions made in the 2011-12 financial year or later years. The refund is only available in the first year an individual breaches their cap by less than \$10,000 from the 2011/12 financial year. The introduction of the measure is intended to reduce the number of individuals who breach the cap and to avoid penalising less significant and inadvertent breaches.

#### Impact:

- Clients who fall into this scenario will need to assess their tax position to determine the impact of having the refunded excess contribution amount included as income (and potentially submitting an amended tax return) before deciding to utilise this option.
- No information has been provided about the treatment of investment earnings on returned contributions.
- No information has yet been provided regarding the mechanism of requesting a refund from the member's super fund or what documentation will be required.

- It is not yet clear whether excess concessional contributions refunded under this option will still count towards a person's non-concessional contributions cap.

## 2. Current minimum pension reduction to be phased out

**Effective date: 1 July 2011**

The Government initially provided pension draw down relief in the 2008-09 financial year to assist account based pension holders to recoup capital losses experience as a result of the global financial crisis. This measure was extended for the 2009-10 and 2010-11 financial years. The Government proposes to phase out this drawdown relief by reducing the minimum pension payment by 25% for the 2011-12 financial year.

The below table illustrates the minimum pension factors for this, and the next two financial years.

Age	Percentage of account balance		
	2010/11	2011/12	2012/13
Under 65	2.00%	3.00%	4%
65-74	2.50%	3.75%	5%
75-79	3.00%	4.50%	6%
80-84	3.50%	5.25%	7%
85-89	4.50%	6.75%	9%
90-94	5.50%	8.25%	11%
95 or more	7.00%	10.50%	14%

This change will require amendments to the Superannuation Industry (Supervision) Regulations 1994 and the Retirement Savings Accounts Regulations 1997.

### Impact:

- Advisers should be aware that the increase in minimum pension minimums from 1 July 2012 may have the following effects on their clients:
  - Age pensioners - for those who are income tested, their Government pension entitlements may decrease
  - Aged under 60 – may result in higher taxable income and thus greater tax (and flood levy)
  - Those in transition to retirement strategies – may need to review salary sacrifice arrangements to optimise cash flow and tax position

## 3. No indexation to Co-contributions income thresholds

**Effective Date: 1 July 2012**

The Government has determined that the lower co-contribution threshold will remain frozen at the current level of \$31,920 for another (or third) financial year.

In the last Federal Budget, the Government determined to permanently retain the maximum Government co-contribution at \$1,000 with the 100% matching rate. In addition, they determined to freeze the indexation of the lower co-contribution threshold for two years meaning the threshold was to remain at the current level of \$31,920 for 2010/11 and 2011/12. With this announcement, the freeze will be extended to 2012/13.

### Impact:

- As a rule of thumb, for 2011/12, working individuals with total income under \$54,000 pa (down from \$54,500 in 2010/11) and \$1,000 of after tax money available to contribute to super will be better off making an after-tax contribution of up to \$1,000 rather than salary sacrificing an equivalent pre-tax (grossed up) amount. This is because the amount of Government co-contribution received is higher than the equivalent tax savings available through salary sacrifice.

