

Budget 2011

Following are the main tax measures announced in last month's Federal Budget.

Reforms to the car fringe benefit rules

The Statutory Formula method for determining the taxable value of car fringe benefits will be reformed by replacing the current four statutory rates with a single flat rate of 20% that applies regardless of the distance travelled. This reform will only apply to new vehicle contracts entered into after 7:30pm on 10 May 2011, and will be phased-in over four years.

People who use their vehicle for a significant amount of work-related travel can still use the Operating Cost (log book) method to ensure their car fringe benefit excludes any business use.

Editor: Please contact our office if you are considering salary sacrificing a car fringe benefit, as potentially everyone involved in these types of arrangements will be impacted by this announcement.

Dependent Spouse Tax Offset – Phase-out

From 1 July 2011, taxpayers with a dependent spouse born on or after 1 July 1971 and with no dependent child/student will no longer be eligible for the Dependent Spouse Tax Offset. This reform is aimed at progressively removing the tax concession for taxpayers with a non-working spouse and no children.

The change will not affect taxpayers with an invalid or permanently disabled spouse, taxpayers whose dependent spouse is a carer, or taxpayers who are eligible for the zone, overseas forces or overseas civilian tax offsets.

Disallowing deductions against government assistance payments

With effect from 1 July 2011, the tax law will be amended to prevent deductions being claimed against all government assistance payments.

Individuals who receive a student Youth Allowance can still claim a deduction for expenses incurred in gaining their payment for the 2010/11 income year.

Changes to the Low Income Tax Offset ('LITO')

From 1 July 2011, the following changes will apply with regards to the LITO:

- ◆ **Bring forward of LITO** – The amount of the LITO that is delivered to low and middle income earners through their regular pay during the year will be increased to 70% (previously 50%) of their total entitlements. The remaining 30% of their LITO benefit will still be paid as a lump sum on assessment of income tax returns.
- ◆ **Removing eligibility of minors for LITO on unearned income** – The tax law will be amended to remove the ability of minors (children under 18 years) to access LITO to reduce tax payable on their unearned income (such as dividends, interest and rent), to discourage income splitting between adults and children.

Income earned by minors from work will still be eligible for the full benefit of the LITO. Also, 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.

CGT and superannuation funds

Complying superannuation funds will no longer be able to treat certain specified assets (mainly shares, units in a trust, and land) as trading stock when buying and selling them, meaning that gains or losses on such assets will be subject to CGT (and losses on them can only be offset against capital gains rather than other income).

Superannuation – Refund of excess concessional contributions

The tax law will be amended to provide eligible individuals with the option to have excess concessional contributions taken out of their superannuation fund and assessed as income at their marginal rate of tax, rather than incurring excess contributions tax.

The measure will apply where an individual has made excess concessional contributions of up to \$10,000 (not indexed) in a particular year, and will only be available for the first year, commencing from 2011/12, in which a breach occurs.

Small business reforms

The Government has announced the following tax reforms for small businesses:

- **Entrepreneurs' Tax Offset ('ETO') abolished** – The ETO will be abolished with effect from the 2012/13 income year.
- **Immediate \$5,000 initial deduction for motor vehicles** – Small businesses will be allowed to claim up to \$5,000 as an immediate deduction for motor vehicles acquired from the 2012/13 income year. The remaining cost of the vehicle value will be added to the General Small Business pool and depreciated under the existing simplified depreciation rules for small business entities.

ATO focus on property developers

The Tax Office has issued an information sheet entitled "*Tax avoidance on property sales – don't risk it!*" which is directed at trying to keep property developers on the straight and narrow.

The information sheet says that property developers who try and avoid declaring tax on the sale of property *are more likely than ever* to be contacted by the ATO.

The ATO is matching information provided on Business Activity Statements and income tax returns with information from the Office of State Revenue and Land Titles Office to ensure property developers are correctly reporting GST and income tax (including CGT) on property sales.

In a recent case, a taxpayer was identified as a developer of subdivisions who purchased rural farmland and then subdivided it into residential lots. Through data matching, the ATO identified over 100 sales made by the taxpayer.

The taxpayer had not reported the property sales and was charged the highest penalty applicable – amounting to approximately \$4.5 million.

ATO warns about new scam email

Tax Commissioner, Michael D'Ascenzo, has warned the community to be aware of a particularly nasty fake email claiming refunds from the ATO.

"This new type of scam pretending to be from the ATO contains a virus which is an attachment to the message," Mr D'Ascenzo said.

The email contains a message in a zip file named "Restore your account" and asks for personal and credit or debit card details in order for the ATO to pay a tax refund.

He said that the ATO never sends emails asking people to provide their personal information or credit card details, so any email requesting personal and credit or debit card details is a hoax or scam.

FBT: Benchmark interest rate

The benchmark interest rate for the FBT year commencing 1 April 2011 is 7.80% p.a. This rate replaces the rate of 6.65% that applied for the previous FBT year.

The rate of 7.80% is used to calculate the taxable value of:

- ◆ a fringe benefit provided by way of a loan; and
 - ◆ a car fringe benefit where an employer chooses to value the benefit using the operating cost method.
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FBT: Cents per kilometre basis

The rates to be applied where the cents per kilometre basis is used for the FBT year commencing 1 April 2011 are:

Engine capacity	Rate per kilometre
0 – 2,500cc	46 cents
Over 2,500cc	55 cents
Motorcycles	14 cents

Flood levy passed

The Flood levy has been passed and will impose a 0.5% levy on incomes from \$50,001 to \$100,000 and 1% above \$100,000.

For ease, the levy has been included in the following table setting out the tax rates for the 2011/12 income year, even though it will be assessed separately in the same way as the Medicare levy.

Taxable Income¹ \$	Tax Payable² \$
0 – 6,000	Nil
6,001 – 37,000	15% of excess over \$6,000
37,001 – 50,000	\$4,650 + 30% of excess over \$37,000
50,001 – 80,000	\$8,550 + 30.5% of excess over \$50,000
80,001 – 100,000	\$17,700 + 37.5% of excess over \$80,000
100,001 – 180,000	\$25,200 + 38% of excess over \$100,000
180,001+	\$55,600 + 46% of excess over \$180,000

1 The tax-free threshold may effectively be higher for taxpayers eligible for the low-income tax offset, the Senior Australians Tax Offset and/or certain other tax offsets.

2 The above rates do not include the Medicare Levy of 1.5%.

Editor: Note that the above tax rates are for resident individuals.

ATO focus on employer super obligations

The ATO is reminding employers that meeting their super obligations is an important part of running their business.

If an employer misses the super guarantee quarterly deadline, they must submit a *Superannuation guarantee charge (SGC) statement* to the ATO.

The SGC is payable if an employer:

- does not pay enough super contributions for their eligible employees (at least 9% of their ordinary time earnings);
- does not pay super contributions for the quarter at all;
- does not pay super to the employee's chosen super fund; or
- pays a super contribution to a fund after the cut-off date for payment.

Can the SGC be offset?

If an employer makes a super contribution to an employee's super fund after the cut-off date, they may be able to offset this late payment against their SGC liability (a 'superannuation guarantee late payment offset').

Employers can elect to apply the late payment offset when the late payment for an employee is made into a complying super fund before the SGC assessment for the quarter is made.

FBT car parking threshold

The car parking threshold for the FBT year commencing on 1 April 2011 is \$7.71 (up from the amount of \$7.46 that applied in the previous FBT year).

CGT improvement threshold

For the 2011/12 income year, the improvement threshold is \$130,418 (up from \$126,619 for the 2010/11 income year).

This threshold is used for working out when a capital improvement to a pre-CGT asset is a separate asset, and for capital improvements to CGT assets where a rollover may be available.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.