



Federal Budget Tax Measures

The 2011-12 Federal Budget announcement included several tax changes related to individuals and businesses.

Individuals

Tax rates

Tax rates for individuals remain the same except for the flood levy which applies to taxable income above \$50,000 as follows:

- For taxable income between \$50,001 to \$100,000 the levy is 0.5%
- For taxable income portion above \$100,001 or more the levy increases to 1%

Dependant spouse tax offset

Tax payers with a dependant spouse aged under 40 will no longer be eligible for the rebate. The change will not affect taxpayers whose dependant spouse is an invalid, is permanently disabled or is a carer. Dependant spouses with children are not affected by this measure because they are eligible for Family Tax Benefit Part B.

Changes to low income tax offset for minors (children under 18 years of age)

Up to now a minor who received trust distribution from a family trust could earn up to \$3,333 tax free income. From 2011-12 year a minor will not be entitled to the low-income tax offset, therefore the tax free income will be only \$416. For example if a family trust which used to make trust distributions to one child will be paying an extra \$1,356 tax per child. This means that family trusts will need to review their investments which are held in their children's name. Minors will continue to be able to use the low income tax offset on earned income from employment.

Medicare levy

The Medicare levy threshold increase will benefit many families. From 2010 -11 year the low-income threshold for couples will increase from \$ 31,196 to \$31,789 and for singles from \$18,488 to \$18,839. For families the additional amount of threshold for each dependent child will also be increased to \$2,919 from \$2,865.

Medicare expenses rebate threshold

From 1st of July 2010 the 20% tax offset on net medical expenses threshold amount has been increased from \$1,500 to \$2,000.

Deductions disallowed for claims against all government assistance payments

From 1 July 2011 individuals who receive Youth Allowance Education expenses will not be able to claim income tax deductions in relation to the payments received, however students will still be eligible to claim deductions for expenses incurred in gaining their payment for the 2010-11 year.

The discount on HECS & HELP reduced

The discount on HECS up-front payments is 20% from 1st of January 2012 this will be reduced to 10% and the bonus on voluntary payments of \$500 or more will be reduced from 10% to 5%.

SMALL BUSINESS

Deductions for new motor vehicles

From 1st of July 2012 a \$5,000 motor vehicle immediate tax write off will be allowed on the purchase of a new car and the balance of the cost of motor vehicle can be depreciated at normal rates. This measure will replace the Entrepreneur Tax Offset (ETO).

Motor vehicles fringe benefits

Changes to the motor vehicles fringe benefits will benefit high income earners who drive a car less than 15,000 km per year. The 20 per cent fringe benefit flat rate phased in over 4 years will apply to new salary sacrificed cars or company cars purchased after 11th of May 2011. As a result of these changes people who drive long distances will be penalised under the statutory formula method. Those people who use their motor vehicles significantly for work related travel should consider using the operating cost method based on logbooks.

Enhanced write-offs for assets

From the 2012–13 year depreciable assets of small businesses valued at under \$5,000 can be immediately written off. All other assets can be pooled and depreciated at a rate of 30 per cent per annum.

Small business capital gains tax (CGT) concession

From 10th of May 2011 it will be more difficult to qualify for small business capital gains tax concessions as family trusts assets will be taken into consideration when calculating the eligibility asset test. A taxpayer satisfies this test if the total net value of the CGT assets do not exceed \$6 million dollars. On the positive side this measure will ensure that some small businesses can access the active asset test and gain access to the active asset reduction provided other eligibility tests are satisfied.