

NEWSLETTER – BUDGET MAY 2011

EXECUTIVE SUMMARY

On 10 May 2011, the Treasurer Mr Swan handed down the 2011-12 Federal Budget, his 4th Budget.

There were a large number of tax changes announced covering areas such as superannuation, income tax, CGT, GST, FBT and charities. An outline of the major announcements is given below.

REVENUE MEASURES

The major revenue measures proposed in the Budget included:

- significant tax changes affecting charities;
- superannuation: excess super contributions tax problem addressed; concessional contributions; minimum pension drawdowns - 25% reduction;
- Govt overcomes High Court Anstis decision on self-education expenses;
- small businesses to get tax deduction of \$5,000 for motor vehicles;
- FBT valuation method for cars to be one rate - 20% (phased in over 4 years);
- amendments re company loss recoupment rules;
- minors will no longer be entitled to low income tax offset on unearned income;
- CGT amendments: scrip-for-scrip rollover; small business tax concessions; main residence exemption; trading stock; incentives for renewable resources; rollovers for amalgamations of indigenous corporations;
- GST amendments: property in possession of mortgagee; supplies to health insurers; instalment system for small businesses;
- increase in Medicare levy thresholds;
- dependant spouse rebate for under 40s to be phased out;
- debt/equity rules to be amended;
- early access to be allowed to FMDs.

The Government has reiterated that the Tax Forum will be held in October 2011 to consider further tax reform.

PERSONAL TAXATION

Personal tax rates - no change

The Government did not make any changes to the currently legislated tax rates which apply for the 2010-11 and following years (not forgetting that, from 1 July 2011 for one year, those rates will include the flood levy, where applicable).

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Flood levy

Generally, the flood levy will apply to individual taxpayers, both resident and non-resident, who have a taxable income over \$50,000 in the 2011-12 financial year. By virtue of the levy, for the 2011-12 financial year, the effective top personal marginal tax rate will be 47.5%, including the flood levy and the Medicare levy. Under the levy:

- individuals with a taxable income between \$50,001 and \$100,000 will pay a 0.5% levy on that part of taxable income above \$50,000;
- individuals with a taxable income of \$100,001 or more will pay a 0.5% levy on that part of their taxable income between \$50,001 and \$100,000 and a 1% levy on that part of their taxable income above \$100,000; and
- no levy is payable where the taxpayer has a taxable income of \$50,000 or less, or where they fall into an exemption category as specified in a legislative instrument that is made by the Minister.

Exemption: Individuals are exempt from the levy if they were affected by a natural disaster during 2010-11 and received an Australian Government Disaster Recovery Payment. Where a trustee has income that is taxed as if the income was of an individual, they will be liable for the levy as per the relevant thresholds.

Minors no longer entitled to low income tax offset on unearned income

The Government will remove the ability of minors (children under 18 years of age) to access the low income tax offset (LITO) to reduce tax payable on their unearned income, such as dividends, interest, rent, royalties and other income from property, with effect from 1 July 2011. This is designed to discourage income splitting between adults and children.

They said the increases in LITO over recent years have increased the amount of income that can be allocated to children tax-free. He said these increases have been accompanied by increased distributions of income to children, especially from discretionary trusts.

Income earned by minors from work will still be eligible for the full benefit of the LITO. Unearned income of minors who are orphans or disabled, as well as compensation payments and inheritances received by minors, will not be affected by this measure.

No deductions against Govt assistance payments - Anstis case overruled

The Government will amend the tax law to prevent deductions being claimed against all government assistance payments, with effect from 1 July 2011, in

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response to the 2010 High Court decision in FCT v Anstis [2010] HCA 40.

The denial of deductions from 1 July 2011 is designed to allow individuals who receive Youth Allowance (Student) to claim a deduction for expenses incurred in gaining their payment for the 2010-11 income year. This is to ensure individuals who have maintained records of their expenditure following the High Court decision are not precluded from claiming a deduction. For each of the years 2006-07 to 2009-10, the Commissioner of Taxation has determined that he will administer the law to allow eligible taxpayers to receive an automatic deduction of \$550 or make potentially higher claims if expenses can be substantiated. Minors will now only be able to access the \$416 tax free threshold for unearned income.

