

Federal Budget Update 2012

On 8 May 2012, the Federal Government handed down its Budget for 2012/13. It would be fair to say that everyone will be impacted in some way by the measures contained in the Budget itself, or by other recent announcements from the Government that will apply from 1 July 2012.

Key Points on Superannuation

1. Additional 15% tax on superannuation contributions for high income earners

Effective Date of 1 July 2012

The Government confirmed the introduction of an additional 15% tax on concessional contributions made to superannuation for those earning income of more than \$300,000 p.a.

2. Higher concessional contributions cap for those aged 50 years and over

Effective date of 1 July 2014

The existing transitional \$50,000 concessional contributions cap for individuals who are aged 50 or over ends on 30 June 2012. On 2 May 2010, the Government announced as part of the Stronger, Fairer, Simpler: A Tax Plan for our Future that from 1 July 2012, it would provide a higher concessional contributions cap for individuals aged 50 years or over with total superannuation balances below \$500,000 from 1 July 2014.

The Government has reconfirmed their commitment to this measure but will defer the start date by two years, to 1 July 2014.

This means for the 2012/13 and 2013/14 financial years, the general \$25,000 concessional contributions cap will apply to all individuals.

3. Low income superannuation contribution (LISC)

Effective Date of 1 July 2012 (already legislated)

The LISC, will effectively return the amount of tax paid on concessional contributions to superannuation for eligible low income earners. An individual will generally be eligible for LISC in a financial year if their adjusted taxable income¹ is not more than \$37,000 and at least 10% of their total income² was sourced from employment. The amount of LISC payable will be calculated as 15% of the total concessional contributions made by or on behalf of the individual for the financial year, up to a maximum of \$500.

¹ Adjusted taxable income = taxable income + adjusted fringe benefits + target foreign income + total net investment loss + tax-free pension or benefit + reportable superannuation contributions LESS deductible child maintenance expenditure.

² Total income = assessable income + reportable fringe benefits + reportable employer superannuation contributions

4. Superannuation Guarantee (SG) Changes

Effective Date of 1 July 2013 (already legislated)

From 1 July 2013, the SG rate will gradually increase each financial year until it reaches 12% from 1 July 2019. The first increment in 2013/14 will bring the SG rate to 9.25%. The table below shows the SG rate applying for each financial year up to 2019/20.

Quarter during the income year	Charge percentage (%)
2012-13	9
2013-14	9.25
2014-15	9.5
2015-16	10
2016-17	10.5
2017-18	11
2018-19	11.5
2019-20 and subsequent income years	12

From 1 July 2013, the maximum age limit for receiving SG contributions (currently age 70) will also be abolished.

5. Tax relief for super fund mergers

Effective date of 1 June 2012 and 1 July 2013

The Government reconfirmed its intention to provide tax relief allowing superannuation funds to merge without triggering adverse tax consequences for members. Given the potential benefits to members participating in superannuation fund mergers and successor fund transfers as well as the possible costs for superannuation funds transitioning to MySuper, the Government will provide:

- from 1 June 2012 to 1 July 2017, optional loss relief for mergers of complying superannuation funds on the same terms and conditions as the former temporary loss relief (which ceased 30 September 2011) with some exceptions including an optional roll-over for capital gains and proposed integrity provisions; and
- from 1 July 2013 to 1 July 2017, an optional roll-over and loss relief for capital gains and capital losses on mandatory transfers of default members' benefits and relevant assets to a MySuper product in another complying superannuation fund.

Self-managed superannuation funds will be excluded from the relief because the MySuper requirements do not apply to them.

Key Points on Taxation

1. Reductions in Personal Income Tax

Effective from 1 July 2012

The Government has confirmed previously announced changes to the personal income tax rates and Low Income Tax Offset (LITO) to apply from 1 July 2012. These changes are aimed at delivering tax cuts to the low and middle income earners, ensuring assistance is received for the impact the carbon price will have on the cost of living. These changes have already been legislated.

