

Budget Edition

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PortfolioWatch

2011

What's in the 2011/2012 Budget for you?

This year's Budget aims to return Australia to a surplus of \$3.5 billion in 2012/13 and has a focus on increasing employment. We've summarised some of the key points below but please note that most of these are subject to the passing of legislation.

Personal income tax

No changes were made to the current tax rates. The introduction of a flood levy in 2011/12, however, will affect many taxpayers but common strategies to reduce taxable income will reduce the impact of the flood levy. Read more in our Winter edition of Portfolio Watch.

Low income tax offset

From 1 July 2011, minors (under 18 years of age) will no longer be able to access the low income tax offset (LITO) to reduce tax payable on their unearned income (ie dividends, interest, rent, royalties and income from property). Compensation payments or inheritances will not be affected by this measure nor will the unearned income of minors who are orphans or disabled.

As this change is aimed at discouraging tax avoidance by splitting income with children under 18 years of age, the effective tax-free threshold will crash from \$3,333 to \$416.

Income earned by minors from work, however, will still be eligible for the full benefit of the LITO.

Low income tax offset

The level of the low income tax offset (LITO) and cut-out threshold will not change. For the 2011/12 year, the offset will be \$1,500 and the cut-out threshold will be \$67,500.

From 1 July 2011, the proportion of the LITO delivered through workers' week-to-week pay packets will increase from 50 per cent to 70 per cent. This means low income earners are taxed less during the year. The total LITO entitlement will not change from 2010/11.

Dependent spouse rebate for spouses

The tax offset for dependent spouses aged under 40 will be phased out. This change will not affect taxpayers whose dependent spouse is a carer, an invalid, or permanently unable to work and taxpayers with children (eligible for Family Tax Benefit B) or eligible for the zone, overseas forces or overseas civilian tax offsets. Dependent spouses with children are not affected by this measure.

Medicare levy

The Medicare levy is payable when taxable income exceeds the Government thresholds. From 1 July 2010, the Medicare levy low income threshold will increase to \$18,839 (from \$18,488) for individuals and \$31,789 (from \$31,196) for families. The additional amount of threshold for each dependent child or student will also be increased to \$2,919 (from \$2,865).

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

Instant asset write off – small businesses

From 1 July 2012, small businesses will receive an instant tax write-off of the first \$5,000 of any new motor vehicle purchased from 1 July 2012. This replaces the existing Entrepreneurs Tax offset but is in addition to existing tax reforms for small businesses to be introduced in 2012/13.

Car fringe benefit rules

In an effort to remove the incentive for people to drive their car further than required in order to reduce tax, the Government announced it would implement the Henry Tax Review Recommendation in relation to the fringe benefits tax treatment of cars. The current statutory formula four-tiered rate scale will be replaced with a single statutory rate of 20 per cent (phased in over four years), regardless of the number of kilometres travelled. This will apply to new contracts entered into after 7.30 pm on 10 May 2011.

Those 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.

Farm management deposits

Primary producers affected by natural disasters will be able to access their farm management deposits within 12 months of making a deposit while retaining concessional tax treatment.

Concessional contributions

From 1 July 2012 the concessional contributions cap for eligible individuals aged 50 and over, with total superannuation balances of less than \$500,000, will be increased to \$25,000 above the general concessional cap which is currently \$25,000.

For individuals that breach the concessional contributions cap by up to \$10,000 (non-indexed), there will be a one-off option to request a refund of the excess contributions. This will only apply to first time breaches, from 1 July 2011 and only for the first year in which the breach occurs.

Minimum pension drawdowns

In the wake of the GFC, the Government introduced a measure to help preserve retirees' savings by reducing the minimum pension drawdown requirements by 50 per cent. For 2011/12 the minimum drawdown will be reduced by 25 per cent, as illustrated in the table, before returning to normal from 1 July 2012.

Age of beneficiary	Percentage factor
	2011/12
Under 65	3.00
65-74	3.75
75-79	4.50
80-84	5.25
85-89	6.75
90-94	8.25
95 or more	10.5

Superannuation co-contribution

The indexation freeze has been extended for an additional year on the Government's super co-contribution thresholds. Those earning up to \$31,920 can be eligible for the full co-contribution, while those earning between \$31,920 and to \$61,920 could be eligible to receive a scaled amount.

Centrelink/DVA

Changes to family tax benefit, baby bonus and youth allowance rules will provide a fairer system across different age groups.

- Paid paternity leave will be deferred by six months. The measure will provide eligible working partners who are providing full-time care or sharing the child's care, with two weeks paid paternity leave equivalent to the national minimum wage and will apply to children born on or after 1 January 2013.
- New rules and requirements are also proposed for parents receiving parenting payments to encourage some recipients to return to work.
- New participation requirements will apply to existing and new disability support pension recipients under 35 years of age who are assessed as having a work capacity of at least eight hours a week.
- Job seekers will face tougher obligations as well as greater assistance to return to work.
- Enhancements to the work bonus introduced in September 2009 will also continue to encourage pensioners to work part-time to supplement their income.
- Centrelink, Medicare and Child Support services will be available through a single website www.humanservices.gov.au and telephone number (13 24 68).

For more information on these issues and how they affect you, please speak to your Bridges financial planner.

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