Dependent spouse rebate for spouses under 40 to be phased out

The Government announced it will phase out the tax offset for dependent spouses aged less than 40 (ie born on or after 1 July 1971) "to help encourage more Australians into paid employment". This change will mean taxpayers with a dependent spouse aged less than 40 years will no longer be eligible for the dependent spouse tax offset (DSTO) from 1 July 2011.

Exceptions: The change will not affect taxpayers whose dependent spouse is a carer, who is an invalid, or permanently unable to work; and taxpayers with children (eligible for Family Tax Benefit B), or eligible for the zone, overseas forces or overseas civilian tax offsets. Dependent spouses with children are not affected by this measure because they receive Family Tax Benefit B rather than the DSTO.

This change recognises that dependent spouses who may have been out of the paid workforce for many decades would find it more difficult to find jobs, so they will continue to be eligible for the DSTO.

Medicare levy thresholds increased for 2010-11

From the 2010-11 income year, the Medicare levy low-income thresholds will be increased for singles to \$18,839 (up from \$18,488 for 2009-10) and to \$31,789 for those who are members of a family (up from \$31,196 for 2009-10). The additional amount of threshold for each dependent child or student will also be increased to \$2,919 (from \$2,865).

The Medicare levy low-income threshold for pensioners below Age Pension age will also be increased from 1 July 2010 to \$30,439 (from \$27,697). This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy while they do not have an income tax liability.

The measure will apply from 1 July 2010.

Income test on the private health insurance rebate: Govt to try again

The Government plans to re-introduce a package of Bills (possibly in the Budget session) to income test the 30% private health insurance rebate. The measures will be essentially the same as the Bills that were defeated in the Senate in February and March 2010, although it is understood the threshold levels will be indexed upwards (as originally proposed).

The Bills were passed by the House of Reps without amendment, but were then defeated in the Senate in 2009. They were re-introduced as [No 2] Bills on 19 November 2009. The reintroduced Bills were then defeated in the Senate in February and March 2010.

The essence of the proposed changes was to effectively income test the private health insurance rebate. The new legislation proposed to introduce 3 new "Private Health Insurance Incentive Tiers":

- Tier 1: Singles earning between \$75,001 and \$90,000 and couples/families earning between \$150,001 and \$180,000 would receive a 20% private health insurance rebate if they are aged up to 65 years (25% if they are aged over 65, and 30% if they are aged 70 years or over).
- Tier 2: Singles earning between \$90,001 and \$120,000 and couples/families earning between \$180,001 and \$240,000 would receive a 10% private health insurance rebate if they are aged up to 65 years (15% if they are aged over 65, and 20% if they are aged 70 years or over).
- Tier 3: Singles earning above \$120,000 and couples/families earning above \$240,000 would not receive any private health insurance rebate, regardless of age.

The defeated Bills had also proposed to increase the rate of Medicare levy surcharge that certain taxpayers would be liable for when they have income for surcharge purposes above specified thresholds and do not have complying health insurance:

- Singles earning between \$90,001 and \$120,000 and couples/families earning between \$180,001 and \$240,000 would have been liable for a 1.25% Medicare levy surcharge.
- Singles earning above \$120,000 and couples/families earning above \$240,000 would have been liable for a 1.5% Medicare levy surcharge.

Low income tax offset: bring forward - more in pay packets

From 1 July 2011, the Government will increase the proportion of the low income tax offset (LITO) that is delivered through workers' week-to-week pay packets

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from 50% to 70%. This change means instead of being compensated after they put in their tax return at the end of the year, lower income earners are taxed less during the year. The remaining 30% of their LITO will still be paid as a lump sum on assessment of income tax returns.

Someone with annual income of \$30,000 will get an extra \$300 during the year in their regular pay. A person's total LITO entitlement for any one tax year will remain unchanged. An individual's total LITO entitlement in any one year remains unchanged.

