Mischel & Co. Advisory Services Pty Ltd
Accountants and Advisors

Federal Budget 2012

A REVIEW OF THE MAJOR ITEMS OF INTEREST

INDIVIDUALS & FAMILIES

- **Personal income Tax rates changed significantly (major boost in tax free threshold)**
- **Changes to Private Health Insurance Rebate and Medicare levy surcharge**
- **Medicare Levy low-income thresholds increased**
- **Amendments to various Personal Income Tax Offsets**
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    2. **Changes to the net medical expenses tax offset**
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- **Immediate Write-off of depreciating assets (only applicable to Small Businesses)**
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- **Company Loss Carry-Back Measure introduced**
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- **Bad debt deductions**
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SUPERANNUATION

- **Additional tax on Concessional Contributions**
- **Concessional Contribution Caps reduced from the 2012-13 year**
- **Targeting the Employment Termination Payment tax offset**
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OTHER POINTS OF INTEREST

- **Removal of CGT discount for non-residents**

INDIVIDUALS & FAMILIES

INDIVIDUALS & FAMILIES – GENERAL

- **Personal income Tax rates changed significantly (major boost in tax free threshold)**
  The resident individual income tax rates* for the 2012-13 financial year are set out below. The key change from 2011-12 is the increase in the tax-free threshold from $6,000 to $18,200.

Taxable income threshold range ($)	2012-13 marginal tax rates (%)
0 – 18,200	0
18,201 – 37,000	19
37,001 – 80,000	32.5
80,001 – 180,000	37
180,001 +	45

- **Personal income tax comparison chart***

Taxable income ($)	2012-13 tax payable ($)	2011-12 tax payable ($)
50,000	7,797	8,550
75,000	15,922	16,050
100,000	24,947	24,950
150,000	43,447	43,450
200,000	63,547	63,550
300,000	108,547	108,550
400,000	153,547	153,550
500,000	198,547	198,550

*Rates and amounts shown relate to resident adult individual taxpayers. Excludes Medicare levy and surcharge, Flood and Cyclone Reconstruction levy (2011-12 only); the Low Income Tax Offset and any other tax offset entitlements.

- **Changes to Private Health Insurance Rebate and Medicare levy surcharge**

  From 01 July 2012, The Private Health Insurance Rebate and the Medicare levy surcharge will be income tested against three income tier thresholds. The income thresholds that apply for the 2012-13 financial year are set out below.

  In view of these changes, affected individuals should consider the financial effect of their private health insurance coverage. <u>It may be possible to retain the full 30 per cent rebate currently available if a private health insurance premium for the 2012-13 year is prepaid before 1 July 2012.</u>

	Full entitlement	**Tier 1**	**Tier 2**	**Tier 3**
Taxable income				
Singles	**$84,000 or less**	**$84,001 - $97,000**	**$97,001 - $130,000**	**> $130,000**
Families	**$168,000 or less**	**$168,001 - $194,000**	**$194,001 - $260,000**	**> $260,000**
Rebate				
Aged under 65 years	30%	20%	10%	0%
Aged 65-69 years	35%	25%	15%	0%
Aged 70 or over	40%	30%	20%	0%
Medicare Levy surcharge				
All ages	0.0%	1.0%	1.25%	1.5%

- **Medicare Levy low-income thresholds increased**

  For the 2011-12 year, the Medicare levy low-income threshold will increase to $19,404 for individuals (from $18,839) and $32,743 (from $31,789) for families. The additional amount of threshold for each dependent child or student will also be increased to $3,007 (from $2,919). This increase is intended to ensure that low income earners do not pay the Medicare levy when they do not have an income tax liability.

The Medicare levy low-income threshold for pensioners below Age Pension age will also be increased. From 1 July 2011, the threshold will rise to $30,451 (from $30,439). This increase is intended to ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

- **Amendments to various Personal Income Tax Offsets**

Please refer to the following amendments announced by the Government to the Personal Income Tax Offsets within 2012-2013 Federal Budget:

1. **Education Tax Refund will be replaced with Schoolkids Bonus**

The Government announced that the Education Tax Refund will be replaced by a new Schoolkids Bonus from 1 January 2013. Under the Schoolkids Bonus, eligible families will receive:

- $ 410 for each child in primary school, and
- $ 820 for each child in high school.

