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Technical News
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Mini-budget – super and tax announcements

30 November 2011

On 29 November 2011, the Government released details of measures to assist in achieving the objective of returning the Federal Budget to surplus in 2012/13. Jennifer Brookhouse outlines the proposals impacting financial planning, many of which have been previously announced.

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Superannuation

Extension of drawdown relief for super pensions

In the 2011/12 Federal Budget, the Government announced that the minimum pension drawdown relief would be phased out. For 2011/12, the reduction would be 25% and return to normal levels from 1 July 2012.

The Government has announced it intends to extend the 25% drawdown relief for the 2012/13 year. This measure reduces the requirement to drawdown on portfolios, which may carry unrealised losses due to market volatility. The reduction applies to account based, allocated and market linked super pensions.

Low income superannuation contribution

The Government has previously announced and introduced legislation to effectively provide a refund of 15% contributions tax for low income earners from 1 July 2012. Taxpayers with adjusted taxable income of up to $37,000 will receive a low income superannuation contribution (LISC) up to a maximum of $500.

The Government intends to simplify the process for eligible individuals. There will be no requirement to lodge a tax return and the ATO will use available information to determine an individual's eligibility. This is an important measure as the tax-free threshold is proposed to increase from 1 July 2012 to $18,200.

Only individuals who receive at least 10% of their income from employment or business income will be eligible for this contribution. Temporary residents will not be eligible for this payment. The maximum payment is $500 and minimum is $20. It is calculated as 15% of concessional contributions.

Superannuation co-contribution

The Government intends to reduce the matching rate and maximum payment for the superannuation co-contribution from 1 July 2012. This coincides with the commencement of the LISC. The co-contribution will reduce from $1,000 to $500. The matching rates remains at $1 for $1, however, eligibility for the co-contribution cuts out at $46,920.

Currently the cut out threshold is $61,920. Clients who currently qualify for a co-contribution may not under the new proposals. Clients no longer eligible need to consider how this impacts their retirement savings plans and may wish to consider making additional contributions.

LISC versus current co-contribution

Adjusted taxable income	$25k	$37k	$40k	$50k
Current rules				
Contribution required	$1,000	$831	$731	$397
Maximum co-contribution	$1,000	$831	$731	$397
Proposed rules				
Contribution required	$500	$331	$231	$0
Maximum co-contribution	$500	$331	$231	$0
LISC[1]	$338	$500	$0	$0
Total	**$838**	**$831**	**$231**	**$0**

1 Assumes only contributions required by SG made.

For lower income earners, the benefit of the change is a lower non-concessional contribution (NCC) to superannuation to receive the co-contribution. Once income exceeds $37,000, there is a significant reduction in the value of the proposals compared to the current rules.

Abolition of age limit for SG

The Government has previously announced that it would abolish the age limit for Superannuation Guarantee (SG) contributions. Currently, employers are not required to make SG payments for employees age 70 and over.

From 1 July 2013, employers will be required to make SG contributions for eligible employees aged 70 or older. Other existing exemptions from paying SG will continue to apply, such as an employee earning less than $450 per month. This will be an added cost for some employers. Clients who are remunerated on a total package basis may have a reduction in their take home salary to accommodate the adjustment for the super contribution.

Trust deed clauses

The Government will amend legislation to ensure clauses in a superannuation trust deed cannot be used to avoid the contribution caps. This situation was highlighted in Taxpayers Alert TA 2010/2 (which has now been withdrawn).

Currently, some trust deeds include a clause which treats amounts that would otherwise be a contribution as not being accepted if that amount would lead to a breach of the contribution cap.

Under the proposal, a fund will be deemed to have accepted the contribution if the contribution has not been promptly returned and effectively been intermingled with other fund assets. This is designed to ensure that such clauses are ineffective.

Pause on concessional contribution indexation

The Government will pause the indexation of the concessional contribution cap (currently $25,000) for one year in 2013/14. It is expected that the concessional contribution cap will be indexed from 2014/15, increasing to $30,000. This also means the NCC will not be indexed as it is six times the concessional contribution cap.

Care should be taken to ensure clients don't breach the contribution caps due to factors such as:

- any increase in SG due to pay rises
- salary sacrificing arrangements or salary and bonuses, and
- transition to retirement and the amount salary sacrificed.

Taxation

FBT living away allowance and benefits

Effective from 1 July 2012, access to the tax exemption for temporary residents will only be made available if the person maintains a residence for their own use in Australia and are living away as a result of work. Expenditure beyond the statutory amount on food and accommodation will need to be substantiated. A consultation process will be conducted between now and the start date so that transitional arrangements can be implemented.

Dependent spouse tax offset

Effective from 1 July 2012, the Government will phase out the dependent spouse tax offset (DSTO) for taxpayers with a dependent spouse born on or after 1 July 1952. The original phase out was for taxpayers with a dependant spouse born on or after 1 July 1971.

Taxpayers entitled to zone, overseas forces and overseas civilian tax offsets or whose spouse is an invalid, permanently disabled or a carer will not be affected by the change.

Deferral of tax reforms

The commencement of the standard $500 pa work related expenses from 1 July 2012 will be deferred until 1 July 2013 and the standard $1,000 pa work related expenses that were to commence on 1 July 2013 will now not start until 1 July 2014.

The 50% discount for interest income will be deferred until 1 July 2013, with further consultation to occur before this date.

The commencement of the phase down of the interest withholding tax for financial institutions will be deferred until 2014/15. To allow for further consultation on the new tax system for managed investment trusts, the start date is now 1 July 2013.

Car fringe benefit rules

In the Federal Budget the Government announced a transitional period to move from multiple statutory rates to a single flat rate of 20% when determining the taxable value of car fringe benefits.

This announcement will be modified to allow employers to elect to apply the 20% flat rate immediately rather than apply the transitional rules. This measure only applies to new contracts. Arrangements entered into prior to 10 May 2011 (before Budget night) will not be able to use this change.

The election by the employer must be made with the consent of the employee where the employee would be worse off by the employer making the election.

Social security

Pause on Baby Bonus indexation

From 1 July 2012, the Government will pause the indexation of the Baby Bonus payment for three years. The payment rate will also be reset to $5,000 per child from 1 September 2012. The current rate of the baby bonus is $5,437. The Baby Bonus will remain to be paid in 13 fortnightly instalments. In addition to the Baby Bonus, eligible families will remain able to claim Family Tax Benefit (FTB) Part A and/or Part B.

FTB Part A conditional on immunisation

From 1 July 2012, the Government will make payment of the FTB Part A supplement conditional on a child being fully immunised.

From 1 July 2013, children will also be required to receive specific vaccines for meningococcal C, pneumococcal and varicella (chicken pox) to be assessed as fully immunised. It is important to note Immunisation is already a condition of the Child Care Benefit.

From 1 July 2012, these arrangements will replace the Maternity Immunisation Allowance.

Changes to FTB fortnightly payments in certain circumstances

The Government will cease fortnightly payments of FTB instalments to taxpayers who claim FTB but are found to have no actual entitlement for two consecutive years following the end-of-year reconciliation with their income tax return. Taxpayers no longer receiving FTB Part A or Part B instalments would still be able to make a lump sum claim at the end of the financial year.

Reference

Mid-year Economic and Fiscal Outlook 2011-12

Technical queries

For further information, please contact MLC Technical Services on 1800 645 597.