Family Tax Benefit, Baby Bonus and related changes

The 2011-12 Federal Budget provides an increase in Family Tax Benefit (FTB) Part A for 16-19 year olds. From 1 January 2012, the new maximum rate of FTB Part A for 16-17 year olds in secondary school will be increased from the current \$52.64 per fortnight to \$214.06 per fortnight, ie by around \$160 per fortnight - an increase of around \$4,200 per year. For 18-19 year olds in school, the rate will be \$3,741 per year. This will align with the 13-15 year old rate and ensure assistance for families does not drop when children turn 16. The increases to FTB Part A will only be available for families where their teenager is in full-time secondary study, or the vocational equivalent.

From 1 January 2012, the Government will lower the maximum age of eligibility for FTB Pt A from 24 to 21. This will bring FTB Pt A into line with the reduction in the Youth Allowance age of independence to 22 from 1 January 2012.

From 1 July 2011, families will be able to advance a maximum of 7.5% of their total rate of FTB Pt A payment, up to \$1,000. For example, a family with 2 children under 12 will be able to receive an advance payment of up to \$644.

The Government also said it would extend indexation pauses on higher income limits for a further 2 years until 30 June 2014 in the following areas:

- the FTB Pt 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 6 months following the birth or adoption of a child;
- 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;
- the higher income-free area of FTB Pt A will remain constant.

Fortnightly payment rates for Family Tax Benefit and the Baby Bonus will continue to be indexed every year.

The annual end of year FTB supplements will be held at the current levels for the next 3 years. The FTB supplements will be fixed at the current 2010-11 levels of \$726.35 per annum per child for FTB Pt A and \$354.05 per annum for FTB Pt B until 1 July 2014.

Tax-free apprenticeship payments

The 2011-12 Budget includes \$281m for additional tax-free payments to encourage apprentices in critical trades to complete their qualifications. The Government expects the \$1,700 Trades Apprentice Income Bonus to support 200,000 trade apprentices over 4 years in skills shortage occupations to stay in their training and get a skilled job.

From 1 January 2011, eligible Australian Apprentices have received an additional tax-exempt bonus of up to \$1,700 as they reach milestones in their training, including an \$800 completion bonus, bringing them to a total of a maximum of \$5,500 over the course of their apprenticeship.

HECS: reduction in discounts

The Government will reduce the following discounts applying to payments made under the Higher Education Contribution Scheme (HECS):

- the discount available to students electing to pay their student contribution up-front will be reduced from 20% to 10%; and
- the bonus on voluntary payments to the Tax Office of \$500 or more will be reduced from 10% to 5%.

Under HECS, students electing to pay their student contribution up-front will continue to receive a 10% discount on the payment. Students choosing not to pay up-front can take out a concessional loan to pay their student contribution under the Higher Education Loan Program (HELP).

Under HELP, students accrue an outstanding debt which is repaid gradually when their assessable income exceeds a minimum repayment threshold. Students can also elect to make additional voluntary payments through the Tax Office to further reduce their outstanding HELP debt. Payments of \$500 or more will now attract a 5% bonus so that a payment of \$500 would reduce an individual's outstanding HELP debt by \$525. *Date of effect 1 July 2012.*

SUPERANNUATION

Excess contributions tax: refund option for contributions up to \$10,000

The Government will provide eligible individuals who breach the concessional contributions cap by up to \$10,000 with a one-off option to request that these excess contributions be refunded to them. This new refund option will only apply to first time breaches from 1 July 2011.

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The changes will give individuals the option to take excess concessional contributions out of their superannuation fund and have them assessed as income at their marginal rate of tax, rather than the excess concessional contributions tax rate of 31.5% (in addition to the 15% contributions tax for the fund).

The Government expects that this reform will help to reduce the number of occasions where the concessional contributions are exceeded resulting in an excess contributions tax (ECT) assessment. The Government said it will consult with the superannuation industry on the implementation of this measure.

While we welcome the move to address future accidental excess superannuation contributions over \$10,000, it does nothing for those suffering the penalty tax now.

Concessional contributions

Concessional contributions generally include employer contributions (those made under salary sacrifice arrangements and super guarantee contributions) and personal contributions for which the taxpayer intends to claim a deduction. However, less obvious concessional contribution include notional taxed contributions for defined benefit interests, transfers of certain fund reserves and payments by employers of fund expenses (eg life insurance premiums).

