

2010/11 Federal Budget Report

Overview

Despite government claims to the contrary, and talk of fiscal restraint, the Budget 2010 has many of the traditional hallmarks of an election year budget.

Many of the Budget measures reconfirmed the Government's response to the Henry Tax Review. While mining companies and smokers have been hit with tax increases, the final instalment of cuts to personal tax rates effective from 1 July 2010 announced in last year's budget will go ahead, and there is increased spending on health.

The most significant financial planning change is the 50 per cent tax discount on the first \$1,000 of interest income earned by individuals, providing an incentive for increased saving. Permanent higher concessional contribution caps for those aged 50 or over, whose total superannuation balance is less than \$500,000 are a welcome addition.

Economically, there is good news, with an earlier forecast return to surplus and lower forecasts for unemployment.

Importantly, the changes outlined in this summary are proposals only at this stage, and will not take effect until passage of the relevant legislation.

Savings incentive

Proposed start date: 1 July 2011

The Government will provide a 50 per cent tax discount on up to \$1,000 of interest earned by individuals, including interest earned on deposits held in authorised deposit taking institutions (e.g. eligible banks, building societies and credit unions), bonds, debentures and annuity products. The discount will be available for interest income earned directly as well as indirectly, such as via a trust or managed investment scheme.

An individual on a 30 per cent marginal tax rate will derive a maximum benefit of approximately \$157 and approximately \$232 for an individual on the top marginal tax rate.

This is good news for those with a preference or need for interest bearing accounts.

There may be flow on effects for Family Tax Benefit and other concessions.

Comment Your adviser can help you plan or review your investment in fixed interest for these changes.

Superannuation

Changes to the superannuation co-contribution scheme

Proposed start date: 1 July 2010

The reduced matching rate for the superannuation co-contribution will be permanently held at 100 per cent. The maximum co-contribution payable will be \$1,000.

Current thresholds will be frozen at \$31,920 and \$61,920 for the next two financial years.

Comment If you're eligible, the co-contribution is still an attractive strategy. It provides a 100% return on investment in the year the contribution is made, with earnings on the co-contribution taxed at a maximum of just 15% within superannuation.

Government superannuation contribution for low income earners

Proposed start date: 1 July 2012

A 15 per cent superannuation contribution (up to a maximum of \$500 p.a.) will be made by the Government to match the concessional superannuation contributions made by or for individuals with an adjusted taxable income (ATI) of up to \$37,000. The annual maximum of \$500 will be available where an individual has concessional contributions of \$3,333 or more, and will be paid by the Government into the individual's superannuation account. The \$500 maximum amount will not be indexed.

This is aimed at improving the equity of superannuation taxation arrangements for individuals with a marginal tax rate of less than 30 per cent.

Comment If you are self employed or under age 65 and not working, with super or investment income and are salary sacrificing for wealth creation, speak to your adviser.

Increasing the superannuation guarantee age limit from 70 to 75

Proposed start date: 1 July 2013

Employees aged 70 to 74 will be entitled to superannuation guarantee (SG) contributions, with the SG age limit increasing from 70 to 75. The new age limit will bring employer obligations in line with the age limit for voluntary and self-employed contributions.

Comment This is great news for those clients who wish to continue working as it allows them to continue to receive contributions into superannuation resulting in an increase their retirement benefit.

Increasing the Superannuation Guarantee (SG)

Proposed start date: 1 July 2013

There will be a phased increase in the SG rate from 9 per cent to 12 per cent. The lead time and phase in will allow employers to take the increased SG contributions into account in future wage negotiations. The SG rate will be increased as follows:

Financial year	SG rate (%)	Increase from previous year (%)
2009/10 to 2012/13	9.00	–
2013/14	9.25	0.25
2014/15	9.50	0.25
2015/16	10.00	0.50
2016/17	10.50	0.50
2017/18	11.00	0.50
2018/19	11.50	0.50
2019/20	12.00	0.50

Comment Your adviser can help you plan the increase in SG contributions and manage salary sacrifice contributions to stay within your concessional contributions caps.

Extending the concessional contributions cap for persons aged 50 or over

Proposed start date: 1 July 2012

The \$50,000 transitional concessional contributions cap will be extended permanently for individuals aged 50 or over with total superannuation balances of less than \$500,000.

This measure is intended to allow individuals with low superannuation balances the opportunity to ‘catch up’ on their superannuation contributions at the stage in their lives when they are most able to do so.

Note that there are no changes to the current non-concessional contribution rules.

Comment If your super balance is under or close to \$500,000 contact your adviser to look at strategies to benefit from the improved contributions limits becoming available.

Taxation

Changes in personal income tax

Proposed start date: 1 July 2010

Income tax rates announced in the 2009 Budget have been reaffirmed:

2009/10 financial year		2010/11 financial year	
Taxable income \$	Tax rate %	Taxable income \$	Tax rate %
0 – 6,000	0	0 – 6,000	0
6,001 – 35,000	15	6,001 – 37,000	15
35,001 – 80,000	30	37,001 – 80,000	30
80,001 – 180,000	38	80,001 – 180,000	37
Over 180,000	45	Over 180,000	45

The maximum low income tax offset (LITO) will increase from \$1,350 to \$1,500 per financial year from 1 July 2010. The threshold at which the offset begins to phase out will remain at \$30,000. Those eligible for the full LITO will have an effective tax-free threshold of \$16,000 in 2010/11.

Comment The changes provide a tax saving of between \$150 and \$1,300 for taxpayers. Contact your adviser to review the impact of these changes on your wealth creation plan.

Income tax treatment of instalment warrants

The income tax treatment of qualifying instalment warrants will be amended (from 1 July 2007) to provide certainty for investors by affirming them as the owner of the underlying asset for income tax purposes.