Tax rates and thresholds for this and the next financial year are shown below:

Personal income tax rates					
2011/12			2012/13		
Income Threshold \$	Marginal rate*	Tax on this income*	Income Threshold \$	Marginal rate*	Tax on this income*
Up to 6,000	Nil	Nil	Up to 18,200	Nil	Nil
6,001 – 37,000	15%	15c for each \$1 over \$6,000	18,201 – 37,000	19%	19c for each \$1 over \$18,200
37,001 – 80,000	30%	\$4,650 plus 30c for each \$1 over \$37,000	37,001 – 80,000	32.5%	\$3,572 plus 32.5c for each \$1 over \$37,000
80,001 – 180,000	37%	\$17,550 plus 37c for each \$1 over \$80,000	80,001 – 180,000	37%	\$17,547 plus 37c for each \$1 over \$80,000
180,001+	45%	\$54,550 plus 45c for each \$1 over \$180,000	180,001+	45%	\$54,547 plus 45c for each \$1 over \$180,000

* These rates apply to Australian residents for taxation purposes and do not include the Medicare Levy of 1.5%.

LITO will decrease from \$1,500 to \$445 for 2012/13, phasing out after \$37,000 by 1.5 cents in the dollar to a maximum of \$66,667 as per the below table. The impact of these changes are that the effective tax-free threshold will increase from \$16,000 to \$20,542 in 2012/13.

2. Removal or reduction in Private Health Insurance rebate

Effective from 1 July 2012 (already legislated)

Whilst not raised in this year's Budget, it is important to be aware that from 1 July 2012 the existing Private Health Insurance rebate will be scaled back or removed for those earning \$84,000 or above (singles) or at least \$168,000 (couples), with an increase in the Medicare Levy Surcharge for those who opt out of private health insurance.

The level of rebate available or potential Medicare Levy Surcharge that could be imposed is set out in the following table.

Income		Level of rebate based on age			Medicare Levy Surcharge
Single	Couple	<65	65 to 69	70+	
<\$84,000	<\$168,000	30%	35%	40%	Nil
\$84,000- \$96,999	\$168,000- \$193,999	20%	25%	30%	1%
\$97,000 - \$129,999	\$194,000 - \$259,999	10%	15%	20%	1.25%
\$130,000 +	\$260,000 +	Nil	Nil	Nil	1.5%

Most private health funds are offering the ability to pre-pay premiums for a 12 month period. If you take advantage of this and prepay your 2012/13 before 1 July 2012, you will still receive the full rebate as it is based on the time of payment.

3. Changes to the taxation of employment termination payments

Effective from 1 July 2012

Concessional tax treatment that generally applies to employment termination payments (ETP) will be reduced from 1 July 2012. However, this measure is intended to only apply to “golden handshake” arrangements and not in cases where the payment has arisen as a result of a genuine redundancy (including to those 65 and over), invalidity, compensation due to an employment related dispute and death.

Under this measure, in addition to the existing ETP cap (which will be indexed to \$175,000 from 1 July 2012) under which a component of an ETP is taxed at a maximum of 15% or 30% (depending on the individual’s age), the ETP cap will only be available to the extent the ETP does not cause the individual’s taxable income to exceed \$180,000.

4. Net Medical Expense Tax Offset

Effective from 1 July 2012

The Government has announced it will introduce a means test for the net medical expenses tax offset (NMETO) whereby those with adjusted taxable income above the Medicare levy surcharge thresholds will only be able to claim medical expenses over a threshold of \$5,000 instead of the current \$2,060. Furthermore, the offset they may claim will be 10% of the expenses above the threshold instead of the current 20%.

The Medicare levy surcharge thresholds for 2012/13 are \$84,000 for singles and \$168,000 for couples or families.

5. Changes for non-resident taxpayers

From 8 May 2012

Non-residents will no longer be able to access the standard 50% discount on assessable capital gains. From 1 July 2012, non-residents will pay tax at the rate of 32.5% on their taxable income up to \$80,000.

6. Living away from home allowances (LAFHA)

Effective from 1 July 2012

Payments of a LAFHA generally can qualify for tax exempt treatment as well as concessional (or exempt) treatment for fringe benefits tax (FBT) purposes.

Subject to some exemptions, the Government has proposed to amend the FBT treatment and prevent misuse of the exemption by allowing non-residents to only access the benefit if they also maintain a home for their own use in Australia, which they are then living away from to qualify for the LAFHA. This change will essentially treat non-residents in the same manner as permanent residents. The concessional treatment of the LAFHA will also only be available for a maximum period of 12 months for an individual in any particular location (i.e. will prevent the concessions being indefinitely available).

