The Federal Budget Analysis prepared by GWMAS trading as MLC Technical appears below

2012 Federal Budget summary

8 May 2012

The 2012 Federal Budget only contained few surprises as many of the measures had already been legislated or pre-announced.

The main winners were lower income earners, families and the elderly.

Summary

The key new announcements include:

- tax may increase on certain employment termination payments
- the reduction in the company tax rate isn't going ahead
- the increase in the concessional contribution cap for people aged 50 or over with less than $500,000 in super will be postponed until 1 July 2014
- the tax payable on concessional super contributions by people earning $300,000 pa or more will increase from 15% to 30%, and
- a 'SchoolKids Bonus' of $820 a year for each child at high school and $410 for every child in primary school will automatically be paid to parents who are eligible for Family Tax Benefit Part A, replacing the Education Tax Refund.

The Government has also confirmed that:

- people earning under $80,000 pa will receive modest tax cuts
- the minimum income payments for a superannuation pension/income stream won't increase until 1 July 2013, and
- funding will go ahead for the landmark changes to Australia's Aged Care System announced recently.

Superannuation

CC cap reduction confirmed

Date of effect: 1 July 2012 and 1 July 2014

The uncertainty around the concessional contribution (CC) cap for people aged 50 and over has been resolved in the short term. On 1 July 2012, the cap will halve from $50,000 to $25,000 for all super fund members aged 50 or over, regardless of their account balance.

The plan to allow those aged 50 or over to contribute up to $50,000 pa if they have less than $500,000 in super will be delayed until 1 July 2014. This is to give the Government time to work out the details regarding how they are going to monitor account balances and implement this measure.

Implications

Super fund members aged 50 or over should:

- consider taking full advantage of the current cap by making concessional contributions of up to $50,000 before 30 June this year
- review their concessional contributions, especially from 1 July, to make sure they don't exceed the reduced cap
- consider making non-concessional contributions if impacted by the cap reduction, and
- review their contributions and income payments if using the 'transition to retirement' strategy.

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30% contributions tax for higher earners

Date of effect: 1 July 2012

As reported in the media before Budget night, the Government plans to increase the tax on concessional super contributions from 15% to 30% from 1 July 2012 for high-earners on more than $300,000.

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While this has made employer super contributions (including salary sacrifice) less attractive for individuals who
are required to pay 30% contributions tax, it's still 15% less than the marginal tax rate of 45% they would pay on their salary.

Personal tax changes

Marginal tax rate and LITO changes

Date of effect: 1 July 2012 and 1 July 2015

The personal taxation changes legislated as part of the Clean Energy (Carbon Tax Relief) Package will take effect on 1 July 2012 and on 1 July 2015, including:

- changes to the marginal tax rates and thresholds for lower income levels, and
- a progressive reduction in the Low Income Tax Offset (LITO).

Implications

These changes will mean modest tax savings for people earning under $80,000.

Illustrative tax savings

	In 2011/12	From 2012/13	From 2015/16
Income	**$20,000**	**$20,000**	**$20,000**
Tax	$2,100	$342	$114
LITO	$1,500	$445[1]	$300[1]
Net income[2]	$19,400	$20,000	$20,000
Tax savings compared to 2011/12		$600	$600
Income	**$60,000**	**$60,000**	**$60,000**
Tax	$11,550	$11,046	$10,933
LITO	$300	$100	$70
Net income[2]	$48,750	$49,054	$49,137
Tax savings compared to 2011/12		$304	$387
Income	**$80,000+**	**$80,000+**	**$80,000+**
Tax	$17,550	$17,546	$17,533
LITO	Nil	Nil	Nil
Net income[2]	$62,450	$62,454	$62,467
Tax savings compared to 2011/12		$4	$17

Flood levy to finish

Date of effect: 1 July 2012

As originally intended, the Flood levy will cease on 30 June 2012. This means people earning over $50,000 pa will have more available money for the 2012/13 financial year and beyond.