- 4. \$50,000 concessional contributions cap for those over 50**      **Effective date: 1 July 2012**
- Currently there is a transitional concessional contributions cap of \$50,000, for those aged 50 or over, which ends on 30 June 2012.
- The Government has reconfirmed their intention to replace this from 1 July 2012, with a concessional contributions cap of \$50,000, provided the individual is aged 50 or over and has less than \$500,000 in superannuation. Unlike the current transitional cap which is fixed at \$50,000, the new cap will increase over time remaining \$25,000 higher than the standard concessional contributions cap for those under 50 years of age.
- The Government has not released any further details on how the \$500,000 balance is to be calculated and whether or not it will count back withdrawals and/or pension payments.
- 5. CGT loss relief for super fund mergers extended by 3 months**      **Effective Date: 1 July 2011**
- The current CGT loss relief applying on the merger of superannuation funds will be extended to 30 September 2011. This relief provides additional time for funds to complete their mergers and still qualify for the temporary CGT loss relief. The existing requirement for the merger to be completed within a single income year will also be relaxed to allow affected funds to benefit from the extension.
- 6. Stronger Super measures re-announced**      **Effective Date: various dates from 1 July 2010**
- The following Stronger Super measures were reconfirmed in the Budget and funding has been allocated where required.
- The Government will provide funding to the ATO and ASIC to implement the Stronger Super self managed superannuation fund reforms including the introduction of a new administrative penalty framework, improved data collection and an improved SMSF registration process. The cost of these changes will be funded by an increase in the self managed superannuation fund levy. The levy will increase from \$150 to \$180 with effect from the 2010/11 financial year.
  - From 1 July 2011 superannuation funds will be able to use tax file numbers to locate member accounts and to facilitate the consolidation of multiple member accounts. This measure will also assist superannuation funds to carry out more efficient consolidation of multiple member accounts, with effect from 1 January 2012 (if the regulations do not proclaim earlier).
  - From 1 July 2012 employers will be required to report on employee's payslips the amount of superannuation actually paid into the employee's superannuation account. Superannuation funds will also be required from 1 July 2012 to provide quarterly notification to employers and employees if regular superannuation contributions cease.
  - Government funding will be provided to APRA and ASIC to introduce MySuper (a simple, low cost default superannuation product).
  - The Government will provide funding to the ATO to implement a mechanism for members to view their super accounts that have been reported to the ATO and to begin to undertake detailed design of ATO IT systems to support SuperStream (a package of measures designed to improve the efficiency of superannuation administration

processes).

**7. Superannuation — Effective Date: 1 July 2011**

**financial assistance grants to compensate fund members for the failure of Trio**

The Government will provide grants of financial assistance under Part 23 of the SIS Act to compensate members of four superannuation funds, formerly under the trusteeship of Trio Capital Limited, that suffered losses due to fraudulent conduct.

The cost of these assistance grants will be recovered through levies collected in 2011-12 by APRA. Treasury has released exposure draft regulations and explanatory material for the levy to enable the cost of this financial assistance to be recouped.

## Key points on Taxation

**1. No change to personal income tax rates and thresholds**

**Effective Date: 1 July 2011**

Current income tax rates and thresholds for residents and non-residents will continue to apply for 2011/12. The rates applying to resident taxpayers are shown in the table below.

Tax Thresholds 1 July 2010 and later years		
Low Threshold	High Threshold	Tax Rate <sup>1</sup> %
-	6,000	-
6,001	37,000	15
37,001	80,000	30
80,001	180,000	37
180,001		45

<sup>1</sup> These rates do not include the Medicare Levy of 1.5% or the Flood and Cyclone Reconstruction Levy.

The Low Income Tax Offset will also remain unchanged at \$1,500 for 2011/12, phasing out after \$30,000 by 0.04 cents in the dollar to a maximum of \$67,500.

There will also be no change to the amount of income that a Senior Australian Tax Offset (SATO) recipient can receive without paying tax. In 2011/12 a single pensioner can receive up to \$30,684 tax free and a couple can receive up to \$53,360 (combined).

**2. Temporary Flood and Cyclone Reconstruction Levy**

**Effective Date: 1 July 2011**

The Government has reaffirmed the implementation of the temporary Flood and Cyclone Reconstruction Levy (Flood Levy). The levy will apply to taxable income included in both a resident and non resident individual's tax return for the 2011/12 financial year only.

Tax Laws Amendment (Temporary Flood and Cyclone Reconstruction Levy) Bill 2011 and Income Tax Rates Amendment (Temporary Flood and Cyclone Reconstruction Levy) Bill 2011 passed the senate on 22 March 2011 and will give effect to the levy from 1 July 2011.

The table below outlines the income thresholds and rate of levy applicable.

Individual's taxable income	Flood Levy
Up to \$50,000	Nil
\$50,001 to \$100,000	0.5% of taxable income exceeding \$50,000

Over \$100,000	1% of taxable income exceeding \$100,000 plus \$250 (being 0.5% of taxable income between \$50,000 and \$100,000)
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The table below shows the amount of Flood Levy payable for the 2011/12 financial year for a range of taxable incomes.

Flood Levy Payable in 2011/12	
Taxable Income (\$)	Flood Levy (\$)
Up to 50,000	0
60,000	50
80,000	150
100,000	250
120,000	450
140,000	650
160,000	850
180,000	1,050
200,000	1,250
220,000	1,450
250,000	1,750

Certain individuals will be exempt from paying the Flood Levy. These are persons who have a taxable income of \$50,000 or less for the 2011/12 financial year or those who are in receipt of an Australian Government Disaster Recovery Payment from Centrelink for a declared natural disaster that occurred during 2010/11.

**Impact:**

- Most income earners with taxable income of more than \$50,000 will receive a lower net income in 2011/12 as a result of the flood levy.
- As the flood levy is payable on taxable income (ie assessable income less deductions) any deductions claimable in the 2011/12 financial year will directly reduce the amount of flood levy payable.
- For clients likely to have taxable income of \$50,000 or more in 2011/12, consider the impact of the flood levy before prepaying expenses that would be otherwise deductible in 2011/12.
- Clients under age 60 with account-based pensions, including transition to retirement pensions, receiving more than \$50,000 of taxable pension income may need to increase their gross pension amount for 2011/12 if they wish to maintain their 2010/11 net income level
- Clients with existing salary sacrifice arrangements who wish to maintain 2010/11 net income levels may wish to consider reducing their salary sacrifice amount for 2011/12.
- Clients with surplus net income (cash in hand) could consider establishing a salary sacrifice arrangement, or increasing an existing arrangement, in 2011/12 to reduce their taxable income which will reduce the amount of tax and flood levy payable. Remember to ensure contributions caps are not breached.

**3. Increase in the Medicare levy low income thresholds**

**Effective date: 1 July 2010**

The Government has announced new Medicare levy thresholds that are applicable for the current financial year (ending 30 June 2011). These are \$18,839 for individuals (previously \$18,488) and \$31,789 for families (previously \$31,196). The increase on these thresholds for each dependent child or student will be \$2,919.

The low income threshold for single pensioners below age pension age has been increased to \$30,439 (previously \$27,697) for the year ending 30 June 2010. This will ensure such

pensioners do not pay the Medicare Levy when they do not have an income tax liability.

**4. Changes to the operation of the Low Income Tax Offset (LITO)**

**Effective date: 1 July 2011**

From 1 July 2011, those under the age of 18 will no longer be eligible to access the LITO, currently worth a maximum benefit of \$1,500, to reduce tax payable on their unearned income (ie effectively income from non employment sources). This change does not impact on income earned from inheritances or distributed from testamentary trusts.

The most significant impact will be in relation to distributions to minors from family trusts – a widely used strategy to reduce the overall level of tax paid on distributions from these trusts. Currently a minor could receive a distribution of \$3,333 from family trusts and pay no tax on that distribution. If the same amount was distributed to a minor in income years commencing 1 July 2011 or later, that distribution would result in a tax liability of \$1,500.

Where these income splitting arrangements are currently in place, a distribution to an adult on a marginal tax rate below the highest rate (of 45% or at \$180,000 of other taxable income) will now produce a more tax effective result.

For other taxpayers who remain eligible for the LITO and have tax withheld from wage payments throughout the year, changes to the existing PAYG withholding rules will be made to pass more of the benefit of the future LITO entitlement back through regular payments. This will provide up to \$300 additional income during the year, with any adjustments for “overpayments” being addressed through annual tax return lodgements.

**5. Phase out and removal of dependent spouse rebate**

**Effective date: 1 July 2011**

The Government has announced that the dependent spouse rebate will be removed for taxpayers who have a dependant spouse born on or after 1 July 1971 (ie aged 40 or less on or after 1 July 2011). The intent is that the removal of this offset benefit will result in the spouse actively looking to rejoin the workforce.

