Aspects of Financial Planning

Federal Budget 2011

May 2011

Background

On 10 May 2011, the Deputy Prime Minister and Treasurer, the Hon. Wayne Swan MP, delivered his fourth Federal Budget and first for the Gillard Government.

Mr Swan said that the Budget's main focus was building a bigger workforce through better and more targeted investments in skills and training, and measures to encourage participation.

An underlying cash deficit of over $49 billion was estimated for 2011/12 with a projected return to surplus of $3.5 billion in 2012/13. Government debt is estimated to peak at over $106 billion in 2011/12 representing 7.2% of GDP and an increase of $12.2 billion from the Mid-Year Economic and Fiscal Outlook issued in November 2010.

Our primary concern is the practical effect that the Federal Budget will have on Centric Wealth clients. The following areas are those which may be of significant interest to our clients.

Personal taxation

Changes to the low income tax offset

There are two significant changes the Government announced in regard to the low income tax offset (LITO):

- Bringing forward of LITO

  The Government announced that the amount of LITO that is payable through a taxpayer's regular pay during a financial year will be increased from 50% to 70% of their total entitlement representing up to an additional $25 per month.

  The remaining 30% will continue to be paid via the taxpayer's income tax return.

  This measure may allow individuals to use the extra amount as a non-concessional contribution to target the co-contribution. In addition it may assist in providing for life insurance premiums.

- Removing the minors' eligibility for the LITO on unearned income

  The Government also announced their intention to remove the ability of minors (i.e. children under the age of 18) to access LITO on their unearned income such as dividends, interest, rent, etc from 1 July 2011.

  With the removal of LITO a minor's unearned income will be taxed as follows:

Taxable income	Tax payable
$0 - $416	Nil
$417 - $1,307	66% of each $ over $416
Over $1,308	45% on the entire amount

  Earned income from employment as well as unearned income of minors who are orphans or disabled, compensation payments, and income derived from inheritances by minors will still be entitled to LITO.

"Look-through" treatment for instalment warrants

The Government will extend the look-through treatment of instalment warrants for income tax purposes from 1 July 2007 as per the Assistant Treasurer's press release of 17 January 2011.

This measure will extend look-through treatment beyond single exchange traded securities 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 will confirm the practice of treating an investor in an instalment warrant or instalment receipt over specified assets as the owner of the security for income tax purposes.

As a result, there will be no capital gains tax (CGT) applicable at the time the last instalment is paid for instalment warrants over these types of assets.

Taxation of trust income

The Government plans to introduce legislation to enable the streaming of capital gains and franked distributions and target the use of low tax entities to reduce the tax payable on the taxable income of a trust.

The Government said that this would be an interim measure, taking effect from 1 July 2010, while certain sections of taxation law are rewritten.

This measure follows a recommendation by the Board of Taxation and was announced by Assistant Treasurer and Minister for Financial Services and Superannuation, the Hon. Bill Shorten MP, on 13 April 2011.

Extension to the main residence capital gains tax exemption in relation to special disability trusts

The Government announced an extension to the 2009/10 Federal Budget measure that provides a CGT main residence exemption to special disability trusts (SDT) with effect from 1 July 2006.

This measure will provide a CGT exemption:

- For assets transferred into a SDT for no consideration; and
- For the recipient of the SDT's principal beneficiary's main residence where the main residence is disposed of within two years of the principal beneficiary's death.

Reforming of the car fringe benefit rules

The Government will reform the current statutory formula method for determining the taxable value of car fringe benefits with a single rate of 20% that applies regardless of the distance travelled and was originally recommended as part of the Henry Tax Review.

It is proposed the single rate will be phased in as per the table below:

Distance travelled during the FBT year (1 April – 31 March)	Statutory rate multiplied by the cost of the car to determine the taxpayer'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 – 15,000km	0.26	0.2	0.2	0.2	0.2
15,000 – 25,000km	0.2	0.2	0.2	0.2	0.2
25,000 – 40,000km	0.11	0.14	0.17	0.2	0.2
More than 40,000km	0.07	0.1	0.13	0.17	0.2

This measure will apply to new contracts entered into after 7:30pm (Australian Eastern Standard Time) on 10 May 2011.

It should be noted that those who drive more than 25,000km will have their statutory rate multiplier increased.

Medicare levy thresholds increased

The Government has announced the annual increased level of income that a taxpayer can earn without having to pay the Medicare levy. These revised thresholds apply for the 2010/11 financial year and are:

- $18,839 for individuals; and
- $31,789, plus $2,919 for each dependent child or student, for families.

