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CHARTERED ACCOUNTANTS

Client Information Newsletter
- Tax & Super

Federal Budget 2012-13

As predicted by almost every significant media outlet during the past week, the Treasurer has announced a Federal Budget surplus of $1.5 billion for the 2012-13 year.

Families will inevitably benefit from the 'SchoolKids Bonus' of either $820 or $410 but this is at the expense of the Education Tax Refund which will be removed. Further, the Family Tax Benefit Part A will increase by $300 for families with one eligible child and $600 for two or more children, however the benefit will be limited to children under 18 years of age.

The 'loss carry-back' initiative will assist some companies with their cash flows, however this is offset by a scrapping of the previously announced reduction in the company tax rate to 29% and limitations to be placed on access to LAFHA benefits which will increase the cost of the temporary relocation of employees.

There are budget announcements which will have an impact on those Australians who seek to maximise their savings both now and in the longer term, in particular:

- the scrapping of the 50% discount in respect of assessable interest income which was to commence from 1 July 2013, and
- the deferral until July 1, 2014, of the higher concessional contribution cap of $50,000 for persons over 50 years of age with superannuation account balances below $500,000.

From the many pre-Budget leaks, high net worth individuals will have been expecting the increase in tax on concessional superannuation contributions, but are perhaps less prepared for the limitations placed on the

employment termination payment offset and the means testing of the net medical expense tax offset.

The key measures announced in the Federal Budget which both give and take away are summarised below.

About this newsletter

Welcome to MC & Co's client information newsletter, your monthly tax and super update keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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Business measures

Company tax cut will not proceed

The proposed measure to lower the company tax rate by 1% from 2013-14 and to implement an early start to the company tax rate cut from 2012-13 for small businesses will not proceed.

Loss carry-back

Companies will be allowed to carry back tax losses in 2012-13 to offset against tax paid on profit made for 2011-12 to get a refund against the tax previously paid. From 2013-14, tax losses can be carried back and offset against tax paid up to two years earlier. The measure will apply to revenue losses only, will be subject to integrity rules and will be limited to a company's franking account balance. Only tax losses of up to $1 million can be carried back each year (therefore a maximum refund of $300,000 based on the company tax rate of 30%).

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The loss carry-back is not available to partnerships, sole traders or trusts, ie it is restricted to incorporated businesses. Existing rules permit the carry forward of tax losses (which can be done indefinitely as long as certain conditions are met), however the ability to use those losses is dependent on the ability of the company to derive assessable income in the future.

The new measures will allow previously profitable businesses that are running losses to carry those losses back to the previous year and the government says up to 110,000 small businesses will be eligible to make the claim in its first four years and obtain a refund.

For example, a manufacturer makes a profit in 2011-12 and pays $300,000 tax. The next year, they make a loss due to depreciation on new investments. They qualify for loss carry-back and are able to get up to $300,000 back.

Asset write-offs

From July 1, 2012, small businesses, whether run by sole traders, partnerships, trusts or through companies, will be able to instantly write-off new business asset costing less than $6,500, for as many assets as they purchase.

Assets costing $6,500 or more will be depreciated in a single pool at 30% (15% in the first year). Small businesses can also instantly write-off the first $5,000 of a car.

The government is also extending its Small Business Advisory Service program with $27.5 million over four years, and is establishing the first Australian Small Business Commissioner.

Bad debts: Related party financing arrangements

This measure will deny a tax deduction for a bad debt written off, where the debtor is a related party who is not in the same tax consolidated group. The corresponding gain to the debtor will also not be taxed. The measure will apply from 7.30pm (AEST) May 8, 2012.

Limitations on LAFHA

The tax concession for living-away-from-home allowances (LAFHA) and benefits (food and accommodation) will be reformed by limiting access to the concession:

- to employees who maintain a home for their own use in Australia which they are living away from for work purposes (as previously announced), and
- for a maximum period of 12 months in respect of an individual employee for any particular work location.

