

# Special Report



Issued 10 May 2011

## The 2011 Federal Budget

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## **1. Overview**

The Government announced a strong budget position with the expectation that the budget will return to surplus in 2012/13. This represents an enviable position relative to other major developed economies and comes despite the impact of the recent natural disasters.

The Australian economy and employment are anticipated to grow strongly over the next two years albeit the two-speed economy will result in some inequity among sectors and regions.

The key measures announced in the Federal Budget relate to initiatives to address the future workforce including measures to boost participation, investment in infrastructure, funding of hospitals and health care including greater support for mental health and disability and targeting families and low income earners, our regions and strengthening certain school programs.

The key measures announced affecting financial services include some limited relief for investors who breach the superannuation concessional caps, Social Security changes relating to the work bonus and family payments as well as changes to the Fringe benefits rate affecting car leases which is a commonly used salary packaging strategy.

## **2. Economic outlook**

The Government announced that the Budget will return to surplus in 2012/13 as result of making \$22 billion in savings and spending restraints. The Government highlighted the strength of Australia's fiscal position relative to other major advanced economies. Australia will be the first major developed economy to reach a surplus position and this is despite the impact of the recent natural disasters.

The underlying cash deficit is expected to reach \$22.6 billion in 2011/12 which represents 1.5% of GDP before moving into a surplus position of \$3.5 billion in 2012/13 (0.2% of GDP).

The Australian economy and employment are anticipated to grow strongly over the next two years.

The Government anticipates that the growth in the Australian economy will reach 4% in 2011/12 from 2.25% in 2010/11 and will grow by 3.75% in 2012/13. This will result in the Australian economy growing at or above its long term trend rate over the next two years.

The floods and Cyclone Yasi has cost the economy \$9 billion in lost output and reduce real GDP growth by 0.5% in 2010-11. When the impact of disasters in New Zealand and Japan, are included, the reduction in the growth of the Australian economy reached 0.75% in 2010/11 which will result in the economy growing below its long-term average over this period.

Going forward, economic growth is expected to be partly supported by household consumption which is anticipated to grow by 3.25% in both 2011/12 and 2012/13.

The issue of the two-speed economy was highlighted in the Budget whereby the resources sector is booming while other sectors are struggling particularly those hurt by the high Australian dollar such as the manufacturing and tourism industries.

Employment growth is expected to continue over the next two years resulting in the unemployment rate falling further to 4.75% by June 2012 and to 4.5% by mid-2013. Over the next year it is projected that there will be an additional half a million jobs created. This growth is expected to result in capacity issues for our economy.

The rise in commodity prices is underpinning an increase in real national income as well as strong investment plans in the resource sector. According to the Budget, mining investment is predicted to rise to \$76 billion in 2011/12 which is around 8 times the level preceding the boom. This level will represent the highest sustained terms of trade in 140 years.

Inflation as measured by the Consumer Price Index (CPI) is expected to ease off to 2.75% in 2011/12 from 3.25% and to reach 3% by mid 2013. The appreciation of the Australian dollar and higher savings ratio by households will put downward pressure on inflation. However these factors are expected to be offset by the inflationary impact of the resource boom leading to a rise in the inflation rate at or above the Reserve Bank of Australia's target of 2% - 3%. This is likely to keep pressure on the RBA to raise official interest rates over the next year.

### **3. Infrastructure investments**

The Budget provides \$36 million over the four years to 2014-15 to enhance the role of Infrastructure Australia. Infrastructure Australia will also publish cost benefit analyses. This will help evaluate the value for money of Commonwealth funded projects after completion.

The Government intends to amend the tax law to ensure that access to losses generated by infrastructure projects designated to be nationally significant is unaffected by changes in ownership or business structure and the value of losses is maintained over time.

The Government announced its intention to continue to lengthen the Commonwealth Government Securities yield curve to assist the financing of long term infrastructure projects.

#### *Client implications*

The measures are aimed at improving the certainty for private sector investment in nationally significant projects and thereby encourage greater levels of private investment in infrastructure initiatives.

### **4. Superannuation**

#### **a) Self managed super fund reforms**

As previously announced on 16 December 2010, the Federal Government will provide funding to the Australian Taxation Office (ATO) and Australian Securities and Investments (ASIC) to implement the "stronger super" self managed super fund (SMSF) reforms.

The reforms introduce a range of measures to improve the operation, efficiency and integrity of SMSFs. The SMSF levy will also increase from \$150 to \$180, with effect from 1 July 2010.

