M G Arthur & Associates

Accounting • Taxation • Business Services

About Tax

A FRIENDLY TAX NEWSLETTER FROM MANU GUPTA

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IN THIS EDITION

Practice News

M G Arthur & Associates launches AFSG Trust in collaboration with our associate accounting practices.

This entity focuses on providing better finance solutions combined with tax planning for our clients.

Please contact us for your home loan, business loan and equipment loans

NEWS POINT

BUDGET 2011: CUT! CUT! CUT!

While Budget 2010 was more of a planning into future, with most of the taxation, superannuation and social security changes starting from July 2012, Budget 2011 has been a simple no-brainer. With the government desperate to show its financial credentials in trying to bring the budget into surplus in 2013 all that seems to have been achieved is cutting or freezing of social security benefits and tax planning opportunities. This newsletter aims to highlight some of these budgetary cuts.

CUT ! ANY HOPE FOR TAX CUTS

While successive budgets in the past have given an incentive to hard working people by cutting rates of income tax, albeit small, this budget has made no significant tax cut at all. Instead there is a looming Flood Levy added to your tax bill for 2011-12 year. To put in a sweetener though, most tax payers on low income will get up to $300 of their Low Income Tax Offset in their weekly wage, rather than at tax time. Merely taking $300 from your tax refund and giving it to you on a weekly basis at $6 a week. There goes the incentive for hard work and savings!

Residents: rates and tax payable: 2010-11 and later years

Taxable income ($)	*Tax payable ($)*
0 - 6,000	Nil
6,001 - 37,000	Nil + 15% of excess over 6,000
37,001 - 80,000	4,650 + 30% of excess over 37,000
80,001 - 180,000	17,550 + 37% of excess over 80,000
180,001 +	54,550 + 45% of excess over 180,000

Notes:
1. The above rates exclude the 1.5% Medicare levy and the flood levy (see below).
2. The low income tax offset is a maximum of $1,500.

Flood Levy Calculations

Taxable income (TI) 2011-12 financial year ($)	*Flood levy ($)*
0 - 50,000	Nil
50,001 - 100,000	[TI - 50,000] x 0.5%
100,001 +	250 + [(TI - 100,000) x 1%]

TIP! While every year we suggest that income should be postponed and expenses preponed, this year is the year when you should rather prepone income and postpone expenditure (since tax would be higher next year with lower tax planning options).

CUT ! MOTOR VEHICLE SALARY PACKAGING

A large number of mid income earners have enjoyed the benefit of salary packaging their 'non work use' car by using FBT Statutory Formula and paying reduced FBT through high km usage. This has now been shelved with just a flat rate of 20% of motor vehicle cost to be used for FBT calculations under the statutory formula, irrespective of usage. This could make salary packaging of motor vehicles for mid to high income earners largely unattractive.

FBT Statutory Rate Method

	Statutory rate (x cost of car to determine person's car fringe benefit) %				
Distance travelled during FBT year km	*Existing contracts*	*New contracts from 10/5/11*	*New contracts from 1/4/12*	*New contracts from 1/4/13*	*New contracts from 1/4/14*
0 - 15,000	26	20	20	20	20
15,000 - 24,999	20	20	20	20	20
25,000 - 40,000	11	14	17	20	20
> 40,000	7	10	13	17	20

FREEZE ! FTB Part A Benefits for Most Mid Income Earning Families

Mid income earning families (around $100,000 family income) have struggled to meet their living costs while finding it difficult to get much FTB-A support from Centrelink. From 1st July 2011, their income threshold will be frozen to current levels, resulting in either reduced number of families becoming eligible for FTB-A or reducing their benefits. Alongside this, various other income thresholds (FTB B, Spouse Rebate, Baby Bonus etc.) have also been frozen to current level. Again, there goes support for hard work and savings!

CUT ! Low Income Tax Offsets (LITO) for Children Below 18 Years of Age

Children below 18 years of age are taxed at a high rate on their 'unearned income' (income for which they have not worked, rather received from investments or trusts). This is to prevent parents from making investments in the names of their children. Using LITO a child below 18 could earn $3333 tax free a year. This is now cut to $416 a year, thus substantially hurting parents who have been saving funds for their children's future in income generating investments. This also takes away a small incentive for hard working small business owners who could pay tax free trust distributions to their kids up to $3333 a year. There goes some minimal incentives that were there for small business!

CUT ! Current Reduction in Pension Draw Down Relief Halved

In previous three years up to 30th June 2011, the government has reduced compulsory minimum pension draw down to 50%. This has been cut to 25% in 2011-12 with the reduction wiped off completely in 2012-13. This could be financially hard on superannuation balances of pensioners who are still reeling under the effect of Global Financial Crisis.

FREEZE ! Co-contributions Caps

Co-contribution was frozen at $1 for $1 up to a maximum of $1000 for the foreseeable future in the last budget. This year, its calculation cap of $31920 to $61920 has also been frozen (instead of indexing upwards each year). This again would reduce the number of eligible contributors and reduce the amount of co-contribution. Another example of being 'penny wise pound foolish'.

