

Federal budget

May 2011

PERSONAL TAXATION

Personal Tax Rates – No Change, But Remember the Flood Levy

The Government did not make any changes to the currently legislated tax rates which apply for the 2010–11 and following years. However, taxpayers should not forget that, from 1 July 2011 for one year, those rates will include the flood levy, where applicable.

Minors No Longer Entitled to Low Income Tax Offset on Unearned Income

The Government will remove the ability of minors (children under 18 years of age) to access the low income tax offset (LITO) to reduce tax payable on their unearned income, such as dividends, interest, rent, royalties and other income from property, with effect from 1 July 2011. According to the Government, this is to discourage income splitting between adults and children. However, income earned by minors from work will still be eligible for the full benefit of the LITO.

Low Income Tax Offset: a Little Extra in the Pay Packet

From 1 July 2011, the Government will increase the proportion of the low income tax offset (LITO) that is delivered through workers' week-to-week pay packets from 50% to 70%. This change means that instead of being compensated after they put in their tax return at the end of the year, lower income earners are taxed less during the year. According to the Government, someone with an annual income of \$30,000 will get an extra \$300 during the year in their regular pay.

Dependent Spouse Rebate for Spouses Under Spotlight

The Government announced it will phase out the tax offset for dependent spouses aged less than 40 (ie born on or after 1 July 1971) "to help encourage more Australians into paid employment".

This change will mean taxpayers with a dependent spouse aged less than 40 years will no longer be eligible for the dependent spouse tax offset (DSTO) from 1 July 2011. However, the change will not affect certain dependent spouses – for example, spouses who are permanently unable to work or who are carers.

No More Deductions for Youth Allowance Recipients

The Government will amend the tax law to prevent deductions being claimed against all government assistance payments, with effect from 1 July 2011. The announcement is in response to a 2010 High Court decision which had held that a Youth Allowance recipient could claim a deduction for certain expenses incurred in gaining the payment. The Government says the change is designed to maintain the integrity of the deductions system.

Medicare Levy Thresholds Increased for 2010–11

From the 2010–11 income year, the Medicare levy low-income thresholds will be increased for singles to \$18,839 (up from \$18,488 for 2009–10) and to \$31,789 for those who are members of a family (up from \$31,196 for 2009–10). The additional amount of threshold for each dependent child or student will also be increased to \$2,919 (up from \$2,865).

The Medicare levy low-income threshold for pensioners below Age Pension age will also be increased from 1 July 2010 to \$30,439 (up from \$27,697). This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy while they do not have an income tax liability.

SUPERANNUATION

Excess Contributions Tax – New Limited Refund

The Government will provide eligible individuals who breach the concessional contributions cap by up to \$10,000 with a one-off option to request that these excess contributions be refunded to them. This new refund option will only apply to first time breaches from 1 July 2011. The Government expects that this reform will help to reduce the number of occasions where the concessional contributions are exceeded resulting in an excess contributions tax (ECT) assessment.

Minimum Pension Drawdowns for 2011–12

The minimum annual payment amounts for pensions and annuities will be reduced by 25% for 2011–12 and will return to normal in 2012–13. In this respect, the Government will begin to phase out the 50% pension drawdown relief that has been provided for 2008–09, 2009–10 and 2010–11 financial years.

Reducing the minimum payment amounts by 25% for account-based, allocated and market linked (term allocated) pensions from 1 July 2011 seeks to provide some assistance to holders of these products to recoup capital losses incurred as a result of the global financial crisis.

Concessional Contributions: Higher Cap for Those Aged 50 and over

The Government will set the proposed higher concessional contributions cap at \$25,000 above the general concessional cap, for eligible individuals aged 50 and over with total superannuation balances of less than \$500,000.

The Government has confirmed that the higher cap will enable eligible persons over 50 to be able to contribute \$25,000 more per year than other workers subject to the general concessional contributions cap of \$25,000. As a result, when the general concessional contributions cap increases with indexation from \$25,000 to \$30,000, the higher cap will increase by the same dollar amount.

This measure will apply from 1 July 2012.

BUSINESS TAXATION

Small Business Motor Vehicle Instant Tax Write-off

The Government will provide Australian small businesses with an instant tax write-off of the first \$5,000 of any motor vehicle purchased from 2012–13. The Treasurer said that, for example, a tradesman on a 30% marginal tax rate, buying a new \$33,960 ute would receive an extra tax benefit of \$1,275 in the year he purchased the vehicle. The remainder of the purchase value can be transferred into the general small business depreciation pool, which is depreciated at 15% in the first year and 30% in later years.

These reforms will be available to all small businesses, including sole traders and businesses operating through trusts, partnerships and companies.

The new small business instant write-off for the first \$5,000 of any motor vehicle will effectively replace the Entrepreneurs Tax Offset (ETO), which will be abolished with effect from the 2012–13 income year.

FBT and Cars – Flat 20% Valuation Rate to Apply

The Government announced what would amount to implementation of a Henry Tax Review recommendation that the current statutory rates for valuing car fringe benefits be replaced with a single statutory rate of 20%, regardless of the number of kilometres travelled.

The changes will apply to new vehicle contracts entered into after 7:30pm (AEST) on 10 May 2011, and will be phased in over four years.

People who use their vehicle for a significant amount of work-related travel will still be able to use the “operating cost” (or “log book”) method to ensure their car fringe benefit excludes any business use of the vehicle.