#### **b) Excess concessional contribution levy**

If concessional contributions are made to super and those contributions exceed a person's concessional contribution limit, the contributions are taxed at an additional 31.5% in addition to 15% contributions tax.

Clients who exceed their concessional contribution limit by up to \$10,000 can ask to have those contributions refunded to them and have the amount taxed at their marginal tax rate instead. The refund option will only be available to people who breach their concessional contribution limit for the first time.

Start date - 1 July 2011

***Client implications:***

This will reduce the number of people who exceed their concessional contribution limit. It will reduce the amount of penalty tax paid on excessive concessional contributions.

It will be particularly beneficial to those clients who accidentally exceed their concessional contribution limit by a small amount, which usually occurs when clients have more than one employer or change jobs and do not keep track of the employer contributions which have been made on their behalf.

Currently, if a client exceeds their concessional contribution limit and are also making non-concessional contributions, they can be taxed up to 78% on the contribution.

<b>Example</b>	<p>Natalie has a concessional contributions limit of \$25,000. In 2011/12, Natalie makes a non-concessional contribution of \$450,000. She also salary sacrifices \$15,000 and receives SG employer contributions of \$10,000 from her employer.</p> <p>On 1 June 2012, her employer contributes an unexpected amount of \$9,000 to her super fund as a result of her receiving a bonus.</p> <p>The additional concessional contribution of \$9,000 exceeds her concessional contribution limit and counts towards her non-concessional contribution limit. The additional amount of \$9,000 would currently be taxed at 78% (\$7,020).</p> <p>Under the new rules, Natalie can request to have \$9,000 refunded to her instead.</p>
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**c) Concessional contributions for over 50s**

In the last Federal budget, the Government announced that they would continue the concessional contributions limit of \$50,000 after 1 July 2012 for people over age 50, where the individual's super balance is less than \$500,000.

The Government has not released a consultation paper to look at options for how the super balance figure of \$500,000 will be determined, but details have not yet been determined.

***Client implications:***

Clients over age 50 should take advantage of the higher caps before 1 July 2012.

**d) Minimum pension payments**

For the past three financial years, the Government has reduced the minimum pension drawdown amount for account-based, allocated and market linked (term allocated) pensions. From 1 July 2011, a reduction of 25% will apply to the normal minimum payment amounts.

From 1 July 2012 minimum pension payment amounts will return to normal.

Age at 1 July	Standard draw-down	Draw-down for 2011/12
Under 65	4%	3%
65-74	5%	3.75%
75-79	6%	4.5%
80-84	7%	5.25%
85-89	9%	6.75%
90-94	11%	8.25%
95 or older	14%	10.5%

**Client implications:**

Clients can choose to receive less income from their account-based, allocated and market linked pensions. For example, a client aged 65 or younger would normally have to receive income of at least 4% of their account balance. For the 2011/12 financial year they only have to receive 3% of their account balance.

This allows clients to recoup capital losses incurred as a result of the global financial crisis.

**e) Employer notifications of SG**

Employers will need to provide employees with information about SG on payslips. Employees and employers will also receive notification from the super fund if regular payment cease.

This measure will help employees to keep track of their employer's contributions, and take action where there is a shortfall.

Start date - 1 July 2012

**f) SMSF trustee rules**

An anomaly existed in legislation such that if a SMSF has a corporate trustee a parent/guardian could not take the place of a minor as director of the corporate. SIS legislation will be amended to enable this to occur.

**g) Co-contribution**

The thresholds for co-contribution eligibility will continue to be frozen for another year to 30 June 2013. This keeps the thresholds at \$31,920 to be eligible for up to the full \$1,000 co-contribution with eligibility ceasing at \$61,920.

**h) CGT trading stock exemption**

The CGT exemption on trading stock will no longer apply to complying superannuation entities for specified assets (primarily shares, units in a trust and land).

Some super funds tried to treat shares as trading stock so that losses could be deducted against other income. Effectively immediately, all such gains will now be taxed under CGT rules.

Start date - 7.30pm 10 May 2011

## 5. Taxation

### a) Low income earners tax offset

The amount of tax deducted from salaries through the PAYG system can take into account the low income tax offset (if selected), so that 50% of the benefit is received upfront by people through lower tax taken out of salaries. An adjustment is then made at the end of the year when a tax return is lodged.

From 1 July 2011, the low end PAYG tax sales will be reduced to allow 70% of the low income tax offset to be received throughout the year. This does not increase the value of the low income tax offset. It still remains at \$1,500 for people with taxable income up to \$30,000 and cuts out at \$67,501.

