June 2011 (2011 – 2012 Federal Budget) Newsletter

Confirmation of Personal Income Tax Rates

The release of the Federal Budget has confirmed that there are to be no tax rate or threshold changes applying from 1 July 2011, tax rates for resident individuals (excluding medicare levy) for the year ending 30 June 2012 are therefore:

Taxable Income	Tax Rate and Tax Payable
$0 to $6,000	Nil
$6,001 to $37,000	15 cents for each dollar over $6,000
$37,001 to $80,000	$4,650 plus 30 cents for each dollar over $37,000
$80,001 to $180,000	$17,550 plus 37 cents for each dollar over $80,000
$180,001 and above	$54,550 plus 45 cents for each dollar over $180,000

However, note that the following changes will still result in changes to the various withholding schedules and so update of payroll software being required:

- The amount of the Low Income Tax Offset received by low to middle income earners through their pay will increase from 50% to 70% of their total entitlement.

- The Flood Levy applies for the year ending 30 June 2012 only. The Levy is at a rate of 0.50% on taxable income between $50,001 and $100,000, and then a rate of 1.00% on taxable income above $100,000.

Individual Measures

- The ability of minors to access the Low Income Tax Offset for unearned income will be removed from 1 July 2011. This access to the Offset previously allowed minors to reduce their income tax payable on unearned income, such as from dividends and trust distributions, this measure therefore impacts this tax planning opportunity.

- Tax legislation will be amended with effect from 1 July 2011 to disallow income tax deductions being claimed against all government assistance payments. This measure is in response to a High Court decision which had held that a youth allowance recipient could claim a tax deduction for certain expenses incurred in gaining the payment.

- The Dependent Spouse Tax Offset for taxpayers with a dependent spouse aged less than 40 years will be phased out.

- The discount available to students who elect to pay their student contribution under the Higher Education Contribution Scheme (HECS) up-front will be reduced from 20% to 10%. Further, the bonus on voluntary payments of $500 or more towards the HECS debt will be reduced from 10% to 5%. These changes will apply from 1 January 2012.

Business Measures

Small Business Motor Vehicle Write Off

From 1 July 2012, small businesses will be allowed to claim up to $5,000 as an immediate tax deduction on the purchase of a motor vehicle. The balance of the motor vehicle's cost will be pooled in the businesses general small business pool and so depreciated at 15% in the first year and then 30% thereafter.

Note that this measure is in addition to the previously announced increase of the existing small business asset write off threshold from $1,000 to $5,000 which is still intended to apply from 1 July 2012.

Car Fringe Benefits and a Flat 20% Statutory Rate

The Federal Government will reform the statutory formula method by replacing the current statutory rates with a single rate of 20%, this single rate would apply regardless of the annual kilometres travelled.

This change would be phased in over four years, applying to new contracts entered into after 7:30pm (AEST) on 10 May 2011, this is illustrated in the following table:

Distance travelled during the FBT year	Statutory Rate				
	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	0.20	0.20	0.20	0.20
15,000 – 25,000 km	0.20	0.20	0.20	0.20	0.20
25,000 – 40,000 km	0.11	0.14	0.17	0.20	0.20
More than 40,000 km	0.07	0.10	0.13	0.17	0.20

Other Business Measures

- Under the current Director Penalty Notice regime the Tax Office can issue a notice to director(s) of a company in respect of unpaid PAYG Withholding requiring the obligation to be met by the director(s). The Federal Government proposes to extend this regime to include unpaid superannuation guarantee amounts.

- The reduction in company tax rate for small businesses to 29% from 1 July 2012 is still intended.

- The Federal Government will allow withdrawal of funds from the Farm Management Deposit within the 12 month period for primary producers affected by natural disasters.

- The Entrepreneurs' Tax Offset will be abolished from 1 July 2012.

- The Federal Government confirmed the extension of the FBT exemption for domestic fly-in fly-out arrangements to Australian residents working in overseas remote areas.

- The Federal Government announced the intention to introduce a Reportable Taxable Payments system, this would require businesses in the building and construction industry to report annually to the Tax Office all payments made to contractors in the industry. In addition, it is then intended to extend this system to the cleaning industry.

Superannuation Measures

Limited Refund of Excess Concessional Contributions

Eligible individuals will be provided with the option to have excess concessional contributions taken out of their superannuation fund and assessed to themselves as income at their marginal rate of tax rather than incurring the excess contributions tax.

This option will be available where the excess concessional contributions are not greater than $10,000, the contributions relate to the year ended 30 June 2012 or later years and it is the first year in which a breach has occurred.

No Change to Concessional and Non-Concessional Contributions Caps

It should also be noted that there has been no change to the existing concessional superannuation contributions cap of $25,000, or the related transitional cap for those aged 50 or over of $50,000.

This higher transitional cap ceases on 30 June 2012, however the Federal Government has proposed the continuation of this cap from 1 July 2012 for those aged 50 or over who have a superannuation fund balance of less that $500,000. This proposal is at the consultation stage.

Similarly, the non-concessional contributions cap remains unchanged at $150,000.

Minimum Pension Drawdown Amounts for 2011 - 2012

The minimum annual pension drawdown amounts have been reduced by 50% in the years ended 30 June 2009, 2010 and 2011. For the year ended 30 June 2012 this reduction will be at 25%, and the minimum drawdown amounts will then return to normal for the year ended 30 June 2013.