charter financial planning

Federal Budget 2012/13

What does it mean for you?

On 8 May 2012, the Federal Government unveiled a $1.5 billion Federal Budget surplus. Here's our snapshot, highlighting the points most relevant to financial planning.

Highlights

- Superannuation concessional contributions cap of $25,000 for all for two years
- High income earners superannuation contributions subject to additional 15% tax
- Business loss carry-back provisions proposed
- Changes to Family Tax Benefits
- New 'Schoolkids Bonus' for education expenses.

Superannuation

Higher concessional contributions cap for over 50s deferred

From 1 July 2012 until 30 June 2014, all individuals, regardless of their age, will be subject to a concessional contributions cap of $25,000. From 1 July 2014, this is expected to increase to $30,000 through indexation. For those over 50, a higher cap of $55,000 will be applicable. The proposed higher concessional contributions cap of $50,000 for individuals aged 50 or more with superannuation balances below $500,000 will be deferred until 1 July 2014.

Contributions tax to double for high income earners

From 1 July 2012, the superannuation contributions tax will double to 30 per cent for people with incomes above $300,000. However if a person's income (excluding concessional contributions) is less than $300,000, the additional 15 per cent contributions tax will only apply to those contributions that exceed the threshold. A person earning over $300,000 (including their concessional contributions) who currently makes full use of the $25,000 concessional cap will pay an additional $3,750 in contributions tax.

From 1 July 2012, the tax advantage of superannuation contributions for people with income above $300,000 will be 16.5 per cent. This will be lower than for taxpayers on incomes of between $37,000 and $80,000 who will receive a 19 per cent tax benefit (ie 34 per cent – 15 per cent) and people on incomes of between $80,000 and $180,000 who receive 23.5 per cent tax benefit. Superannuation remains most tax effective for people with income in the $180,000 to $300,000 range who continue to receive a 31.5 per cent tax benefit. Contributions that exceed the $25,000 concessional contributions cap are not impacted by this measure.

Taxation

Personal tax

The Government has legislated several changes to marginal tax rates and income thresholds as part of the Clean Energy Future package, more commonly known as the Carbon Tax. The changes to the income thresholds and low income tax offset go some way towards previous recommendations to simplify the personal income tax system. By raising the effective tax-free threshold, the Government has estimated that up to 1 million people will no longer have to lodge a tax return.

Tax offset limit for 'golden handshakes'

The Government has announced that it is removing a large tax concession for employment termination payments (ETPs) otherwise known as 'golden handshakes'.

'Golden handshakes' are generous executive salary packages given at the conclusion of employment. Only those who have a total taxable income of up to $180,000 will now receive the tax offset. Amounts above this income cap will be taxed at the highest marginal tax rate of 46.5 per cent. Please note that this measure does not apply to ETPs arising from genuine redundancy arrangements.

Net medical expenses tax offset

From 1 July 2012, a means test will apply to the net medical tax offset that helps individuals with their out-of-pocket medical expenses. Currently, the tax offset applies when expenses exceed $2,000 and is set at 20 per cent of the excess amount. Expenses are assessed on either a single or family basis as applicable. The means test will only affect those with adjusted taxable income in excess of the Medicare levy surcharge thresholds which are $84,000 for a single person and $168,000 for couples or families in 2012/13. For those with income above the threshold, the tax offset will be reduced to 10 per cent of eligible medical expenses in excess of $5,000.

Mature age worker tax offset phase out

From 1 July 2012, the mature age worker tax offset will not be available to workers born on or after 1 July 1957. Workers aged 55 or over in 2011/12 will maintain eligibility to MAWTO which has a maximum tax offset of $500. It is assessed on a worker's 'net income from working' (ie excludes investment and pension income) and is available on income between $10,000 and $53,000, at which point it reduces and is not available on income exceeding $63,000.

Company tax

While the company tax rate remains at 30 per cent, the Government will provide new tax relief to business in the form of loss carry-back. Beginning in the 2012/13 year, businesses will be able to carry-back up to $1 million of losses each year to get a refund of tax paid in the previous year. This measure is designed to give businesses tax relief and access to losses when they need it most, rather than waiting for future income. Trusts, partnerships and sole traders have been excluded.