Since 2009-10, the "concessional contributions cap" has been set at \$25,000 (or \$50,000 for those aged 50-74 until 30 June 2012). Note that the Government has proposed to allow individuals aged 50 and over with less than \$500,000 in super to contribute \$25,000 more per year than other individuals from 1 July 2012. 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.

This measure will apply from 1 July 2011 in respect of 2011-12 or later years, and only for the first year, commencing from 2011-12, in which a breach occurs.

Minimum pension draw-downs: 25% reduction for 2011-12

The minimum annual payment amounts for pensions and annuities will be reduced by 25% for 2011-12 and will return to normal in 2012-13. In this respect, the Government will begin to phase out the 50% pension drawdown relief that has been provided for 2008-09, 2009-10 and 2010-11 financial years.

Reducing the minimum payment amounts by 25% for account-based, allocated and market linked (term allocated) pensions from 1 July 2011 seeks to provide some assistance to holders of these products to recoup capital losses incurred as a result of the global financial crisis. This measure has an estimated cost to revenue of \$7m over 2 years and is also expected to increase Government expenditure by \$9m in 2011-12 through higher pension outlays. *The measure will apply from 1 July 2011.*

SMSF regulation: additional funding and increased levy

To implement the range of "Stronger Super" reforms to the self-managed superannuation fund (SMSF) sector, the Government will provide \$40.2m to the Tax Office and \$8.4m to ASIC from 2010-11 to 2014-15. The package of SMSF reforms, previously announced by the Government on 16 December 2010 are designed to improve the operation, efficiency and integrity of the SMSF sector.

The cost of this measure will be offset by an increase to the SMSF levy from \$150 to \$180 with effect from the 2010-11 income year and the introduction of SMSF auditor registration fees from 1 July 2012. This represents an increase of 20 per cent on the levy, which had not been foreshadowed and came as a surprise.

SMSF auditors

The Government will provide \$2.8m to ASIC to develop a second pass business case and initial capital expenditure for the development of a facility for the online registration of approved auditors of SMSFs from 1 July 2012. Auditors are going to have to pay a registration fee so that they can continue to do the government's role in overseeing SMSFs. As foreshadowed by the Cooper Review, SMSF auditors will have to be registered with ASIC in 2012 though the proposals are not yet concrete as to their actual format, how much registration will cost or what additional requirements auditors will have to meet to be registered.

Concessional contributions: higher cap for those 50 and over

The Government will set the proposed higher concessional contributions cap at \$25,000 above the general concessional cap for eligible individuals aged 50 and over with total superannuation balances of less than \$500,000.

The proposal to allow individuals aged 50 and over with total superannuation balances below \$500,000 to continue making up to \$50,000 per year in concessional contributions from 1 July 2012 was previously announced as part of the Government's response to the Henry Tax Report on 2 May 2010.

The Government has confirmed that the higher cap will enable eligible persons over 50 to be able to contribute \$25,000 more per year than other workers subject to the general concessional contributions cap of \$25,000. 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.

The Government has ignored the profession's calls to rewind the contribution caps back to their previous levels. While older Australians with low superannuation balances will have higher caps, many others will miss

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out on the opportunity to ensure they have sufficient retirement savings. *This measure will apply from 1 July 2012.*

Other measures: SMSFs; co-contributions; TFNs; payslips

Other superannuation measures announced include:

- SMSF trustee-director a parent or guardian of minor - the Government will amend the superannuation legislation so that where the trustee of a self-managed superannuation fund is a body corporate, a parent or guardian may be director of the body corporate in place of a member that is a minor. No commencement date specified;
- superannuation co-contribution indexation freeze extended - the Government will continue the freeze on the income thresholds for an additional year to 2012-13. Under the co-contribution scheme, the Government provides a matching co-contribution for contributions made into superannuation out of after-tax income. The matching Government co-contribution is up to \$1,000 for people with incomes of up to \$31,920 in 2010-11 (with the amount available phasing down for incomes up to \$61,920). This measure will continue to freeze these thresholds at \$31,920 and \$61,920, respectively;
- greater use of TFNs for superannuation - the Government will allow superannuation fund trustees and RSA providers to make greater use of tax file numbers (TFNs) to locate member accounts and to facilitate the consolidation of multiple member accounts. This measure will remove the existing requirement for fund trustees and RSA providers to use other methods of identification to locate accounts before TFNs can be used, with effect from 1 July 2011. It will also assist fund trustees and RSA providers to carry out more efficient consolidation of multiple member accounts, with effect from 1 January 2012, if not proclaimed earlier; and
- superannuation on payslips - the Government will ensure that employees receive information on their payslips about the amount of superannuation actually paid into their account. Employees and employers will also receive quarterly notification from their superannuation fund if regular payments cease, with effect from 1 July 2012. At this stage there is insufficient detail as to how this measure is to be implemented. Given that most employees pay little attention to their payslips, are we imposing costs on small