Payment of the Bonus will occur upfront, twice a year, at the beginning of Term 1 and Term 3 of the school year.

Eligibility for the new Schoolkids bonus is the same as for the existing Education Tax Refund. The Bonus will be available to families receiving the Family Tax Benefit (FTB) Part A, young people in school receiving Youth Allowance and some other families receiving income support and veterans' payments.

A key change from the existing scheme is that paperwork is not required, i.e. eligible recipients will no longer be required to keep a record of eligible child education expenses, as was the case with any claim for the Education Tax Refund in the annual income tax return. Furthermore, recipients are guaranteed to receive the full amount of the entitlement, regardless of the amount of education expenses they incur.

2. **Changes to the net medical expenses tax offset**

From 1 July 2012, for taxpayers with adjusted taxable income above the Medicare levy surcharge thresholds ($ 84,000 for singles and $ 168,000 for couples or families) the net medical expense claim threshold will be increased from $ 2,000 to $ 5,000 (indexed annually) and the rate of reimbursement for eligible out of pocket expenses incurred will be reduced from twenty to ten per cent. Those with adjusted taxable income below the relevant threshold are unaffected.

3. **Phase out of the mature age worker tax offset**

From 1 July 2012, the mature age worker tax offset will be phased out for taxpayers born on or after 1 July 1957. Access to the mature age worker tax offset will be maintained for taxpayers who are aged 55 years or older in 2011-12.

4. **Consolidation of dependency tax offsets**

   From 1 July 2012, the Government will consolidate eight dependency tax offsets into a single, streamlined and non-refundable offset available to taxpayers who maintain a dependant who is unable to work due to disability or carer responsibilities.

   As the new consolidated offset will be based on the highest rate of the existing offsets being replaced, many eligible taxpayers will benefit from an increased entitlement. Taxpayers who are currently eligible to claim more than one offset amount in respect of multiple dependants who are genuinely unable to work will still be able to do so.

- **Changes in Family Tax Benefit Part A**

  The Government announced changes to limit eligibility for FTB Part A to young people under 18 years of age or, where a young person remains in secondary school, the end of the calendar year in which they turn 19. Individuals who no longer qualify for FTB Part A may be eligible to receive Youth Allowance subject to usual eligibility requirements. This change will apply from 1 January 2013.

  In addition, from 1 July 2013 the Government will increase the maximum payment rate of FTB Part A by $300 per year for families with one child and $600 per year for families with two or more children. For families receiving the base rate of FTB Part A, the increase will be $100 per year for families with one child and $200 per year for families with two or more children.

BUSINESSES

- **Immediate Write-off of depreciating assets (only applicable to Small Businesses)**
  From the 2012-13 income year, small business (Business Turnover is less than $2 Mil) can:
  - Immediately write-off of all assets valued at under $ 6,500 (up from $1,000 presently); And write-off all other assets (except for buildings) in a single depreciation pool at a rate of 30 per cent (15 per cent in the first year).
  - small business will be able to immediately write-off up to $ 5,000 for motor vehicles, with the remainder to be written off at a rate of 15 per cent in the first year and 30 per cent for following years

- **Company tax rate cuts not to proceed**
  The Government has announced that it will not proceed with the reductions to the company tax rate. The reduction in the company tax rate to 29 per cent (from the current rate of 30 per cent) was previously proposed to apply from the 2012-13 income year for small business taxpayers and from the 2013-14 income year for all other companies.

- **Company Loss Carry-Back Measure introduced**
  Government announced that it would introduce a "Loss Carry Back" measure for companies. "Loss Carry Back" measure will apply from the 2012-13 income year in relation to taxes paid in 2011-12. It will be extended in 2013-14 and later years so that companies can apply losses to obtain a refund of tax paid in the two preceding years.
  The carry-back will be available only to companies, and entities which are taxed like companies, including public trading trusts and limited partnerships. Small businesses are operated by sole traders (individuals), in partnerships or through trusts which will miss out on the benefit of this measure.
  If these entities make a loss in 2012-13, they may carry this loss back, and obtain a refund for any tax paid in the preceding year. They will only be able to carry back $1 million of losses per year, meaning that the maximum benefit will be $300,000 (i.e. 30% of $1 million). Further any refund will be limited to the company's franking account balance.