The 12-month limit will not affect the tax concession for 'fly-in fly-out' arrangements. The treatment of travel and meal allowances given to employees travelling for short periods of up to 21 days will also not be affected.

Employment termination payment (ETP) tax offset

From July 1, 2012, only that part of an ETP which takes a person's total annual taxable income (including the ETP) to no more than $180,000 will receive the ETP tax offset. Amounts above this whole-of-income cap will be taxed at marginal tax rates and will complement the existing ETP cap ($175,000 in 2012-13, indexed). The offset ensures that ETPs up to the cap are taxed at a maximum rate of 15% for those over preservation age and 30% for those under.

Existing arrangements will be retained for certain ETPs relating to genuine redundancy (including to those aged 65 and over), invalidity, compensation due to an employment-related dispute and death.

Tax breaks for green buildings

The government will not proceed with the tax breaks for Green Buildings program. This measure is estimated to increase revenue by $390 million over a projected three-year period. Funding for the Department of Climate Change and Energy Efficiency will also be reduced by $15.2 million over the next five years.

Air travel

- **FBT:** The taxable value of airline transport fringe benefits will be changed from the stand-by value to the market value. The measure will apply to benefits provided after 7.30pm (AEST) on May 8, 2012.
- **Departure tax:** The fee paid by travellers when they depart Australia, will rise by $8 to $55 from July 1, 2012, with the charge to be indexed.

Innovation

The government has announced:

- a new $29.8 million 'Manufacturing Technology Innovation Centre'
- $1.2 billion for 'Clean Technology Programs', to help manufacturers improve their energy efficiency
- $294.1 million for Commercialisation Australia to offer funding and resources to accelerate the business-building process
- $100 million in venture capital to attract matching private investment to grow highly competitive and innovative firms
- the $25 million 'Automotive New Markets' initiative to assist automotive component manufacturers develop new business opportunities in Australia and overseas
- the 'Buy Australian at Home and Abroad' initiative
- the $6 billion 'Regional Infrastructure Fund' to support investments that boost export capacity.

Superannuation reforms

Reforms to the superannuation guarantee have already been announced, and will take the rate of compulsory super contributions from 9% to 12% progressively to 2019, as well as the introduction of the Low Income Superannuation Contribution, where from July 1, 2012, workers with income up to $37,000 will receive a boost of up to $500 to their superannuation savings.

High income earners' tax concession reduction

The government contends that the 15% flat tax on concessional contributions provides high income earners with a significantly larger tax concession than those on lower marginal tax rates. From July 1, 2012, individuals with income greater than $300,000 will have tax on their contributions increased from 15% to 30% (excluding the Medicare levy).

Treasury says this measure will save $946 million over the forward estimates, affecting around 128,000 people in 2012-13, or 1.2% of people contributing to superannuation.

The definition of 'income' for the purpose of this measure will include taxable income, concessional superannuation contributions, adjusted fringe benefits, total net investment loss, target foreign income, tax-free government pensions and benefits, less child support.

If an individual's income, excluding their concessional contributions, is less than the $300,000 threshold, but the inclusion of their concessional contributions pushes them over the threshold, the increased tax will only apply to the part of the contributions that are in excess of the threshold.

For example, someone with income – excluding their concessional contributions – of $285,000 and concessional contributions of $20,000* (taking their total income to $305,000) would have the 30% tax apply to only $5,000 of their contributions.

'Concessional contributions' for the purpose of this measure include all employer contributions (both superannuation guarantee and salary sacrifice contributions) and personal contributions for which a deduction has been claimed. For members of defined benefit funds (both funded and unfunded schemes), it will include all of their notional employer contributions.

The increased tax will not apply to concessional contributions that exceed the concessional contributions cap and are therefore subject to 'excess contributions tax'. These contributions are effectively taxed at the top marginal tax rate and therefore do not receive a tax concession.

Deferral of higher concessional contributions cap

The start date of the higher concessional contributions cap measure has been deferred by two years, from July 1, 2012 to July 1, 2014. Under this measure, individuals aged 50 and over with superannuation balances of less than $500,000 will be able to make up to $25,000 more in concessional contributions than allowed under the general concessional contributions cap.

