ON THE MONEY

An update from Bayside Business Accountants

BBA

It's a new financial year and there are numerous tax changes affecting businesses, families and superannuation members. This issue we cover the following topics:

- Federal Budget
- Business Taxation
- Personal Taxation
- Capital Gains Tax
- Superannuation Changes
- Other Measures
- Information for Employers
- ATO Hit List for 2011/12
- Car Expenses = Rates per kilometre for 2011/2012

Also, we'll be emailing our tax return appointment checklist to you shortly. Be prepared and know what documents to bring to your appointment.

Have you made an appointment with us?
Call us today on 03 9583 4316 or email reception@bbaccountants.com.au

Federal Budget

On May 8, 2012 the Federal Treasurer Wayne Swan handed down the 2012/13 Federal Budget.
After 4 straight years of deficit the Treasurer announced a $1.5bn surplus thanks largely to cuts in spending on defence and foreign aid, the abandonment of a planned reduction in the company tax rate and the scrapping of plans to introduce standard tax deductions and a 50% discount on interest income. Mr Swan said the fiscal tightening would protect Australia against global turbulence, preserve its AAA credit rating and give the central bank room for further rate interest rate cuts.

The 2012/13 surplus comes after a blowout in the current year's deficit to $44.4bn from November's previous forecast of $37.1bn. Small surpluses have been projected for the next 3 years and Mr Swan expects the economy to grow by 3.25% in the coming financial year. The rate of unemployment is forecast to rise marginally to 5.5% which compares favourably to the levels in the United States and Europe.

In the Budget, the Government also released details of its ‘tax reform roadmap’ that provides the direction its reforms will take over the next 10 years to improve the tax system. The Government said its tax reform agenda "is to build a stronger economy and a fairer, simpler tax system".

A summary of the major announcements are contained in this newsletter.

Business Taxation

Small Business Write Offs
A number of announcements were made which benefit small business including:

- From 1 July 2012, small business entities will be able to write-off business assets costing less than $6,500 per asset.
- From 1 July 2012, small business entities will be able to write-off the first $5,000 of a new or used motor vehicle.

These small business write off concessions have already been legislated.

Carry Back Losses for Companies
Companies will be allowed to carry back tax losses in 2012/13 and offset them against tax paid in 2011/12 and get a refund of tax previously paid. From 2013/14, tax losses can be carried back and offset against tax paid up to two years earlier. Only tax losses of up to $1m can be carried back each year and the loss carry back is only available to companies and entities taxed like companies. The concession only applies to revenue losses and is limited to a company's franking account balance.

Living Away From Home Allowance (LAFHA) Changes
The tax concession for LAFHA and benefits will be reformed by limiting access to the concession:

- to employees who maintain a home for their own use in Australia which they are living away from for work purposes; and
- for a maximum period of 12 months in respect of an individual employee for any particular work location

No Deduction for Bad Debts Written Off for Related-Parties
The tax concession for LAFHA and benefits will be reformed by limiting access to the concession:

- to employees who maintain a home for their own use in Australia which they are living away from for work purposes; and
- for a maximum period of 12 months in respect of an individual employee for any particular work location.

No Tax Breaks for Buildings
The Government has announced that it will not proceed with the Tax Breaks for Green Buildings program.

Personal Taxation

The Government did not make any changes to the currently legislated tax rates for resident individuals that will apply from 1 July 2012. Note that the flood levy is scheduled to cease on 30 June 2012. There are several rounds of tax cuts provided through an increase in the tax-free threshold and corresponding adjustments to tax rates and thresholds with the first applying from 1 July 2012 and the second from 1 July 2015:

- from 1 July 2012, the tax-free threshold will be increased to $18,200 and the first 2 marginal tax rates will be increased from 15% to 19% and from 30% to 32.5%; and
- from 1 July 2015, the tax-free threshold will be increased to $19,400, and the second marginal tax rate will increase from 32.5% to 33%.

