



FEDERAL BUDGET 2011 SUMMARY

There were two major themes in this year's budget: how to increase the pool of skilled labour in Australia and returning the budget to surplus in 2012-13.

As in previous years, there were many leaks and pre-announcements indicating what would be in the 2011 Federal Budget. Not all of these were correct. It was no surprise that the Treasurer confirmed the Government's intention to return the budget to surplus in 2012-13. But some of the many measures designed to increase the pool of skilled labour in the country were new.

There is potential for further budget initiatives to be announced when the carbon tax structure is finalised.

In this report, Aon Hewitt focuses on the key new announcements that may affect you. We cover the budget announcements relevant to employers and superannuation fund members including changes to superannuation, access to skilled workers, changes affecting company tax and health insurance.

Superannuation

Concessional contribution caps

Budget decision: From 1 July 2011, individuals who breach the concessional contributions cap by up to \$10,000 can request that their excess contributions be refunded. This will only apply for first-time breaches.

What this means: Individuals who withdraw an excess concessional contribution will have this assessed at their marginal tax rate, rather than incur a potentially higher rate of excess contributions tax.

Tax file numbers (TFNs)

Budget decision: Trustees will be able to use members' TFNs to locate their other superannuation accounts and to facilitate consolidation of their accounts. From 1 July 2011, it will be easier for trustees to locate accounts and from 1 July 2012 (if not proclaimed earlier) it will be more efficient for trustees to consolidate accounts.

What this means: It will be easier for members to consolidate their accounts and thereby reduce the fees they pay for their superannuation.

Contribution reporting

Budget decision: From 1 July 2012, trustees will be required to report to employers and employees on a quarterly basis if regular payments have ceased. Employers will also be required to disclose the amount of superannuation paid on employees' pay slips.

What this means: These measures will give employees greater awareness of their superannuation contributions and they will become immediately aware if their employer has not paid their superannuation.

Employers may need to update their payroll systems to accommodate this additional reporting requirement. They will remain liable for the Superannuation Guarantee charge if contributions are paid late.

Trustees will have increased responsibility to monitor and report on payments and will have to establish the systems to meet their obligations.

Minimum pension payments

Budget decision: The reduction in minimum pension payment amounts for allocated pensions introduced as a result of the GFC will be extended for another year but at a reduced rate. The 50% reduction allowed in 2010-11 will be reduced to 25% for 2011-12 and there will be no reduction applying from 1 July 2012.

What this means: Pension fund members will have a little longer for their account balances to recover from the impact of the GFC.

Labour shortage

Developing the skilled workforce

Budget decisions: There were several initiatives in the budget designed to increase the pool of skilled labour and reduce the talent shortages faced by employers. They included:

- subsidising 130,000 additional training places, with employers required to contribute on average 50% of the training cost
- funding a number of initiatives to increase the number of apprentices who complete their course and to help them achieve this more quickly
- establishing a new agency to identify critical skill needs and build a more skilled workforce
- funding to improve the basic employment skills of job seekers
- providing additional funding to States and Territories who agree to reforms of the training system.

What this means: Employers will still need to work hard at remaining competitive in a very tight labour market, particularly as baby boomers are now reaching retirement age. The main areas to focus on are:

- **pay competitiveness** – knowing what the market rates are for jobs is essential so employers can offer a competitive salary to attract and retain staff
- **performance management** – by identifying, developing and rewarding high performers employers will be better placed to retain key employees
- **employee engagement** – employers who understand the drivers of employee engagement and how they compare with other organisations will be more successful in the competition for talent
- **reward and recognition programs** – these can provide a cost-effective way for employers to recognise and reward employees, which in turn helps with retention.

Working seniors

Budget decisions: Age Pensioners who work will be able to earn up to \$250 per fortnight above the income test threshold before their pension is affected. Also, an advisory panel is to be established to examine how the experience and knowledge of seniors can best be utilised.

What this means: There is increased incentive for Age Pensioners to participate in the workforce and the contribution that older workers can make may be better recognised. These measures provide an opportunity for employers to consider the benefits of introducing a formal mentoring program to transfer skills from their older workers.

Increasing workforce participation

Budget decisions: A number of budget decisions were aimed at increasing workforce participation rates including:

- applying the Low Income Tax Offset over the course of the financial year rather than as a lump sum payment at the end of the year
- providing wage assistance to employers who offer work to the long-term unemployed
- applying a more generous income test to the payment of Newstart Allowance benefits for single parents.

What this means: This gives employers an opportunity to hire employees with a lower skill level at a lower cost to them. They can then use internal development programs to build the employees' knowledge and skills on the job.

Company tax

Fringe benefits tax

Budget decision: The current variable rate for calculating the taxable value of a motor vehicle fringe benefit (which varies according to mileage travelled) will be phased out and replaced with a single rate of 20%.

A new schedule of rates will apply to new contracts entered into from 7:30pm (AEST) on 10 May 2011 (see table below). There will be no change in rates for existing vehicles.

Statutory rates applying to new contracts from 10 May 2011

Distance travelled during FBT year (1 April to 31 March)	Existing contracts up to 10 May 2011	From 7:30pm (AEST) on 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 to 15,000 km	0.26	0.20	0.20	0.20	0.20
15,000 to 25,000 km	0.20	0.20	0.20	0.20	0.20
25,000 to 40,000 km	0.11	0.14	0.17	0.20	0.20
More than 40,000 km	0.07	0.10	0.13	0.17	0.20

What this means: Those who drive long distances will be worse off but those who drive less than 15,000 km per year will be better off and pay less tax. It will make company cars a less attractive benefit for some employees but more attractive for others.

Small business tax

Budget decision: It was announced in the 2010-11 budget that the company tax rate for eligible small businesses would be reduced from 30% to 28% in the 2012-13 financial year. However, in the 2011 budget it was announced that the company tax rate for small businesses would be reduced to 29% from 1 July 2012.

What this means: While small businesses will benefit from a lower tax rate earlier than larger businesses, the reduction will not be as much as announced in last year's budget.

PAYG tax

Budget decision: The GDP adjustment factor for calculating PAYG rates will be reduced for small businesses who use the GDP adjustment method.

What this means: Small businesses affected by this change will pay lower PAYG tax which will facilitate their cash flow.

Small business motor vehicle write-off

Budget decision: From 1 July 2012, small businesses will be able to immediately write-off the first \$5,000 of the cost of a new company vehicle. The remaining cost can be depreciated at a rate of 15% in the first year and 30% in subsequent years.

What this means: Small businesses will obtain the tax benefits of new motor vehicle purchases faster.

Health insurance

Private health insurance incentives

Budget decision: In the 2009-10 budget the Government announced that the private health insurance rebate would be means tested **and** higher income earners who did not have private hospital cover would have to pay a higher Medicare Levy Surcharge. These changes were to apply from 1 July 2010, however, because of opposition in the Senate they have not yet been introduced.

What this means: The savings from these measures had been included in the 2010-11 budget and have again been included in the 2011-12 budget despite the fact that the Government is no closer to getting Senate approval for these changes.

For further information about the budget, or to find out more about how Aon Hewitt and our experts can assist you, please speak to your regular Aon Hewitt contact or email australia@aonhewitt.com

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