For people on low incomes, it may mean a slight increase in disposable income up to \$5.77 each week but less of a refund will be then provided when the tax return is lodged.

In addition to this, the low income tax offset will no longer apply to unearned income of children under age 18, also with effect from 1 July 2011.

Children under age 18 will still be entitled to the low income tax offset for any earned income (ie salary or wages).

Start date - 1 July 2011

#### *Client implications:*

A child under 18 could previously earn up to \$3,333 of investment income without paying tax. From 1 July 2011, they will only be able to earn up to \$416 of unearned income without paying tax. Over \$416 they pay tax of 66%.

Clients may need to reconsider changing investments from a child's name to an adult's name or use an insurance bond.

### b) Low income Medicare levy thresholds

Medicare levy is payable if taxable income exceeds thresholds announced in each year's Budget. The table below shows the 2010/11 thresholds.

	No Medicare levy if taxable income is equal to or less than
Individuals	\$18,839
Individuals receiving a pension and under age pension age	\$30,439
Couple (combined)	\$31,789
Additional for each dependent child/student	\$2,919

### c) Dependent spouse tax offset

The dependent spouse tax offset will be phased out for dependent spouses aged 40 or less. From 1 July 2011, taxpayers with a dependent spouse under age 40 will generally not be eligible for the dependent spouse tax offset.

Taxpayers with an invalid or permanently disabled spouse, supporting a carer, or people who are eligible for the zone, overseas forces and overseas civilian tax offsets will not be affected by this change.

Start date - 1 July 2011

### d) Car fringe benefit rules

There will be a change to the fringe benefit treatment of cars to remove the incentive for people to drive their vehicle further than they need to, just to obtain a larger tax concession.

Under the “statutory formula” method, a person’s car fringe benefit is determined by multiplying the relevant statutory rate by the cost of the car. Currently, the sliding scale of rates provides an increased tax concession for salary-sacrificed or employer-provided vehicles that are driven further.

The Government will replace the current rates with a single flat rate of 20 per cent that applies regardless of the distance travelled. This reform will only apply to new vehicle contracts entered into after 7:30pm (AEST) on 10 May 2011, and will be phased in over four years as shown below:

Distance travelled during the FBT year (1 April - 31 March)	Statutory rate (multiplied by the cost of the car to determine a person’s car fringe benefit)				
	Existing contracts	New contracts entered into after 7.30PM (AEST) 10 May 2011			
		From 10/5/11	From 1/4/12	From 1/4/13	From 1/4/14
0 - 15,000 kms	0.26	0.20	0.20	0.20	0.20
15,000 - 25,000 kms	0.20	0.20	0.20	0.20	0.20
25,000 - 40,000 kms	0.11	0.14	0.17	0.20	0.20
More than 40,000 kms	0.07	0.10	0.13	0.17	0.20

#### Client implications:

Compared to the current statutory rates, the tax changes will:

- increase the tax concession provided for vehicles driven less than 15,000 kilometres a year
- maintain the current tax concession provided for vehicles driven between 15,000 and 25,000 kilometres a year, and
- decrease the tax concession provided for vehicles driven more than 25,000 kilometres a year.

People who use their vehicle for a significant amount of work-related travel will still be able to use the “operating cost” (or “log book”) method to ensure their car fringe benefit excludes any business use of the vehicle.

### **e) Special disability trusts (SDT)**

The Government will introduce legislation to make special disability trusts more beneficial for families. This includes:

- Provide a capital gains tax (CGT) exemption for assets transferred into a special disability trust for no consideration
- Backdate the application for the 2009/10 Budget measure that provides a CGT main residence exemption for SDTs to 2006/07
- Provide a CGT exemption for the recipient of the principal beneficiary's main residence, if disposed of within two years of the principal beneficiary's death, and
- Ensure equivalent taxation treatment amongst SDTs established under different Acts.

### **f) Tax Forum**

The Government will hold a two-day tax forum in 2011-12 to discuss the Australia's Future Tax System Review at a cost of \$0.9million.

### **g) CGT minor amendments**

Some minor technical amendments were needed to improve the operation of CGT. These include:

- Ensuring that the roll-over for the exchange of shares in one company for shares in another company operates properly, so that there is deferral of a profit or loss where the original shares are held on revenue account at the time of the exchange. This change will have effect from 7.30 pm (AEST) on 10 May 2011.
- Ensuring that gains and losses arising from life insurance policies that are generally exempted from CGT are not then taxed under the ordinary income tax provisions by removing the exception to the 'CGT primary code' rule for such gains and losses. This will remove uncertainty in the application of income tax to compensation or damages payments made under life insurance policies. These changes will apply to CGT events happening in the 2005-06 income year and later income years.
- Legislating the current Tax Office practice of allowing a testamentary trust to distribute an asset of the deceased person without a CGT taxing point occurring. These changes will apply to CGT events happening on or after the day the legislation receives Royal Assent.