CUT ! Tax Deduction of Education Expenses Against Youth Allowance

In 2010 the High Court of Australia allowed young tax payers to claim their education expenses against their Youth Allowance (and similar) payments, acknowledging that there was a direct nexus between such expenses and income. The budget has introduced law to cancel this benefit from 1st July 2011. There goes incentives for higher studies and improving skills!

CUT ! Dependent Spouse Rebate for Spouse Born after 1st July 1971

This is a big one. Acknowledging that families would pay higher taxes if one partner earned the household income, rather than the same level of income being split between two partners, Australian tax law has provided for Spouse Tax Rebate (currently at $2243.00). This will be abandoned from 1st July 2011. This only effects families without kids, since most families with kids are eligible for FTB Part B. In recent years this incentive was a welcome support for fresh migrant couples struggling to settle down in Australia and couples where one of them has lost his job due to the Global Financial Crisis, or for families with kids where one of the spouses lives overseas and is not eligible for FBT Part B.

CUT ! Reduced Discounts on HECS Payment

Students paying their fee upfront will now get a discount of 10% instead of 20% and HECS payers paying lumpsum to reduce their debt will get a discount of 5% instead of 10%. Another brilliant 'penny wise pound foolish' idea in support of students and young workers.

TIP! This comes into effect from 1st July 2012. Thus tax payers with HECS debt are advice to review their status and possibly take advantage of higher discount prior to this date.

So when do the Goodies Come in?

Some goodies will come in, or we are made to believe, but from 1st July 2012. These include;

- Allowing those above 50 years of age and with less than $500,000 in super to continue to make $50,000 tax deductible contributions (concessional contributions) to super.
- Allowing small businesses to write-off assets worth $5,000 or less in tax instead of depreciating over the years.
- Allowing small businesses to claim first $5,000 of motor vehicle cost in tax.
- Reducing company tax for small businesses to 29% (instead of previously promised 28%).
- Allowing for a standard tax deduction of $500 in 2012-13 which will increase to $1,000 in 2013-14. This will work as an alternative to normal work related and tax agent fee deductions and the higher of standard or actual will apply.

PLANNING POINT

What Can We do to Reduce our Tax This Year and Next Year?

For once, it might not be wise to try and pre-pone expenses or postpone income to reduce your tax this year. This is because with your income rising as normal, and with higher rate of tax due to flood levy next year, it might be best to pre-pone income and postpone expenses. A few other measures to gain some benefits are;

1. Collect all your **tax deductible receipts. Contact** us for a copy of our extensive **tax return preparation checklist** so you don't miss out on possible deductions, and maximise your refund.
2. Understand the key concept of **claiming work related expenses**. You need to prove a nexus between the money spent and your income.
3. Check your **eligibility for various tax offsets** e.g. for dependent spouse (last chance this year!), dependent parents, senior Australians, medical out of pocket expenses, education expenses for kids, etc.
4. Consider **salary sacrificing** into super to reduce your overall tax debt. After all, super tax is capped at 15% while personal tax can go up to 46.5%.
5. Consider **negatively geared investments**, but only if the investment itself merits consideration.
6. Consider **investing in high growth overseas economies** (subject to double tax treatment and currency fluctuations) to generate higher return for your investment. After all if you earn a higher return, you wouldn't want to be paying higher tax!
7. Consider **salary packaging** of car, laptops, and other work related items to reduce your overall tax debt. Car salary packaging would become lesser and lesser attractive every year, so if you are planning to get into one, this might be the time to do it.
8. **Salary sacrifice your tax deductible interest** on your investment property to be eligible for FTB Part A and other Centrelink benefits.
9. **Education tax offset** continues this year, giving you back up to 50% of your children's education expenses, provided you are eligible for FTB Part A. From 1st July 2011 this would include expenses on school uniforms.
10. Review your **best capital gains tax position** if you have sold a property or shares for profit this year. If you have lost on shares or CFDs, ask us to review if it's capital loss or if it can be claimed as ordinary loss.
11. Consider personal after tax contributions to **super for co-contribution**. If you earn less than $31,920 this year, you could get $1 for each $1 contributed into your superfund from your after tax income. Earn less than $61,920 and you may get some co-contribution.
12. If you made any **personal super contributions**, check its **categorisation** by your super fund. Errors could result in lost tax deductions, lost co-contribution or double taxation.
13. Changes to tax law from 1st July 2009 require taxpayers to **declare and pay tax on their overseas job income** (previously exempted in most circumstances) and **Employee Share Options** allocated this year (previously taxable in future years). If you have any such circumstances, contact us for your best tax position.
14. Consider setting up a **Self Managed Superannuation Fund (SMSF)** to bolster your tax savings and wealth generation opportunities. This is particularly attractive if you are above 50 and nearing retirement. With recent changes to law you can;
    a. **Borrow in superfund** to purchase property.
    b. **Transfer your commercial property** into super, free from stamp duty.
    c. **Pay no capital gains tax** to transfer your property used in your own business to your superfund.
    d. **Invest overseas in high growth economies** for better returns for your hard earned money.