

## Federal Budget 2011 Issues For SMEs

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The Federal Treasurer, Mr Wayne Swan, presented the Gillard government's Budget on 10th May 2011. This special edition of our regular newsletters refers to many of the matters affecting small to medium enterprises contained in the Budget.

None of the items contained within the Budget will become law until the Budget has been passed by the House of Representatives and the Senate, and signed by the Executive Council.

## Key 2011 Federal Budget Outcomes

Personal income tax rates, which apply for the 2011/12 financial year have not changed:

Taxable Income (\$)	Tax Rate (%)
0—6000	0
6001—37,000	15c for each \$1 over \$6,001
37,001—80,000	\$4,650 plus 30c for each \$1 over \$37,001
80,001—180,000	\$17,550 plus 37c for each \$1 over \$80,001
180,001 -+	\$54,550 plus 45c for each \$1 over \$180,001

In addition, there is a Medicare Levy payable of 1.5% plus a Medicare Levy Surcharge may apply.

- A Flood Levy has been introduced of 0.5% for persons with an income between \$50,000 and \$100,000, and 1% for persons with an income over \$100,000.
- There is no change to the corporate tax rate in 2011/12 - 30% (however, changes are planned for small business from 2012/13).
- Superannuation Contribution Tax continues at 15%
- Superannuation Funds Tax continues at 15%



## Key Numbers at a Glance

	Forecasts for	Projection	Projections
	2010/11	2011/12	2012/13
GDP Growth	2.25%	4%	3.75%
CPI	3.25%	2.75%	3%
Unemployment Rate	5%	4.75%	4.5%
Forecast Deficit/Surplus	\$49.4B	\$22.6B	\$3.5B surplus
Wage Price Index	4%	4%	4.25%

## Budget Comments

- With increased government borrowing, interest rates are likely to rise before the end of 2011.
- The high **Australian dollar -v- US Dollar** (which some economists are forecasting could go as high as \$1.70 in the next 2 years) will affect exporters, tourism operators and some other key businesses which will likely lead to lower tax receipts because of lower profit earnings.
- **The Carbon Price Scheme**, announced by the government, was not detailed in the Budget, but the Treasurer has indicated that he will be making announcements relative to the Carbon Price Scheme later in the year.
- **Skill Shortages** are expected to add pressure on wages and prices.  
The government intends to fund a national workforce development fund, co-funded by businesses, which the government hopes will initiate 130,000 training places over the next 4 years to address the skills shortage.
- **Assistance To Employers Who Offer Jobs To Unemployed Persons**  
The government intends to allocate \$95M in wage assistance to employers who offer employment to long term unemployed persons. Specific funds have been allocated for regional activities including regional training programmes, welfare initiatives, migration and health funding programmes.
- A significant challenge to **SME operators** will be weaker consumption and households reducing debt. This is evidenced by the reduction of \$5.7M in GST revenue forecast over the next 4 years. Businesses need to factor in:
  - the lower household spending;
  - problems caused by the accelerating Australian dollar and the significant likelihood of higher interest rates;
  - finalisation of many of the Federal government's stimulus programmes;
  - the difficulty of employing skilled labour, and.
  - the rising costs of labour and materials which have been exacerbated by the Queensland and Victorian floods and Cyclone Yasi.
- The government is holding a **national tax forum** in October at which it is expected there will be discussions on the proposed Carbon Tax and the Minerals Resource Rent Tax.

## Key Issues Announced In The Budget

- Entrepreneurs tax offset scrapped from 2012/13.
- **A motor vehicle write-off** for small businesses (businesses with turnover under \$2M) has been introduced from 1st July 2012. The first \$5,000 spent on a new motor vehicle can be written off. The remaining costs of the vehicle can be depreciated at 15% in the first year; 30% in the following year (however the cashflow benefits from this initiative will not emerge until 2013/14.)

This measure compliments last year's announcement to allow assets, costing under \$5,000 purchased by small businesses, to be written-off from the 1st July 2012. This is an increase from the present write-off limit of \$1,000.
- The government is proposing to reduce small company's tax rate to 29% from 2012/13. This will apply to companies with turnover under \$2M.
- **Fringe Benefits Tax**

From May 2011 the government will phase in, over 4 years, a flat rate of 20% of the cost of a motor vehicle irrespective of the kilometres travelled for the determination of the Fringe Benefits. If you wish, you can still use the log book method to determine business use of a motor vehicle.
- **Charities**

For the first time the government is establishing a regulator to deal with charities. This will be a "one stop shop" for charities dealing with the Federal government. Government also intends to reject charities claiming tax concessions for businesses whose profits are not used for "altruistic" purposes.
- **Superannuation**
  - The government will ensure that the scrip for scrip roll over concessions that apply to individuals will also now apply to superannuation funds.
  - The trading stock exemption that allows people to treat share trading as a business and claim losses against other income will be removed for Superannuation Funds in line with the rule that Capital Gains Tax is the primary tax code for Superannuation Funds.
  - There will now be an opportunity for members of Superannuation Funds to receive a refund of excess contributions and have it added to their income and taxed at their marginal rate to avoid the excess contributions tax where a mistake has been made.
  - From 1 July 2012 employers will need to enter superannuation contribution amounts on employee's pay slips. Superannuation Funds will also need to notify both employers and employees when regular contributions cease.
  - The increased contributions caps for over 50's will now be limited to members with balances less than \$500,000. The cap will remain at \$25,000 more than the general concessional cap.

