2012 FEDERAL BUDGET SUMMARY

The 2012 Federal Budget only contained few surprises as many of the measures had already been legislated or pre-announced. We are pleased to outline for you a summary of some of the most relevant items from a financial planning perspective.

ECONOMIC ASSUMPTIONS AND EXPECTATIONS

Key underlying assumptions outline in the budget papers include:

- Economic growth of 3.5%, up from 3% last year
- Underlying inflation of 2-3%, in the Reserve Bank's target range
- Headline inflation of 3.75% due to the impact of the carbon tax
- Significant revenue collection from the carbon tax of $24.7 billion over the forward estimates.
- This is likely to prove challenging, as the assumed carbon price of $29 is significantly higher than current global prices.
- Overall, the Treasurer forecasts a surplus of $1.5 billion for the 2012/13 financial year.

Investment Implications

Market implications are likely to be limited.

- Markets now broadly expect that the Reserve Bank will be more inclined to cut interest rates over the next 12 months. This may be broadly supportive for share valuations.
- This prospect has already seen the Australian dollar weaken slightly against other currencies, and could well see if fall below parity with the $US in coming months.
- Australia will retain its AAA credit rating, as it retains very low overall debt levels by global standards. This will support the attractiveness of Australian bonds.
- Short-term payments to lower income earners may assist retailers and supermarkets.

However, global economic and political events are likely to continue to have the most significant impact on Australian investors.

SUPERANNUATION

Contributions Cap Reduction Confirmed

Date of effect: 1 July 2012 and 1 July 2014

The uncertainty around the concessional contribution (CC) cap for people aged 50 and over has been resolved in the short term. On 1 July 2012, the cap will halve from $50,000 to $25,000 for all super fund members aged 50 or over, regardless of their account balance.

The plan to allow those aged 50 or over to contribute up to $50,000 p.a. if they have less than $500,000 in super will be delayed until 1 July 2014. This is to give the Government time to work out the details regarding how they are going to monitor account balances and implement this measure.

Implications

Super fund members aged 50 or over should:

- consider taking full advantage of the current cap by making concessional contributions of up to $50,000 before 30 June this year
- review their concessional contributions, especially from 1 July, to make sure they don't exceed the reduced cap
- consider making non-concessional contributions if impacted by the cap reduction, and
- review their contributions and income payments if using the 'transition to retirement' strategy.

30% Contributions Tax for Higher Earners

Date of effect: 1 July 2012

As reported in the media before Budget night, the Government plans to increase the tax on concessional super contributions from 15% to 30% from 1 July 2012 for high-earners on more than $300,000.

While this has made employer super contributions (including salary sacrifice) less attractive for individuals who are required to pay 30% contributions tax, it's still 15% less than the marginal tax rate of 45% they would pay on their salary.

RETIREMENT INCOMES

Drawdown Relief for Super Pensions Extended

Date of effect: 1 July 2012

The Government confirmed that the 2011/12 minimum pension drawdown levels will continue for another 12 months before increasing to the 'normal' levels from 1 July 2013.

Age at start of pension (and 1 July each year)	In 2011/12 & 2012/13	From 1 July 2013
Under 65	3%	4%
65-74	3.75%	5%
75-79	4.5%	6%
80-84	5.25%	7%
85-89	6.75%	9%
90-94	8.25%	11%
95+	10.5%	14%

Implications

For people currently drawing at the minimum level to preserve the capital in their tax-free pension accounts, this is good news. The combination of account-based pension and some cash/assets in non-super investments remains flexible and very tax-effective.

Tax-free Super Pension Incomes to Increase for Those Under Age 60

People aged 55 to 59 will be able to receive more tax-free income from a superannuation income stream/pension than they can in 2011/12. These increases result from the marginal tax rate, income threshold and LITO changes legislated as part of the Clean Energy Legislative Package (see Personal tax section).

	In 2011/12	From 2012/13	From 2015/16
Tax-free incomes[1] (per person aged 55 to 59 from income stream[2])	$48,158	$49,753	$50,189
Increase on 2011/12		$1,595	$2,031

[1] Ignores Medicare Levy, but includes LITO and SATO/SAPTO, where applicable.

[2] Assumes no income from other sources is received.

HUB WEALTH MANAGEMENT

PERSONAL TAX CHANGES

Marginal Tax Rate and LITO Changes

Date of effect: 1 July 2012 and 1 July 2015

The personal taxation changes legislated as part of the Clean Energy (Carbon Tax Relief) Package will take effect on 1 July 2012 and on 1 July 2015, including:

- changes to the marginal tax rates and thresholds for lower income levels, and
- a progressive reduction in the Low Income Tax Offset (LITO).

Tax rates for this and the next financial year are shown below.

Flood Levy to Finish

Date of effect: 1 July 2012

As originally intended, the Flood levy will cease on 30 June 2012. This means people earning over $50,000 pa will have more available money for the 2012/13 financial year and beyond.