Small businesses

From 1 July 2012, small businesses will be able to immediately write-off the purchase of any new business assets costing less than $6,500. Assets costing more than this will be depreciated in a single pool, with an allowance of 15 per cent in the first year and 30 per cent in subsequent years. Small businesses will also benefit from an additional instant $5,000 write-off against the purchase of a new or used vehicle used for business purposes.

Families

From 1 January 2013, the Government will lower the maximum age of children for families claiming family tax benefits, from 22 to 18, or 19 where the child remains in secondary school. From 1 July 2013, the Government will increase the maximum amount of Family Tax Benefit to $300 per year for families with one child and $600 per year for families with two or more children.

Parenting Payment (‘PP’)

Currently, the Parenting Payment is available to eligible recipients until the youngest child reaches age 16. From 1 July 2013, all those single or partnered with a youngest child over age eight or six, respectively, will transition to New Start Allowance unless employed. Currently, the maximum basic rate of PP for a single parent is $648.50 per fortnight (plus supplement), while New Start Allowance has a maximum basic rate of $529.80 per fortnight (single, one child).

Savings from this measure will be directed into programs to assist single parents to re-enter the workforce.

New income support supplement

This will be payable to recipients of specified income support payments. The supplement will be paid at the rate of $210 per year for eligible singles and $175 per year for each member of an eligible couple. The supplement will be paid in two instalments in March and September each year commencing in March 2013.

Liquid Assets Waiting Period

The liquid asset waiting period (LAWP) is a waiting period that defers eligibility for certain Centrelink benefits based on a person’s liquid assets eg cash, bank deposits, shares and managed funds.

From 1 July 2013, the LAWP will be relaxed by doubling the maximum reserve amounts for the LAWP. The reserve amounts will rise to $5,000 for single people or $10,000 for couples or singles with children. This measure is designed to allow those who have become unemployed to access benefits more quickly and retain more of their savings.

Schoolkids Bonus

A new Schoolkids Bonus has been introduced to assist Australian families with out-of-pocket school expenses such as uniforms, excursions, music lessons and computer costs. The new bonus, applicable from January 2013 replaces the existing Education Tax Refund and will provide eligible families with $410 per year for each primary school child and $820 per year for each child in secondary education.

Carbon tax compensation

As part of its Clean Energy Future package, the Government announced a range of increased payments and supplements to assist income support recipients. These payments will commence from May 2012.

There will be a Clean Energy Advance which will be a lump sum payment commencing from May 2012. This will be at the rate of $250 for a single person and $380 for couples (combined) payable to pensioners and also Commonwealth Seniors Health Card (CSHC) holders. CSHC holders who are not pensioners will also be eligible for a CES payable quarterly from March 2013.

In addition, there is the Clean Energy Supplement (CES) which will be similar to the pension supplement paid since September 2009. This will be at the rate of 1.7 per cent per year of the maximum pension rate and commence with fortnightly payments from March 2013.

Families receiving Family Tax Benefit (FTB) Part A will receive an additional 1.7 per cent per year through the CES which will be up to $110 per child per year. Those receiving FTB Part B will also get an additional payment of up to $69 per year. There will also be a Low Income Supplement and Single Income Family Supplement of $300. The Single Income Family Supplement recognises that those families may not get the intended relief through the tax system due to the tax cuts effectively ceasing at income levels above $80,000 per year.

Additional payments will be made to those with higher home energy costs due to use of essential medical equipment at home and the basic daily care fee in aged care facilities will also rise 1 per cent to 85 per cent of the single basic Age Pension rate to recognise increased costs by aged care facilities.

Aged care reforms

The Government has announced a range of measures to improve care of the elderly, whether remaining in their own home or in institutional care. The reforms, applicable from 1 July 2014 feature a new method of means testing to ensure that those who use aged care services pay an amount according to their financial circumstances.

Recipients of aged care will pay a basic fee of up to 17.5 per cent of the basic age pension. Part-pensioners will be liable to contribute up to $5,000 per year and self-funded retirees will pay up to $10,000 per year. Full pensioners however will be exempt.

Need more information?

For more information on how the Federal Budget 2012/2013 will affect your personal financial situation, please contact us today.

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