The offset will remain available where the taxpayer:

- has a spouse who is age 40 or over on 1 July 2011,
- has a spouse who is an invalid or permanently disabled,
- is supporting a carer, or is eligible for the zone, overseas forces and overseas civilian tax offsets.

**6. Fringe benefit tax – cars**

**Effective date 10 May 2011**

The calculation of an employee’s car fringe benefit will be simplified with the Government set to replace the four current statutory rates (7% to 26%) with a single flat rate of 20%, which will apply regardless of the distance driven in a year. This will end the practice of employees driving for long distances toward the end of the year to reduce the taxable value of their car and hence the tax liability of their employer or themselves.

The 20% statutory rate will only be effective for new lease contracts entered into after 7.30pm on 10 May 2011. For those travelling more than 25,000km per FBT year, there will be a phasing in of the new statutory rate over the period to 1 April 2014.

**Impact:**

- Those employees who drive up to 15,000 km per year will be better off, while those who drive 15,001 to 25,000km per year will not be affected as the statutory rate applying remains at 20%.
- Those who drive more than 25,000 km per year will be penalised under the statutory method, however they will still be able to use the operating cost (‘log book’) method to

ensure only personal use is included in their car fringe benefit.

The table below summaries the changes:

Distance travelled during the FBT year (1 April – 31 March)	Statutory rate (multiplied by the cost of the car to determine a person's car fringe benefit)				
	Existing contracts	New contracts entered into after 7:30pm (AEST) on 10 May 2011			
		From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 – 15,000 km	0.26	<b>0.20</b>	0.20	0.20	0.20
15,000 – 25,000 km	0.20	<b>0.20</b>	0.20	0.20	0.20
25,000 – 40,000 km	0.11	<b>0.14</b>	<b>0.17</b>	<b>0.20</b>	0.20
More than 40,000 km	0.07	<b>0.10</b>	<b>0.13</b>	<b>0.17</b>	<b>0.20</b>

**7. Income tax treatment of instalment warrants and similar arrangements**

**Effective date: 1 July 2007**

In the 2010/11 Budget, the Government announced an amendment to the taxation law surrounding instalment warrants to ensure that for capital gains tax purposes the owner of an instalment warrant over an exchange traded security will be treated as the owner of the security.

The amendments provided certainty that a capital gains tax event would not be realised once the legal ownership of the asset transferred to the investor.

In this year's Budget, this relief has been extended to instalment warrants and receipts over direct and indirect interests in listed securities, as well as unlisted securities in widely held entities and bundles of these assets.

This treatment provides further certainty for the tax treatment of instalment arrangements within superannuation funds under the 2007 amendments that allowed gearing within superannuation.

**8. Other minor changes**

**Effective date: not stated**

The following changes may not have a significant impact from a taxation point of view, but may have an impact on some client arrangements:

- the ATO will be provided with a discretion to extend the current two-year timeframe available to trustees of deceased estates (or beneficiaries of those estates) to dispose of the deceased principal residence and enjoy the CGT exemption.
- superannuation legislation will be amended to confirm that where there is a self managed super fund with a corporate trustee, a parent or guardian may be a director of the body corporate in place of a member that is a minor.

**9. Capital gains tax treatment of "trading stock" within**

**Effective date: 7:30pm on 10 May 2011**

The Government will remove the trading stock exception to the CGT primary code rule for complying superannuation funds for specified assets, with effect from 7.30pm on 10 May 2011. This measure will ensure gains or losses on shares, units in a trust and land are

**superannuation funds**

subject to CGT. In the past losses on such assets have been used to reduce the taxable income of the fund, rather than offset capital gains. Transitional rules will ensure that assets held or accounted for as trading stock before the time of announcement are unaffected.

**10. Small business instant write off**

**Effective date: 1 July 2012**

Small businesses that purchase a vehicle on or after 1 July 2012 will be able to immediately write off up to \$5,000 of the purchase price in the first year.

