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IN THIS EDITION

NEWS POINT

Budget 2012 Special : The Good, The Bad and The Broken Promises

PLANNING POINT

Practice News

M G Arthur & Associates proudly announce their successful clearance of Quality Assurance Review by CPA Australia.

This review, conducted by CPA every few years, is a tick for the practice policies and procedures. We continue to endeavor to provide client focused quality tax advise and service.

NEWS POINT

BUDGET 2012 SPECIAL
THE GOOD, THE BAD AND THE BROKEN PROMISES

Compelled by an unfettering desire to bring the budget into surplus, with little concern on its impact on the economy, especially small businesses, the government seems to have handed down a budget full of broken promises. Even when you look at the silver lining, you would be compelled to say, it's 'Hardly Any Good'. Budget surplus! Budget surplus! Budget surplus! – Is anyone impressed?

This edition of AboutTax focuses on the budget and other recent proposals, which impact our clients and readers the most.

THE (HARDLY ANY) GOOD

Tax Free Thresholds Increased: While appearing to be a major relief for taxpayers, the reality is that with compensatory reduction in low income tax offset and increased tax rates for middle income brackets, the final impact is far less impressive than it appears. The below comparison shows how little is the impact on all levels of tax payers. A surely 'Hardly Any Good' Proposal!

Tax Rates	2011-12		2012-13		2013-14	
	Threshold $	Marginal Rate	Threshold $	Marginal Rate	Threshold $	Marginal Rate
1st Rate	6,001	15%	18,201	19%	19,401	19%
2nd Rate	37,001	30%	37,001	32.5%	37,001	33%
3rd Rate	80,001	37%	80,001	37%	80,001	37%
4th Rate	180,001	45%	180,001	45%	180,001	45%
Low Income Tax Offset	Up to $1,500 4% withdrawal rate on income over $30,000		Up to $445 1.5% withdrawal rate on income over $37,000		Up to $300 1% withdrawal rate on income over $37,000	
Effective tax –free income*	16,000		20,542		20,979	

*Includes the effect of the tax free threshold and the Low Income Tax Offset.

Tax Savings (Tax Year 2012 vs 2013)

Taxable Income ($)	Tax Year 2012 ($)	Tax Year 2013 ($)	Savings Per Year ($)	Savings Per Week ($)
20,000	600	0	600	11.54
30,000	2100	1797	303	5.83
40,000	4450	4147	303	5.83
60,000	11,300	10,947	353	6.79
80,000	17,700	17,547	153	2.94

Education Tax Refund to be changed to School Kids Bonus: The current education tax refund, which requires you to keep receipts of your kids' education expenses is being scrapped from 2012-13. If you are eligible for FTB-A, Centrelink will pay you directly the amount of School Kids Bonus, starting January 2013. Currently it is $820 for a secondary school student and $410 for a primary school student. Touted as a compensation for the carbon tax burden, this unfortunately means you would not get anything new, but will have to pay for the additional costs of carbon tax impact! Another 'hardly any good' proposal!

TIP! For 2011-12 year as well, this bonus will be paid out in June 2012. So if you are eligible, you don't need to keep any receipts or claim the refund in your tax return. Most importantly, make sure you have lodged your FTB-A claim, or else you might miss out on this.

Company tax loss carry-back to give cash refund for losses: From 2012-13 it is proposed that if a company has a loss, it can be set off against the tax paid on the income in previous year, and converted into a cash refund. This is expected to help ailing businesses and promote investments in new plant and equipments. While being a well appreciated measure, the benefit would be limited to companies who have paid tax in previous year and have a franking credit. Sole Traders, Partnerships and Trusts are not to be counted for this benefit even if they run a genuine business. This proposal might push businesses to set up company structures and loose other tax benefits and cost savings which other business structures provide. Another 'hardly any good' proposal!

TIP! This measure, if converted into legislation, will change the playing field for business structures. While providing various benefits as a business structures, companies have limitations in capital gains benefits and tax planning opportunities.

Small businesses to be eligible for write-offs: As a measure previously declared, from 1st July 2012 small businesses will be eligible to write off in tax an asset purchased up to $6,500 per item. They would also be able to write off first $5,000 of a motor vehicle purchased for business use. Touted as a measure to support small business through carbon tax burden, the government seems to not realize that tax is paid against income earned. For those businesses suffering under economy slowdown and competition (a large proportion of small businesses), and hardly making their ends meet, this measure is hardly going to help them overcome the new carbon tax burden!

TIP! If you are planning any investment in your small business, best to postpone it beyond 1st July 2012 to be able to take advantage of the above measures.

THE BAD

Medical Expense Tax Offset to be Means Tested: Presently, if you and your family have an out of pocket medical expenses in excess of $2000 you may be eligible to claim a 20% tax offset. This proposal has been a part of the tax system for years, aiming to provide relief against increasing out of pocket medical expenses and reducing burden on public health. From 1st July 2012 this will now be means tested, reducing benefit for those, who tend to not burden the public health,

and instead pay for their medical expenses from their pocket. For income earners above $84,000 (individuals) and $168,000 (family), the rebate will reduce to 10% and will start above $5,000 out of pocket medical expenses.

