DIRECT NORTH ACCOUNTING

Level 4, 22 Grenfell Street
Adelaide SA 5000

PO Box 773
Glenelg SA 5045

T +61 (8) 8110 6012
F +61 (8) 8110 6013

Nicholas Kohler Director
E nkohler@directnorthadvisory.com

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2012/2013 BUDGET UPDATE

Please find below a summary of the some of the more relevant budget announcements that affect tax. For a comprehensive report, visit http://www.cch.com.au/budget2012.

2012/2013 individual tax rates

Taxable income range	Marginal tax rate
$ 0 - $ 18,200	0
$ 18,201 - $ 37,000	19%
$ 37,001 - $ 80,000	32.5%
$ 80,001 - $180,000	37%
$180,001 +	45%

These rates exclude the Medicare levy.

In 2012/13, the effective top personal marginal tax rate will be 46.5% including the Medicare levy (the flood levy was only applicable to 2011/12).

The low income tax offset has been reduced from $1,500 to $445 in line with the increase to the tax-free threshold so that the offset will no longer need to apply (as a part of a gradual phase out).

Net medical expenses tax offset

From 1 July 2012, people with adjusted taxable incomes above the Medicare Levy Surcharge thresholds ($84,000 for singles and $168,000 for couples in 2012/13) will only be able to claim 10% of out of pocket expenses above $5,000 (indexed annually). People with income below the thresholds will still be able to claim 20% of out of pocket expenses above $2,060 (indexed annually).

Mature aged worker tax offset

The offset will be phased out for people born on or after 1 July 1957. Access to the benefit will be maintained for anyone who currently receives the offset.

Schoolkids Bonus replaces the education tax refund

From 1 January 2013, the education tax refund will be replaced with a new Schoolkids Bonus of $410pa for each primary school student and $820pa for each high school student.

Superannuation concessional contributions for higher income earners

Concessional contributions include all employer contributions (superannuation guarantee and salary sacrifice) and personal contributions claimed as a tax deduction by a self-employed person.

From 1 July 2012, the contributions tax paid on concessional contributions for individuals with income greater than $300,000 will increase from 15% to 30%. The definition of 'income' under this measure is expected to include taxable income, concessional superannuation contributions, adjusted fringe benefits, total net investment loss, target foreign income, tax-free government pensions and benefits, less child support. For incomes near $300,000, where the income excluding the concessional contributions is less than the $300,000 but with the inclusion of the concessional contributions exceeds the threshold, the higher contributions tax will apply to the part of the contributions that are in excess of $300,000.

Superannuation concessional contribution limits

From 1 July 2012, concessional contribution caps have been reduced to $25,000 for all individuals (previous announcements relating to individuals who are 50 years old or over and their total super balances are below $500,000 have been deferred until 1 July 2014).

Year	Under 50	Over 50 (fund balance >$500,000)	Over 50 (fund balance <$500,000)
2011/2012	$25,000	$50,000	$50,000
2012/2013	$25,000	$25,000	$25,000
2013/2014	$25,000	$25,000	$25,000
2014/2015	$25,000	$25,000	$50,000

Although the $25,000 annual limit is indexed, it is only indexed in $5,000 increments so it will take a number of years of indexation to increase the annual limit to $30,000. This is likely to happen in 2014/2015 resulting in $30,000 and $55,000 limits).

Small business reforms

From 1 July 2012, small business entities (with a turnover of less than $2 million) will be able to:

- immediately write-off the first $5,000 on the purchase of any new or used motor vehicle;
- immediately write off each eligible business asset they buy costing less than $6,500 per asset (up from $1,000).

Company tax loss carry-back measures

Companies who make a loss in 2012/13 but made a profit and paid tax in 2011/12 will be allowed to "carry-back" the loss to get a refund of the tax paid relating to 2011/12. From 2013/14, companies will be able to carry-back and offset losses against tax paid up to two years earlier (limited to losses of up to $1 million).

Living Away From Home Allowance (LAFHA)

Significant limitations will be placed the LAFHA tax concessions by:

- limiting access to the tax concession to employees who maintain a home for their own use in Australia, that they are living away from for work; and
- providing the tax concession for a maximum period of 12 months in respect of an individual employee for any particular work location.

These are designed to be available only to people who legitimately maintain a second home in addition to their actual home.

Important Dates

June 30 is fast approaching so you should ensure that you don't miss out on any tax planning opportunities.

Superannuation contributions are critically important as the superannuation contribution caps are based on the amount paid into the superannuation fund during the financial year (not the period that the contribution relates to). If you want to maximise your 2011/2012 superannuation contribution, you need to ensure that the amount has been received by your superannuation fund before June 30. Superannuation contributions may provide more benefits in 2011/12 due to the contributions tax increase from 1 July 2012 and your contributions may also be limited in 2012/13 due to the new caps. You should consider the advantages of making additional contributions before June 30 if possible.

If you have a SMSF, you should also ensure that the minimum pension payments have been made (reductions to the required minimum pension amount available in previous years no longer apply).

Kind regards,
Nick