The table below summarises the personal tax rates and thresholds for resident taxpayers:

	2011-12		2012-13		201
	Threshold	Tax Rate	Threshold	Tax Rate	Threshold
1st Rate	$6,001	15.0%	$18,201	19.0%	$19,401
2nd Rate	$37,001	30.0%	$37,001	32.5%	$37,001
3rd Rate	$80,001	37.0%	$80,001	37.0%	$80,001
4th Rate	$180,001	45.0%	$180,001	45.0%	$180,001

There are also changes regarding access to the tax-free threshold for individuals and trustees who are residents for only part of a year. From 1 July 2012, part-year residents and trustees will be able to access a tax-free threshold of at least $13,464. Their access to the remaining $4,736 of the full tax-free threshold will be pro-rated. From 1 July 2015, part-year residents and trustees will be able to access a tax-free threshold of at least $14,664. Their access to the remaining $4,736 of the full tax-free threshold will be pro-rated.

Schoolkids Bonus to Replace Education Tax Offset
The Government will make a new ‘no-strings attached’ cash payment (The Schoolkids Bonus) to certain families with children at school. It will apply from 1 January 2013 and each year families will receive the Schoolkids Bonus worth:

- $410 for each child in primary school;
- $820 for each child in high school.

From January 1 2013 the new automatic payment will replace the Education

Tax Refund (or offset) which means parents don't need to keep receipts or paperwork because it's a guaranteed payment. In addition, parents don't have to pay expenses out of their own pocket, then claim them back through the tax system because the payment will be made upfront, twice a year (in January and July each year) before the start of Term 1 and Term 3.

The Schoolkids Bonus is not a taxable payment and will be available to families receiving Family Tax Benefit Part A plus young people in school receiving Youth Allowance and some other income support. As part of the transition to the new Schoolkids Bonus, the Education Tax Refund for 2011/12 will be paid out in full to all eligible families as a lump sum payment in June 2012. This means families will receive their full Education Tax Refund entitlement ahead of tax time so parents won't have to worry about keeping receipts or making claims when they do their tax return this year.

From 1 July 2012, individuals will be entitled to receive the LITO if their taxable income is below $66,667. The maximum value of the LITO will be reduced from $1,500 to $445 and will be phased out at the rate of 1.5 cents for every dollar of taxable income over $37,000. Together with the other changes, this will mean low income earners will have an effective tax-free threshold of $20,542; and

Medical Expense Offset is Now Means Tested
From 1 July 2012 the tax offset for medical expenses will be means tested. For people with an adjusted taxable income above the Medicare levy surcharge thresholds ($84,000 for singles and $168,000 for couples or families in 2012/13), the threshold above which a taxpayer may claim the medical expenses offset will be increased to $5,000 (indexed annually thereafter). In addition, the rate of reimbursement will be reduced to 10% for eligible out-of-pocket expenses incurred. People with income below the surcharge thresholds will be unaffected. The medical expenses tax offset or rebate for those people will be 20% of the excess out of pocket expenses over $2,060 for the 2011/12 year. This threshold is indexed annually to the CPI.

Changes to Family Tax Benefit Part A
The Government announced 4 changes affecting the Family Tax Benefit (FTB) Part A:

1. Eligibility age - from 1 January 2013, the Government will limit eligibility for FTB Part A to people under 18 years of age or, where a young person remains in secondary school, the end of the calendar year in which they turn 19. Individuals who no longer qualify for FTB Part A may be eligible to receive Youth Allowance subject to usual eligibility requirements.
2. Rate increase - the Government will increase the maximum payment rate of FTB Part A by $300 per annum for families with one child and $600 per annum for families with 2 or more children. For families receiving the base rate of FTB Part A, the increase will be $100 per annum for families with one child and $200 per annum for families with 2 or more children. The increased rate will come into effect from 1

July 2013.

3. Portability of Payments - as part of the measures to reduce the period of time that people who travel overseas will continue to be paid, the FTB Part A payments above the base rate will be reduced to the base rate after 6 weeks of a temporary absence from Australia (down from 13 weeks). In addition, the current requirement that the portability period is not reset until the person has returned to Australia for a period of 13 weeks will be reduced to 6 weeks. The changes will take effect from 1 January 2013.
4. Streamlining income reporting processes - the Government will provide $27.2m to streamline income reporting processes for recipients of FTB (and for holders of the Commonwealth Seniors Health Card) who are no longer required to lodge a tax return as a result of the Government's tripling of the tax free threshold from 1 July 2012. This will allow people in the $6,000 to $18,200 income range to update their incomes online, over the phone or in person with the Department of Human Services, so that their FTB entitlement can be reconciled or Commonwealth Seniors Health Card eligibility determined.