The government says deferring the start date of the higher cap to 2014 will mean its implementation will occur in conjunction with changes to superannuation fund reporting and other systems that will be occurring under the SuperStream reforms.

Deferring the start date of the higher concessional contributions cap will save $1.46 billion over a projected three-year period.

SuperStream levy

The government has also announced a temporary 'SuperStream levy' to be paid by Australian Prudential Regulation Authority (APRA) regulated superannuation funds to fund the costs to government of implementing the SuperStream reforms. It will be collected within the existing Superannuation Supervisory levy. A discussion paper will be released shortly after Budget setting out how the levy will be apportioned between superannuation funds.

CGT and loss relief to super reforms

Amendments will be made to ensure income tax considerations do not prevent mergers of superannuation funds or transfers of existing default members' balances and relevant assets in the transition to Stronger Super and MySuper. Temporary optional loss relief and roll-over will be available for mergers of complying superannuation funds as well as capital gains and losses on mandatory transfers of default members' balances.

*The concessional contribution amount is less than 9% of income because of an annual salary limit that caps the application of the super guarantee (presently $175,280). In the above example, the concessional contribution total of $20,000 would be made up of an SG amount of $15,775 plus a salary sacrifice amount of $4,225.

Families, individuals

Tax cuts

Come July 1, 2012, the tax-free threshold will be more than tripled from $6,000 to $18,200 - freeing up to one million Australians from the need to lodge a tax return. Further tax cuts will be delivered in 2015-16 for all individuals with incomes up to $80,000, with most receiving up to $85 on top of this year's tax cut. The marginal tax rates are set out below.

Benefits of the Boom Package: Family Tax Benefit A

The *Benefits of the Boom Package* will be funded by redirecting the Minerals Resource Rent Tax revenue intended for the company tax cut that did not go ahead as proposed.

From July 1, 2013, Family Tax Benefit A will increase in a $1.8 billion boost for over 1.5 million eligible families:

- Families receiving maximum rate of Family Tax Benefit Part A with two or more children will receive an extra $600 a year, or an extra $300 a year if they have one child.
- Families receiving the base rate of Family Tax Benefit Part A with two or more children will receive an extra $200 a year, or an extra $100 a year if they have one child.

In changes to the age of eligibility for Family Tax Benefit Part A that will focus on supporting families with young children, young people aged over 18 years will no longer have access to the Family Tax Benefit Part A unless they are in full time secondary study up to the age of 19. The current maximum age of eligibility is 21 years old.

Benefits of the Boom Package: Supplementary Allowance

Around 1.4 million Australians will benefit from the introduction of a new lump sum Supplementary Allowance of $1.1 billion for recipients of Newstart Allowance, Youth Allowance and the Parenting Payment among others.

The allowance is set to commence on March 1, 2013. The means-tested, tax-free payments will be $210 a year for singles and $350 a year for couples and will be indexed and paid twice yearly in March and September.

Further, from July 1, 2013, newly unemployed people can access income support without waiting up to 13 weeks if they have liquid assets of up to $5,000 for singles without children and $10,000 for all others.

Parenting Payments

There will be cuts in the Parenting Payment of $96.9 million in 2012-13 and $685 million over five years because from January 1, 2013, the government will remove grandfathering arrangements for Parenting Payments. Under the new plan, partnered recipients and single parents will cease to be eligible for the Parenting Payment if their children are aged over 6 and 8 respectively (compared to 12 now) and will transition on to the Newstart Allowance unless they move into employment.