Further restrictions on ETP tax concessions

Date of effect: 1 July 2012

Tax may increase on certain employment termination payments (ETP) such as golden handshakes.

People who know they are going to receive an ETP soon, may want to negotiate for the payment to be made before 30 June 2012.

Standard deductions and 50% interest discount not proceeding

The plan to allow taxpayers to claim a standard deduction for work-related expenses when completing their tax returns has been dropped, as has the proposed 50% discount for the first $500 of interest income.

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[1] Because LITO is a non-refundable tax offset, it can only be used to offset tax payable (ie any surplus offset will not be refunded).

[2] Net income for this purpose is taxable income less tax at marginal rates plus LITO.

Other taxation changes

Company tax reduction not going ahead

Date of effect: 1 July 2012

The planned reduction in the **company tax rate**, from 1 July 2012 for small business and 1 July 2013 for other businesses, isn't going ahead. This is a permanent measure and will be of particular concern to small business owners.

Retirement incomes

Drawdown relief for super pensions extended

Date of effect: 1 July 2012

The Government confirmed that the 2011/12 minimum pension drawdown levels will continue for another 12 months before increasing to the 'normal' levels from 1 July 2013.

Age at start of pension (and 1 July each year)	In 2011/12 & 2012/13	From 1 July 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%

Implications

For pensioners who receive enough of a pension this is good news, as they won't be required to draw more income than they need. As a result, they can keep more money in their pension account, and not be taxed on investment earnings. Also, they won't be forced to sell investments that may have recently fallen in value to fund the additional income payments, and could keep more money invested to participate in any market recovery.

Tax-free super pension incomes to increase

People aged 55 to 59 will be able to receive more tax-free income from a superannuation income stream/pension than they can in 2011/12. These increases result from the marginal tax rate, income threshold and LITO changes legislated as part of the Clean Energy Legislative Package (see Personal tax section).

	In 2011/12	From 2012/13	From 2015/16
Tax-free incomes[3] (per person aged 55 to 59 from income stream[4])	$48,158	$49,753	$50,189
Increase on 2011/12		$1,595	$2,031

3 Ignores Medicare Levy, but includes LITO and SATO/SAPTO, where applicable.
4 Assumes no income from other sources is received.

Social security changes

SchoolKids bonus to replace Education Tax Refund

Date of effect: June 2012 and January 2013

A 'SchoolKids Bonus' of $820 a year for each child at high school and $410 for every child in primary school will automatically be paid to parents who are **eligible for Family Tax Benefit Part A**. This is to replace the **Education Tax Refund** which many eligible parents weren't taking advantage of as they had to keep records of approved expenses and lodge a claim. The first payment is expected in June 2012.

Family Tax Benefit Part A - eligibility

Date of effect: 1 January 2013

The Government will limit the Family Tax Benefit Part A to young people under 18 years of age or where the young person remains in secondary school, the end of the year in which they turn 19. Currently Family Tax Benefit Part A can be paid for a child up to age 22. The young person may be able to receive Youth Allowance after this.

Family Tax Benefit Part A – rate increases

Date of effect: 1 July 2013

The **rate of Family Tax Benefit Part A** will increase by $300 pa for families with one child, and $600 pa for families with two or more children. The **base rate of Family Tax Benefit Part A** will increase by $100 pa for families with one child, and $200 pa for families with two or more children.

Aged care changes

Date of effect: Various

The Government confirmed its commitment to the landmark aged care changes announced on 20 April 2012.

Under the '**Living Longer Living Better**' plan, the Government will:

- overhaul the means-testing so care recipients with greater financial means make a greater contribution
- make it easier for older Australians to stay in their home while they receive care
- ensure more people will get to keep their family home and avoid the need for fire sales, and
- establish a simplified gateway for accessing aged care information.

More information?

For more information on what any of these changes may mean for you, please contact us directly on (03) 9459 2966 or via email advice@warringalfs.com.au or on-line via our website.

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