Low Income Tax Offset (LITO) has been amended as follows:

- From 1 July 2012, individuals will be entitled to receive the LITO if their taxable income is below $66,667. The maximum vale of the LITO will be reduced from $1,500 to $445 and will be phased out at the rate of 1.5 cents for every dollar of taxable income over $37,000. Together with the other changes, this will mean low income earners will have an effective tax-free threshold of $20,542; and
- From 1 July 2015, individuals will be entitled to receive the LITO if their taxable income is below $67,000. The maximum value of the LITO will be reduced to $300 and will be phased out at the rate of 1 cent for every dollar of taxable income over $37,000. Together with the other changes, this will mean low income earners will have an effective tax-free threshold of $20,979. The changes to the LITO are summarised in the table below:

	2011/12	From 1 July 2012	From 1 July 2015
Amount	$1,500	$445	$300
Lower Withdrawal Limit	$30,000	$37,000	$37,000
Upper Withdrawal Limit	$67,500	$66,667	$67,000
Withdrawal Rate	4.0%	1.5%	1.0%

SAPTO: New Tax Offset Combines SATO and Pensioner Offsets
The Tax Act has been amended to merge the pensioner tax offset with the Senior Australians Tax Offset (SATO), creating a new Seniors And Pensioners Tax Offset (SAPTO). From 1 July 2012, the pensioner tax offset will no longer be available and all individuals

previously eligible for the pensioner tax offset will be eligible for the SATO, which will be known as the seniors and pensioners tax offset (SAPTO). Currently, the maximum amounts of SATO are $2,230 for a single, $1,602 for a member of a couple not separated by illness and $2,040 for a member of a couple separated by illness.

Dependant Offsets to be Consolidated
From 1 July 2012, the eight dependency tax offsets will be consolidated into a single, streamlined and non-refundable offset. The new offset will only be available to taxpayers who maintain a dependant who is genuinely unable to work due to carer obligation or disability. The offsets to be consolidated are the:

- invalid spouse and carer spouse offsets;
- housekeeper (with or without child) offset;
- child-housekeeper (with or without child) offset;
- invalid relative offset; and
- parent/parent-in-law offset.

The new consolidated offset will be based on the highest rate of the existing offsets it replaces, resulting in an increased entitlement for many of those eligible for this benefit. Taxpayers who are currently eligible to claim more than one offset amount in respect of multiple dependants who are genuinely unable to work will still be able to do so.

Medicare Levy Low Income Thresholds Increased for 2011/12
From the 2011/12 income year, the Medicare levy low-income thresholds will be increased for singles to $19,404 (up from $18,839 for 2010/11) and to $32,743 for those who are members of a family (up from $31,789 for 2010/11). The threshold will be increased by an additional $3,007 (up from $2,919) for each dependent child or student. The Medicare levy low-income threshold for pensioners below Age Pension age will also be increased from 1 July 2011 to $30,451 (up from $30,439). 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.

Limit on ETP Offset for 'Golden Handshakes'
The Government will limit the availability of the employment termination payment (ETP) tax offset. Presently, the ETP tax offset ensures that ETPs are taxed at a maximum rate of 15% for those over preservation age and 30% for those under preservation age, up to an indexed cap ($165,000 in 2011/12 and $175,000 in 2012/13). From 1 July 2012, only that part of an affected ETP, such as a "golden handshake", that takes a persons total annual taxable income (including the ETP) to no more than $180,000 will receive the ETP tax offset. Amounts above this whole of income cap will be taxed at marginal rates. Existing arrangements will be retained for certain ETPs relating to genuine redundancy (including to those aged 65 and over), invalidity, compensation due to an employment related dispute and death.

