Federal Budget 2011/12

What does it mean for you?

Budget highlights

Key changes that may affect your financial plan:

- Pension payment relief continues at a lesser amount
- Some flexibility on excess concessional contributions
- Changes to concessional contributions for over 50s
- Better super information on payslips
- Fringe benefits tax on cars
- Minor tax improvements for low income earners
- Changes to tax offset for minors
- Improvements to family tax benefits
- Reduction in Higher Education Contribution Scheme discounts

The 2011/12 Federal Budget contains few surprises and will have minimal effect on most people. Tax benefits to individuals are modest due to the Government's desire to save money.

Two of the most relevant changes are:

- to minimum payments from account-based pensions, and
- to excess superannuation contributions, where eligible individuals will be able to have excess concessional contributions of up to $10,000 assessed as income at their marginal tax rate, rather than incurring excess contributions tax.

Pension payment relief continues at a lesser amount

In the 2008/09, 2009/10 and 2010/11 financial years, pension drawdown relief was provided by halving the minimum payment amounts for account-based pensions. This will be phased out with minimum payment amounts for account-based pensions reduced by 25 per cent for 2011/12, returning to normal in 2012/13, as per the table below.

This is intended to help you recoup capital losses incurred as a result of the global financial crisis and provide additional flexibility with payment options.

Minimum annual payment for account-based pensions

Age	Percentage of account balance – 2010/11	Percentage of account balance – 2011/12	Percentage of account balance – 2012/13
Under 65	2%	3%	4%
65 – 74	2.5%	3.75%	5%
75 – 79	3%	4.5%	6%
80 – 84	3.5%	5.25%	7%
85 – 89	4.5%	6.75%	9%
90 – 94	5.5%	8.25%	11%
95 or over	7%	10.5%	14%

Some flexibility on excess concessional contributions

If you have excess concessional contributions (currently taxed at 46.5 per cent), you will have the option to have them taken out of your superannuation fund and assessed as income at your marginal tax rate, rather than incurring excess contributions tax.

This will only apply if you have excess concessional contributions of up to $10,000 (not indexed) in a particular year and is only available for breaches in respect of 2011/12 or later financial years, and only for the first year in which a breach occurs.

Changes to concessional contributions for over 50s

The $50,000 transitional concessional contributions cap will be extended permanently if you are aged 50 or over with a total superannuation balance of less than $500,000. This will allow you to continue to take advantage of personal deductible contributions, salary sacrifice and transition to retirement strategies.

If you are under 50, the concessional contributions cap remains at $25,000 (indexed) per financial year.

Better superannuation information on payslips

To help you keep track of super balances, new legislation will ensure that your payslips reflect the amount of superannuation being paid into your account.

Fringe benefits tax on cars

Changes are proposed to fringe benefits tax on cars, which will remove the current incentive for people to drive extra kilometres in salary-packaged cars.

Minor tax improvements for low income earners

For low income earners, the proportion of the low income tax offset that is available through your regular pay will increase from 50 per cent to 70 per cent. This means instead of being compensated after putting in your tax return at the end of the year, you will be taxed less during the year. For example, if you have an annual income of $30,000, you may have an increase in your disposable income of around $5.77 per week, however your tax refund will be lower at the end of the year.

Changes to tax offset for minors

Children under the age of 18 will no longer be able to access the low income tax offset to reduce tax payable on their unearned income, such as dividends, interest, rent, royalties and other income from property. This will effectively discourage income splitting to children.

Improvements to family tax benefits

To encourage families to keep their children in education and improve employment prospects, a higher rate of payment of Family Tax Benefit Part A (FTB A) will be available when eligible children remain in education or vocational training. FTB A will be increased by up to $4,200 per annum for families with a teenage child aged 16 to 19 (per child). Currently, FTB A drops from $6,161 to $2,062 per annum when a child turns 16.

Reduction in Higher Education Contribution Scheme (HECS) discounts

The discounts currently available to up-front and voluntary payments made under HECS will be reduced from 1 January 2012. Students who are in a position to make additional payments before next January may be able to take advantage of the current discounts.

For more information on how the Federal Budget 2011/12 will affect your personal financial situation, please contact us today.

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