The measure complements the previous reforms for small business, also set for introduction from 1 July 2012, including:

- an immediate write off on all assets under \$5,000;
- a write off on all other assets above \$5,000 (except buildings) in a single depreciation pool at 30%.
- a reduction in the company tax rate to 29% for small business taxpayers.

As an example, a tradesman on a marginal tax rate of 30% purchasing a new ute for \$33,960, would receive an additional tax benefit of \$1,275 in the year of purchase. The remainder of the purchase price can then be depreciated within the general small business depreciation pool, at 15% in the first year and 30% in later years.

This write off will be available to all small business, regardless of the operating entity, and replaces the Entrepreneurs Tax Offset.

**11. Special Disability Trusts**

**Effective date: 1 July 2006**

In last year's Budget the Government introduced a measure which allowed the principle residence capital gains tax exemption to be maintained where the main residence was transferred to a Special Disability Trust (a trust to enable parents and immediate family members to put money aside for the future care and accommodation needs of a family member with a severe disability).

The Government has now announced that this exemption will be backdated 5 years to 1 July 2006. In addition, there will be no capital gains tax liability realised when assets are transferred into a special disability trust for no consideration.

**12. Not-for-profit reforms — better targeting of fringe benefits concessions**

**Effective Date: 10 May 2011**

The Government will reform the various tax concessions available to not-for-profit (NFP) organisations to ensure they are targeted only at those activities undertaken for altruistic purposes. Under this proposal, the NFP tax concessions will only apply to profits generated by unrelated commercial activities that fund the organisation's altruistic work. This means NFP organisations will pay income tax on profits from their unrelated commercial activities that are not directed back to their altruistic purpose.

Further, in respect of these unrelated commercial activities, these NFP organisations will no longer have access to the FBT exemptions or rebate, GST concessions, or deductible gift recipient support in relation to those activities.

Commercial activities that further a NFP's altruistic purposes and small-scale and low-risk unrelated commercial activities will not be affected by these changes.

The reforms will commence on 1 July 2011 and will initially affect only new unrelated commercial activities that commence after 10 May 2011. Organisations with existing unrelated commercial activities will initially still be able to use their tax concessions to support these activities, however transitional arrangements will be introduced to phase out these

concessions over time.

**13. Personal income tax — disallow deductions against government assistance payments**

**Effective Date: 1 July 2011**

With effect from 1 July 2011, the Government will amend the tax law to prevent deductions being claimed against all government assistance payments.

This measure resulted from the High Court decision in *Commissioner of Taxation v Anstis* handed down in 2010 and is aimed at maintaining the integrity of the deductions system. Given the effective date, individuals who receive Youth Allowance (Student) will be able to claim a deduction for expenses incurred in gaining their payment for the 2010-11 year. This is to ensure individuals who have maintained records of their expenditure following the High Court decision are not precluded from claiming a deduction.

Further, for each of the years 2006-07 to 2009-10, the Commissioner of Taxation has determined that eligible taxpayers can receive an automatic deduction of \$550 or make potentially higher claims if their expenses can be substantiated.

**Key points on Social Security**

**1. Family Tax Benefit / Youth Allowance**

**Effective date: 1 January 2012**

Currently, the maximum rate of FTB Part A drops from \$208.46 per fortnight to \$51.24 per fortnight, the basic rate, when a child reaches 16. Above 18 years, the rate is \$68.74 for each qualified child. In many cases the child is eligible to claim Youth Allowance

From 1 January 2012, FTB Part A paid in relation to a child in fulltime secondary schooling or equivalent, between the ages of 16 and 19, will increase to that paid to a 15 year old. This will increase the level of support provided by FBT by up to:

- 16 and 17 year olds - \$4,208 per year
- 18 and 19 year olds - \$3,741 per year

The effect of this change is to make FTB the primary payment where a child under 19 is in full-time secondary school study. There will be no income test for a FTB child under 19 in full-time secondary school study, however the Youth Allowance personal income test will remain.

Eligibility for FTB Part A will cease for children aged 22 years and over. However, these children may be able to claim Youth Allowance.

