



29 November 2011

The Government has released the [Mid-year Economic and Fiscal Outlook](#) (MYEFO), which projects an increased budget deficit of \$37.1 billion in 2011–12 and a reduced surplus of \$1.5 billion in 2012–13.

MYEFO includes a range of superannuation, tax and social security measures previously announced as part of the Government’s Clean Energy Future and Mineral Resource Rent Tax proposals. However, a number of additional superannuation and tax measures have now been proposed.

Further superannuation measures announced

Account based pensions – minimum payments reduced for 2012–13

Due to continued volatility in equity markets, the Government proposes to continue with the temporary 25% reduction of the required minimum payments from account based pensions for the 2012–13 financial year. Minimum payments were halved for the 2008–09, 2009–10 and 2010–11 financial years, and reduced by 25% during 2011–12.

Age at start of financial year	Minimum payment percentage for 2012–13 financial year	Minimum payment percentage for 2013–14 and future financial years
Under 65	3%	4%
65 to 74	3.75%	5%
75 to 79	4.5%	6%
80 to 84	5.25%	7%
85 to 89	6.75%	9%
90 to 94	8.25%	11%
95 or over	10.5%	14%

The continued reduction in minimum payments will apply to all account based pensions, including allocated pensions and term allocated pensions.

Halving of maximum Government co-contribution

From 1 July 2012, the Government proposes to halve the maximum Government co-contribution to 50% of a client’s after tax contributions, capped at \$500 per financial year.

An eligible client with total income of \$31,920 or less will receive a \$500 co-contribution by making an after tax contribution of at least \$1,000. The maximum co-contribution payable will continue to phase out at 3.333 cents per dollar of total income above \$31,920. This means that from 1 July 2012, the co-contribution will reduce to nil once total income reaches \$46,920.

Concessional contribution cap – indexation paused

The Government proposes to pause indexation of the concessional contributions cap during 2013–14 to ensure that it remains at \$25,000 during that financial year. Indexation will resume in 2014–15, when the Government expects that the concessional cap will rise to \$30,000.

This pause in indexation will also mean that the non-concessional contributions cap and the proposed higher concessional contributions cap for certain clients aged 50 or over (still proposed only) will not increase in 2013–14.

Superannuation trust deed clauses and contribution caps

The Government has become aware of situations where some superannuation funds may include a clause in their trust deeds that treats a contribution made to the fund as not having been received if it would lead to a breach of one of the member's contribution caps.

The Government proposes changes that, regardless of any clauses in a fund's trust deed, would deem the fund to have accepted such contributions where the contribution has not been returned promptly and has intermingled with assets of the fund.

Further tax measures announced

Deferral of 50% tax discount for interest income

The Government has announced it will further defer the introduction of the 50% tax discount on interest income earned by individuals until 1 July 2013. The measure, which was first announced in the 2010 Federal Budget, had a commencement date of 1 July 2011 but this had later been deferred until 1 July 2012.

The original announcement proposed to provide a 50% tax discount on up to \$1,000 of interest income earned by individuals but this had subsequently been reduced to \$500 for the first year before reverting to \$1,000 per year for each subsequent year.

Standard deduction for work related expenses

The Government has announced that it will also defer the introduction of a standard tax deduction for work-related expenses and the cost of managing tax affairs by 12 months until 1 July 2013. The measure, which was also first announced in the 2010 Federal Budget originally proposed to give people a standard deduction for work and tax management related expenses of \$500 in 2012–13 and then \$1,000 from 2013–14 onwards.

Dependent spouse tax offset phase out

The Government has announced it will phase-out the dependent spouse tax offset for taxpayers with a dependent spouse born on or after 1 July 1952, from 1 July 2012.

This measure extends on the 2011–12 Federal Budget announcement to phase-out the dependent spouse tax offset for taxpayers with a dependent spouse born on or after 1 July 1971.

The Government has also announced that taxpayers who are eligible for the zone, overseas forces and overseas civilian tax offsets or whose spouse is an invalid, permanently disabled or a carer will not be affected by this change.

Reform of living away from home allowances and benefits

The Government has announced it will amend the tax exemptions that apply to living-away-from-home allowances and benefits by:

- requiring individuals to substantiate their actual expenditure on accommodation, and food beyond a statutory amount; and
- limiting access to the tax concession for temporary residents to those who maintain a home for their own use in Australia that they are living away from for work. This change will ensure that a level playing field exists between temporary residents and permanent residents.

The Government has confirmed that these reforms will have no impact on permanent residents unless they are receiving living-away-from-home allowance in excess of their actual expenses. Employees who receive allowances for having to travel from their usual place of work for short periods will also not be affected by these changes.

The reforms are proposed to apply from 1 July 2012 for both new and existing arrangements.

The information contained in this Briefing is based on the understanding Colonial First State Investments Limited ABN 98 002 348 352 AFS Licence 232468 (Colonial First State) has of the announcements made by the Government. It is likely that these announcements will be the subject of discussion and consultation and accordingly it is not known which part or parts will pass into law and, if so, in what form. While all care has been taken in the preparation of the Briefing, no person, including Colonial First State or any other member of the Commonwealth Bank group of companies, accepts responsibility for any loss suffered by any person arising from reliance on it. The Briefing has been prepared for the sole use of advisers, is not financial product advice and does not take into account any individual's objectives, financial situation or needs.