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This paper is provided as a tax overview of the Federal Budget 2011.

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This information is of a general nature,and is provided as a general overview of the federal budget.
You should seek professional advice perior to taking any action on information in this article.
These proposals are subject to change as the legislataion is passed.

Personal Tax Changes

Dependent spouse rebate to be phased-out for spouses under 40

The dependent spouse rebate will be phased out for taxpayers with a dependent spouse born on or after 1 July 1971. This reform addresses a barrier to participation by progressively removing the tax concession for taxpayers with a non-working spouse and no children.
Taxpayers with an invalid or permanently disabled spouse, supporting a carer, or people who are eligible for the zone, overseas forces and overseas civilian tax offsets will not be affected by this change.

This measure will have effect from 1 July 2011.

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

Income earned by minors from work will still be eligible for the full benefit of the LITO. Unearned income of minors who are orphans or disabled, as well as compensation payments and inheritances received by minors, will not be affected by this measure.

This measure will have effect from 1 July 2011.

Low income tax offset brought forward

The amount of the low income tax offset (LITO) that is delivered to low and middle income earners through their regular pay during the year will be increased from 50% to 70% of their total entitlements. The remaining 30% of their LITO benefit will still be paid as a lump sum on assessment of income tax returns.

Editors note: *this will be effected by a change to the PAYG withholding rate*

This measure will have effect from 1 July 2011.

Self-education expenses against Youth allowance payments, not claimable

The tax laws will be amended to disallow self-education expenses against all government assistance payments. The change is being introduced in response to the Anstis Thus, individuals who receive Youth Allowance (Student) will be unable to claim a deduction for expenses incurred in gaining their payment for the 2010/11 income year.

This measure will have effect from 1 July 2011.

HECS discount

From 1 January 2012, the following discounts applying to HECS payments will be reduced:

- the discount available to students electing to pay their student contribution up-front will be reduced from 20% to 10%, and
- the bonus on voluntary payments to the Tax Office of $500 or more will be reduced from 10% to 5%.

This measure will have effect from 1 January 2012

Family Tax Benefits and family payments adjustments

Advances

Families in receipt of Family Tax Benefit (FTB) Part A will be eligible for an advance of up to 7.5 per cent, up to a maximum of $1,000, of their annual FTB Part A entitlement.

Advances will be repaid over six months by reducing future fortnightly FTB payments. Payment of advances will be subject to an assessment of a family's ability to repay the advance without falling into financial hardship. Advances can be taken at any point throughout the year.

This is effective from 1 July 2011,

The eligibility for FTB Part A will be limited to children up to the age of 21 years,
as young people aged 22 and over are considered independent. When a child turns 22 years of age, parents will no longer be able to receive FTB Part A for that child but the child may be eligible to receive Youth Allowance subject to usual means testing and academic progress rules.

Indexation of the FTB Part A and B supplements will be suspended for 3 years.
The FTB supplements will be fixed at the current 2010/11 levels of $726.35 per annum per child for FTB Part A and $354.05 per annum for FTB Part B until 1 July 2014 (rather than being CPI-indexed).
Indexation of family payment higher income thresholds and limits will also be paused at their current level until 1 July 2014 (rather than being CPI-indexed).

This means that:

- FTB Part B primary earner income limit will remain at $150,000
- the income limit for receiving the dependency tax offsets will remain at $150,000
- the Baby Bonus eligibility limit will remain at $75,000 of family income in the six months following the birth or adoption of a child, equivalent to $150,000 a year
- the Paid Parental Leave primary carer income limit will remain at $150,000 in the financial year before the birth or adoption of a child, and
- the higher income-free threshold of FTB Part A will remain at $94,316 of family income, with an additional $3,796 provided for each child after the first.

Income limits are the amount a family can earn before they are no longer eligible for family payments, and the higher income-free area for FTB Part A is the income level at which FTB payments begin to reduce.

This is effective From 1 January 2012,

Medicare levy thresholds increased for 2010-11

The Medicare levy low-income thresholds will be increased for singles to $18,839) 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 (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 (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.

This is effective from 1 July 2010, (2011 tax return)

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.

Education Tax Refund to include school uniforms

Government announced that it will extend the ETR will be extended to cover school uniform expenses at an estimated cost of $460 million over the new four years.

Effective from 1 July 2011 (2012 Tax Return)

Superannuation

Refund of excess concessional contributions

Eligible individuals will be provided with the option of having excess concessional contributions taken out of their superannuation fund and assessed as income at their marginal rate of tax, rather than incurring excess contributions tax.
The measure will apply where an individual has made excess concessional contributions of up to $10,000 (not indexed) in a particular year and is only available for breaches in respect of 2011/12 or later years, and only for the first year, commencing from 2011/12, in which a breach occurs.

Excess contributions tax is incurred where an individual exceeds their concessional contributions cap. Concessional contributions include compulsory superannuation guarantee payments, salary sacrifice contributions, and other deductible contributions. Excess concessional contributions are taxed at 31.5 per cent, in addition to 15 per cent tax when contributions are made to the fund.

This measure makes the superannuation system fairer by allowing those who have breached the cap for the first time, by $10,000 or less, the option to have these contributions refunded and taxed at their potentially lower marginal tax rate rather than the 46.5% effective excess contributions tax rate.

Higher superannuation contribution caps for over 50s

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

Effective from 1 July 2012,

This measure clarifies the operation of the higher cap for the over 50s which was introduced in the 2010/11 Budget, and means those eligible Australians over 50 will be able to contribute $25,000 more per year than other workers. The general concessional contribution cap is set at $25,000. When it increases due to indexation, the higher cap will increase by the same dollar amount.