business that will have no real impact on employees' superannuation receipts?

BUSINESS TAXATION

Small business motor vehicle tax write-off to replace Entrepreneur's Tax Offset

The Government will provide Australian small businesses with an instant tax write-off of the first \$5,000 of any motor vehicle purchased from 2012-13. The Treasurer said that, for example, a tradesman on a 30% marginal tax rate, buying a new \$33,960 ute would receive an extra tax benefit of \$1,275 in the year they purchased the vehicle. The remainder of the purchase value can be transferred into the general small business depreciation pool, which is depreciated at 15% in the first year and 30% in later years.

The Treasurer said this new write-off was in addition to the Government's proposed tax reforms for small businesses to be introduced in 2012-13 that would allow:

- an immediate write-off of all assets valued at under \$5,000 (up from \$1,000 presently);
- a write-off of all other assets (except buildings) in a single depreciation pool at a rate of 30%. Currently, small businesses allocate assets to 2 different depreciation pools, with 2 different depreciation rates (30% and 5%); and
- a reduction in company tax rate to 29% for incorporated small businesses.

These reforms will be available to all small businesses, including sole traders and businesses operating through trusts, partnerships and companies. [Note: These tax reforms were originally announced as part of the Government's response to the Henry Tax System Review report in May 2010, and there has so far been no legislation introduced to implement them. It is also noted that the original Govt announcement proposed a 28% tax rate for small businesses from 2021-13.]

The new small business instant write-off for the first \$5,000 of any motor vehicle will effectively replace the Entrepreneurs Tax Offset (ETO), which will be abolished with effect from the 2012-13 income year. The Henry Tax System Review recommended abolition of the ETO because of its poor targeting and high compliance costs. The Henry Report concluded that ETO provided a disincentive for businesses to grow because the benefit available started to decline at \$50,000 of annual turnover and cut out completely at \$75,000. The ETO was also only available to individuals with incomes under \$70,000 and the Government said its poor targeting and complexity meant 2.3m small businesses missed out on any benefit.

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FBT and cars - flat 20% valuation rate to apply

The Government announced that the current statutory formula 4-percentage rate scale method for valuing car fringe benefits be replaced with a single statutory rate of 20%, regardless of the number of kilometres travelled. *The changes will apply to new vehicle contracts entered into after 7:30pm (AEST) on 10 May 2011, and will be phased in over 4 years*

FBT Statutory rate method

Distance travel in FBT year (1 Apr - 31 Mar)	Existing contracts (%)	New frm 10 May 2011 (%)	New frm 1 April 2012 (%)	New frm 1 April 2013 (%)	New frm 1 April 2014 (%)
0 - 15,000km	26	20	20	20	20
15,000 - 24,999km	20	20	20	20	20
25,000km - 40,000km	11	14	17	20	20

Important changes affecting charities

The Budget contains significant changes to the operation of the not-for-profit sector in Australia. There are 3 broad areas of change:

- treatment of income tax concessions;
- a statutory definition of "charity"; and
- establishment of the Australian Charities and Not-for-profits Commission.

Treatment of income tax concessions

The Government intends to ensure that tax concessions provided to charities (or NFPs) are targeted only at those activities which directly further its altruistic purposes. Under this measure, the NFP income tax concessions will only apply to profits generated by unrelated commercial activities that are directed back to a NFP entity to carry out its altruistic work. This means NFP entities will pay income tax on profits from their unrelated commercial activities that are not directed back to their altruistic purpose (ie, the earnings they retain in their commercial undertaking).