### **h) Disallow deductions against government income support**

The 2010 High Court decision in Commissioner of Taxation v Anstis meant that students in receipt of Youth Allowance could claim education expenses as tax deductions against the income support payment.

The government now proposes to change the law to disallow these deductions in future financial years. The deductions can still be claimed in the current financial year.

Start date - 1 July 2011

### **i) Deceased estates**

The Commissioner of Taxation will have discretion to extend the two-year ownership period in which the trustee of a deceased estate or beneficiary of an estate must sell the deceased's former home to access a full capital gains tax main residence exemption.

## 6. Small businesses

### a) Depreciation deductions

Small businesses will receive an instant tax deduction for the first \$5,000 of any motor vehicle purchased from 1 July 2012. This is aimed at helping small businesses to improve cash flow.

<b>Example</b>	Harry is a tradesman on a 30% marginal tax rate. He buys a new ute worth \$33,960. He will receive an extra tax benefit of \$1,275 in the year of purchase. The rest of the purchase price is transferred into the general small business depreciation pool, which is depreciated at 15 per cent in the first year and 30 per cent in later years.
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The Government will cancel the existing Entrepreneurs Tax Offset (ETO) from 1 July 2012. Other measures that are proposed to be implemented from 1 July 2012 for small businesses include:

- an immediate deduction for all assets valued at under \$5,000 (increased from the current level of \$1,000)
- a deduction for all other assets (except buildings) in a single depreciation pool at a rate of 30%. Small businesses currently allocate assets to two different depreciation pools, with two different depreciation rates (30% and 5%), and
- a reduction in company tax rate to 29% for incorporated small businesses.

These tax reforms are proposed to be available to all small businesses, including sole traders and businesses operating through trusts, partnerships and companies.

### b) Not-for Profit Sector

The following measures have been announced

#### Establishment of the Australian Charities and Not-for-profits Commission

This is established as a statutory agency it will become effective from 1 July 2012 and will be responsible for determining the legal status of groups seeking to be classified as charitable or public benevolent institutions as well as not-for-profit tax status.

A Taskforce will be set up from 1 July 2011 to generate public consultation and provide advice on the establishment of this Commission.

The Australian Taxation Office will begin to structurally separate its role of determining charitable status from its role of administering tax concessions in preparation for the ACNC.

#### Not-for-profit (NFP) tax concessions

The Government will also reform the use of tax concessions by businesses run by NFP entities. Where tax concessions are obtained, these profits will need to be used to assist disadvantaged people.

NFP entities will pay income tax on profits from their unrelated commercial activities that are not directed back to their altruistic purpose, that is, the earnings they retain in their commercial undertaking.

Commercial activities that fund altruistic purposes will continue to be concessional taxed, as well small scale and low risk activities, such as lamington drive fund raises, school fetes and leasing out church halls.

These new arrangements will commence on 1 July 2011 and will initially affect only new unrelated commercial activities that commence after 7.30pm (AEST) on 10 May 2011. NFP entities with existing unrelated commercial activities will initially be able to continue to use their tax *concessions* to support these activities. The Government will consult on transitional arrangements for these existing activities, with the intention of phasing these out over time.

The Government will also introduce a statutory definition of 'charity' applicable across all Commonwealth agencies from 1 July 2013.

## **7. Social security measures**

### **a) Disability reforms**

With statistics in 2009 showing that in Australia just under 1 in 5 people had a reported disability<sup>1</sup> (ie. 4 million people representing 18.5% of the Australian population) and 2.6 million people were caring for someone with a disability, it is likely that you will need to provide advice to a client with a disability, a carer or a client with a child who has a disability.

The average length of time that someone is on the Disability Support Pension (DSP) is 12 years.<sup>2</sup> Very few people who have worked and then move onto the DSP ever return to work. so measures included in this year's Budget aim to encourage and assist people with disabilities return to work where possible.

