THE FEDERAL BUDGET SUMMARY

TARGETING A SURPLUS WHEN THE ECONOMY IS WEAK IS JUST PLAIN STUPID

Tuesday night's Federal Budget was framed against an intriguing background; a Government in massive trouble and staring at electoral oblivion and a two speed economy desperately in need of traction.

In the past two Budgets, the Government made a commitment to return to surplus in 2012/13 and in the run-up to Tuesday night, it repeated this commitment at length. So it is no surprise at all that the Budget for 2012/13 projects a wafer-thin surplus of $1.5 billion.

Given that a substantial deficit will be recorded this year (the current estimate is $44.4 billion and counting), this will be a massive fiscal turnaround if achieved, equivalent to just over 3% of GDP. Not only would this be unprecedented in Australia, but it has rarely happened elsewhere. At present, only Greece is engaging in fiscal tightening of the same magnitude and we all know the mess that they are in.

This rapid return to surplus has been typified by some as sound economic management. In fact the opposition and those less informed in the media have rammed this very point home. But for those of us who are actually educated in this space, to pull the hand brake on what is already a slowing economy is economic stupidity of the highest order.

Why so?

It is the role of government to provide stimulus when economic activity falters and conversely to tighten the purse strings when things are tracking along well. What we have here is a Government that is working in opposite to the cycle at hand. Yes it is possible that both the Government and Treasury are seeing something that we are not, but given their past track record in predicting such outcomes you can appreciate our cynicism.

What concerns us is that this pursuit for surplus has nothing to do with sound management but more to do with political survival. Yes an election commitment was made, but surely prevailing circumstances should drive such decisions. Unfortunately what Tuesday's budget illustrated is a Government more concerned about its own survival than that of the Australian economy.

Cynical yes, but Tuesday night was simply a vote grabbing exercise by a desperate and bad Government. Fortunately the Australian people will have their say in 18 months' time.

The key points to come out of Tuesday nights' budget are summarised as follows:

SUPERANNUATION

High income earners - 30% contributions tax to apply

Effective Date: 1 July 2012

For an individual earning in excess of $300,000 income per annum, superannuation contribution tax will increase from 15% to 30%. The definition of income for this purpose includes taxable income, concessional superannuation contributions, adjusted fringe benefits, net investment losses and foreign sourced income.

Deferral of higher concessional contributions cap for those aged 50 years and over

Effective Date: 1 July 2014

The existing transitional $50,000 concessional contributions cap for individuals who are aged 50 or over will end on 30 June 2012.

Last year, the Government announced as part of the *Stronger, Fairer, Simpler: A Tax Plan for our Future* that from 1 July 2012, it would provide a higher concessional contributions cap for individuals aged 50 years or over with total superannuation balances below $500,000.

While the Government has reconfirmed their commitment to this measure, it will now defer the start date by two years, to 1 July 2014.

Low income superannuation contribution (LISC)

Effective Date: 1 July 2011

The LISC initiative will effectively return the amount of tax paid on concessional contributions to superannuation for eligible low income earners.

An individual will generally be eligible for LISC in a financial year if their adjusted taxable income is not more than $37,000 and at least 10% of their total income was sourced from employment.

The amount of LISC payable will be calculated as 15% of the total concessional contributions made by or on behalf of the individual for the financial year, up to a maximum of $500. Where the amount of LISC calculated is less than $20, no LISC will be paid on behalf of the individual.

Superannuation Guarantee (SG) Changes

Effective Date: 1 July 2013

From 1 July 2013, the SG rate will rise from 9% to 12%. This will occur gradually and be spread out over 6 years.

Furthermore from 1 July 2013, the maximum age limit for receiving SG contributions (currently 70 years of age) will also be abolished.

TAXATION

Reductions in Personal Income Tax

Effective Date: 1 July 2012

The Government has reconfirmed previously announced changes to the personal income tax rates and Low Income Tax Offset (LITO) to apply from 1 July 2012.

These changes are aimed at delivering tax cuts to the low and middle income earners, ensuring assistance is received for the impact the carbon price will have on the cost of living.

