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Lifestyle Newsflash

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May 2012 Budget

Robbed, Cheated, Dudded, Betrayed…

These are just some of the thoughts from clients we have spoken to since Tuesday night's Budget announcements.

With every year of this Labor Government it just gets more and more difficult for those aspiring for financial independence to achieve their goals.

Over the last few years we have been writing about the Government's continued attack on the middle to high income earners and how increased tax, levies and superannuation complexity is simply going to give Australia less self-funded retirees and lead to an even bigger Welfare burden for future generations.

While there were many announcements during the Budget, we have highlighted the following as they are the ones that will most likely impact our clients:

Concessional Contribution Caps

In an unexpected move, the Government decided to defer the $50,000 concessional cap for individuals age 50 and over with account balances under $500,000. The concessional cap will be $25,000 for everyone in 2012-13 and 2013-14.

This comes on top of the Government's "pausing" of the $25,000 indexation increase to 1 July 2014.

Lifestyle comment:

For many of those already contributing $50,000 pa., this will likely result in an increase of inadvertent concessional cap breaches.

The Superannuation Surcharge Mark II

The Government proposes that individuals with income greater than $300,000 will be subject to a 30% rate of tax on concessional contributions rather than the 15% rate. Details on exactly how this measure will operate (such as whether it means a dual-rate contributions tax (ie 15% and 30%), a super surcharge-like mechanism or an extension to the excess contributions tax assessment and collection process) have not been provided, other than the following:

- 'Income' means taxable income, concessional super contributions, adjusted fringe benefits, net investment loss, target foreign income, tax-free government pensions and benefits, less child support.
- If concessional contributions themselves push a person over the $300,000 limit, the higher rate of tax will only apply to the part of the contributions that are in excess of the threshold.
- 'Concessional contributions' means all employer contributions (both SG and salary sacrifice), deductible personal contributions and notional employer contributions for defined benefit members.
- Excess concessional contributions will only be subject to excess contributions tax not the additional 15% tax.

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Lifestyle comment:

The overall impact of this measure will be to increase the tax burden by up to $3,750 (i.e. 15% of $25,000) on concessional contributions where income is over $300,000.

Potential winners are those clients on incomes between $180,000 and $299,999, that is, on the highest marginal tax rate but on income less than $300,000 no additional tax will apply.

Taxation of Superannuation Pensions

Mercifully, one of the last great legacies of the Howard/Costello Government – tax exempt superannuation pensions after age 60 – was left alone. It must have been tempting for the Government to bring back the old regime where 15% rebates applied but, for now, retirees are safe.

Drawdown relief for super pensions extended

The Government confirmed that the 2011-12 minimum pension drawdown levels will continue for another 12 months before increasing to the 'normal' levels from 1 July 2013.

For example, for those under 65, the minimum drawdown would be 3% instead of 4% and for ages 65-74, 3.75% instead of 5%.

Self Managed Super Funds

The Government have had these in their sights for some time and it appears they are going to start getting tough on compliance.

The Government has confirmed that it will fund ASIC to develop and maintain an auditor competency exam and on-line Self Managed Super Fund (SMSF) auditor registration system.

The Government confirmed the cost of this measure ($21.3 million) will be offset by increases in the SMSF levy and fees charged by ASIC for sitting the competency exam.

Super co-contribution

No further reductions to the co-contribution concession were made in this Budget, however it should be noted that, in the 2011 Federal Budget, the government announced a freeze of the indexation applied to the co-contribution income thresholds.

Additionally, as part of *Mid-year economic and fiscal outlook (MYEFO) 2011-12*, the government announced further reductions to the co-contributions scheme, for personal contributions made from 1 July 2012. See below:

Year of entitlement	Maximum entitlement	Matching rate	Lower threshold	Higher threshold
2011-12	$1,000	100%	$31,920	$61,920
2012-13	$500	50%	$31,920	$46,920

Means testing of net medical expenses tax offset (NMETO) from 1 July 2012

People with adjusted taxable income above the Medicare levy surcharge thresholds (i.e. $84,000 for singles and $168,000 for couples in 2012-13) will be means tested. The threshold above which a taxpayer may claim NMETO will be increased to $5,000 and indexed annually thereafter. The reimbursement rate will be reduced to 10% for eligible out of pocket expenses.

Limit on Employer Termination Payment (ETP) tax offset for 'golden handshakes' from 1 July 2012

Under this measure, concessional tax rates on ETPs will only be available where the person's total annual taxable income (including the ETP) is no more than $180,000. Amounts above this whole-of-income cap will be taxed at marginal rates.

Existing arrangements will be retained for certain ETPs relating to genuine redundancy (including to those aged 65 and over), invalidity, compensation due to an employment related dispute and death.

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Lifestyle comment:

In an already complicated area, this is a further change to the taxation of ETPs, following the ending of the transitional arrangements on 30 June 2012 which included allowing qualifying ETPs to be transferred into superannuation. It is unclear at this stage which ETP payments other than 'golden handshakes' are subject to this measure.

Schoolkids bonus from 1 July 2011

The Government will replace the Education Tax Refund (ETR) with a new Schoolkids Bonus. Eligibility for the payment will remain open to families with children enrolled and attending school who are in receipt of FTB Part A or other qualifying income support payments or allowances under a prescribed educational scheme that precludes the family from receiving FTB A.

The Schoolkids Bonus will be made in two equal instalments in January and July each year commencing January 2013.

As a transitional arrangement, a one-off lump sum payment to eligible families will be paid in June 2012 to replace the ETR for the 2011-12 financial year. From January 2013, these payments will be automatic and every family with a child at school will be guaranteed $410 per annum for each primary school student and $820 per annum for each secondary school student.

Eligible families will no longer need to keep receipts to prove the education expenses incurred and will not be restricted to claiming only 50% of these expenses.

Previous proposals shelved

In this 2012 Budget, the Government has announced that it will not implement three measures it had previously announced in the 2010 Budget. These are:

- Reduction of the corporate tax rate to 28%. The corporate tax rate will remain at 30%.
- Standard tax deduction of $1,000 for work-related expenses and the cost of managing tax affairs.
- 50% discount for the first $1,000 of interest income.

Your Next Step:

This Budget will move the goal posts for most of our clients. As always, we welcome your enquiries, concerns and questions. Please feel free to contact any of the team here at Lifestyle if you wish to discuss how the Budget will impact your personal situation.