Tax Scales	2011-12		2012-13		2015-16	
	Threshold ($)	Marginal Rate	Threshold ($)	Marginal Rate	Threshold ($)	Marginal Rate
1st Rate	6,001	15%	18,201	19%	19,401	19%
2nd Rate	37,001	30%	37,001	32.5%	37,001	33%
3rd Rate	80,001	37%	80,001	37%	80,001	37%
4th Rate	180,001	45%	180,001	45%	180,001	45%
LITO	Up to $1,500	4% withdrawal rate on income over $30,000	Up to $445	1.5% withdrawal rate on income over $37,000	Up to $300	1% withdrawal rate on income over $37,000
Effective tax-free threshold*	16,000		20,542		20,979	

*Includes the effect of the tax free threshold and the Low Income Tax Offset

Workers with children

From January 1, 2013, single principal carer parents on Newstart Allowance will be allowed to earn around $400 more per fortnight before ceasing eligibility for payment.

Tightening income support rules for Australians overseas

Recipients of payments such as the Disability Support Pension, Parenting Payment, Youth Allowance, Pension Supplement, Rent Assistance and so forth can travel overseas and continue to receive their income support payments for only six weeks as opposed to 13 weeks. This will be effective from January 1, 2013.

Tobacco

The government expects to save $600 million over four years by slashing the inbound duty free allowance for cigarettes and tobacco products. From this year, the personal allowance will be 50 cigarettes, down from 250.

Consolidation of dependency offsets

The following offsets are to be consolidated; the invalid spouse, carer spouse, housekeeper, housekeeper (with child), child-housekeeper, child-housekeeper (with child), invalid relative and parent/parent-in-law tax offsets. The new consolidated offset will be based on the highest rate of the existing offsets it replaces, resulting in an increased entitlement for many of those eligible for this measure. Taxpayers who are currently eligible to claim more than one offset amount in respect of multiple dependants who are genuinely unable to work will still be able to do so.

Consolidation of the eight dependency tax offsets into a single, streamlined and non-refundable offset comes into effect on July 1, 2012.

Non-resident taxpayer rate changes

From July 1, 2012, the first two marginal tax rate thresholds for non-resident taxpayers will be merged into a single threshold. The marginal rate for this threshold will align with the second marginal tax rate for residents (32.5%) and will apply to all taxable income below $80,000. From July 1, 2015, the same marginal rate will again rise from 32.5% to 33%.

The 50% CGT discount for non-residents will be abolished for capital gains. The CGT discount will remain available for capital gains accrued prior to this time where non-residents choose to obtain a market valuation of assets as at May 8, 2012.

Deferred measures

Measures that will not take place include:

- the standard deduction for work-related expenses which was announced in the 2010-11 Budget, and
- the 50% tax discount for interest income announced in the 2010-11 Budget.

Infrastructure

The Federal Budget has allocated:

- $36 billion towards land transport infrastructure
- an extra $3.6 billion for the full duplication of the Pacific Highway by the end of 2016
- $350 million for the ‘Roads to Recovery’ program
- $60 million for the ‘Black Spots’ program, and
- support for various ports infrastructure and rail projects.

The government is also continuing the roll-out of the National Broadband Network.

Health

Aged care reform

The government has committed $3.7 billion to a 10-year plan to revamp the aged care system by encouraging more people to keep their home and stay in it as they receive aged care. The aged care reform - known as *Living Longer Living Better* - is set to roll out on July 1, 2012.

Aged care will receive an extra $577 million over five years and the key elements of the initiative are:

- 40,000 additional home care packages over the next five years
- more choice on how to pay for aged care
- a consistent income test (not including the family home)
- 30,000 additional residential aged care places
- an additional $1.2 billion over five years to attract, retain and train aged care workers

- new funding for dementia care, and
- establishment of a new *Aged Care* website and a national call centre.

Private health insurance rebate

As part of a means test on the private health insurance rebate, singles earning more than $130,001 and families earning more than $260,001 will lose access to their private health insurance rebate from July 1, 2012.

The Medicare surcharge for the groups above will also increase from 1% to 1.5% if they do not take out private health insurance.

The health means test legislation will save the federal government $3.3 billion over the next four years.

Medicare levy

The government will allocate $85 million to raise the low-income thresholds for the Medicare Levy and Medicare Levy Surcharge as part of the Budget, an increase that will be backdated to take effect from July 1, 2011.