NFP entities, in respect of their unrelated commercial activities, will also not have access to the FBT exemptions or rebate, GST concessions, or deductible gift recipient support in relation to those activities. Commercial activities that further a NFP entity's altruistic purposes, and small-scale and low-risk unrelated commercial activities, will not be affected by the reforms.

The accompanying Press Release states that the reforms will not affect the use of tax concessions to further a NFP's altruistic purpose, even where the charitable operation is conducted commercially.

Examples include not-for-profit hospitals, op-shops that sell second-hand household items and clothing (at discounted prices to those in charitable need), NFP child care centres, and business whose purpose is to provide meaningful employment to disabled persons. It also states that the changes will not affect NFPs carrying on small-scale and low-risk activities, such as lamington drive fundraisers, school fetes and leasing out church halls.

Company loss recoupment rule amendments

The company loss recoupment rules will be amended to make it easier for companies to satisfy the continuity of ownership test in certain circumstances.

This measure will modify the continuity of ownership test so that ownership does not need to be traced through certain superannuation entities. It will also remove technical deficiencies in the modified rules for widely held entities where:

- an entity is interposed between certain stakeholders and the loss company in certain circumstances;
- an interposed entity demerges;
- an interposed foreign entity issues bearer depository receipts; or
- a corporate change arising from the issue of new shares happens.

The measure will also ensure that all membership interests held in an entity are treated as a single asset for the purpose of applying the low value asset exclusions under the loss integrity rules.

The measures will apply with effect from the 2011-12 income year.

PAYG instalments - GDP adjustment factor reduced for 1 year

The Government will reduce income tax instalments paid under PAYG using the gross domestic product (GDP) adjustment method for one year. PAYG instalments in 2011-12 will be set at 4% above a small business's taxable income for the previous year, half the statutory rate that would otherwise have applied. In accordance with the existing law, taxpayers may still vary their quarterly tax instalments if they consider their income is expected to be lower or higher than the amount determined by the Commissioner of Taxation using the 4% adjustment factor.

This is a one-year benefit, and the statutory rate will apply as normal from 2012-13. This reduction does not apply to taxpayers who calculate their instalments based on the instalment rate notified by the ATO. Their payments will automatically adjust when they apply the given rate to their actual income for the quarter.

The GDP adjustment method bases instalment amounts on the previous year's taxable income, uplifted by a GDP adjustment factor. This adjustment

factor reflects nominal GDP growth over the previous 2 calendar years and is intended to calculate tax instalments payable based on expected profit growth. Taxpayers using this method include those carrying on a small business and those with investment income (eg self-funded retirees) and wage and salary earners with investment income subject to the PAYG instalment system.

Farm Management Deposits: early access allowed

The Government announced it will allow primary producers affected by natural disasters to access their farm management deposits (FMDs) within 12 months of making a deposit while retaining concessional tax treatment under the scheme. This will provide the same taxation relief as provided to primary producers affected by severe drought to those who are affected by other types of natural disaster.

The Government said it will also make some minor changes to the administration of the FMD scheme which will require more timely and frequent reporting from authorised deposit-taking institutions holding FMDs and allow primary producers to hold FMDs with more than one financial institution. The Government said it will also amend the unclaimed monies provisions of the Banking Act 1959 so that FMD accounts that have not been operated for at least 7 years are only treated as unclaimed monies if the financial institution is unable to contact the FMD holder following reasonable efforts to do so.

Countering fraudulent phoenix activities by company directors

The Government will strengthen the tax law to counter fraudulent phoenix activity (which involves a company intentionally accumulating debts to improve cash flow or wealth and then liquidating to avoid paying the debt. The business is then continued as another corporate entity, controlled by the same person or group and free of their previous debts and liabilities).

Under the proposed measures:

- the director penalty regime will be extended to superannuation guarantee amounts,
- directors will be personally liable for their company's failure to pay employee superannuation;
- the Tax Office will be given the power to commence recovery against directors under the director penalty regime, without providing a 21 day grace period, for certain unpaid company liabilities that remain unreported after three months of becoming due; and
- in certain circumstances directors and associates of directors will be prevented from obtaining credits for withheld amounts in their individual tax returns where the company has failed to pay withheld amounts to the ATO.

