

The Key

Mid-year Budget Outlook 2011

Financial Services Partners



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Introduction

The Federal Government has announced a number of proposals as part of the Mid-Year Economic and Fiscal Outlook. The announcements in this newsletter are proposals at this stage, unless it is stated otherwise. These initiatives need to successfully pass through Parliament before becoming law and may be subject to further changes.

Tax

Tax measures deferred - Effective from 1 July 2013

The Government will defer the following tax proposals by one year.

- The start date of the standard deduction for work related expenses and the cost of managing tax affairs is deferred until 1 July 2013
- The start date of the 50% discount for interest income is deferred until 1 July 2013

Dependent spouse tax offset phased out - Effective from 1 July 2012

The tax offset for a dependent spouse born from 1 July 1952 is proposed to cease from 1 July 2012.

The age restriction to qualify for the dependent spouse tax offset is set at 1 July 1971 for 2011/12, but is proposed to be set at 1 July 1952 from 1 July 2012. The change is intended to encourage more Australians into paid employment.

This proposal does not impact individuals whose spouse is an invalid or a carer, or

who receive the zone, overseas forces or overseas civilian tax offsets.

FBT and living away from home allowances - Effective from 1 July 2012

Access to the FBT exemption on living away from home allowances for temporary residents will be limited to those who maintain a residence for their own use in Australia (but do not live in the residence due to work commitments). Furthermore, individuals are required to substantiate their actual expenditure on accommodation and food beyond a statutory amount.

The Government will consult on the details of the measure, including transitional arrangements.

Super

Concessional contributions cap - Effective from 1 July 2014

The Government proposes to delay the indexation of the \$25,000 concessional contributions cap for another year. Where the cap was expected to rise to \$30,000 for 2013/14, any indexation is now deferred until 2014/15.

The pause in indexation also impacts indexation of the proposed concessional contributions cap for individuals aged 50 and over and the nonconcessional contributions cap. No additional guidance was provided on the amount of concessional contributions cap for individuals aged 50 and over from 1 July 2012.

Reduction in minimum amount for account based pensions for 2012/13

- Effective from 1 July 2012

For the 2012/13 financial year, the minimum payment amount of account based pensions (and market linked pensions) is reduced by 25% of the standard rate. After that time it is proposed to return the minimum payment amount of pensions to the standard rate.

Age as at 1 July	Standard Minimum Pension Rate	Minimum pension rate proposed for 2012/13 financial year
Under 65	4%	3%
65 - 74	5%	3.75%
75 - 79	6%	4.5%
80 - 84	7%	5.25%
85 - 89	9%	6.75%
90 - 94	11%	8.25%
95 and older	14%	10.5%

Possible implications for clients

- Clients may wish to take advantage of the reduced minimums once again to preserve capital, save tax (if under age 60 with taxable component) or maximise social security benefits.

Removal of maximum age limit for Super guarantee -

Effective from 1 July 2013

The Super guarantee (SG) age limit of 70 is proposed to be abolished from 1 July 2013. The aim is to provide an incentive for mature workers to remain in the workforce.

The Government's original intention was to increase the age limit to age 75, but has now decided to remove the age limit entirely.

Around 51,000 employees are expected to benefit from this proposal.

Possible implications for pre-retirees

- Clients who continue to work after age 70 should ensure their employer pays sufficient SG (unless another exemption applies).
- If you have employer clients, ensure they satisfy their SG obligations if the proposals become law.

Co-contribution halved -

Effective from 1 July 2012

The co-contribution matching rate is proposed to reduce to 50 cents for every \$1 (down from \$1 for every \$1 co-contribution). Furthermore, the maximum co-contribution is set at \$500 (down from \$1,000).

The lower income threshold remains at \$31,920 and the upper threshold reduces to \$46,920 (down from \$61,920).

Possible implications for superannuation account holders

- Despite the reduction, the co-contribution is still a useful long term accumulation strategy and represents a guaranteed 50% return on investment for eligible low income clients.

Trust deed clauses and excessive contributions tax -

The Government will ensure super trust deed clauses cannot be used to avoid excess contributions tax.

Currently, some clauses in trust deeds treat amounts that would ordinarily be considered contributions as not having been accepted by the fund if those contributions breach the contributions caps.

Under the proposal, the fund is deemed to have accepted such contributions (if permitted to do so), despite the trust deed clause.

The proposed commencement date appears to be 1 July 2011, although no specific date is provided.

Possible implications for SMSF Trustees

- SMSF trustees should be wary of arrangements to include clauses in trust deeds to circumvent excessive contributions tax.
- All contributions must remain within the caps to ensure no excessive tax penalties arise.

Social Security

Baby bonus reduced -

Effective from 1 September 2012

The baby bonus reduces to \$5,000 per child from 1 September 2012 (down from \$5,437) and indexation of the payment amount is frozen for three years from 1 July 2012.

Family Tax Benefit and immunisation -

Effective from 1 July 2012 families will need to meet immunisation requirements to receive the Family Tax Benefit Part A end of year supplement for children aged one, two and five. Maternity Immunisation Allowance will cease from 1 July 2012.

You can never get enough good advice

Identifying opportunities resulting from legislation changes like the budget requires significant time and effort. At Financial Services Partners we believe that everyone should have the opportunity to realise a brighter future.

Source:

OnePath 2011.

IMPORTANT NOTE: The information/advice provided in this newsletter is General Advice Only. It has been prepared without taking into account any of your individual objectives, financial situation or needs. Before acting on this advice you should consider the appropriateness of the advice, having regard to your own objectives, financial situation and needs. You should obtain a Product Disclosure Statement relating to the products mentioned, and consider the statements before making any decision about whether to acquire products. Performance is influenced by market volatility over time. Past performance is not necessarily indicative of future performance. Contact your adviser to discuss your individual needs. The taxation position described is a general statement only and should only be used as a guide. It does not constitute tax advice and is based on current tax laws and their interpretation. Please contact a taxation specialist to discuss your individual situation.

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