In addition, the threshold for pensioners who are below age pension age will be increased to $30,439 ensuring that no Medicare levy is payable when these pensioners do not have an income tax liability in a financial year.

Abolition of the entrepreneurs' tax offset

The Government will abolish the entrepreneurs' tax offset (ETO) effect from 1 July 2012. This measure was originally recommended as part of the Henry Tax Review released in May 2010.

The ETO commenced on 1 July 2005 and provides eligible taxpayers with a maximum tax offset of 25% of their tax liability that is attributable to their net small business income for a financial year. The ETO begins to phase out at aggregated turnovers of $50,000 and eligibility ceases when aggregated turnover reaches $75,000. There is a further income test based on the individual's or family's income.

This measure may impact on people who run a small home based businesses.

Phasing out of the 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 Henry Tax Review recommended the abolition of the DSTO.

However, taxpayers with an invalid or permanently disabled spouse, supporting a carer, or people who are eligible for the zone, overseas forces and overseas civilian tax offsets will not be affected.

A taxpayer is currently eligible for the DSTO where:

- The taxpayer's adjusted taxable income (ATI), including taxable income, adjusted fringe benefits, reportable employer superannuation contributions, etc is less than $150,000
- The taxpayer's spouse ATI is less than $9,254
- The taxpayer "maintained" their spouse
- The taxpayer's spouse is an Australian resident; and neither
- The taxpayer and their spouse qualify for family tax benefit (FTB) Part B.

It is expected that this measure will commence from 1 July 2011.

Superannuation

Reduction in the minimum payment amounts for account based pensions

Following the previous three financial years' minimum pension payment relief the Government announced a continuation of the relief for another financial year.

However, unlike the 50% reduction in previous years the minimum payment amount for account based, allocated, and market linked income streams will be reduced by 25%.

The Government further announced that the minimum amounts will return to normal from 1 July 2012.

For account based pensions the minima are:

Age	Minimum or reduced minimum percentage factors			
	1 July 2007 – 30 June 2008	1 Jul 2008 – 30 June 2011	1 July 2011 – 30 June 2012	1 July 2012 onwards
Under 65	4%	2%	3%	4%
65 – 74	5%	2.5%	3.75%	5%
75 – 79	6%	3%	4.5%	6%
80 – 84	7%	3.5%	5.25%	7%
85 – 89	9%	4.5%	6.75%	9%
90 – 94	11%	5.5%	8.25%	11%
95 or more	14%	7%	10.5%	14%

Refund of excess concessional contributions

Eligible individuals with excess concessional contributions will be provided with an option to withdraw the excess from their superannuation fund and to have this taxed at their marginal tax rate as opposed to the 31.5% excess concessional contribution rate.

This measure will only apply to excess concessional contributions of up to $10,000 in a particular year and is only available for one breach after 1 July 2011.

To put this measure into perspective Budget Paper No. 2 estimates that the measure will cost $19.9 million over the forward estimates (i.e. 1 July 2010 – 30 June 2015).

Operation of the concessional contributions cap for the over 50s

The Government will set a “higher” concessional contributions cap for individuals aged over 50 whose superannuation balances are less than $500,000.

The “higher” concessional contributions cap will be $25,000 above the general concessional contribution cap that is currently $25,000. Therefore, when the general concessional contribution cap is indexed the higher cap will increase by the same dollar amount.

This measure was included in the “Concessional superannuation contributions caps for individuals aged 50 and over” consultation paper issued by the Assistant Treasurer and Minister for Financial Services and Superannuation, the Hon. Bill Shorten MP, on 28 February 2011.

This measure will apply from 1 July 2012.

Extension of the pause on the indexation of the income thresholds for the superannuation co-contribution

The freeze on the indexation of the income thresholds for the superannuation co-contribution will continue for another 12 months. This measure will maintain the current income thresholds at $31,920 with the co-contribution phasing out at $61,920 until 30 June 2013.

Self managed superannuation funds

Self managed superannuation fund levy and other measures

The self managed superannuation fund (SMSF) levy will increase by $30 from $150 to $180 with effect from 1 July 2010.

It is proposed that this increase in the levy, in conjunction with an auditor registration fee from 1 July 2012, will be used by the ATO and ASIC to implement a range of measures that will improve the operation, efficiency, and integrity of the SMSF sector.

These measures include:

- The introduction of administrative penalties that the ATO can use in cases of non-compliance
- The introduction of knowledge and competency requirements for SMSF service providers and auditors
- Tightening restrictions on SMSF investments in collectables and personal use assets; and
- SMSF to value their assets at net market value.