Tax rates and thresholds for this and the next financial year are shown below:

Personal income tax rates					
2011/12			2012/13		
Income Threshold $	Marginal rate*	Tax on this income*	Income Threshold $	Marginal rate*	Tax on this income*
Up to 6,000	Nil	Nil	Up to **18,200**	Nil	Nil
6,001 – 37,000	15%	15c for each $1 over $6,000	**18,201** – 37,000	**19%**	**19c** for each $1 over **$18,200**
37,001 – 80,000	30%	$4,650 plus 30c for each $1 over $37,000	37,001 – 80,000	**32.5%**	**$3,572** plus **32.5c** for each $1 over $37,000
80,001 – 180,000	37%	$17,550 plus 37c for each $1 over $80,000	80,001 – 180,000	37%	**$17,547** plus 37c for each $1 over $80,000
180,001+	45%	$54,550 plus 45c for each $1 over $180,000	180,001+	45%	**$54,547** plus 45c for each $1 over $180,000

** These rates apply to Australian residents for tax purposes and does not includeMedicare.*

The Low Income Tax Offset (LITO) will decrease from $1,500 to $445 for 2012/13, phasing out after $37,000 by 1.5 cents in the dollar to a maximum of $66,667. The impacts of these changes are that the effective tax-free threshold will increase from $16,000 to $20,542 in 2012/13.

Additional changes will also come into effect from 1 July 2015 as follows:

- The tax-free threshold will increase to $19,400
- Marginal tax rate for income threshold $37,001 and $80,000 will increase to 33% (or $3,344 plus 33c for each $1 over $37,000)
- The Low Income Tax Offset will further decrease to $300 with a phase out rate of 1 cent in the dollar and an upper limit of $67,000.

Increase in the Medicare Levy low income thresholds

Effective Date: 1 July 2011 and 1 July 2012

The Government has announced new Medicare Levy thresholds that are applicable for the current financial year (ending 30 June 2012). These are $19,404 for individuals (previously $18,839) and $32,743 for families (previously $31,789). The increase on these thresholds for each dependent child or student will be $3,007 (up from $2,919).

The low income threshold for single pensioners below Age Pension age has been increased to $30,451 for the 2011/12 financial year. This will ensure such pensioners do not pay the Medicare Levy when they do not have an income tax liability.

Loss-carry back initiative for companies

Effective date: 1 July 2012

As announced in early May, the Government will provide new tax relief for companies by introducing a loss carry-back initiative. This initiative will allow companies to 'carry back' their losses (as an alternate to the current ‘carry forward’ provisions), to offset past taxable income and obtain a refund of tax previously paid.

From 1 July 2012, companies will be able to carry back up to $1 million worth of losses and receive a refund of tax paid of up to $300,000 for the 2011/12 financial year. From 1 July 2013, companies will be able to carry back up to $1 million worth of losses against tax paid for each of the two years earlier, providing a tax refund of up to $300,000 per year.

Tax relief for businesses – immediate deduction

Effective Date: 1 July 2012 (already legislated)

Other tax relief for small businesses applying from 1 July 2012, regardless of structure, include:

- an immediate deduction for the cost of any new business assets costing less than $6,500, for as many assets as they purchase
- assets costing $6,500 or more will be depreciated in a single pool (15% in the first year, 30% in each subsequent year)
- an immediate deduction for the first $5,000 of a new or used motor vehicle.

Company tax cut to 28% abolished

Effective date: Abolished

The Government has decided not to proceed with lowering the company tax rate (due to start from 2013/14 financial year, or 2012/13 for small businesses).

50% tax discount for interest income

Effective date: Abolished

The Government has abolished this measure which was due to commence on 1 July 2013.

Originally announced in 2010, the 50% discount was to apply to the first $1,000 on interest income earned from 1 July 2011. As part of the *Mid Year Economic and Fiscal Outlook* in November 2011, the measure was delayed by another year and was due to start on 1 July 2013.

Standard deduction for work related expenses

Effective date: Abolished

The Government has abolished this measure which was due to commence on 1 July 2013.

In the 2010 Budget, the Government announced individual taxpayers would have the option of receiving a standard deduction for work related expenses and the cost of managing tax affairs.

The standard deduction was originally intended to be $500 in 2012/13 and $1,000 from 1 July 2013 onwards.