Capital protected borrowings – change to benchmark interest rate

Proposed start date: 7.30 pm 13 May 2008

The Government will adjust the benchmark interest rate that applies to capital protected borrowings to the Reserve Bank of Australia (RBA) indicator rate for standard variable housing loans plus 100 basis points, instead of the RBA indicator rate for standard variable housing loans as announced in the 2008/09 Federal Budget.

The Government will also extend the transitional arrangements for capital protected borrowings entered into at or before 7.30 pm (AEST) 13 May 2008 from the announced date of 13 May 2013 to 30 June 2013, to reduce compliance costs for affected taxpayers.

The change may allow borrowers to effectively obtain a higher deduction.

Medicare levy thresholds

Proposed start date: 1 July 2009

The Medicare levy low-income threshold will increase to \$18,488 (up from \$17,794) for singles and to \$31,196 (up from \$30,025) for couples. Singles or couples with incomes in the 2009/10 financial year below these new thresholds will be exempt from the Medicare levy. For families, the additional amount of threshold for each dependent child or student will also be increased to \$2,865 (up from \$2,757).

The Medicare levy low-income threshold for pensioners below Age Pension age will also be increased to \$27,697 (up from \$25,299) for the 2009/10 financial year. A pensioner below Age Pension age with an income in 2009/10 below this new threshold will be exempt from the Medicare levy.

Net medical expenses tax offset

Proposed start date: 1 July 2010

The threshold above which a taxpayer may claim the net medical expenses tax offset will increase from \$1,500 to \$2,000 and annual indexation of the threshold to the Consumer Price Index will begin from 1 July 2011.

Standard tax deduction

Proposed start date: 1 July 2012 and 1 July 2013

An individual taxpayer may claim a standard deduction of \$500 for work-related expenses and the cost of managing tax affairs from 1 July 2012 and increasing to \$1,000 from 1 July 2013.

Those taxpayers with deductible expenses greater than the standard deduction amount will still be able to claim their higher expenses, rather than electing to claim the standard deduction amount.

This may also improve eligibility for social security payments and other concessions, such as the Family Tax Benefit.

Company tax rate

Proposed start date: various from 2013 financial year

The company tax rate for eligible small business companies will be cut to 28 per cent from the 2013 financial year. As a result, small business companies will have a lower tax rate than other companies until the reduction in the general company tax rate to 28 per cent in 2014/15.

The company tax rate will be reduced from 30 per cent to 29 per cent for the 2013/14 financial year and to 28 per cent from the 2014/15 financial year.

Comment If you're a small business owner, your adviser can help you review the impact of the proposed changes to company tax rate and superannuation guarantee for your [wealth creation plan](#).

Write-off of small business assets

Proposed start date: 1 July 2012

Small businesses may immediately write off all assets costing less than \$5,000 and most other assets (not including buildings) may be depreciated in a single pool at a 30 per cent rate.

This is an improvement on the existing depreciation concessions available to small businesses, which currently limit write-offs to assets which cost less than \$1,000.

Resources super profits tax

Proposed start date: 1 July 2012

The Government will introduce a resources super profits tax (RSPT) payable at a rate of 40 per cent on the profits attributable to the exploitation of non-renewable resource deposits. The exception is projects within the scope of the Petroleum Resource Rent Tax for which opt-in arrangements will be developed in consultation with industry.

Managed investment trusts – new tax system and capital account treatment

Proposed start date: 1 July 2011

A new tax system for managed investment trusts (MIT) is to apply from 1 July 2011.

An elective 'attribution' system of taxation is to replace the current system of present entitlement. The new system provides that investors will be taxed only on the income that the trustee allocates to them on a fair and reasonable basis, consistent with their entitlements under the trust deed or the trust's constituent documents.

Effective 1 July 2008, measures to allow an MIT to elect to have the CGT regime as the primary code for taxing gains and losses on the disposal of key investments are to be introduced. This includes expanding the definition of an MIT to ensure that a broader range of widely held trusts are able to make an election, and expanding the scope of eligible assets.

These changes may generally provide a positive outcome for MIT providers and investors.

Social security

Special disability trusts

Special disability trusts enable parents and immediate family members to put money aside for the future care and accommodation needs of a family member with a severe disability.

Changes will be made to expand the definition of a beneficiary to include people with a disability who can work

up to seven hours per week (excluding work in an Australian Disability Enterprise).

Additionally, the allowable uses for the trust will be expanded to include all medical expenses, including membership costs of private health funds, maintenance expenses of special disability trust property and discretionary spending of up to \$10,000 per year.

Comment The expansion of the eligibility criteria and allowable uses for special disability trusts makes them more useful.

First Home Saver accounts

Currently, a First Home Saver (FHS) account holder is required to keep their savings in an FHS account for four financial years before they are able to use those savings to buy a home. If the account holder buys a home prior to the end of that four year period, the balance of their FHS account must be transferred to their superannuation account so that it remains in a concessional tax environment.

To increase the flexibility of FHS accounts, the Government will allow savings in an FHS account to be paid into an approved mortgage after the end of a minimum qualifying period, rather than requiring it to be paid to a superannuation account. The Government will release draft amendments for consultation, with the changes applying for homes purchased after Royal Assent of the legislation.

Comment This will provide greater flexibility for first home buyers and may increase the attractiveness of the scheme.



Note: Any advice contained in this document is general in nature and does not consider your particular situation. Please do not act on this advice until its appropriateness has been determined by a qualified adviser. Whilst the tax implications have been considered we are not, nor do we purport to be a registered tax agent. We strongly recommend you seek detailed tax advice from an appropriately qualified tax agent before proceeding.

Need more information?

Contact your Genesys wealth adviser to arrange a consultation.