2011 Federal Budget Summary

Individuals

Personal Tax and the Flood Levy

As expected, the Government did not make any changes to tax rates, despite calls for a reduction in personal tax rates. The Government has declined to change to the three rates of 15%, 30% and 40%, which it has previously supported. Instead, the budget has kept tax rates the same for this and subsequent years, with one exception. For the 2011-12 financial year individual taxpayers – both resident and non-resident – who have a taxable income over $50,000 will have to pay the flood levy, varying from 0.5% to 1% depending on the income threshold. Exemptions may apply to those personally affected by the disasters.

Low Income Tax Offset Charges

From 1 July 2011, the proportion of the low income tax offset (LITO) that is delivered through week-to-week pay packets will be increased by the Government from 50% to 70%. What this means is that instead of getting a refund after putting in a tax return at the end of the year, lower income earners will be taxed less during the year. The remaining 30% of the tax offset will be paid as a lump sump upon income tax return assessment. The Government has not implemented the Henry Review recommendation which was to remove the offset and incorporate it into personal income tax rates.

Families – Cuts and Increases

Minors will no longer be entitled to low income tax offsets on unearned income. The reasoning behind this, says the Government, is to discourage income splitting between adults and children. In other words, taxpayers will not be able to reduce their tax by allocating some of their income via a Family Trust to their children. With respect to the Medicare levy, from the 2010-11 income year the low-income thresholds will be increased for singles to $18,839 and for members of a family up to $31,789. The Government has also announced that it will phase out the tax offset for dependent spouses below 40 years of age from this July, with the stated aim of encouraging more Australians into paid employment. In other family news, the Family Tax Benefit for 16-19 year olds will be increased with a new maximum rate of $214.06 per fortnight (up from $52.64) to a total of around $4200 per year. For 18-19 year olds in school this rate will be $3,741. Maximum age of eligibility for the FTB Part A will be lowered to 21 years of age. Families will also be able to advance a maximum of 7.5% of their FTB payment from July.

HECS

The Government has said that it will reduce the discounts students receive on paying particular up-front and voluntary payments towards their student contribution and/or HECS debt from 1 July 2012. Originally, students who elected to pay up-front received a 20% discount on their contribution. However, the budget has reduced this discount to 10%. Voluntary payments of $500 or more to the tax office to repay a HECS debt will now only receive a 5% bonus instead of the previous 10%.

Superannuation Excess Contribution and the Over 50s

The Government has announced that individuals aged 50 and over with total superannuation balances below $500,000, will be able to contribute an extra $25,000 above the general concessional cap. This means that those eligible over 50 years of age will be able to make up to $50,000 in total concessional contributions per annum from July 2012. Unfortunately, the Government did not heed calls for contribution caps to be restored to their previous levels, so while some older Australians will benefit from this measure, many others with low superannuation levels (for example, mothers who have taken time away from the workplace to raise children) may end up with insufficient retirement savings.

Small Business

Changes to FBT

The statutory formula 4 percentage rate scale method for valuing car fringe benefits is to be replaced with a single statutory rate of 20% regardless of kilometres travelled. The flat 20% rate will benefit those who drive less than 15,000 kilometres. Those who use their vehicles for a significant amount of work-related travel or travel more than 25,000 kilometres might find the alternative operating cost method (or "log book") method more beneficial. The single 20% rate will simplify the statutory method of valuation and remove the incentive to drive more kilometres to achieve lower a FBT amount. This change can have some flow-on effects as cars are included in the reportable fringe benefits amount that is shown on an employee's payment summary which could affect eligibility for certain tax concessions.

Upfront Tax Deductions and Write-Offs

Small businesses will be eligible for an instant tax write-off of the first $5,000 of any motor vehicle purchased from 2012-2013. This will effectively replace the Entrepreneurs Tax Offset (ETO) which will be abolished with effect from the 2012-2013 income year. This was another of the Henry Review recommendations, as the ETO proved to be a disincentive to businesses due to high compliance costs and poor targeting. This reform and other tax reforms for small business will be available to small businesses, sole traders and businesses operating through trusts, partnerships and companies. The Government has also announced other tax reforms including an immediate write-off of all assets valued at under $5,000 (up from the current $1,000) and a write-off of all other assets (except buildings) in a single depreciation pool at a rate of 30%.

Reduction in Company Tax Rates

A reduction in the company tax rate to 29% for small businesses will be included as one of the Government's tax reforms to be introduced in 2012-13. These reforms were previously announced as part of the Government's response to the Henry Tax Review, however there has been no legislation introduced to implement them so far. Details have yet to be determined as to which small businesses will qualify.

Reduced PAYG uplift

Tax instalments paid under PAYG will be reduced using the GDP adjustment method for one year. Instalments in 2011-12 will be set at 4% above a small business' taxable income for the previous year, half the statutory rate that would have previously applied. Taxpayers may still vary their quarterly tax instalments if they believe their income is going to be lower or higher than the amount determined by this method, which bases calculations on the previous year's taxable income, uplifted by a GDP adjustment factor. From 2012-2013, normal statutory rates will once again apply.

Independent Contractors

The Government will require certain businesses to report annually on payments made to contractors in the building and construction industry. This is information that businesses should already be collecting under existing tax arrangements. The measure also includes an increase in funding to the ATO of $46.4m to allow undertaking of data matching and audits, as well as the reviewing of contractors' tax liabilities. Funding will also go towards assistance and education for the industry. The Government plans to consult with the public on options to introduce similar reporting regimes for payments to contractors in the commercial cleaning industry. There has been general speculation that these measures could be extended to other industries.