Dependency tax offsets to be consolidated into one

Effective date: 1 July 2012

Eight dependency tax offsets will be consolidated into a single, non-refundable offset which will only be available to individuals who maintain a dependant who is genuinely unable to work due to carer obligations or disability.

Income tax rate increase for non-residents

Effective date: 1 July 2012

The personal income tax rates and thresholds that apply to non-residents' Australian income will be increased as per the following table:

2011-12		**2012-13**		**2015-16**
Taxable income	**Tax rate**	**Taxable income**	**Tax rate**	
$0 - $6000	29%			
$6000 - $37,000	29%			
$37,001 - $80,000	30%	**Up to $80,000**	**32.5%**	**33%**
$80,001 - $180,000	37%	$80,001 - $180,000	37%	37%
Over $180,000	45%	Over $180,000	45%	45%

CGT discount for non-residents

Effective date: 7.30pm (AEST) on 8 May 2012

The Government has announced that it will remove the 50% CGT discount for non-residents on capital gains accrued after 7.30pm (AEST) 8 May 2012. This will be grandfathered with the CGT discount available for gains that accrued prior to this time where non-residents choose to obtain a market valuation of assets as at 8 May 2012.

Employment termination payment offset

Effective date: 1 July 2012

Currently the employment termination payment (ETP) tax offset can be used to reduce tax payable on payments included in remuneration packages such as 'golden handshakes'. The current rules excluding the transitional measures are:

Age at 30/6/2012	Taxable component	Maximum Tax rate*
Below preservation age	First $165,000	31.5%
	excess	46.5%
Preservation age and over	First $165,000	16.5%
	excess	46.5%

* These rates apply to Australia residents for taxation purposes and include the Medicare Levy of 1.5%.

From 1 July 2012 the rates of tax applying to ETPs will be:

Age at 30/6/2013	Taxable component	Maximum Tax rate*
Below preservation age	First $175,000	31.5%, until income[1] reaches $180,000 then 46.5%
	excess	46.5%
Preservation age and over	First $175,000	16.5%, until income[1] reaches $180,000 then 46.5%
	excess	46.5%

* These rates apply to Australia residents for taxation purposes and include the Medicare Levy of 1.5%.

1 Income = taxable income (including the ETP)

Fringe benefits tax - further reform for living away from home allowances

Effective date: 1 July 2012 and 1 July 2014

The Government announced it will reform the tax concessions for the living away from home allowance by better targeting them at people who legitimately maintain a second home in addition to their actual home for an initial period of 12 months. This will commence from 1 July 2012 for arrangements entered into after 7.30pm (AEST) on 8 May 2012 and from 1 July 2014 for arrangements entered into prior to that time.

Means testing of net medical expenses tax offset

Effective date: 1 July 2012

A means test will be introduced for the net medical expenses tax offset (NMETO) from 1 July 2012. Individuals with adjusted taxable income above the Medicare Levy surcharge thresholds ($84,000 for singles and $168,000 for couples or families in 2012/13) will only receive a 10% reimbursement of eligible out of pocket expenses incurred greater than $5,000 instead of the current $2,060. Those earning under the thresholds will still be entitled to the 20% offset.

Mature age worker tax offset phased out

Effective date: 1 July 2012

The mature age worker tax offset (MAWTO) will be phased out for taxpayers born on or after 1 July 1957 (i.e.: individuals aged under 55 on 1 July 2012).

Access to the offset will be maintained for taxpayers who are aged 55 years as at 1 July 2012.

SOCIAL SECURITY

National Disability Insurance Scheme

Effective Date: 1 July 2013

The Government announced $1 billion of funding in the budget to start rolling out a National Disability Insurance Scheme (NDIS).

In August 2011, the Productivity Commission recommended that a NDIS be created to provide all Australians with insurance for the costs of long-term care and support if they or a family member acquire a significant disability.