Mature Age Worker Offset to be Phased Out
The Government will phase out the mature age worker tax offset from 1 July 2012 for

taxpayers born on or after 1 July 1957. Access to the tax offset will be maintained for taxpayers who are aged 55 years and above in 2011/12. To help older Australians who wish to continue to work, the Government will provide a Jobs Bonus of between $1,000 and $10,000 to employers who recruit and retain a worker aged 50 or over for 3 months.

Cuts & Deferrals

- Standard Deductions Axed - The Government announced that it would not proceed with the 2010/11 Budget announcement to provide a standard tax deduction amount for work-related expenses and the cost of managing tax affairs. This was due to commence on 1 July 2013.
- Company Tax Cut Not Proceeding - The Treasurer has announced that the proposed reduction in the Company tax rate from 30% to 29% will not proceed. The Treasurer's explanation was that it had become clear that the proposed rate cut would not be approved by Parliament.
- Discount for Interest Income Scrapped - The Government will not proceed with the 2010/11 Budget announcement for a 50% discount for interest income which was due to commence on 1 July 2013.

Non Residents - Tax Rates Change from 1 July 2012
The Government announced that it will adjust the personal income tax rates and thresholds that apply to non-residents' Australian income. From 1 July 2012, the first 2 marginal tax rate thresholds will be merged into a single threshold. The marginal rate for this threshold will align with the second marginal tax rate for residents (32.5%) and will apply to all taxable income below $80,000. From 1 July 2015, the same marginal rate will again rise from 32.5% to 33%.

The tax rates for non-residents that will apply for the 2012/13 and 2013/14 years are:

Taxable Income	Tax Payable $
0 - 80,000	32.5%
80,001 - 180,000	26,000 + 37% of excess over 80,000
180,001 +	63,000 + 45% of excess over 180,000

Capital Gains Tax

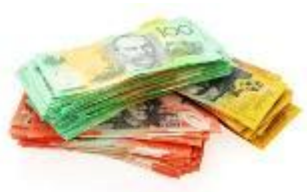
- Changes will be made to the application of the scrip-for-scrip roll-over and small business concessions to trusts, super funds and life insurance companies.
- The revenue asset and trading stock roll-overs that apply to the exchange of interests in a company or unit trust for shares in another company will be broadened.
- The CGT scrip-for-scrip roll-over integrity provisions will be strengthened.

- CGT - temporary loss relief will be made available to facilitate super reforms.
- Minor extensions to the CGT exemptions for certain compensation payments and insurance policies will be made.
- Minor amendments to natural disasters CGT relief will be made.
- CGT - refinements to income tax law for deceased estates will be made.
- The Government will remove the 50% CGT discount for non-residents on capital gains accrued after 7.30pm (AEST) on 8 May 2012. The CGT discount will remain available for capital gains that accrued prior to this time where non-residents choose to obtain a market valuation of assets as at 8 May 2012.

Superannuation Changes

Superannuation Contributions Tax to Double

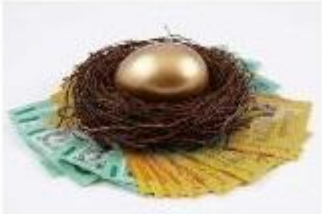
From 1 July 2012, individuals with 'income' greater than $300,000 will have the tax concession on their concessional contributions reduced from 30% to 15% (excluding the Medicare levy). This means that the tax rate on concessional contributions will effectively double from 15% to 30% for very high income earners from 1 July 2012. There will still be an effective tax concession of 15% (up to the concessional contributions cap of $25,000) for these high income earners.



The definition of 'income' for the purpose of this measure will include taxable income, concessional superannuation contributions (e.g. superannuation guarantee contributions and salary sacrificed contributions), adjusted fringe benefits, total net investment loss, target foreign income and tax-free government pensions and benefits, less child support.

If an individual's income (excluding their concessional contributions) is less than the $300,000 threshold, but the inclusion of their concessional contributions pushes them over the threshold, the reduced tax concession will only apply to the part of the contributions that are in excess of the threshold. For example, someone with income excluding their concessional contributions of $285,000 and concessional contributions of $20,000 (taking their total income to $305,000) would have the reduced tax concession only apply to $5,000 of their contributions.