- **Capital gains tax relief for merging superannuation funds**
  The Government will allow optional rollover and loss relief for superannuation funds undertaking mergers. This is intended to allow consolidation in the super industry as part of the MySuper and Stronger Super reforms. Consequently the relief is limited to transfers of member's assets to a MySuper product in another complying superannuation fund.

- **Amendments to capital gains tax provisions (script to script rollover provisions)**

A number of technical amendments to the capital gains tax provisions have been included in the budget, a number of which were previously announced.

- The definition of ‘beneficial interest’ will be amended so that a consistent definition applies for the script-for-script rollover provisions and small business capital gains tax rules.
- Scrip for scrip rollover relief will be extended to investors who hold assets as trading stock or on revenue account.
- The scrip for scrip rollover integrity provisions will be strengthened so that investors cannot defer a taxing point by holding interests to acquire ownership rights rather than the rights themselves.

- **Bad debt deductions**
  Changes will be made to limit deductions for bad debts in certain circumstances. Consolidated groups will no longer be able to claim a deduction on bad debts written off, if the debtor is a related party, but not a member of the group.

- **No changes in “Thin capitalisation and research and development concessions”**
  Broadly the thin-capitalisation regime applies to limit interest deductions for certain in-bound and out-bound investors. The continuation of current rules will come as a pleasant surprise to international investors, and businesses undertaking research and development activities.
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SUPERANNUATION

- **Additional tax on concessional contributions**
  The Government has confirmed an additional tax of 15 per cent on concessional superannuation contributions from 1 July 2012 for individuals whose ‘income’ exceeds $300,000. The additional tax paid on a $25,000 contribution will be up to $3,750. (Income for this purpose will include taxable income, concessional superannuation contributions, adjusted fringe benefits, total net investment loss, target foreign income, tax-free Government pensions and benefits, less child support).

- **Concessional contribution caps reduced from the 2012-13 year**
  The Government has deferred to 1 July 2014 its previously stated policy of a $ 50,000 concessional contributions cap for individuals aged 50 years and over, where their accumulated superannuation balance does not exceed $ 500,000.

  The concessional contribution limit for individuals aged 50 years and over will therefore reduce to $ 25,000 from 1 July 2012. Concessional contribution limits will be as follows, including indexation adjustments expected to apply in 2015:

Year	Under age 50 years	Over age 50 years
2012	$25,000	$50,000
2013	$25,000	$25,000
2014	$25,000	$25,000
2015	$30,000	$55,000

The individuals affected will include those with multiple employers, those who have entered into a salary sacrifice arrangement and those whose employers pay superannuation above the maximum contribution base.
There were no changes to non-concessional contribution limits.

- **Targeting the Employment Termination Payment tax offset**
  The Government has further limited concessional tax rates for employment termination payments - for those individuals with taxable income above $ 180,000.

  From 1 July 2012, only that part of an affected Employment Termination Payment (ETP) which takes a person's total annual taxable income (including the ETP) up to $180,000 will be taxed at concessional rates. This means that for those employees with taxable income over $180,000, the amount of the ETP exceeding $ 180,000 will be taxed at top marginal rates. Currently, the first $165,000 ($175,000 for 2012-13) of an ETP is taxed at concessional rates being a maximum of 15 per cent for those over preservation age and 30 per cent for those under preservation age.

Other Points of Interest

- **Removal of CGT discount for non-residents**
  The Government will remove the 50 per cent capital gains tax (CGT) discount for non-residents on capital gains accrued after 7:30pm (AEST) 8 May 2012. The CGT discount will continue to be available for capital gains accrued prior to this time where non-residents can then choose to obtain a market valuation for assets as at 8 May 2012.
  This rule will largely impact non-residents individuals holding interests in Australian real property.

The contents of this information memorandum does not reflect all the announcements reflected in 2012 Federal Budget but simply highlights those points which are most likely affects clients of this firm.