The Medicare Levy low-income threshold will increase to $19,404 for singles (up from $18,839) and $32,743 for couples (up from $31,789). For families, the additional amount of threshold for each dependent child or student will also be increased to $3,007 (up from $2,919).

Further, the Medicare Levy low-income threshold for pensioners below Age Pension age will also be increased to $30,451 (up from $30,439).

Medicare safety net

The government has plugged cost blowouts in the Medicare Safety Net by cutting cash payments by $8 million in 2012-13 for a range of procedural surgeries such as tummy tucks, nose jobs, breast reductions and liposuction. The measure is expected to achieve savings of $96.5 million over four years.

Medical Expenses Tax Offset tightened

A means test will be introduced for the net medical expenses tax offset (NMETO). For people with adjusted taxable income above the Medicare Levy Surcharge thresholds ($84,000 for singles and $168,000 for couples or families in 2012-13), the threshold above which a taxpayer may claim NMETO will be increased to $5,000 and the rate of reimbursement will be reduced to 10% for eligible out-of-pocket expenses incurred. This measure will apply from July 1, 2012.

Program to fight bowel cancer

The government has pledged an extra $50 million to the National Bowel Cancer Screening Program to provide additional screenings to people aged 60 and 70. At present, bowel cancer screening is provided free to people aged 50, 55 and 65.

National Disability Insurance Scheme (NDIS)

Funding of $1 billion over four years has been committed to the National Disability Insurance Scheme. From July 1, 2013, an NDIS will begin operating in launch locations across Australia. Ten thousand participants will start being assessed from July 2013, increasing to 20,000 participants from mid-2014.

Dental care reform

The government is investing in a $515.3 million dental health package. The package includes measures, such as:

- $346 million to help reduce public dental waiting lists
- expansion of the voluntary dental graduate program by $36 million
- $78 million to support the relocation of dentists to regional, rural and remote areas, and
- more funding for the delivery of pro bono services for disadvantaged groups.

Health infrastructure

The government will invest $475 million through the Health and Hospitals Fund (HHF) as part of the $5 billion investment in health infrastructure across Australia. The investment includes funding for:

- 14 acute care projects
- 27 primary health care projects
- four dental health projects
- regional health infrastructure projects, and
- reforms to public hospital funding.

National health agendas

The National Mental Health Reform package will deliver services at a cost of $2.2 billion, including $200 million as part of a National Partnership with the states and territories and a Ten Year Roadmap for Mental Health Reform.

Education

Education Tax Refund replaced by SchoolKids Bonus

Around a million families will receive a cash hand-out of $820 for every high-school child and $410 for every primary-school child as part of the new SchoolKids Bonus, paid directly to eligible recipients. The SchoolKids Bonus replaces the Education Tax Refund (ETR) and under this new scheme, payments will be made upfront with no paperwork required.

As part of the transition to the SchoolKids Bonus, the ETR entitlement for 2011-12 will be paid out in full to eligible families as a lump sum payment in June this year. The SchoolKids Bonus comes into effect from January 1, 2013 and will be paid to coincide with the start of Term 1 and Term 3.

Approximately 1.3 million low-income families who qualify for Family Tax Benefit A will be eligible for the means-tested payments, offered to families earning less than $101,000 if they have one primary-school aged child, rising to $123,000 for families with two high-school aged children.

The new scheme will cost $2.1 billion over the next five years.

National Education and Training System

Under the new National Quality Agenda, every child will have access to a quality early childhood program for at least 15 hours per week and a computer will be delivered to every year 9 to 12 student in the country.

This reform will see an expected $5.2 billion increase above previous funding levels to universities between 2010 and 2015. $37.5 million has been slashed from incentive payments for schools able to demonstrate 'improvement' and a further $24 million has been cut from funding for the Digital Education Revolution.

Fifty four million will be spent to boost maths and science programs in schools and universities.

A package of $1.75 billion has been allocated over five years to support reforms to the national training system. This is in addition to the base agreement on skills funding with the states and territories worth $7.2 billion.