Freeze on superannuation co-contribution indexation extended

The government will continue the freeze, for an additional year to 2012/13, of the indexation applied on the income threshold above which the maximum superannuation co-contribution begins to phase down.

Under the superannuation co-contribution scheme, the government provides a matching contribution for contributions made into superannuation out of after-tax income. The matching 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.`

Capital Gains Tax

Small business CGT concessions

Trusts will not be able to avoid being treated as connected entities for the purpose of testing eligibility for the CGT small business concessions on the basis that trusts do not own assets for their own benefit. These changes will also ensure that some small businesses will be able to access the concessions because the changes will make their business assets "active".

This measure will have effect for CGT events happening after 7.30pm (AEST) on 10 May 2011.

CGT exemption for renewable resources or environmental benefits

Gains or losses arising from a right to a financial incentive granted to taxpayers under an Australian government scheme that encourages taxpayers to acquire renewable resource assets or to agree to preserve a part of Australia's environmental amenity will be exempt from CGT. Eligible schemes may be provided by the Commonwealth or a State or Territory government. Examples of renewable resource assets include photovoltaic solar cells or solar hot water systems. An example of preserving environmental amenity is refraining from removing remnant vegetation.

This measure will also turn off the income tax recoupment rules in relation to any underlying assets (eg, a solar hot water system) to ensure that the incentive keeps its full financial value. It will apply to income tax assessments for the 2007/08 income year and later income years.

Scrip for scrip rollover

The scrip for scrip roll-over integrity provisions that currently apply to individuals and companies will also apply appropriately to trusts, superannuation funds and life insurance companies, with effect for CGT events happening after 7.30pm (AEST) on 10 May 2011.

The integrity provisions apply to transactions where stakeholders in the target and acquiring entities have the potential to influence both entities. As trusts, superannuation funds and life insurance companies own the interests for the benefit of others (ie, the beneficiaries) rather than for their own benefit, they consider that the integrity provisions do not apply to them. However, this was never the intended interpretation of the integrity provisions and so the Government will amend them to ensure that they apply effectively to all stakeholders.

Ensuring the proper functioning of the CGT rules

The income tax law will be amended to ensure the proper functioning of CGT and related provisions. These include:

- ensuring that, in the roll-over for the exchange of shares in one company for shares in another company, there is deferral of a profit or loss where the original shares are held on revenue account at the time of the exchange (with effect from 7.30 pm (AEST) on 10 May 2011)
- amending the roll-over for certain disposals of assets by a trust to allow roll-over relief to apply where a transferee company or trust holds rights, just before the disposal or transfer time, associated with a deed or similar document that is designed to facilitate the transfer of assets into the company or trust.

Changes to the roll-over applying between a trust and a company will have effect for CGT events happening after 7.30 pm AEST on 10 May 2011;

Changes to the roll-over applying between trusts will have effect for CGT events happening on or after 1 November 2008

Fringe Benefits Tax

Statutory formula reforms for car fringe benefits

Over the next four years, the existing statutory fractions ranging from 7% to 26% applied when working out the taxable value of a car fringe benefit using the "statutory formula" method will be phased out and replaced by a flat rate of 20%.

Under the "statutory formula" method, the taxable value of a car fringe benefit depends on the relevant statutory fraction applied to the cost of the car. Currently, this statutory fraction decreases as the distance travelled by the vehicle increases. The new flat rate of 20% will apply regardless of the distance travelled during the year, removing the incentive for people to drive more than necessary to access higher tax concessions.

The 20% flat rate will only apply to new vehicle contracts entered into after 7:30 pm (AEST) on 10 May 2011, and will be phased in over four years as shown in the table below.

Statutory rate (multiplied by the cost of the car to determine a person's car fringe benefit) applied to new contracts entered into after 7:30pm (AEST) on 10 May 2011

Distance travelled during the FBT year (1 April - 31 March)	**From 10 May 2011**	**From 1 April 2012**	**From 1 April 2013**	**From 1 April 2014**
0 - 15,000 km	0.20	0.20	0.20	0.20
15,000 - 25,000 km	0.20	0.20	0.20	0.20
25,000 - 40,000 km	0.14	0.17	0.20	0.20
More than 40,000 km	0.10	0.13	0.17	0.20

Other Tax Matters

PAYG instalment payers: GDP adjustment method

The GDP adjustment factor for PAYG instalment taxpayers who use the GDP adjustment method will be reduced from 8% (which is the rate that would apply for the 2011/12 income year under the current law) to 4% for the 2011/12 income year.

The GDP adjustment factor for the PAYG instalment taxpayers increases the previous year's adjusted taxable income by the previous year's nominal GDP growth, to determine the tax instalments to be paid in the income year. The GDP adjustment method is used by the overwhelming majority of taxpayers required to pay quarterly income tax instalments, mainly small businesses, but also some individual investors, certain trustees and small superannuation funds.

Tax compliance improvements

In an effort to improve tax compliance, various measures will be introduced as follows:

- Tax law to counter fraudulent phoenix activity will be strengthened. With effect from 1 July 2011, the director penalty regime will be expanded, including making company directors personally liable for unpaid employee superannuation and being prevented from using their individual withholding credits if the company has withholding amounts owing to the Tax Office.
- With effect from 1 July 2012, certain businesses will be required to annually report payments to contractors in the building and construction industry.
- The Tax Office will be provided with additional resources to, among other things, enhance refund fraud detection and monitor accounting of government grants and payments.
- The Government will also publicly consult on the introduction of a reporting regime for payments to contractors in the commercial cleaning industry.