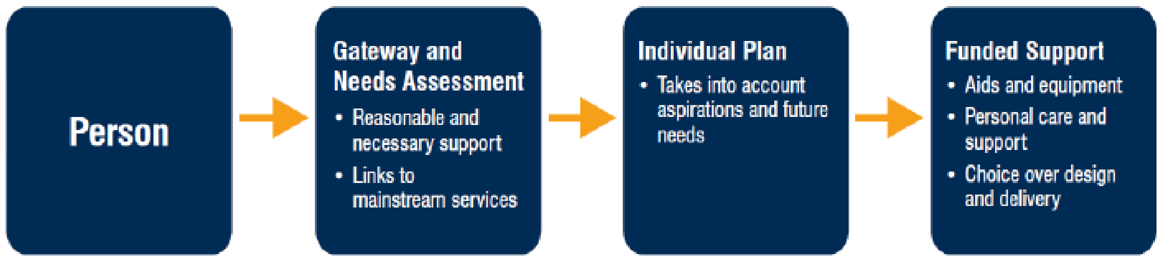
The Government announced in late April that the first stage of National Disability Insurance Scheme will start from 1 July 2013 in up to four locations across Australia. From that time, people with significant and permanent disabilities will start to receive support, regardless of how they acquired their disability.

A new National Disability Transition Agency, funded by the Australian Government, will be established to run the delivery of care and support to people with disability, their families and carers in the select locations.

The NDIS will be designed to provide:

- Lifetime approach – individualised care and support received will change as needs change
- Choice and control – people choose how they get support and have control over when, where and how they receive it.
- Social and economic participation

- Focus on early intervention



Aged Care

Effective Date: April 2012

On 20 April 2012, the Government released its *Living Longer. Living Better* aged care reform package which is its response to the Productivity Commission's inquiry. During the budget they confirmed a number of the measures in the package and provided some additional details.

For additional details please refer to our three wise men at www.retirecare.com.au

Means testing of Home Care services

Effective date: 1 July 2014

Currently, a recipient of Home Care support can be asked to contribute towards the cost of their care by way of two fees, a basic fee which is 17.5% of the basic Age Pension and an income tested fee. However, for a variety of reasons the current system has been ineffective in raising the income tested fee. The Government has proposed to introduce a more formal income tested care fee.

Those on the full Age Pension will not be required to pay the new income tested fee. Part pensioners will be required to pay a fee capped at $5,000 pa and the fee for self funded retirees will be capped at $10,000 pa.

Means testing of residential aged care

Effective date: 1 July 2014

The Government will remove the current distinctions between low level and high level care and the associated differences on fees on entry to residential care and strengthen the means testing arrangements for people entering residential care.

It will combine the current income and asset tests to ensure a consistent fees policy to provide more equality in accommodation and care payments for age care residents. The treatment of the family home will not change from current arrangements. The current exemptions for accommodation payments within the Age Pension means test will be maintained.

All residents who can afford to pay their residential care costs will have the choice of paying through a fully refundable lump sum, or a rental style periodic payment, or a combination of both. Providers will not be allowed to choose between prospective residents on the basis of how they intend to pay. A new cooling off period will mean that residents will not need to decide how they intend to pay until they have actually entered care.

Ongoing care and accommodation fees will also change as follows:

- the current basic fee of up to 84% of the basic age pension
- a means tested contribution to the accommodation cost
- a means tested contribution to the care cost

People in residential care on 30 June 2014 will continue under their current fee arrangement.

School kids bonus

Effective date: 1 January 2013

From 1 January 2013, the Government will replace the Education Tax Refund (ETR) with a School kids bonus which will be paid as two equal instalments in January and July each year commencing January 2013. From this date, eligible families with children enrolled and attending school will receive:

- \$410 pa for each primary school student, and
- \$820 pa for each secondary school student

All eligible families will receive the full rate of payment. As a result, unlike the ETR families are not required to provide receipts as proof of purchase, or wait until they submit their tax return to receive the School kids bonus.

Eligibility for this bonus is the same as that for the ETR, and is primarily for families receiving Family Tax Benefit Part A.

As a transitional arrangement the ETR in 2011/12 financial year will be replaced by a one-off lump sum payment to eligible families in June 2012.

Changes to Family Tax Benefit Part A

Effective date: 1 July 2013

From 1 July 2013, the Government will increase the maximum payment of Family Tax Benefit (FTB) Part A by:

- \$300 pa for families with 1 child, and
- \$600 pa for families with 2 or more children

Families receiving the base rate of FTB Part A the increase will be:-

- $100pa for families with 1 child, and
- $200pa for families with 2 or more children

Additionally, the Government will tighten the age requirement for FTB Part A from less than 21 years of age, to less than 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.