This comes along an already legislated proposal to reduce rebate on private health insurance and increasing Medicare Levy Surcharge, as tabled below.

Singles	<$84,000	$84,001-97,000	$97,001-130,000	130,001
Families	<$168,000	$168,001-194,000	$194,001-260,000	260,001
Rebate				
< Age 65	30%	20%	10%	0%
Age 65-70	35%	25%	15%	0%
Age 70+	40%	30%	20%	0%
Medicare Levy Surcharge				
All ages	0.0%	1.0%	1.25%	1.5%

TIP! Income for these proposals would include your taxable income, reportable fringe benefits, exempt foreign employment income, total net investment losses and reportable super contributions (personal and employer). Thus these proposals would hit a much larger section of the economy.

While it is best to not have any medical situation, but if at all circumstances arise, best is to combine elective procedures in the same year to increase your changes of a rebate.

Super contribution tax doubled for high income earners: Normally, your super contribution (concessional contribution) is taxed at 15%. Not any more if you earn more than $300,000. From 2012-13, income earners above $300,000 would pay a super contribution tax of 30%. This is besides the excess-contribution tax of 31.5% which applies if you contribute higher than your annual contribution limit, limited to $25,000 for all from next year.

Mature Age Worker Tax Offset gone: When the economy needs people to continue working beyond 55 years of age, the government has chosen to phase out a moderate $500 p.y. mature age worker tax offset to those working beyond age 55. Presently eligible taxpayers will continue to receive this tax offset but anyone turning 55 after 1st July 2012, will not. Another short sighted measure to scrape some dollars for their 'budget surplus' promise!

Non residents to pay higher tax: From 2012-13 Non resident tax payers will pay higher rate of tax on income and will not receive 50% CGT discount on long term capital gains tax. This measure is only expected to reduce investment by non-residents in otherwise ailing Australian economy.

THE BROKEN PROMISES

High Super Contribution Limits Postponed: As one of the biggest broken promises, the proposal to allow people above 50 years of age with low superfund savings to contribute up to $50,000 a year into super has been postponed to 2014-15. From 2012-13 all tax payers can at best contribute up to $25,000 per year into super, with excess contribution tax of 31.5% for any contribution above $25,000. So much for 'promoting savings and self funded retirement'!

TIP! If you are eligible, make use of this opportunity till it lasts. Maximise your super contribution, as a means to save for your retirement and save tax!

Standard Work Related Expenses Scrapped: To ease some of the taxpayers, present government had previously proposed a standard work related expense deduction of $500, to be increased later to $1000. This was aimed at simplifying tax returns. In a bid to scratch every dollar, this proposal has also been scrapped.

50% discount on tax on interest income scrapped: Another promise, aimed at promoting savings, by reducing tax on interest income by

50% has been scrapped. So much for 'promoting savings'!

Company Tax Cuts Scrapped: Proposed company tax cuts to 28% for small businesses and 29% for large businesses have been scrapped. So much for promoting business investments!

Co-contribution into super to be halved: Famously known as dollar for dollar, government co-contribution into super will be halved from 1st July 2012. So for a $1000 personal after tax contribution, if you are eligible, you would get $1000 in 2011-12 but only $500 in 2012-13. This is a reversal of previously promised increase to $1500! Also eligible income limit will be reduced from $61,920 to $46,920.

TIP! Make use of it while it lasts. If your income is less than $31,920, contribute $1000 of your after tax money into super this year. If your income is above this limit but below $61,920, you could still get something back. Check calculator at www. ato.gov.au or contact us to get the right contribution amount.

PLANNING POINT

So What Can We Still Do?

1. **Focus on super contribution**. Remember tax on super contribution is only 15% while tax on your personal in hand income could be as high as 46.5%.

2. **Watch your super contribution and pension withdrawals.** Watch your contributions to ensure you don't exceed annual limits, and avoid excess contribution tax.

3. **Meet your pension conditions.** A must if you are in pension phase in your SMSF.

4. **Make use of $ for $ co-contribution.** Consider contributing up to $1000 after tax savings into super for government co-contribution. Check for the right amount on ato.gov.au/calculators or call us.

5. **Check your FTB-A eligibility.** If you think you are eligible, ensure that is correctly recorded with Family Assistance Office, or you could miss out the handout proposed for June 2012!

6. **Gather all your receipts.** Remember your tax claims are only as good as the documents you keep to prove them. With increasing compliance activity by ATO, it is more than eminent that you are able to substantiate your claims.

7. **Small Businesses postpone investments**. If you are a small business, you would be better off postponing your investment into plant and equipment and motor vehicle, to be able to obtain greater tax concessions in 2012-13.

8. **Maximise investment property deductions**. Don't miss out on eligible deductions against property investments, especially depreciation and other lesser known deductions. Check with your accountant or contact us for a comprehensive list of deductions available.

9. **Consider audit insurance cover.** This could save you thousands in costs of your accountant or specialist advisors and could be the difference between your winning your claim or giving it up!

10. **Start early! Make a tax plan for 2013**. When you do your 2012 tax return, take the opportunity to discuss your tax matters for 2013 year with your tax agent and set a Tax Plan!