The measures include:

- Participation interviews - recipients of the Disability Support Pension (DSP) who are under age 35 and have the capacity to work at least eight hours a week will be required to attend regular participation interviews so that Centrelink can develop plans to help them improve their chance of finding and obtaining employment. Start date - 1 July 2012.
- Increased work hours - a person who receives the DSP can currently only work up to 15 hours a week before losing the pension. This will be extended so that people granted the DSP after 10 May 2005 will be able to work up to 30 hours a week. This allows people to test their ability to work without losing eligibility. They will still be subject to normal income and assets testing during this period to determine the amount of payment.
- Employer incentives - subsidies will be paid to employers who employ someone with a disability who has received Centrelink income support for at least two years. For details refer to [www.skills.gov.au](http://www.skills.gov.au) Start date - 1 January 2012.

<sup>1</sup> Australian Bureau of Statistics; *Disability, Ageing, Carers Australia; Summary of Findings, 2009*, [www.abs.gov.au](http://www.abs.gov.au)

<sup>2</sup> *Building Australia's Future Workforce*, Australian Government Budget Paper, May 2012.

### **Disability support pension - overseas travel**

A person who has a severe and permanent disability and no future capacity to work will be able to travel or live overseas without losing access to their Disability Support Pension (DSP). However, these people will no longer be eligible for additional payments such as rent assistance or pension supplement. If the person's carer accompanies them overseas, the Carer Payment and Carer Allowance will continue to cease at 13 weeks.

Start date - 1 July 2012 (however, this will apply from 1 July 2011 if the person's carer is posted overseas)

## **b) Family payments**

### **Increased FTB for teenagers aged 16-17**

The Government will provide \$771.9 million over five years (including \$5.9 million in capital funding) to improve the adequacy of Family Tax Benefit (FTB) Part A for dependent 16 to 19 year olds in full time secondary study. This will simplify the assistance provided to families with children in this age group, removing the need to choose between Youth Allowance and FTB.

FTB and Youth Allowance will be changed to:

- match the payment rates of FTB Part A for dependent 16 to 19 year olds in full time secondary study to the rates for 13 to 15 year olds. This will increase the level of support provided by FTB by up to \$4,208 a year for 16 and 17 year olds, and up to \$3,741 a year for 18 and 19 year olds;
- align the participation requirement for FTB Part B and the Multiple Birth Allowance with the existing FTB Part A participation requirement. This change will require 16 to 19 year olds to be undertaking full time secondary study, or be exempt from this requirement, to be eligible for these payments; and
- include all 16 to 19 year olds in full time secondary study for the purposes of calculating the Youth Allowance parental income test. This will ensure Youth Allowance recipients do not experience a lower rate of assistance as a result of siblings aged 16 to 19 years old in full time secondary study remaining in the FTB system.

Youth Allowance will continue to be available for 16 to 19 year olds who are independent, away from home or not in full time secondary study, and for people aged 19 years and older. All Youth Allowance recipients aged 16 to 19 on 1 January 2012 will have the option to remain on Youth Allowance.

### **FTB Part A - lower age**

The FTBA will only be paid for children in full-time study up to age 21 (reduced from age 24). Once a child reaches age 22 they may be able to access Youth Allowance on an independent basis, ie. parents' income will not affect their eligibility.

Start date - 1 January 2012.

### **Advance payments of FTB Part A**

Families can receive an advance payment of FTBA to help with unexpected expenses. The advance will be limited to 7.5% of the eligible payment up to \$1,000. For example, a family with two children under 12 will be able to receive an advance payment of up to \$644.

Start date - 1 July 2011.

### **Child health assessments**

Families on an income support payment will need to ensure their children get a health assessment before starting school, before payment of the end-of-year FTB Part A supplement can be made.

Start date - 1 July 2011.

### **Freeze on income limits**

The upper income limits to be eligible for family payments will be frozen for a further two years until 30 June 2014, so that:

- the FTB Part B primary earner income limit will remain at \$150,000
- the income limit for receiving dependency tax offsets will remain at \$150,000
- the Baby Bonus eligibility limit will remain at \$75,000 family income in the six months following the birth or adoption of a child (equivalent to \$150,000 a year)
- the Paid Parental Leave income limit will stay at \$150,000 for the primary carer in the previous financial year before the birth of the child; and
- the higher income free area of FTB Part A will remain constant (for example the income cut-out for a family with two children under 18 will be limited to around \$113,000 in 2014). Each family's income limit depends on the number and age of their children.

Fortnightly payment rates for Family Tax Benefit and the Baby Bonus will continue to be indexed every year to meet increases in the cost of living. The rate of Parental Leave Pay is linked to the National Minimum Wage and is not affected by this change.