Most of these measures will commence from 1 July 2012, however, the tighter restrictions on SMSF investing in collectables and personal use assets will apply to new investments from 1 July 2011 with all holdings of these asset types complying by 1 July 2016.

Social security

Disability support pension work and participation requirements

The Government plans to introduce two measures that aim to encourage people with disabilities to return to work where possible.

- Increased work hours

  The first measure will allow all disability support pension (DSP) recipients to work up to 30 hours and remain eligible for a part pension for up to two years. This will allow recipients granted DSP since 11 May 2005 to work more hours without losing their eligibility for DSP. Currently these recipients can only work 15 hours a week before their DSP entitlement is affected.

It should be noted that DSP recipients will still be subject to the application of the income test.

- Participation interviews

  Under the second measure, the Government will introduce participation requirements for new and existing DSP recipients under the age of 35 with some work capacity from 1 July 2012.

  Those recipients who are assessed as having a partial work capacity of eight or more hours a week and are not working will be required to attend Centrelink interviews in order to create a participation plan to engage in community interaction. The aim of these participation interviews with Centrelink is to help recipients improve their chance of finding employment.

Family tax benefit

- Supporting families with teenagers

  The Government plans to improve the adequacy of the FTB Part A for dependant 16 to 19 year olds in full time secondary study. This will simplify the assistance provided to families with children in this age group, removing the need to choose between Youth Allowance (YA) and FTB.

  The Government will increase the maximum rate of FTB Part A for dependant 16 to 19 year olds in full time secondary study to the same rate paid for 13 to 15 year olds. This will increase the FTB Part A by up to $4,208 a year for 16 to 17 year olds and up to $3,741 a year for 18 and 19 year olds.

  FTB Part A is a payment to help families who meet the residency requirements with the cost of raising children.

- More flexible advances

  The Government will provide families in receipt of FTB Part A with more flexible access to advance payment of their entitlements from 1 July 2011. Families will be eligible for an advance of up to 7.5% up to a maximum of $1,000 of their annual FTB Part A entitlement at any point throughout the year.

These advance payments will be subject to an assessment of a family's ability to repay the advance without falling into financial hardship.

- Aligning FTB Part A eligibility with YA age of independence

  The Government also plans to limit the eligibility for FTB Part A to children up to the age of 21 years from 1 January 2012. This will bring FTB Part A in line with the YA age of independence from 1 January 2012.

- Pause on the indexation of FTB

  The Government proposes to pause the indexation of the FTB Part A and B supplements and the higher income thresholds and limits at their current levels until 1 July 2014.

  FTB Part B gives extra assistance to sole parent families and two parent families with one main income.

  The savings from this measure will be redirected to support other Government priorities.

Paid paternity leave

- New start date

  The Government will defer the implementation of paid paternity leave by six months from 1 July 2012 until 1 January 2013.

  The paid paternity leave payment provides eligible working fathers with two weeks paternity leave paid at a rate equivalent to the national minimum wage. A family may receive the paternity leave payment either on its own or in addition to other family payments such as the baby bonus, paid parental leave and FTB. The mother does not have to be accessing the Government's paid parental leave scheme for her partner to be eligible for paid paternity leave.

Aged care

Building a national sustainable national aged care system

The Government has announced that they are committed to the sustainable reform of the aged care system to provide quality care for older Australians.

As per the Government's media release "Building a sustainable national aged care system" which was issued by the Minister for Mental Health and Ageing, the Hon. Mark Butler MP, on

10 May 2011, the Government has stated that it will "provide $55.4 billion for aged care over the next four years from 2011/12".

There appears to be little indication in the budget papers as to where this total funding of $55.4 billion will be spent. What we do know is that some of this funding will be going to measures such as:

- Ensuring additional high-level community aged care places are made available by temporarily adjusting the balance between high-level community aged care and high-level residential aged care; and
- Providing higher payments that support the viability of aged care providers that deliver services in rural and remote areas.

Productivity Commission report "Caring for older Australians"

The Productivity Commission released its draft report titled "Caring for older Australians" in January 2011. The report reviews the system and funding for aged care in Australia and considers the costs and access to residential aged care. A final report is due to be delivered to the Government at the end of June 2011. If the recommendations are to be accepted by Government, there will be sweeping changes for the aged care industry.

Conclusion

It is important to remember that these measures do not come into force until they are made into law. Noting that the Government does not control the House of Representatives or the Senate it is highly likely that some of these measures may be amended or denied by Parliament.

We will be keeping our eye on the progress or changes to these measures. Your Centric Wealth adviser is able to discuss these measures with you in further detail.

Centric Wealth Advisers Ltd may be able to be of assistance

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