The participation requirement for FTB Part B and the Multiple Birth Allowance will be brought into line with FTB Part A. Children aged 16 to 19 will be required to undertake full time secondary study or be exempted, to be eligible for these payments.

Youth Allowance will only continue to be available to 16 to 19 year olds who are:

- Independent
- Living away from home
- Not in full time secondary study
- Current recipients who opt to remain on Youth Allowance

**2. Family Tax Benefit Advances**

**Effective date: 1 July 2011**

Families in receipt of Family Tax Benefit Part A will be able to access an advance of their entitlement. An advance from \$160 to \$1000 but not more than 7.5% of total entitlement may be claimed at any time in the year. Repayment will be over 6 months by reducing fortnightly FBT payments.

**3. Family Tax Benefit A & B Indexation**      **Effective date: 1 July 2011**

FTB Parts A and B supplements are normally indexed by the Consumer Price Index from 1 July each year. This indexation will be paused for 3 years until 1 July 2014. The current levels, which will remain until 1 July 2014 are:

- Part A supplement \$726.35 per child
- Part B supplement \$354.05 per child

FTB Parts A and B are paid according to assessable income which is generally indexed each year. The indexation of the upper limits and thresholds are currently paused and the pause will be extended for another 2 years – until 1 July 2014. The indexation pause also applies to:

- Baby Bonus eligibility limit
- Paid Parental Leave carer income limit

**4. Paid Paternity Leave Implementation Date**      **Effective date: 1 July 2012, commencing 1 January 2013**

The measure to provide eligible working fathers or other partners who are providing a child's care with two weeks leave paid at the minimum wage has been deferred from 1 July 2012 to 1 January 2013 for children born on or after 1 January 2013.

**5. Changes to Disability Support Pension**      **a) Disability Support Pension – recipients allowed to work up to 30 hours**  
**Effective date:**

Disability Support Pension (DSP) recipients will be allowed to work for up to 30 hours and continue to receive a part-pension for up to two years. From 11 May 2005 new applicants for DSP had to be assessed as having the capacity of working less than fifteen hours a week. As a result, recipients under this '15-hour rule' who have the capacity are discouraged from working more hours. This concession will encourage DSP recipients to work longer hours however increased employment income will be means-tested and may result in a reduction of their benefits.

**b) Disability Support Pension – Changes to Participating Requirements**

**Effective date: 1 July 2012**

New participating requirements will be introduced for DSP recipients. These requirements will apply to new and existing recipients aged less than 35 years and assessed with a capability of working eight or more hours per week. They will be required to attend Centrelink participation interviews and formulate a plan to improve their work skills, participate in the community and possibly join the workforce.

Centrelink interviews will be attended quarterly for the first 18 months after receipt of the pension and twice yearly thereafter. DSP recipients who have not been assessed for work capacity will undergo assessment. DSP recipients who have working capacity of less than eight hours or who are already working will be excluded from this requirement. This requirement aims to bring more participants into the work force.

**c) Disability Support Pension - Portability Changes**

**Effective date: 1 July 2012**

Currently DSP is payable for only up to 13 weeks while a recipient resides overseas either temporarily or permanently. It is proposed that certain DSP recipients may continue to receive the DSP while residing overseas indefinitely. To qualify for indefinite portability, DSP recipients must be severely and permanently disabled and have no future capacity to work. Other accompanying payments such as Rent Assistance and the Pension Supplement will cease after 13 weeks. Carer Payments and Carer Allowances paid to carers accompanying them overseas will also cease.

**6. Prisoner of War  
Recognition  
Supplement**

**Effective date: 20 September 2011**

The Government has announced a new measure that will introduce a Prisoner of War Recognition Supplement of \$500 per fortnight for eligible former POWs. Eligible POWs include those of Japan and Europe from the Second World War and former POWs from the Korean War.

This new payment will be non-taxable and will not be included as assessable income for the purposes of means testing of other government payments administered by DVA and Centrelink.

**Disclaimer**

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