The measures will apply with effect from 1 July 2011.

Reporting taxable payments

The Government will require certain businesses to report annually on payments made to contractors in the building and construction industry. The reporting regime will require businesses to report information that they should already collect under existing tax arrangements. This measure also includes an increase in funding for the Tax Office of \$46.4m over the forward estimates period which will allow the Tax Office to undertake data matching, reviews of contractors' tax liabilities and targeted audits. This funding will also be used to provide further assistance and education to industry.

The Government will also consult publicly on options to introduce a similar reporting regime for payments to contractors in the commercial cleaning industry. *The measures will apply with effect from 1 July 2012.*

Small business tax concessions amendments

The Government will amend the small business tax concessions so that trusts will not be able to avoid being treated as connected entities for the purpose of testing eligibility for the concessions on the basis that the trusts do not own assets for their own benefit. These changes will also ensure that some small businesses will be able to access the small business CGT concessions because the changes will make their business assets active.

The measures will have effect for CGT events happening after 7.30pm (AEST) on 10 May 2011.

Extensions to main residence exemption for special disability trusts

The Government will extend the 2009-10 Budget measure that provides a CGT main residence exemption to special disability trusts (SDTs). In particular, the measures will:

- backdate the CGT main residence exemption for SDTs to apply to CGT events happening in the 2006-07 income and later years;
- provide equivalent taxation treatment amongst SDTs established under either the Veterans' Entitlements Act 1986 and Social Security Act 1991; and
- provide a CGT exemption for assets transferred into a SDT for no consideration and give a market value cost base for testamentary transfers.

In addition, the measures will provide a CGT exemption in the advent of the death of the principal beneficiary for the intended recipient of the principal beneficiary's main residence, if the recipient disposes of the dwelling within two years of the principal beneficiary's death (and the dwelling was not used to produce assessable income). Note that a partial exemption may be

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available to the trustee of the SDT if the dwelling was used to produce assessable before the principal beneficiary's death. Formerly the

The measures apply with effect for income tax assessments for the 2006-07 and later income years.

Limiting the trading stock exception for super funds

The Government will remove the trading stock exception to the CGT primary code rule for complying superannuation entities for specified assets. This measure will ensure gains or losses on specified assets (primarily shares, units in a trust and land) are subject to CGT, consistent with CGT being the primary code for taxing gains and losses of complying superannuation entities. A small number of complying superannuation entities are seeking to treat shares as trading stock, so as to deduct losses on their shares against income other than capital gains.

The measure will apply with effect from 7.30 pm (AEST) 10 May 2011. However, transitional rules will apply to ensure that assets held or accounted for as trading stock before the time of announcement are unaffected.

GST MEASURES

Instalment system for small businesses

The Government will extend the current GST instalment system to allow access for small businesses that are in a net refund position.

The current legislation does not allow a business that is in a net refund position to pay GST by instalments. A business is in a net refund position when it is entitled to receive more input tax credits on its purchases than it is required to pay GST on its sales. This measure is intended to allow small businesses in a net refund position to choose to access the GST instalments system, with an instalment amount each quarter of zero. Any refunds or liability due to the taxpayer will be reconciled in their annual GST return.

OTHER MEASURES

Apprentices and training

The Government's Building Australia's Future Workforce package provides immediate skills assistance to industry and apprentices and seeks to encourage participation in the workforce for groups with lower participation levels.

Deferral of Paid Paternity Leave start date

The Government is to defer the implementation of Paid Paternity Leave by 6 months, from 1 July 2012 until 1 January 2013. The measure will provide eligible working fathers, and other partners who are providing full-time care or sharing the child's care, with 2 weeks paternity leave paid at a rate equivalent to the national

minimum wage for children born on or after 1 January 2013.

OFFICE MOVE-NEW STREET ADDRESS

We have recently moved office from

OLD STREET ADDRESS

Level 13, Philippine Airlines Building, 49-51 York Street, Sydney 2000, next door to,

NEW STREET ADDRESS

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