

# Forsyths Knowledge

May 2011

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## FEDERAL BUDGET REVIEW 2011/2012

### INTRODUCTION

Treasurer Wayne Swan's fourth Budget aims to get Australia back in the black by 2012-13. The Government has stated the Budget will get more people into jobs, and create opportunities from the mining boom for more Australians. The announcement focuses on making the Australian tax system simpler and fairer for the Australian community and businesses.

We have provided a summary of the key points for you below:

[Individual](#)  
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### INDIVIDUAL

#### Temporary flood and cyclone reconstruction levy

The Government will introduce a temporary flood and cyclone reconstruction levy from 1 July 2011 to contribute towards the cost of rebuilding flood and cyclone affected regions. This measure will apply only for the 2011/12 income year as follows:

Taxable Income 2011/2012	Levy (% of taxable income)
Up to \$50,000	Not charged
\$50,001 to \$100,000	0.5%
\$100,000 and above	0.5% on income between \$50,001 and \$100,000; and 1.0% on income over \$100,000.

#### Removal of Eligibility for Low Income Tax Offset on Unearned Income of Minors

The Government will remove the ability for 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 trust distributions, with effect from 1 July 2011. Income earned by minors through employment 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 significantly reduces the potential income tax benefit of parents investing in their children's names, and of making family trust distributions to minors. Given that many small and family businesses are operated within a trust structure, this measure could be expected to adversely affect such businesses by effectively increasing tax payable on business profits.

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## SMALL BUSINESS

### Small Business Depreciation for Motor Vehicles

For vehicles acquired from the 2012/13 income year, the Government will allow small businesses to claim up to \$5,000 as an immediate deduction for motor vehicles. The remainder of the motor vehicle value will be added to the general small business pool and depreciated per pooling rules. This means that a sole trader on the marginal tax rate of 30% will receive an upfront tax saving of \$1,275.

### Natural Disaster Recovery and Rebuilding Measures - Income tax exemption for certain grants

The Government will provide an income tax exemption for certain Category C clean up and recovery grants paid to small businesses and primary producers under the Natural Disaster Relief and Recovery Arrangements. The exemption will apply where the grants relate to flooding that occurred in Australia on or after 29 November 2010, and those small businesses and primary producers affected by Cyclone Yasi. The payments will be non-assessable non-exempt income.

### Fringe benefits tax – reform of the car fringe benefits rules

The Government will reform the current 'statutory formula' method for determining the taxable value of car fringe benefits by replacing the current statutory rates with a single rate of 20 per cent that applies regardless of the distance travelled.

This reform will remove the current incentive for people to drive salary sacrificed and employee provided vehicles further to increase their tax concession. This reform will apply to new contracts entered into after 7:30pm (AEST) on 10 May 2011, and will be phased in over four years.

### Removal of long life pool

The long life pool is to be removed. Small businesses will be able to allocate all assets not eligible for immediate write-off to a single pool at a rate of 30%.

### Corporate tax rate of 29%

From 2013, incorporated small business entities will have a reduced corporate tax rate of 29%.

### Improvements to the company loss recoupment rules

- The continuity of ownership test will be amended so that ownership does not need to be traced through certain superannuation entities;
- Technical deficiencies in the company loss rules in relation to certain entities interposed between certain stakeholders and the loss company will be removed; and
- Loss integrity rules will be tightened to ensure that all membership interests in an entity are treated as a single entity when applying the low value asset exclusions.

## PRIMARY PRODUCERS

### **Farm Management Deposits (FMD's) - early access as a result of natural disasters**

Primary producers that have been affected by the natural disasters will be able to access their farm management deposits within 12 months of making a deposit and will still be able to maintain the concessional tax treatment. This measure provides those affected primary producers the same tax relief as available to primary producers who are faced with severe drought.

Further changes dealing with the administration of FMD's will also be introduced whereby more timely and frequent reporting will be required by authorised deposit taking institutions (ADI's) that hold FMD's. In addition, primary producers will be permitted to hold FMD's with more than one financial institution.

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## SUPERANNUATION

- The reduced drawdown rates for account based pensions will be phased out. For 2011-2012, they will be 75% of the normal drawdown rates, and back to 100% in 2012-2013.

	2011 - 2012	2012 - 2013
Under 65	3%	4%
65-74	3.75%	5%
75-79	4.5%	6%
80-84	5.25%	7%
85-89	6.75%	9%
90-94	8.25%	11%
95+	10.5%	14%

- From July 1, members who breach the personal concessional contributions cap for the first time by less than \$10,000 will be able to withdraw the money rather than being charged the penalty tax on excess contributions;
- Income tax levy rises from \$150 to \$180;
- Income thresholds for co-contributions frozen for another 12 months;
- Contribution caps for those under 50, currently \$25,000 will be indexed annually, rising in \$5,000 blocks;
- Members over 50 with account balances less than \$500,000 will have a cap \$25,000 higher than the lower limit from July 2012.

We hope you find this information valuable. Please contact us with any queries you may have regarding the 2011/2012 Budget announcement.

Best Wishes

The Forsyths Team

Source: BDO Australia, Tax Banter and The Institute of Chartered Accountants.

#### Disclaimer:

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