Importantly, the reduced tax concession will not apply to concessional contributions which exceed the concessional contributions cap of $25,000 and are therefore subject to excess contributions tax (ECT). Excess concessional contributions are effectively taxed at the individual's top marginal tax rate and therefore do not receive a tax concession. 'Concessional contributions' for the purpose of this measure include all employer contributions (both superannuation guarantee and salary sacrifice contributions) and personal contributions for which a deduction has been claimed. For members of defined benefit funds (both funded and unfunded schemes) it will include all of their notional employer contributions.



Higher Concessional Contributions Cap Deferred to 1 July 2014

The proposed higher concessional contributions cap for individuals aged 50 and over with superannuation balances below $500,000 will be deferred from 1 July 2012 to 1 July 2014. Accordingly, all taxpayers, regardless of age, will be subject to a concessional contributions cap of $25,000 for the 2012/13 and 2013/14 income years. In 2014/15, the general cap is expected to increase to $30,000 through indexation and the higher cap would then commence at $55,000 for eligible taxpayers aged 50 and over.

The annual $50,000 concessional contributions cap for those aged 50 and over was due to revert to the lower general concessional contributions cap of $25,000 from 1 July 2012. However, in response to the Henry Report, the Government proposed to allow individuals aged 50 and over with total superannuation balances below $500,000 to continue making up to $50,000 in concessional contributions beyond the scheduled end of the transitional period on 30 June 2012. The higher cap for eligible persons over 50 will not be indexed but instead set at $25,000 more than the general concessional contributions cap.

The deferral of the start date for this measure will have significant implications for salary sacrificing arrangements, deductions for personal contributions and transition to retirement (TTR) pension strategies. Taxpayers will need to review their strategies before 1 July 2012 when the concessional contributions cap for those aged 50 and over will drop from $50,000 to $25,000 for 2012/13 and 2013/14. A taxpayer aged 50 and above on the top marginal tax rate who is currently making full use of the $50,000 concessional contributions cap will effectively pay an extra $7,875 in tax if she or he has to restrict concessional contributions to $25,000 from 1 July 2012, and take the remaining $25,000 in cash salary.

Increases to the Superannuation Guarantee

While the Superannuation Guarantee (SG) rate will remain at 9% for the year ended June 30, 2013, the SG rate will be increased with initial increments of 0.25 percentage points on 1 July 2013 and on 1 July 2014. Further increments of 0.5 percentage points will apply annually up to 2019/20, when the SG rate will be set at 12 per cent.

Year	Rate (%)
2012/13	9
2013/14	9.25
2014/15	9.5
2015/16	10
2016/17	10.5
2017/18	11
2018/19	11.5
2019/20	12

This measure is designed to increase the future retirement incomes for Australian workers with around 8.4 million employees expected to benefit from the change. Australia's system of compulsory superannuation savings has been in place since 1992 and the increase in rate is in direct response to the challenges posed by our ageing population. The number of Australians aged over 65 is projected to grow from 3 million to 8.1 million by 2050. Over the next 40 years, the ratio of working age Australians to those aged over 65 will decrease from 5-to-1 to just 2.7-to-1.

A major challenge is to ensure an adequate retirement income for our ageing population and the pressure on welfare payments. With the first increase only 12 months away employers should start taking into account the increased SG contributions when negotiating future wage negotiations.

SMSF Auditors Registration with ASIC

The Government announced that it will provide $10.7m over 4 years to ASIC to develop and maintain an on-line registration system for auditors of self managed superannuation funds (SMSFs). As part of the registration process, ASIC will develop a competency exam for SMSF

auditors and ASIC will also be responsible for the de-registration of non-compliant auditors. Auditors may begin to register with ASIC from 31 January 2013.

The Government will also provide $10.6m over 5 years (including $1.5m in capital funding in 2011/12) to the Tax Office to police registered auditors, check their compliance with competency standards set by ASIC and refer auditors to ASIC for enforcement action. The cost of this measure will be offset by increases in the SMSF levy and fees charged by ASIC for sitting the competency exam.

