Budget 2011

The following is a summary of proposals announced in the 2011 Federal Budget released on 10 May.

The proposed changes announced in this Budget are fiscally tight and are designed to return the Budget to surplus in 2012/13, despite the impact of recent natural disasters.

It is important to note that these changes are proposals only, and will not become effective until they have been passed into law.

Key points:

1. Individuals and Families

- Tax Discount on Interest Income.
- Standard Deduction for Work Related Expenses.
- Dependant Spouse Tax Offset.
- Low Income Tax Offset.
- Self-Education Expenses.
- HECS Repayments.
- Family Tax Benefits A & B.
- Early Access to Farm Management Deposits for Victims of Natural Disasters.

2. Superannuation

- Minimum Income Stream Drawdown Relief Removed.
- Excess Concessional Superannuation Contributions.
- Concessional Contributions Cap for Over 50s.
- Employer Contributions.
- Bonus Superannuation for Low Income Earners.

3. Small Businesses and Trusts

- Small business instant tax write-offs.
- Car Fringe Benefits.
- CGT Small business concessions.
- Special Disability Trusts.

Individuals and Families

Tax Discount on Interest Income

From 1 July 2011, the Government will provide individuals with a 50% tax discount on up to $1,000 of interest income earned.

This includes interest earned on deposits held in authorised deposit taking institutions, bonds, debentures and annuity products. The discount will also be available for interest income received via a trust or managed investment.

Standard Deduction for Work Related Expenses

From 1 July 2012, individuals will be able to claim a standard tax deduction of $500 in lieu of claiming work-related expenses.

This standard deduction will increase to $1,000 from 1 July 2013.

Dependant Spouse Tax Offset

The offset for dependent spouses will be withdrawn for non-working spouses without children who were born on or after 1 July 1971. This offset will be phased out to help encourage more Australians into paid employment.

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

Low Income Tax Offset

The low income tax offset will increase by $300 to $1,800 pa in the 2011/12 tax year. This means that a low income earner will be able to earn up to $18,000 of taxable income without being subject to tax.

The amount of low income tax offset that is delivered to low and middle income earners through their regular pay during the year will be increased from 50% to 70% of their entitlement.

The remaining 30% of this tax offset will still be paid as a lump sum at the time income tax is assessed.

And from 1 July 2011 the Government will limit the ability of children aged less than 18 years of age to access the low income tax offset to reduce tax payable on their unearned income such as dividends, interest, rent, royalties and other income from property.

This measure will reduce the tax free threshold for non-working minors to $416.

Self-Education Expenses

Self-education expenses will no longer be deductible against any government assistance payments from 1 July 2011. As a result, individuals who receive a Youth Allowance (Student) will still be able to claim a deduction for expenses incurred for the 2010/11 income year.

For each of the tax years from 06/07 to 2009/10, eligible tax payers will be allowed to receive an automatic deduction of $550 or make potentially higher claims if the expenses claimed can be substantiated.

HECS Repayments

From 1 January 2012, the discount available to students electing to pay their HECS student contribution up-front will be reduced from 20% to 10%, and the bonus on voluntary payments to the Tax Office of $500 or more will be reduced from 10% to 5%.

Family Tax Benefits A & B

From 1 July 2011, families in receipt of Family Tax Benefit Part A will be eligible for an advance of up to 7.5% to a maximum of $1,000 for their annual Family Tax Benefit Part A which can be applied for at any time during the year.

These advances will need to be repaid over six months through reduced future fortnightly FTB payments

Finally, from 1 January 2012, the eligibility for Family Tax Benefit Part A will be limited to children up to 21 years of age, as young people aged 22 and over will be considered to be independent.

When a child turns 22 years of age, parents will no longer be able to receive FTB Part A for that child, but the child may be eligible to receive Youth Allowance instead, subject to means testing and academic progress rules

Indexation of the Family Tax Benefit Part A and B supplements will be suspended for three years. Indexation of family payment higher income thresholds and limits will also be frozen at their current level until 1 July 2014.

