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Business Update

Please read this update
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Budget 2012

Following are the main tax measures announced in last month's Federal Budget.

Measures previously announced but not going ahead or being deferred

Some of the biggest tax news from the latest Budget involved the Government deciding not to proceed with (or deferring) previously announced initiatives, including the following:

- The Government will not proceed with the measure to **lower the company tax rate** from the 2013/14 year, nor implement an early start to the company tax rate cut for small businesses from the 2012/13 year;
- The Government will not proceed with the measure to introduce a **50% discount for interest income**, which was due to commence on 1 July 2013;
- The Government will not proceed with the measure to introduce a **standard deduction** for work related expenses and the cost of managing tax affairs, which was due to start on 1 July 2013; and
- The Government will **defer** the start date of the measure to increase, by \$25,000, the concessional contributions cap for individuals over age 50 with superannuation balances below \$500,000 from 1 July 2012 to 1 July 2014.

Editor: This two-year deferral means that, for 2012/13 and 2013/14, the concessional contributions cap will be \$25,000 per year for all individuals, regardless of their age.

Phasing out the Mature Age Worker tax offset

From 1 July 2012, the Government will phase out the mature age worker tax offset ('MAWTO') for taxpayers born on or after 1 July 1957. Access to the MAWTO will be maintained for taxpayers who are aged 55 years or older in the 2011/12 year.

Instead, the Government will provide a Jobs Bonus of \$1,000 to 10,000 employers who recruit and retain a worker aged 50 years or over for over three months.

Consolidating the dependency offsets into a single tax offset

From 1 July 2012, eight existing dependency tax offsets will be consolidated into a single, streamlined and non-refundable offset that is only available to taxpayers who maintain a dependant who is genuinely unable to work due to disability or carer obligations.

Converting the Education Tax Refund into a new 'Schoolkids Bonus'

From the 2012/13 year, the Government will transform the Education Tax Refund into a 'Schoolkids Bonus' that will automatically be paid to eligible families through the family payments system. Eligible families will receive the new Schoolkids Bonus of \$410 for each child in primary school and \$820 for each child in high school.

The bonus will be paid in two equal instalments in January and July each year, starting from January 2013 and, as a transitional measure, the full Education Tax Refund for the 2011/12 year will generally be paid to eligible taxpayers in June 2012.

Changes to the Net Medical Expenses tax offset

The Government will introduce a means test for the net medical expenses tax offset ('NMETO') from 1 July 2012. For taxpayers with adjusted taxable income above the Medicare levy surcharge thresholds (i.e., \$84,000 for singles and \$168,000 for couples or families in 2012/13):

- ❑ the threshold above which a taxpayer may claim the NMETO will be increased to \$5,000 (currently \$2,000); and
- ❑ the rate of the tax offset will be reduced to 10% (currently 20%) for eligible out of pocket expenses incurred.

Non-residents – changes to income tax rates and removal of the 50% CGT discount

The Government will adjust and simplify the personal income tax rates and thresholds that apply to the Australian sourced income of non-residents, and will remove the eligibility for the 50% discount on capital gains accrued by non-residents on taxable Australian property (such as real estate), after 7.30pm (AEST) on 8 May 2012.

However, non-residents will still be entitled to the CGT discount on capital gains accrued before this time, provided they choose to obtain a market valuation of assets as at 8 May 2012.

Better targeting of the ETP tax offset – crackdown on golden handshakes

The Government will apply a 'whole of income' cap to tax concessions provided to the recipients of certain employment termination payments ('ETPs') so that, from 1 July 2012, only that part of an affected ETP (e.g., a 'golden handshake') that takes a person's total annual taxable income (including the ETP) to no more than \$180,000 will receive the ETP tax concession.

Existing arrangements will be retained for certain ETPs relating to genuine redundancy, invalidity, compensation due to an employment related dispute and death.

Reduction of tax concession for super contributions by high income earners

From 1 July 2012, individuals with 'income' greater than \$300,000 will have their concessional contributions taxed at 30% and not at 15% (the definition of 'income' for the purposes of this measure basically includes the concessional contributions as well).

However, the 30% rate will not apply to concessional contributions which are subject to 'excess contributions tax' (as these contributions are effectively taxed at the top marginal tax rate).

Company loss 'carry-back' tax relief

The Government will provide tax relief for companies (and entities taxed like companies) by allowing them to 'carry-back' revenue tax losses so they receive a refund against tax previously paid, with 2012/13 being the first year that companies will be able to carry-back up to \$1 million of revenue tax losses.

The measure will be subject to integrity rules, and limited to a company's franking account balance.

Trustee resolutions must be made no later than 30 June

Editor: The ATO has provided some important information for trustees of trusts that they need to know when distributing income to beneficiaries of the trust (e.g., most, if not all, discretionary trusts).

From the 2011/12 income tax year, all trustees who make beneficiaries entitled to trust income by way of a distribution must do so by the end of the income year (i.e., usually 30 June, although the trustee must also comply with any additional requirements in the trust deed).

Why has the date for making distributions changed this year?

The ATO previously had a limited administrative practice in place, which provided an extension to certain trustees to make distributions after 30 June, but the relevant ruling allowing this was withdrawn in September 2011.

Note: In some circumstances, it may be possible for the trustee to resolve to distribute the trust income on or before 30 June, but record that resolution in writing after 30 June. It is important that all clients with trusts are aware of the ATO's changes in this area, and to contact us if they have any concerns.

FBT car parking threshold

The car parking threshold for the FBT year commencing on 1 April 2012 is \$7.83 (up from the amount of \$7.71 that applied in the previous FBT year).

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.