

# 2010-2011 BUDGET NEWSLETTER

12 MAY 2010

**Welcome** to KD Partners' first Federal Budget Newsletter. We have outlined the key announcements from last night's budget which in part confirms the Government's response to the Henry Review from last week.

If there are any questions you would like to ask or should you wish to seek clarification regarding the impact of any of the measures contained in this Budget on your own circumstances, please don't hesitate to contact us.

Enjoy

Kim Buttenshaw  
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KD Partners Pty Ltd



## PERSONAL INCOME TAX

### Small Savers Tax Break

Commencing on 1 July 2011, there will be a 50% reduction in the tax payable on interest income of up to \$1,000 from savings and investments such as bank deposits and other fixed income products. The intention is to promote savings outside of superannuation through taking the first step in aligning the tax treatment of those who keep their money in savings with those who invest into assets which derive capital gains.

This was a measure recommended in the Henry Review however the Review recommended a reduced discount of 40%.

### Standard Deductions

From 1 July 2012, taxpayers will be able to claim a standard deduction of \$500 for their work related and tax advice expenses without any proof. Those who believe they have more than \$500 in legitimate deductions will still be able to calculate their individual expenses and claim the full amount. From 1 July 2013, the standard deduction will be raised from \$500 to \$1,000.

This is a measure recommended by the Henry Review.

### First Home Buyers Account Scheme

As an effort to save the scheme which had an extremely poor take-up on the first time around, savers investing money in such accounts will be allowed to withdraw the funds to be paid into an approved mortgage after the minimum period expires.

This allows those savers to acquire a house prior to the end of the minimum period, currently 4 years, without having the account balance paid into their superannuation fund.

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## Net Medical Expenses Tax Offset

The Government will increase the threshold above which a taxpayer may claim the net medical expenses tax offset from \$1,500 to \$2,000 and commence annually indexing the threshold to the Consumer Price Index with effect from 1 July 2010. The first indexation adjustment to the threshold will take place on 1 July 2011.

## Capital Protected Product Deductions

The Government has proposed to allow investors in capital protected products an interest deduction limited to the Reserve Bank indicator rate for standard variable housing loans plus 1%. Previously the Government announced that it would reduce the allowable interest deduction to the standard variable housing loan rate itself however this was never introduced as law.

## Medicare Levy

The Medicare Levy low income threshold will increase to \$18,488 (from \$17,794) for singles, and to \$31,196 (up from \$30,025) for couples. This means that singles or couples with incomes in the 2010-11 income 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 increase in the singles threshold also ensures that a low income family member in a family with a combined income above the Medicare Levy Surcharge family threshold, and who does not have appropriate private patient hospital insurance, will not be required to pay the Medicare Levy or Medicare Levy Surcharge.

## Income Tax Rates

The Government's third round of tax cuts will take effect from 1 July 2010. The rates for resident individuals are set out in the following table:

Current Thresholds (2009/10)	Tax Rate (%)	Thresholds from 1 July 2010	Tax Rate (%)
\$0 - \$6,000	0	\$1 - \$6,000	0
\$6,001 - \$35,000	15	\$6,000 - \$37,000	15
\$35,001 - \$80,000	30	\$37,001 - \$80,000	30
\$80,001 - \$180,000	38	\$80,001 - \$180,000	37
\$180,001 and over	45	\$180,001 and over	45

## Low Income Tax Offset Increase

The Low Income Tax Offset will increase from the current level of \$1,250 to \$1,500 from 1 July 2010. This will allow individuals to earn up to \$16,000 and not have to pay income tax.

## Senior Australian Tax Offset

The amount of income a senior Australian eligible for the Senior Australian Tax Offset can earn before they pay income tax or the Medicare Levy will increase from \$29,867 to \$30,685 for singles, and from \$25,680 to \$26,680 for each member of a couple.

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## CORPORATE TAX

### Changes to Company Tax Rates

The Government has confirmed the previously announced changes to the company tax rate. This is to be reduced from 30% to 29% in the 2013/2014 tax year, with a further reduction to 28% in the 2014/2015 tax year. Small businesses will get the 28% tax rate effective from the 2011/2012 tax year.

It is important to note that this reduced tax rate only applies to companies (ie. not sole traders, partnerships etc.).

### The New Resource Super Profit Tax

The Government has confirmed the previously announced new 40% tax on the "super profit" earned by the resources sector from 1 July 2012.

In recognising that this sector is already subject to the State based mining royalties, the Government has indicated that the affected companies will be provided with a rebate equivalent to the royalties paid to the State Governments before being levied the 40% tax on their super profit.