Personal income tax rates					
2011/12			2012/13		
Income Threshold $	Marginal rate*	Tax on this income*	Income Threshold $	Marginal rate*	Tax on this income*
Up to 6,000	Nil	Nil	Up to **18,200**	Nil	Nil
6,001 – 37,000	15%	15c for each $1 over $6,000	**18,201** – 37,000	**19%**	**19c** for each $1 over **$18,200**
37,001 – 80,000	30%	$4,650 plus 30c for each $1 over $37,000	37,001 – 80,000	**32.5%**	**$3,572** plus **32.5c** for each $1 over $37,000
80,001 – 180,000	37%	$17,550 plus 37c for each $1 over $80,000	80,001 – 180,000	37%	**$17,547** plus 37c for each $1 over $80,000
180,001+	45%	$54,550 plus 45c for each $1 over $180,000	180,001+	45%	**$54,547** plus 45c for each $1 over $180,000

*These rates apply to Australia residents for taxation purposes and do not include the Medicare Levy of 1.5%

Implications

These changes will mean modest tax savings for people earning under $80,000.

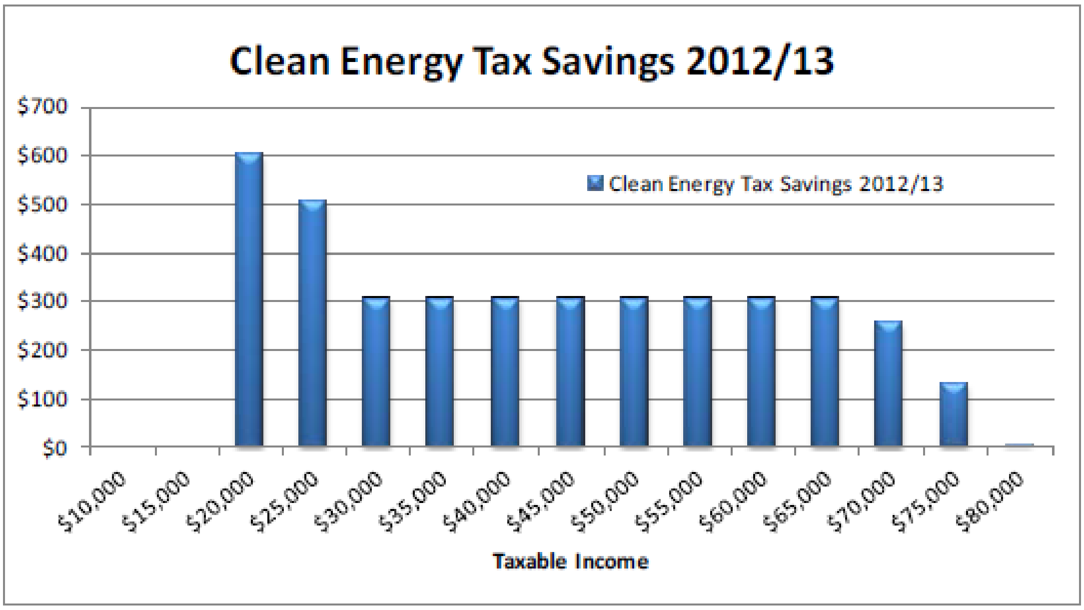
Illustrative tax savings

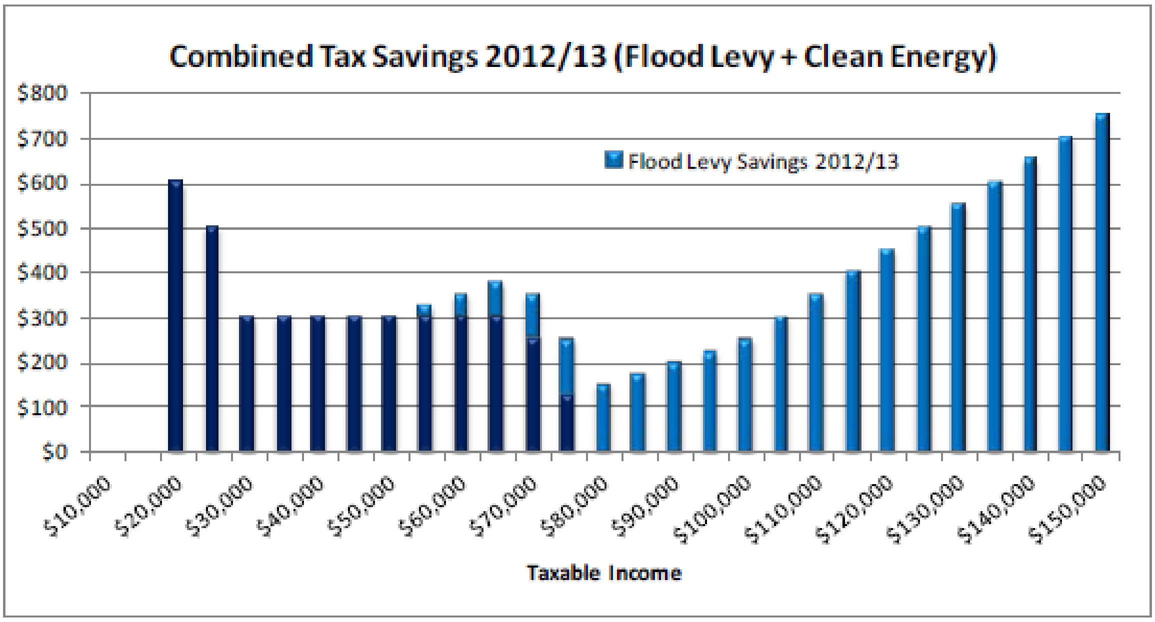
	In 2011/12	From 2012/13	From 2015/16
Income	**$20,000**	**$20,000**	**$20,000**
Tax	$2,100	$342	$114
LITO	$1,500	$445[3]	$300[3]
Net income[4]	$19,400	$20,000	$20,000
Tax savings compared to 2011/12		$600	$600
Income	**$60,000**	**$60,000**	**$60,000**
Tax	$11,550	$11,046	$10,933
LITO	$300	$100	$70
Net income[4]	$48,750	$49,054	$49,137
Tax savings compared to 2011/12		$304	$387
Income	**$80,000+**	**$80,000+**	**$80,000+**
Tax	$17,550	$17,546	$17,533
LITO	Nil	Nil	Nil
Net income[4]	$62,450	$62,454	$62,467
Tax savings compared to 2011/12		$4	$17