## Key Issues Announced In The Budget Cont..

- SIS will be amended to allow the parent of a minor (who is a member of an SMSF) to be a trustee/director of corporate trustee on behalf of that member.

In addition, superannuation fund members can contribute non-concessional amounts subject to \$150,000 cap, or \$450,000 averaged over 3 years.

- **Excess Superannuation Contributions**

The government has responded to pressure to offer a reprieve for excess contributions of superannuation. The government proposes to introduce a reprieve for first time offenders who contribute too much to their superannuation funds. The offenders will be able to claim back a maximum of \$10,000 refund from their fund to avoid penalty tax. This is a once only pay back arrangement.

The government does not propose to allow any concessions to people who have been caught by the excess contribution laws over the last 4 years.

The changes will also not affect people with multiple employers whose total compulsory superannuation contributions exceeds the cap each year. The excess contributions will be taxed at 46.5%.

- **Trusts**

The government will remove the ability of minors (under 18) to access the Low Income Tax Offset so as to reduce tax payable on their "unearned" income. This will target income derived from sources, other than personal exertion, including dividends, interest, royalties, property and rent. New arrangements apply from 1st July 2011. Income earned by minors from their own personal exertion will still be eligible for the full benefits of the Low Income Tax Offset (LITO).

- **Retirees**

The government will be offering further relief to self funded retirees, who suffered from the effects of the Global Financial Crisis, in allowing retirees to draw lower pensions than what they would have otherwise had to do. In 2011/12, retirees will be allowed to withdraw 25% less than they would have ordinarily been required to do.

- **Contractors**

The government intends to amend the laws whereby principal contractors in the building and constructions industries will be required to report payments that they have made to individual contractors to the Australian Taxation Office each year. The ATO will use this information for data matching purposes. The Treasurer indicated that this legislation may be extended to the commercial cleaning industry after a public consultation phase in 2011/12.

## Key Issues Announced In The Budget Cont..

- **“Phoenix” Companies**

The government intends to make changes to the law from the 1st July 2011 to attack “phoenix” companies (i.e. where a company deliberately accumulates debts and is then liquidated to avoid paying income tax and other debts). The government’s proposal is that company directors will be made personally liable for their company’s failure to make employees’ superannuation payments.

If tax debts have been unpaid for more than 3 months, the Australian Taxation Office will have the power to start winding up companies without giving a 21 day grace period.

In some of these instances, company directors will lose access to credits for their personal tax payments where the company has failed to pay tax withheld from employees to the Australian Taxation Office.

- **Apprenticeship Scheme**

The government intends to overhaul the apprenticeship scheme to make it more flexible, acknowledging competencies rather than time spent in training. The new scheme will enable fast tracking of apprenticeships and will give employees/apprentices the ability to customise training packages that better suit the apprentices and industries.

- **Employing Skilled Labour**

The government will introduce an online matching system which will allow employers to “cherry pick” from the government’s database of skilled migrants wanting to migrate to Australia. The migrant will be required to submit an online expression of interest. From there the various governments and employers will be able to invite that skilled migrant to make an application for a visa. The government hopes to have the new scheme operating from June 2012.

- **Dependent Spouse Tax Offset**

The government has abolished the Dependent Spouse Tax Offset for persons under 40. The offset amounts to a \$2,286 reduction in the tax payable by anyone earning \$150,000 or less who has a spouse, and no children. This measure will not affect taxpayers if their dependent spouse is a carer, an invalid or permanently unable to work, or if the couple has children.

- **Family Assistance**

The government has announced a freeze on the income limit on Family Assistance at \$150,000 per annum.

- **Flood Levy**

The government is introducing a flood levy which will raise \$1.7B over 2 years. The flood levy commences from the 1st July 2011. People earning between \$50,000 and \$100,000 will pay 0.5% and people earning over \$100,000 will pay 1% flood levy. The flood levy will not be paid by people who have received assistance for the Queensland and Victorian floods and Cyclone Yasi.

- **Mining Tax**

The government anticipates commencing the Mining Tax from the 1st July 2012. The Mining Tax is a 30% charge on coal and iron ore profits.

**Important:** This is not advice. Clients should not act solely on the basis of the material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential.