



Technical Update

The 2011 Federal Budget was handed down last night with the government stating its focus on job creation and a return to surplus by 2012/13. This technical update provides a broad overview of last night's announcements with a focus on areas which may impact on Entrust's clients.

Key Announcements

Superannuation / Pensions & Retirees

For those who breach their pre-tax contributions limits for the first time by \$10,000 or less, the government will allow excess contributions to be returned without applying excess contributions tax.

Currently those that exceed their contribution limits (\$50,000 for those over 50 and \$25,000 for those under 50) have a 31.5% punitive tax applied resulting in total tax payable of 46.5% on excess superannuation contributions. The past financial year has seen over **50,000 exceed their contributions caps** (including the finance Minister Bill Shorten) and many in the industry have been strongly lobbying government to amend this legislation. This will only apply for the 2011/12 financial years onwards.

The Government has provided extra Budget funding to both the Australian Taxation Office (ATO) and the Australian Securities and Investments Commission (ASIC) to undertake additional activity with a focus in the SMSF sector. The additional costs will be offset by a \$30 increase to the SMSF levy with effect from the 2010-11 income year.

The reforms included the introduction of administrative penalties that the ATO could apply in cases of non compliance by SMSF trustees and the introduction of knowledge and competency requirements on SMSF service providers.

The Government announced that the current 50% reduction in the required superannuation minimum pension payments will be halved to a 25% reduction for 2011/12 financial year, reverting to full payments in 2012/13.

This will enable superannuation retirees to continue to allow their retirement savings to recover following the Global Financial Crisis (GFC) given the lower annual drawdowns require.

Key budget Statistics

Forecast Balances

2010/11	(\$49 billion)
2011/12	(\$22.62 billion)
2012/13	\$3.5 billion.

Unemployment

2010/11	5.00%
2011/12	4.75%
2012/13	4.50%

Budget Winners & Losers

Winners

Mental Health
Regional Australia
Small Business
Infrastructure

Losers

Defence
Welfare recipients under age - pension age
Higher income earners

Changes introduced in the previous Federal Budget to curb eligibility for the Government co-contribution scheme have been extended out by an additional year.

This means the current income eligibility levels of \$31,929 p.a. for a full contribution and \$61,920 p.a. for a partial contribution will remain in place until 2012/13.

Taxation

The Government will remove the Low Income Tax Offset (LITO) for minors on unearned income. This will effectively reduce the tax free threshold for minors' income from \$3,333 p.a. to \$417 p.a.

Income splitting from family trusts will be specifically impacted as the ability for distributions to children for tax management purposes will be impeded.

The abolishment of the dependent spouse offset for those under the age 40 from the 1st July 2011.

Previously this was a tax offset of \$2,159 p.a. for the primary income earner whose income was under \$150,000 p.a.

The ATO will have discretion to extend the two-year ownership period in which the trustee of a deceased estate or beneficiary of such an estate must dispose of their interest in the deceased's dwelling to access a full capital gains tax main residence exemption, or a more generous partial exemption.

The Government did not specify when this would become effective.

Government Benefits

Changes to the pension income threshold allow for seniors on age pension to earn an additional \$250 per fortnight without impacting on age pension entitlements.

This will encourage seniors to remain in the workforce and will increase eligibility for those that are affected by the pension "income test". It was announced that this initiative would apply from July 1st 2011.

Family Tax Benefit Part A will have its thresholds frozen for the next 3 years rather than being indexed to inflation.

The freezing of thresholds is seen as targeting higher income earners. The maximum income where a benefit is paid varies depending on the number of children and their age within a family.

Business

The budget announced that a standard statutory rate of 20% will be gradually applied to the calculation of Fringe Benefits Tax (FBT) on business motor vehicles. This represents a change from the historical tiered method of calculating FBT.

This new policy will provide a benefit to those who travel less than 15,000 km in a financial year whilst those who travel in excess of 25,000 km will be negatively impacted by this decision.

The Government announced it will bring forward the proposed tax cut on company earnings for small business to a rate of 29% for the 2012/13 financial year. This cut was earmarked for the 2013/14 financial year however has been brought forward to help small business.

Entrust believes this will be a minor benefit to small business in general terms however given a tight fiscal focus, it is seen as a positive step.

Small business will be provided with the following immediate tax deductions for the 2011/12 financial year.

- Asset write offs of up to \$5,000 up from the \$1,000 announced in the 2010/11 federal budget.
- Additional write offs of \$5,000 on new vehicle purchases.

If you would like to discuss any of the issues raised in this email, please feel free to contact your adviser on 9476 3900.



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