[3] Because LITO is a non-refundable tax offset, it can only be used to offset tax payable (ie any surplus offset will not be refunded).

[4] Net income for this purpose is taxable income less tax at marginal rates plus LITO.

The graphs below show the reduction in tax payable for the 2012/13 year compared to 2011/12 for a range of taxable incomes.





MEANS TESTING OF NET MEDICAL EXPENSES TAX OFFSET (NEMTO)

Date of effect: 1 July 2012

The eligibility of people to claim NEMTO will now be subject to an income means test. Those with adjusted taxable income above $84,000 for singles and $168,000 for couples will only be able to claim net medical expenses above $5,000. Further, the available offset is reduced from 20% to 10%.

People below these income levels will not be impacted.

Standard Deductions and 50% Interest Discount Not Proceeding

The plan to allow taxpayers to claim a standard deduction for work-related expenses when completing their tax returns has been dropped, as has the proposed 50% discount for the first $500 of interest income.

OTHER TAXATION CHANGES

Company Tax Reduction Not To Proceed

Date of effect: 1 July 2012

The planned reduction in the company tax rate, from 1 July 2012 for small business and 1 July 2013 for other businesses, isn't going ahead. This is a permanent measure and will be of particular concern to small business owners.

Dependency Tax Offsets Consolidated

Date of effect: 1 July 2012

Eight dependency tax offsets will be consolidated into a single, non-refundable offset. This will only be available to individuals who maintain a dependant who is genuinely unable to work due to carer obligations or disability.

The offsets to be consolidated are the invalid spouse, carer spouse, housekeeper, housekeeper (with child), child housekeeper, child housekeeper (with child), invalid relative and parent/parent-in-law tax offsets.

AGED CARE CHANGES

Date of effect: Various

The Government confirmed its commitment to the landmark aged care changes announced on 20 April 2012.

Under the 'Living Longer Living Better' plan, the Government will:

- overhaul the means-testing so care recipients with greater financial means make a greater contribution
- make it easier for older Australians to stay in their home while they receive care
- ensure more people will get to keep their family home and avoid the need for fire sales, and
- establish a simplified gateway for accessing aged care information.

SOCIAL SECURITY CHANGES

Schoolkids Bonus to Replace Education Tax Refund

Date of effect: June 2012 and January 2013

A 'Schoolkids Bonus' of $820 a year for each child at high school and $410 for every child in primary school will automatically be paid to parents who are eligible for Family Tax Benefit Part A. This is to replace the Education Tax Refund which many eligible parents weren't taking advantage of as they had to keep records of approved expenses and lodge a claim. The first payment is expected in June 2012.

Family Tax Benefit Part A - Eligibility

Date of effect: 1 January 2013

The Government will limit the Family Tax Benefit Part A to young people under 18 years of age or where the young person remains in secondary school, the end of the year in which they turn 19. Currently Family Tax Benefit Part A can be paid for a child up to age 22. The young person may be able to receive Youth Allowance after this.

Family Tax Benefit Part A – Rate Increases

Date of effect: 1 July 2013

The **rate of Family Tax Benefit Part A** will increase by $300 pa for families with one child, and $600 pa for families with two or more children. The **base rate of Family Tax Benefit Part A** will increase by $100 pa for families with one child, and $200 pa for families with two or more children.

MORE INFORMATION?

For more information on what any of these changes may mean for you, please speak to the team at Hub Wealth or send us an email.

Phone us on 02 9279 3400
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