

what does it mean for your financial planning?

On May 10, the Federal Government released a lean Budget aiming to return the economy to a \$3.5 billion surplus by 2012-2013. Here's our snapshot, highlighting the points most relevant to financial planning.

highlights

- ~ major change to Fringe Benefits Tax on cars
- ~ minor relief on excess superannuation contributions
- ~ enhanced tax concessions for small business
- ~ minimum pension payment relief continued but phasing out
- ~ changes to family tax benefits
- ~ activity is forecast to rebound in 2011-12 and 2012-13
- ~ market expectations are for two modest interest rate rises, totalling 0.50%, in the next 12 months

refunded and assessed as income at their marginal tax rate.

Please note: this is only valid in the first year you exceed the concessional contributions cap and only if the excess is no more than \$10,000. If you repeat the same error over a couple of financial years (even prior to being notified of the first potential cap breach) this measure will only be valid for the first year.

It will also NOT help taxpayers who exceeded the concessional cap before 1 July 2011, or people who exceed the non-concessional (after-tax) contribution cap. So talk to your financial adviser to ensure, while maximising benefits from super you are not inadvertently exceeding the concessional superannuation caps.

superannuation

get-out of jail free card for first time exceeders of the concessional contributions cap

The Government has provided limited relief for people who exceed the concessional contributions cap by up to \$10,000. In general, any concessional contributions (including Superannuation Guarantee, salary sacrifice contributions, payment by employers of fund expenses such as life insurance premiums and administration costs) over and above the concessional contributions cap are taxed at an excess concessional contributions tax rate of 31.5% (in addition to the 15% contributions tax). However, under the new measure, from 1 July 2011, people will be granted a one-off 'get out of jail free card', whereby excess contributions up to \$10,000 can be

higher concessional superannuation contributions cap for those 50 and over

The Government has confirmed that it will set the proposed higher concessional contributions cap at \$25,000 above the general concessional cap for eligible individuals aged 50 or over with total superannuation balances of less than \$500,000. As a result, when the general concessional contributions cap increases with indexation from \$25,000 to \$30,000, the higher cap will increase by the same dollar amount. Further details are required from the Government to determine how the higher cap will apply in practice.

minimum pension payment relief phasing out

During the Global Financial Crisis, the Government introduced a relief measure allowing people to draw down 50% less from their allocated pensions and market-linked (term allocated) pensions and annuities.

In this Budget, the Government has begun to phase out the pension drawdown relief with the minimum payment reduced by just 25% in 2011-2012 and returning to normal in 2012-2013.



other superannuation measures include:

- ~ A rise in the annual supervisory levy for Self Managed Super Funds (SMSFs) from \$150 to \$180 with effect from the current (ie 2010-11) financial year.
- ~ A continued freeze on the thresholds for the co-contribution for an additional year.
- ~ A move requiring employers to inform employees on their payslips about the amount of superannuation paid into their accounts.
- ~ An amendment to superannuation legislation so that when the trustee of a SMSF is a body corporate, a parent or guardian may be director of the body corporate in place of a member who is a minor.

taxation

simpler Fringe Benefits Tax concessions on cars

Salary packaging a car basically means that all finance payments, running and maintenance costs are paid from the employee's before-tax income, albeit with a varying Fringe Benefits Tax (FBT) liability. There are two methods for valuing a car fringe benefit – the 'statutory formula' method and the 'operating cost' method.



Currently under the statutory formula method there are four different rates (all based on kilometres travelled) that may be used to work out the grossed-up taxable value of a car fringe benefit. Under these rules, an unintended outcome is the more kilometres driven, the lower the car fringe benefit and the less fringe benefits tax (FBT) paid in a year.

In this Budget, the Government intends to change the current rules by applying a single rate of 20 per cent regardless of the distance travelled. This change will apply to new contracts entered into on or after 7.30pm (AEST) on 10 May 2011 and will be phased in over four years.

The following table shows current FBT costs on two representative vehicles over distances shown. The proposed flat rate is shown in bold with the saving or

additional cost shown alongside. Other running and maintenance costs are not shown as these will not be affected by the proposed change. The table does not show any of the progressive shade in rates, only the proposed final situation from 1 April 2014.

Our rule-of-thumb has previously been that if you need vehicle finance and will drive more than 15,000 kms pa then you should consider packaging the car. The proposed change does not alter this view.

Note: those currently driving high levels of kilometres will still have the option of using the 'operating cost' method of valuing the fringe benefit (ie removing business use from the FBT calculation). However for those who have a relatively high proportion of business use, packaging the car does not always give the best outcome as compared to privately owning the car and claiming the car running and finance expenses as a tax deduction.

Talk to your financial adviser about whether salary packaging your car is a good option for you.

new instant tax write-off on new vehicles purchased by small business

From 2012-2013 an upfront tax write-off will apply to the first \$5,000 of the cost of a new vehicle purchased by qualifying small businesses. This upfront write-off supplements usual depreciation allowances.

This instant tax write-off will be available to all small businesses including sole traders, partnerships, trusts and companies, and will replace the existing Entrepreneur's Tax Offset. Talk to your financial adviser to see how this could affect you.

CGT tax concessions for small businesses

A number of changes will be made to the small business CGT concessions to ensure they operate as intended. For example, rules effective immediately will be introduced so trusts will, in certain additional circumstances, be treated as connected with other entities for the purpose of assessing eligibility for small business CGT concessions.

kilometres travelled (pa)	%	FBT on vehicle value \$35,000	net saving (extra cost) pa	FBT on vehicle value \$57,000	net saving (extra cost) pa
< 15,000	26	\$8,737	\$2,106	\$14,228	\$3,283
15,000 – 24,999	20	\$6,721	–	\$10,945	–
25,000 – 40,000	11	\$3,696	(\$3,025)	\$6,020	(\$4,925)
> 40,000	7	\$2,352	(\$4,369)	\$3,831	(\$7,114)

families

changes to the Family Tax Benefit Part A

In a move intended to encourage families to ensure children remain in education and enhance their long-term job prospects, the Government is increasing the Family Tax Part A (FTB A) for eligible families when teenage children aged between 16 to 19 remain in education or vocational training.

Currently, FTB A drops from \$6,161 to \$2,062 pa when a child turns age 16, but under the new measure eligible families could see an increase by up to \$4,200 pa.

The change to FTB A may also give increased eligibility for FTB Part B (FTB B) and rent assistance, resulting in eligible families receiving up to an additional \$10,700 pa in a combination of FTB A and B and rent assistance.



more information

In addition to these financial planning highlights, the Budget also introduced range of measures affecting social security, superannuation and taxation. You can see our exhaustive analysis including these changes as well as forecasted effects on the economy in our indepth analysis report.

what does the budget mean for you?

Now more than ever there is a need for sound financial advice. We encourage you to discuss these changes with your financial adviser and explore ways to benefit from new opportunities or changes arising from the Federal Budget.



ipac and partners have offices across Australia.

To make an appointment with one of our advisers call **1800 626 881** or visit www.ipac.com.au

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