EXECUTIVE SUMMARY

Federal Budget: $45.7bn deficit, and many tax changes

On 10 May 2011, the Treasurer Mr Swan handed down the 2011-12 Federal Budget, his 4th Budget.
While pre-Budget speculation was of a tough, even possibly austere, Budget, there was a mixture of taxation and related announcements that will both please and annoy taxpayers. There were a large number of tax changes announced covering areas such as superannuation, income tax, CGT, GST, FBT and charities. An outline of the major announcements is given below.

Economic outlook

For 2010-11, the deficit is estimated to be $45.7bn, with the estimate for 2011-12 of a $20.3bn deficit. The Treasurer said the Government "can return the Budget to surplus in 2012-13, despite recent natural disaster", and he predicted a surplus of $3.5bn in 2012-13.
The Treasurer said the floods and Cyclone Yasi will cost the economy $9bn in lost output and reduce real GDP growth by 1/2 of a percentage point in 2010-11. Mr Swan said the impact of disasters in New Zealand and Japan will increase this impact to 3/4 of a percentage point this year. In its Budget submission, the Institute of Chartered Accountants in Australia had recommended the creation of a permanent natural disaster relief fund to guard against the future need for one-off taxes, such as the recently enacted flood levy.
Mr Swan also said that tax receipts had been revised down by $16bn over the first 2 budget years, taking the total estimated revenue loss from the GFC to around $130bn over 5 years. The Treasurer forecast an underlying cash deficit of $22.6bn (1.5% of GDP) in 2011-12.
In the longer term, the Treasurer said the outlook for the economy in the years ahead is "very bright and Australians have good cause to be optimistic". He said the economy is forecast to grow at an "above-trend rate over the next 2 years, driven by an investment surge in the resources sector". Mr Swan said real GDP growth is forecast to increase to 4% in 2011-12 and 3.75% in 2012-13.
The Institute's Mr El-Ansary said that if the uneven performance of the manufacturing, services and retail sectors do not improve as quickly as the Government anticipates, the forecast return to surplus will be under threat.

PERSONAL INCOME TAX MEASUERS

Personal tax rates - no change (but be careful of flood levy)

The Government did not make any changes to the tax rates which apply for the 2010-11 and following years

Residents: rates and tax payable: **2010-11 and later years**

Taxable income ($)	***Tax payable ($)***
0 - 6,000	Nil
6,001 - 37,000	Nil + 15% of excess over 6,000
37,001 - 80,000	4,650 + 30% of excess over 37,000
80,001 - 180,000	17,550 + 37% of excess over 80,000
180,001 +	54,550 + 45% of excess over 180,000

Notes: 1. The above rates exclude the 1.5% Medicare levy and the flood levy (see below).

Flood levy

Generally, the flood levy will apply to individual taxpayers, both resident and non-resident, who have a taxable income over $50,000 in the 2011-12 financial year. By virtue of the levy, for the 2011-12 financial year, the effective top personal marginal tax rate will be 47.5%, including the flood levy and the Medicare levy.
Under the levy:

- individuals with a taxable income between $50,001 and $100,000 will pay a 0.5% levy on that part of taxable income above $50,000;
- individuals with a taxable income of $100,001 or more will pay a 0.5% levy on that part of their taxable income between $50,001 and $100,000 and a 1% levy on that part of their taxable income above $100,000; and
- no levy is payable where the taxpayer has a taxable income of $50,000 or less, or where they fall into an exemption category as specified in a legislative instrument that is made by the Minister.

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***. This is designed to discourage income splitting between adults and children, the Government said.

The Assistant Treasurer said the increases in LITO over recent years have increased the amount of income that can be allocated to children tax-free. He said these increases have been accompanied by increased distributions of income to children, especially from discretionary trusts.

Discounts for HECS payments

From 1 January 2012 discounts for paying HECS up front will reduce from 20% to 10% and the discount for making voluntary payments will reduce from 10% to 5%.

SUPERANNUATION MEASURES

Minimum pension drawdowns: 25% reduction 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 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 proposal to allow individuals aged 50 and over with total superannuation balances below $500,000 to continue making up to $50,000 per year in concessional contributions from 1 July 2012 was previously announced as part of the Government's response to the Henry Tax Report on 2 May 2010.

Superannuation co-contribution indexation freeze extended

The Government will continue the freeze on the income thresholds for an additional year to 2012-13. Under the co-contribution scheme, the Government provides a matching co-contribution for contributions made into superannuation out of after-tax income. The matching Government co-contribution is up to $1,000 for people with incomes of up to $31,920 in 2010-11 (with the amount available phasing down for incomes up to $61,920). This measure will continue to freeze these thresholds at $31,920 and $61,920, respectively;

Superannuation on payslips

The Government will ensure that employees receive information on their payslips about the amount of superannuation actually paid into their account. Employees and employers will also receive quarterly notification from their superannuation fund if regular payments cease, with effect from 1 July 2012;

BUSINESS TAXPAYERS

Small business motor vehicle tax write-off to replace Entrepreneur's Tax Offset

The Government will provide Australian small businesses with an instant tax write-off of the first $5,000 of any new 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 they purchased the vehicle. The remainder of the purchase value can be depreciated as normal.
The Treasurer said this new write-off was in addition to the Government's proposed tax reforms for small businesses to be introduced in 2012-13 that would allow an immediate write-off of all assets valued at under $5,000 (up from $1,000 presently.

FBT and cars - flat 20% valuation rate to apply

The Government announced the current rate scale method 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 4 years as follow:

- The flat 20% rate will particularly benefit those who drive less than 15,000 kilometres, resulting in an FBT saving.
- For those who drive between 15,000 and 25,000kms pa, there will be no change - the rate stays at 20%.
- For those who drive between 25,000 and 40,000kms pa, the rate will rise from 11% to 20% over 3 years.

The change may encourage employers and employees to:

- Purchase lower cost and more fuel efficient cars
- Keep company cars longer
- Investigate more use of cars with diesel engines (for their longevity and fuel efficiency)
- Encourage more employee contributions (recipient's payment) to reduce the FBT liability
- Employees to keep log books

Tax-free apprenticeship payments

The 2011-12 Budget includes $281m for additional tax-free payments to encourage apprentices in critical trades to complete their qualifications. The Government expects the $1,700 Trades Apprentice Income Bonus to support 200,000 trade apprentices over 4 years in skills shortage occupations to stay in their training and get a skilled job.
From 1 January 2011, eligible Australian Apprentices have received an additional tax-exempt bonus of up to $1,700 as they reach milestones in their training, including an $800 completion bonus, bringing them to a total of a maximum of $5,500 over the course of their apprenticeship.

The incentive payments were announced in the 2010 Election as part of a package to support Australian Apprentices and as at May 2011, the PM said more than 34,000 Australian Apprentices had already benefited from this new payment.

Reporting taxable payments

The Government will require certain businesses to report annually on payments made to contractors in the building and construction industry from 1 July 2012. The reporting regime will require businesses to report information that they should already collect under existing tax arrangements.

Directors Liability

From 1 July 2011 tax laws will be modified to make company directors personally liable foe unpaid employee superannuation. Directors will also be unable to utilize personal PAYG withholding credits if the company has PAYG withholding amounts owing to the ATO.

Important changes affecting charities

The Budget contains significant changes to the operation of the not-for-profit sector in Australia. There are 3 broad areas of change:

- treatment of income tax, FBT and GST concessions are targeted only at those activities that directly further a charities altruistic purpose from 1 July 2011;
- a statutory definition of ''charity" to take effect from 1 July 2013; and
- establishment of the Australian Charities and Not-for-profits Commission.