### Depreciation

As announced in the Government's response to the Henry Review, from 1 July 2012, small businesses will be able to write off assets worth up to \$5,000 (up from the current \$1,000 limit). Unlike the reduction in the company tax rate, this concession is available to all small businesses and not only to companies.

All other assets owned by small businesses (other than buildings) may be "pooled" and depreciated at a single rate of 30% from 1 July 2012.

### Capital Gains Tax

The Government has proposed to make amendments to the CGT provisions to improve the ability of businesses to restructure. The Government will:

- Extend the CGT Rollover for the conversion of a body to an incorporated company;
- Make the share sale facility exclusion more broadly available for CGT rollovers; and
- Allow CGT demerger relief for certain demerger groups that currently cannot access the relief.

The three measures will apply to CGT events happening after 7.30 pm (AEST) on 11 May 2010.

## Earnout Arrangements

The Government will allow all payments under a qualifying earnout arrangement to be treated as relating to the underlying business asset. This measure will have effect from the date of Royal Assent of the enabling legislation, with transitional provisions available in certain cases from 17 October 2007.

This is a welcome change to the current provisions as interpreted in Taxation Ruling TR 2007/D10 as it will ensure that the entire proceeds received on the sale of a business are eligible for the Small Business concessions where applicable.

## GOODS AND SERVICES TAX

### Reductions in Compliance Costs

The Government will reduce compliance costs for businesses through a package of GST reform measures to help business owners spend less time wading through red tape.

The key components of the plan are :

- Restructuring the margin scheme provisions with effect from 1 July 2012. These are currently a way of working out the GST payable when property is sold as part of a business. This will clarify and simply the rules, and ensure greater certainty for taxpayers on issues surrounding the use of valuations;
- Significantly increasing the threshold above which businesses need to interact with the financial supplies provisions from \$50,000 to \$150,000 of input tax credits with effect from 1 July 2012;
- Introducing measures to protect the GST base by reducing opportunities for businesses to inappropriately take advantage of the reduced input tax credit concessions by bundling services; and
- Allowing small businesses accounting for GST on a cash basis to claim input tax credits upfront in relation to hire purchase arrangements. This change will significantly assist those businesses that have been forced into higher cost chattel mortgages following the introduction of the GST.

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## SUPERANNUATION

### Superannuation Co-contributions

The Government has announced that the co-contribution matching rate will remain at 100% rather than 150% it was previously at prior to being temporarily reduced in the last budget. This means that a maximum payment of \$1,000 will be made by the Government to match an eligible person's contribution of \$1,000.

The income thresholds for the full co-contribution for individuals will be frozen at \$31,920 in 2011 and 2012. The co-contribution will phase out until an individual's income reaches \$61,920, at which point the individual will not be eligible.

### Minor Super Amendments

The Government will make a number of minor amendments to improve the operation of the superannuation legislation, with intended effect from the 2010-11 income year.

The amendments include:

- Permanently allowing a claim for a deduction for eligible contributions to be made to successor superannuation funds;
- Increasing the time-limit for deductible employer contributions made for former employees;
- Clarifying the due date of the shortfall interest charge for the purposes of excess contributions tax;
- Allowing the Commission of Taxation to exercise discretion for the purposes of excess contributions tax before an assessment is issued; and
- Providing new arrangements for public sector defined benefit schemes which fund benefits through "last minute contributions".

### Disclaimer

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## Superannuation Guarantee Charge

The Government has confirmed its previously announced changes to the Superannuation Guarantee Contribution Charge. There will be a gradual increase in the SGC contribution rate payable by employers from the current 9% to 12%, with the increase to be introduced as outlined in the following table:

Year	Rate
2013 – 2014	9.25%
2014 – 2015	9.50%
2015 – 2016	10.00%
2016 – 2017	10.50%
2017 – 2018	11.00%
2018 – 2019	11.50%
2019 – 2020	12.00%

- The upper age limit for the requirement that an employer remit Superannuation Guarantee contributions will increase from 70 years of age to 75 years of age from 1 July 2013;
- Taxpayers with income of \$37,000 or less will receive a superannuation co-contribution from the government of \$500 per annum;
- Taxpayers who are aged 50 and over who have less than \$500,000 in superannuation will be able to make concessional superannuation contributions of up to \$50,000 from 1 July 2012 (the transitional limit is currently \$50,000 however it was previously to revert to \$25,000 from that date);
- The annual non-concessional contribution cap of \$150,000 p.a. for those aged under 75 remains and taxpayers under age 65 can still make contributions up to \$450,000 over a rolling 3 year period.

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