7. Phase out of mature age worker tax offset

Effective from 1 July 2012

Under existing legislation, a person aged 55 or over is entitled to a mature age worker tax offset (MAWTO) of up to \$500 if they have eligible “net working income” below \$53,000 and a reduced amount on income up to \$63,000.

From 1 July 2012, this offset will no longer be available to those born on or after 1 July 1957. This will impact those who have not yet qualified to receive the MAWTO based on their current age.

8. Company tax loss carry back

Effective 1 July 2012

From 1 July 2012, companies that generate a revenue loss (i.e. is not applicable to capital losses) in a particular income year will be able to carry that loss back up to two income years (only one year for losses arising in the year ended 30 June 2013 – the first year of operation). Where this occurs, the company will then be eligible for a refund of tax paid in those prior years, but will not have that loss available to carry forward into the future.

The amount of loss that can be carried back is capped at \$1,000,000 of losses generated in a particular income year and will also be capped by reference to a company’s franking account balance.

9. Abandonment of previously announced measures

The Government has announced that it will no longer proceed with certain measures announced in prior Budgets that had not yet come into effect including:

- The lowering of the company tax rate from its current 30% level to 29% (and 28% for small businesses);
- The standard deduction for work related expenses – previously announced to be a \$500 deduction available from 1 July 2013 (and \$1,000 from 1 July 2014); and
- The 50% discount on the first \$1,000 of interest income earned, which was due to come into effect from 1 July 2013.

Key points on Social Security

1. Schoolkids Bonus

Effective from 1 January 2013

The Government will replace the Education Tax Refund (ETR) with a Schoolkids Bonus to be paid as two equal instalments in January and July each year. Families in receipt of Family Tax Benefit Part A (FTB A) will be paid:

- \$410 p.a. for each primary school student, and
- \$820 p.a. for each secondary school student

2. Changes to Family Tax Benefit Part A

Effective from 1 July 2013

The Government will increase the maximum payment of FTB A by:

- \$300 p.a. for families with 1 child, and
- \$600 p.a. for families with 2 or more children

For families receiving the base rate of FTB A, the increase will be:

- \$100 p.a. for families with 1 child, and
- \$200 p.a. for families with 2 or more children

3. Australian Working Life Residency

Effective from 1 January 2014

Currently, Age Pension recipients who are overseas for more than 26 weeks are only paid their maximum entitlement if their Australia Working Life Residence (AWLR) is 25 years or more. A recipient's AWLR refers to periods from age 16 to Age Pension age when they were an Australia resident (There is no requirement to work to accrue AWLR years).

The Government will amend these rules so that the maximum entitlement will only continue if their AWLR is 35 years or more. Pension recipients with less than 35 years AWLR will be paid a proportional rate.

4. Portability of certain Australian Government Payments

Effective from 1 January 2013

The Government is tightening the rules for people who travel overseas while receiving certain income support and family assistance payments. Under the change, the amount of time individuals can travel overseas while continuing to receive their payment will be reduced from 13 weeks to 6 weeks.

5. Parenting Payment – tightening of eligibility for grandfathered recipients

Effective from 1 January 2013

Currently, recipients of Parenting Payment (PP) who were granted the payment prior to 1 July 2006 do not lose eligibility until their youngest child attains age 16. The Government will align PP eligibility for all recipients so that the payment will cease when the youngest child attains age 6 (for partnered recipients), or age 8 (for single recipients).

6. Liquid Asset Waiting Period

Effective from 1 July 2013

The Government will increase the maximum reserve amount for the liquid assets waiting period for recipients of particular income support payments. Liquid assets are assets in the form of cash or those which can be easily converted into cash, including shares and term deposits. A single person without dependents will now have an increased maximum reserve amount of \$5,000, while a person who is a member of a couple and/or has a dependent child will now have an increased maximum reserve amount of \$10,000. The change will affect applicants for Newstart Allowance, Youth Allowance, Sickness Allowance and Austudy payments.

Source: BT Financial Group

It has also been devised from the 2012 Federal Budget Papers, Ministerial statements, associated materials, and our interpretation of them. Current as at 9 May 2012. This information is provided only as a summary of the points which have been announced. The legislation of these announcements is not guaranteed.

Anthony Buckley

B.Bus, FPA (AFP), CPA (FPS)

Principal Financial Planner

Financial Planit
Level 1, 184 Burgundy Street
Heidelberg, Vic 3084

1300 795 505

abuckley@financialplanit.com.au

www.financialplanit.com.au



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