

Federal Budget Bulletin May 2010

In the recovery phase from the global financial crisis, Wayne Swan delivered Labour's third budget on 11 May 2010. The economic outlook is positive and reflects the milder economic downturn than the forecasts in 2009. However, as economic recovery is a slow process, the budget deficit is forecast at \$40.8 billion for 2009/2010 with further budget deficits predicted for the next two years before a return to surplus.

A number of budget announcements which affect tax have been summarised at a high level for your information. We note some of these budget measures were previously announced in the Henry Report which was released on 2 May 2010.

Personal Income Tax

The changes to personal income tax rates announced in the budget are the same as were proposed in the 2009 budget. The new rates and thresholds are:

Current	%	From 1 July 2010	%
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
180,000+	45	180,000+	45

Low Income Offset – The offset has been increased to \$1,500 from 1 July 2010 (currently \$1,350), which will effectively increase the tax free threshold for low income earners to \$16,000. It will begin to phase out once income reaches \$30,000.

Medicare Levy Low Income Threshold – The Medicare levy low income threshold will be increased to \$18,448 for individuals, and \$31,196 for families. The threshold will increase by \$2,865 for each child. The threshold will increase to \$27,697 for single pensioners who are below Age Pension age.

Medical Expenses Rebate – The threshold for the 20% rebate of net out-of-pocket medical expenses will increase from \$1,500 to \$2,000 from 1 July 2010. This threshold will be indexed annually to CPI from 1 July 2011.

Standard Work Related Deduction – From 1 July 2012, individuals will have the option for a standard work related expenses and cost of managing tax affairs deduction of \$500 which will increase on 1 July 2013 to \$1,000. The purpose of this measure is to enable quick 'tick and flick' tax return preparation for individuals with very simple tax affairs.

50% Discount on Interest Earnings – From 1 July 2011, individuals will be eligible for a 50% discount on the first \$1,000 of interest income. This includes interest income earned from all sources.

First Home Saver Account Changes - The rules for use of funds in first home saver accounts have been relaxed to allow FHSA monies to be transferred to an approved mortgage account where the account holder acquires a home before the end of the four year restriction period. Previously, a first home saver account holder could not apply the funds against a mortgage for the first four years and if a residential dwelling was purchased during the restriction period, all monies were required to be transferred to superannuation.

Superannuation

Government Co-Contribution – The government superannuation co-contribution amount will be permanently reduced to 100% of eligible contributions from 2012/13 onwards which reverses the 2009 budget proposal of a gradual phasing back up to 150% of eligible contributions by 2014/15. Additionally, the thresholds for eligibility for the co-contribution will be frozen for the next two years at \$31,920 for the low income threshold and \$61,920 at the high income threshold.

Increase in Superannuation Guarantee – A gradual increase in the superannuation guarantee rate from 9% to 12% will be phased in over the next 10 years. The first increase to 9.25% will be effective from 1 July 2013.

Government Contribution for Low Income Earners – From 1 July 2012, the government will provide an additional superannuation contribution to workers earning \$37,000 or less, up to the value of \$500. This will effectively reduce their superannuation contributions tax to nil.

Increase in Super Contribution Thresholds – Workers who are aged 50 years or older who have a superannuation balance of less than \$500,000 will have their concessional contributions cap increased to \$50,000 from 1 July 2012. This is to replace the transitional cap for workers aged 50 years or older which expires on 30 June 2012.

Minor Changes – There are a number of minor changes to superannuation fund administration and processes including:

- allowing the Commissioner to exercise discretion before an excess contributions tax assessment is issued
- increasing the time limit for deductible employer contributions made for former employees
- review availability of deductions to superannuation funds providing benefits to a member with a terminal medical condition

Families

Family Tax Benefit Part B – It was announced in the 2009 budget that FTB Part B would no longer be paid fortnightly to taxpayers who had not lodged an income tax return in the previous twelve months. This measure will be revoked for individuals who do not have a Family Tax Benefit debt and where it would cause undue hardship for the payments to be delayed.

Child Care Rebate – The cap will be reduced from \$7,778 to \$7,500 per year from 1 July 2010 with indexation on the cap frozen for the next four years.

Business

Resource Super Profits Tax – Businesses who are involved in the exploitation of Australia’s non-renewable resources in mining and petroleum will be subject to a 40% tax on assessable resource profits. This additional tax covers resource extraction activities rather than exploration.

Reduction in Company Tax Rate – From 1 July 2013, the general company income tax rate will be reduced from the current 30% to 29% with a further reduction from 1 July 2014 to 28%. Eligible small businesses will have earlier access the lower company tax rate of 28% from 1 July 2012.

Asset Write Offs for Small Business – From 1 July 2012, small businesses will be able to access an immediate write off for depreciable assets purchased for less than \$5,000. All other depreciable assets (excluding buildings) will be eligible to be pooled and depreciated at a flat 30%.

Reduction on Income Tax Withholding Rates – It has been announced that income tax withholding on interest paid to a foreign parent for offshore borrowings will be gradually phased down as follows:

	Australian Subsidiaries of Offshore Parent	Australian branches of offshore head offices
Up to 30 June 2013	Up to 10%	Up to 5%
1 July 2013 to 30 June 2014	7.5%	2.5%
1 July 2014 to 30 June 2015	5%	0%
From 1 July 2015	Possibly 0%	0%

This reduction in income tax withholding will not apply to interest paid to non-residents on retail deposits held in Australia.

Goods & Services Tax

Review of Margin Scheme – Following public consultation, the government will look at a range of options to simplify the margin scheme with the changes to be effective from 1 July 2012.

Hire Purchase Agreements – The introduction of changes from 1 July 2012 to aim simplify the GST treatment of hire purchases and allow businesses accounting for GST on a cash basis to claim in the input tax credits upfront.

Should you have any questions or concerns regarding the matters discussed above, please contact us on +61 7 3266 1488 or by email at mail@dfkhn.com.au.

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