The FTB Part A lower income free threshold (currently \$45,114) and the FTB Part B secondary earner income threshold (currently \$4,745) will continue to be indexed, providing support to low and middle income households.

In addition, the annual end of year Family Tax Benefit supplements will be held at the current levels for the next three years, delivering savings of \$803.2 million over five years. The current supplement amounts are \$726 per child for FTB Part A and \$354 per family for FTB Part B.

### **Paid paternity leave**

The introduction of Paid Paternity Leave will be deferred by six months. This leave provides eligible working fathers with two weeks paternity leave paid at a rate equivalent to the national minimum wage for children born on or after 1 January 2013.

Start date - 1 January 2013

### Single parents income test

Single parents who receive Newstart Allowance and have a child under age 16 will benefit from a lower income test taper rate. This brings the income test into line with that of parenting payment single (PPS) to reward part-time work.

Income range (per fortnight)	Current taper rate	New taper rate
First \$62	Nil	
\$62 - \$250	50 cents	40 cents
Over \$250	60 cents	40 cents

Start date - 1 January 2013

### Parenting payment eligibility

Parents who receive parenting payment will cease to be eligible for this payment once the youngest child turns 12. If the payment commenced before 1 July 2006, the person was eligible for that payment until the child turned age 16.

Some transitional rules apply:

- parents with a youngest child born before 1 January 2000 (so has turned 13 before 1 January 2013) will continue to be assessed under current arrangements and will remain on Parenting Payment until their youngest child turns 16 years of age
- parents with a youngest child born between 1 January 2000 and 1 January 2001 (so has turned 13 during 2013) will cease to be eligible for Parenting Payment once their youngest child turns 13 years of age, and
- parent with a youngest child born before after 1 January 2001 (so turns 12 on or after 1 January 2013) will cease to be eligible for Parenting Payment once their youngest child turns 12 years of age.

Start date - 1 January 2013

### Parenting payment - bereavement allowance

Parenting Payment recipients will be eligible to receive Bereavement Allowance for up to 14 weeks upon the death of their partner. This allows the person who has lost his or her partner time to seek alternative arrangements such as employment or other income support.

Start date - 1 January 2012

### Child care rebate

The Government will provide families with the additional option of receiving Child Care Rebate (CCR) payments directly to their bank account on a fortnightly basis.

Start date - 1 July 2011

### Higher education contribution scheme (HECS)

Discounts on Higher Education Contribution Scheme (HECS) payments will be reduced: students who elect to pay their HECS amount up-front will received a discount of only 10 per cent (instead of the current 20%) the bonus will be reduced from 10% to 5% on voluntary payments on amounts owing to the Australian Taxation Office of \$500 or more.

State date - 1 July 2011

### c) Work bonus

The work bonus was introduced in September 2009 to encourage pensioners to continue in part-time work to supplement their income. The Budget will expand on the Bonus:

Current rule	Proposed rules
50% of the first \$500 of employment income each fortnight is exempt under the income test.	<p>From 1 July 2011, the first \$250 of employment income each fortnight will be exempt under the income test.</p> <p>If the pensioner earns less than \$250 in a fortnight, he/she can accrue a credit (up to \$250 per fortnight) in an Employment Income Concession Bank.</p>

#### Example

Colleen receives the age pension and does some part-time work. She earns \$300 per fortnight from her employment. Under the current rules, she receives a 50% exemption and only \$150 is declared as assessable income in her Centrelink income test. If the new rules are passed, her exemption will be increased to the first \$250 each fortnight and she will only have \$50 included in her income test as assessable income. In both scenarios, the full \$300 is taxable income.

Under the new rules (if passed) if Colleen's income is variable then the following could occur:

	Employment income earned	Amount added to income bank	Value of income bank	Income assessed in income test
Fortnight 1	\$300	Nil	Nil	\$50
Fortnight 2	\$210	\$40	\$40	Nil
Fortnight 3	\$150	\$100	\$140	Nil
Fortnight 4	\$320	-\$70	\$70	Nil

This change effectively allows a pensioner to average earnings over a year and earn up to \$6,500 a year from employment income without it affecting their pension. The credits can be carried forward across financial years and can only be used to offset employment income.

The changes are included in *Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (Election Commitments and Other Measures) Bill 2011* which is currently before Parliament.

### d) New service delivery

People will be able to access Centrelink, Medicare and Child Support services through a single website [www.humanservices.gov.au](http://www.humanservices.gov.au) and phone number (13 24 68).

**Disclaimer:**

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