Early Access to Farm Management Deposits for Victims of Natural Disasters

Access to farm management deposits within 12 months of making a deposit is currently provided to primary producers affected by severe drought.

This concession will be extended to primary producers who have been affected by natural disasters.

Superannuation

Minimum Income Stream Drawdown Relief Removed

In response to the effect that the global financial crisis had on investment markets in Australia, in 2008 the Government halved the minimum amount that a superannuation pensioner or annuitant was required to withdraw from their account based income stream.

The Government has announced that this drawdown relief will be phased out.

Age	Tax Year		
	2010/11	2011/12	2012/13
Under 65	2.00%	3.00%	4.00%
65 – 74	2.50%	3.75%	5.00%
75 – 79	3.00%	4.50%	6.00%
80 – 84	3.50%	5.25%	7.00%
85 – 89	4.50%	6.75%	9.00%
90 – 94	5.50%	8.25%	11.00%
95 and older	7.00%	10.50%	14.00%

Excess Concessional Superannuation Contributions

Legislation currently restricts the amount of contributions which each person can make into their superannuation fund each year. Where contributions in excess of these caps are made, harsh tax penalties can apply.

The Government has announced that an individual will be able to claim a refund of up to $10,000 of their excessive concessional contributions, provided that this is the first time that they have breached the concessional contribution cap.

The refund will be taxed at the individual's marginal rate of tax, rather than the 46.5% excess contribution tax rate.

Concessional Contributions Cap for Over 50s

The government will extend the higher $50,000 concessional contributions cap which is currently in place past 30 June 2012, but only to people with superannuation account balances of less than $500,000.

The standard $25,000 concessional contributions cap will apply to anyone who is less than 50 years of age, or who has $500,000 or more in their superannuation accounts.

Employer Contributions

Employees will receive information on their payslips detailing the amount of superannuation which has been paid into their account by their employer.

In addition, from 1 July 2011, company directors will be personally liable for their company's failure to pay their employees superannuation guarantee contributions.

Bonus Superannuation for Low Income Earners

From 1 July 2012, the Government will provide a contribution of up to $500 annually for workers on adjusted taxable income of up to $37,000.

Small Businesses and Trusts

Small business instant tax write-offs

From 1 July the Government will introduce the following measures for Australian small businesses:

- an immediate tax write-off of the first $5,000 of any motor vehicle purchased in 2012/13, and
- a reduction in the company tax rate to 29% for incorporated small businesses.

Car Fringe Benefits

A flat rate of 20% will replace the scale of statutory rates currently used to calculate the taxable value of a car fringe benefit under the 'statutory formula' method.

The new flat rate of 20% will apply regardless of the distance travelled during the year, removing the incentive for people to drive more than necessary to access higher tax concessions.

This flat rate will only apply to new vehicle contracts entered into after 7.30 pm on 10 May 2011, and will be phased in over four years as per the table below

Statutory Rates for New Vehicle Contracts

Distance travelled	From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 – 15,000 km	0.20	0.20	0.20	0.20
5,000 – 25,000 km	0.20	0.20	0.20	0.20
25,000 – 40,000 km	0.14	0.17	0.20	0.20
More than 40,000 km	0.10	0.13	0.17	0.20

CGT Small business concessions

Trusts will no longer be able to avoid being treated as connected entities for the purpose of testing eligibility for the CGT small business concessions on the basis that trusts do not own assets for their own benefit.

These changes will also ensure that some small businesses will be able to access the CGT small business concessions because the changes will make their business assets 'active'.

Special Disability Trusts

The Government will extend the CGT main residence exemption to special disability trusts where a dwelling owned by a special disability trust is used by a principal beneficiary as their main residence.

An exemption will also be given upon the sale of the main residence if it is sold within two years of the principal beneficiaries death and where assets are transferred into a special disability trust for no consideration.

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