Employment

An ageing workforce

Over $86.6 million will be spent over four years on various initiatives to bring mature workers into the workplace. Initiatives include:

- over $10 million will be spent over four years on a Jobs Bonus initiative to encourage employers to take on an over-50 job seeker for at least three months in return for a $1,000 bonus
- a $15.6 million extension to the Corporate Champions program that provides support to workers who wish to promote mature aged employment in their workplace
- the new $26 million Silver Service employment program will provide tailored, practical help for job seekers aged 55 and over in designated areas or industries, and
- the National Workforce Development Fund will be provided with an additional $35 million to prioritise the up-skilling and re-skilling of mature age workers.

Other initiatives

- **New employer incentive for disadvantaged job seekers:** The Disability Employment Broker program - a $1 million discretionary grants program starting from July 1, 2012, targeting small to medium-sized business owners in regional locations.
- **Remote labour employment programs:** From July 1, 2012, the new $1.5 billion Remote Jobs and Communities Program will see jobseekers assisted by a single provider with a permanent presence in their region.
- **National Workforce and Productivity Agency:** The National Workforce and Productivity Agency will work closely with industry to determine the key workforce planning and development areas needed to overcome skill shortages and to lift workforce productivity.

Compliance announcements

The government will continue funding to the agencies involved in the Project Wickenby cross-agency taskforce until June 30, 2015. The Tax Office will receive additional funds to reduce outstanding tax debts and SG charges, and to support a 'more differentiated approach' to debt collection.

The 2010-11 Budget measure to fund additional GST compliance activities (which it says also results in an increase in non-GST tax receipts) will be extended by two years.

Boost for ASIC

The government will provide the Australian Securities and Investments Commission (ASIC) with new funding to:

- provide resources for surveillance, guidance and education
- provide resources for the prosecution of breaches of the corporations law
- facilitate implementation and enforcement of the Future of Financial Advice (FoFA) reforms, and
- enhance ASIC's market surveillance and supervision systems and tools.

SMSF auditors targeted

$10.7 million has been set aside to develop and maintain an online registration system for auditors of SMSFs and ASIC will develop a competency exam and be responsible for deregistration of non-compliant auditors.

CGT - deceased estates

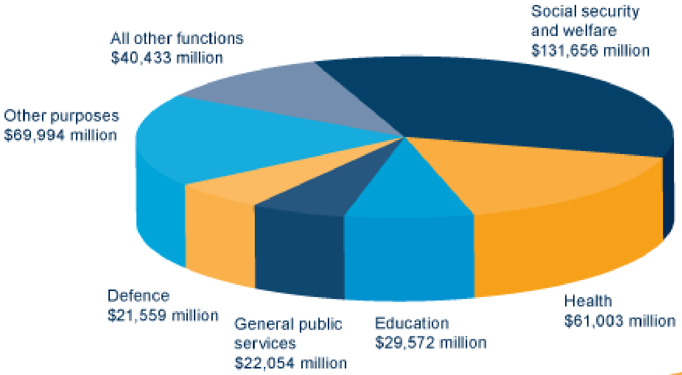
The government has announced measures in respect of CGT in relation to deceased estates and will also make amendments to measures in the 2011-12 Budget to ensure the proper function of the CGT provisions. These changes:

- reduce compliance costs involved with the integrity provisions by ensuring that the deceased's tax return does not need to be amended as the taxing point will be recognised by the entity transferring the asset
- modify the application dates for two minor changes announced in the 2011-12 Budget, and
- broaden the scope of the integrity provisions to also apply to assets passing via survivorship.

Where your tax dollars are spent

Ever wondered where the most tax money comes from? Or once in the government's coffers, where it might be spent, eventually? The answers to the above questions are – most tax revenue comes from individual income tax, and most expenditure is directed to social security and welfare. The two graphs below were included in the 2012-13 Federal Budget papers, and show revenue sources, and expenditure, for 2011-12 on an accrual basis.

Where taxpayers' money is spent



Where revenue comes from