Other Measures

Extra Funding for Project Wickenby

Project Wickenby is a joint operation between the Australian Federal Police and the ATO that targets tax evasion. In the budget, the Tax Office and other Project Wickenby taskforce agencies were allocated an additional $76.8m over three years to continue the Government's fight against tax evasion, avoidance and related crimes. This measure will allow the taskforce agencies to complete existing project work and transition the work to "business as usual" activity by 30 June 2015.

More Funds for ATO to Manage Outstanding Tax Debts

The Government announced that it will provide $106m over 4 years to the ATO to improve the management of outstanding taxation debts and the Superannuation Guarantee Charge. The Government said the funding is designed "to allow the ATO to support a greater range of taxpayers in meeting their reporting and payment obligations through contacting them earlier and by providing more targeted assistance". The Government expects it will increase estimated cash receipts by $1.125bn over the period, including a GST component of $391.4m that will be paid to the States and Territories.

Extension to Compliance Program

The Government is to provide $193.3m to the Tax Office in 2014/15 and 2015/16 to continue to promote voluntary GST compliance. This extends a 2010/11 Budget measure by 2 years and the funding will be directed at detecting fraudulent GST refunds, systematic under-reporting of GST liabilities, failure to lodge GST returns and outstanding GST debts.

Luxury Car Tax (LCT) Threshold Unchanged

The LCT threshold for 2011/12 is $75,375 for fuel-efficient cars and $57,466 for other cars. For LCT purposes, fuel-efficient cars are cars that have a fuel consumption of 7 litres per 100 kilometres or less. The $57,466 threshold has moved very little since 2004/05 when it was $57,009. A so-called 'luxury car' is a car with a GST-inclusive value above the LCT threshold. Generally, the LCT rate for cars delivered or imported after 3 October 2008 is 33%.

ASIC Funding for Enhanced Supervision of Financial Markets

The Government will provide ASIC with new funding of $180.2m over 4 years so ASIC can continue to provide strong and effective oversight of financial markets to protect retail investors and their retirement savings.

Information for Employers

As the end of the financial year approaches, employers must attend to year end payroll responsibilities including the requirement to provide employees with their PAYG Payment Summaries by July 14. You then need to forward the PAYG Summary Payment File to the Tax Office by August 14. You will also have Workcover (and possibly Payroll Tax) responsibilities in addition to superannuation guarantee obligations due by July 28. If you require assistance in this regard please call our office.

ATO Hit List for 2011/12

- Small Business Benchmarks – The ATO will be focusing on around 46,000 businesses that appear to be under reporting their cash incomes compared to the ATO benchmarks
- Employer Obligations – Superannuation payments and PAYG contributions will be the ATO's focus for 2011/12
- Work Related Expenses for the following industries – Real Estate, Carpentry, Earthmovers and Flight Attendants
- Industries dealing mainly in cash payments including Cafes and Coffee Shops
- Businesses who do not report/under report GST, avoid GST or aren't registered for GST when they should be
- Schemes offering early access to Superannuation
- Employees who are wrongly classified as Contractors (by Employers) in order to save on employee entitlements
- Wealthy Australians - Individuals with a net worth between $5 million and $30 million
- Directors & Executives – In particular individuals with incomes over $1 million

Car Expenses - Rates Per Kilometre for 2011/2012

The cents per kilometre rates for car expenses for the year ending 30th June, 2012 are listed below. These rates are applicable to claims where the vehicle has travelled a maximum of 5,000 business kilometres during the financial year. These rates are also used to calculate the taxable value of certain fringe benefits which were provided during the FBT year ending 31 March, 2012. The motor vehicle cost price depreciation limit for 2011/12 is $57,466.

Car Size	Rate
Small Car (non-rotary engine not exceeding 1600cc, or rotary engine not exceeding 800cc)	63c per km
Medium Car (non-rotary engine 1601cc - 2600cc, or rotary engine 801cc - 1300cc)	74c per km
Large Car (non-rotary engine 2601cc and above, or rotary engine 1301cc and above)	75c per km

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