Australian Working Life Residency

Effective date: 1 January 2014

Currently, Age Pension recipients who are overseas for more than 26 weeks are only paid their maximum entitlement if their Australia Working Life Residence (AWLR) is 25 years or more. A recipients AWLR refers to periods from age 16 to Age Pension age when they were an Australia resident. (There is no requirement to work to accrue AWLR years).

The Government will amend these rules so that the maximum entitlement will only continue if their AWLR is 35 years or more. Pension recipients with less than 35 years AWLR will be paid a proportional rate.

Pensioners overseas on the date of implementation will not be affected by this change unless they return to Australia for at least 26 weeks.

In addition, all partnered pensioners residing overseas will be paid based on their own AWLR rather than their partner's AWLR.

Portability of Australian Government Payments

Effective date: 1 January 2013

Currently, certain Social Security recipients who are temporarily absent from Australia continue to receive their payment for 13 weeks.

From 1 January 2013, this period will reduce to 6 weeks.

The main payments affected include:-

- Disability Support Pension (except those assessed under new rules from 1 July 2012 as having a severe and permanent disability and no future work capacity);
- Parenting Payment;
- Carer Payment;
- Carer Allowance;

- Family Assistance; and
- Paid Parental Leave.

The Age Pension will be excluded (subject to the AWLR changes above) as this payment can be paid overseas indefinitely, once certain criteria are met.

Centrelink recipients who are outside Australia on the date of implementation will retain the 13 week portability of their payments until they return to Australia.

Parenting Payment - tightening of eligibility for grandfathered recipients

Effective date: 1 January 2013

Currently, recipients of Parenting Payment (PP) who were granted the payment prior to 1 July 2006 do not lose eligibility until their youngest child attains age 16.

From 1 January 2013, the Government will align PP eligibility for all recipients so that the payment will cease when the recipients youngest child attains age 6 (for partnered recipients), or age 8 (for single recipients).

Recipients who cease to be eligible for PP will transition to Newstart Allowance (NSA) unless they move into paid employment. This will result in the more onerous activity test associated with NSA, and for single parents:

- A reduction in the payment rate, and
- A more generous income test taper compared to other recipients of NSA (40 cents rather than 50 cents) for every dollar of income earned above the income-free area (currently $62 per fortnight).

Other Minor Changes

Investment property review

Effective date unknown

Certain income support recipients who own investment property will be subject to an asset review once a year (currently once every 2 years).

Liquid Asset Waiting Period

Effective date 1 July 2013

The Government will increase the maximum reserve amount for the liquid assets waiting period for recipients of particular income support payments. Liquid assets are assets in the form of cash or those which can be easily converted into cash, including shares and term deposits. A single person without dependents will now have an increased maximum reserve amount of $5,000, while a person who is a member of a couple and/or has a dependent child will now have an increased maximum reserve amount of $10,000.

The change will affect applicants for Newstart Allowance, Youth Allowance, Sickness Allowance and Austudy payments.

Family Tax Benefit recipients & Commonwealth Seniors Health Card holders - Reporting

Effective date 1 July 2012

The income reporting process for FTB recipients and CSHC holders will be streamlined for those who are no longer required to lodge a tax return as a result of the increase in the tax free threshold.

This will allow those in the $6,000 - $18,200 income range to update their income online, over the phone, or in person with the Department of Human Services to reconcile their FTB A entitlement/determine their CSHC eligibility.

New Supplementary Allowance

Effective date: March 2013

The Government will create a new Supplementary Allowance for certain income support recipients to help them meet the costs of essential bills. The Supplementary Allowance will be payable to those receiving qualifying payments including Newstart Allowance, Youth Allowance and Parenting Payment. Singles will receive an additional yearly allowance of $210, and couples will receive $350, paid in two instalments in March and September, with the first payment to commence on March 2013.

SUMMARY

In its pursuit to deliver a budget surplus, the Government has introduced a raft of measures and these will impact many of our clients.

As part of our ongoing service commitment, we will be reviewing all files to determine the impact and we will naturally be in touch with you in due course.

That said should you wish to discuss these potential impacts sooner, please feel free to contact our office on 9336 7800.

Best wishes,

RetireCare Personal Wealth Management