

## 2009-2010 Commonwealth Budget Report

### PERSONAL TAX RATES

The Government has not announced any further changes to personal tax rates. The income tax thresholds and tax rates for residents for the next two years will be as follows:

Current		2009-10		2010-11	
Taxable income	Rate	Taxable income	Rate	Taxable income	Rate
(\$)		(\$)		(\$)	
0 - 6,000	0%	0 - 6,000	0%	0 - 6,000	0%
6,001 - 34,000	15%	6,001- <b>35,000</b>	15%	6,001 - <b>37,000</b>	15%
34,001 - 80,000	30%	<b>35,001</b> - 80,000	30%	<b>37,001</b> - 80,000	30%
80,001 - 180,000	40%	80,001 - 180,000	<b>38%</b>	80,001 - 180,000	<b>37%</b>
180,001+	45%	180,001+	45%	180,001+	45%

### LOW INCOME TAX OFFSET INCREASE

The low income tax offset will increase to \$1,350 for 2010, and \$1,500 by 2011, taking the effective tax free threshold to \$16,000 by 2011.

	Current	2009-10	2010-11
Offset	<b>\$1,200</b>	<b>\$1,350</b>	<b>\$1,500</b>
Effective tax free threshold	<b>\$14,000</b>	<b>\$15,000</b>	<b>\$16,000</b>
Maximum tax-free distribution to a minor	<b>\$2,666</b>	<b>\$3,000</b>	<b>\$3,333</b>

### INCREASE TO MEDICARE LOW-INCOME THRESHOLDS

The Medicare levy low-income thresholds will be increased to:

- \$17,794 for individuals and
- \$30,025 for individuals in families

The additional amount of threshold for each dependent child or student will also increase to \$2,757. The increase in these thresholds ensures that low income families and individuals are not liable to pay the Medicare levy.

The Medicare levy threshold for pensioners below Age Pension age will increase to \$25,299. This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

*Date of effect - 1 July 2008*



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### **DECREASE IN SUPERANNUATION CONTRIBUTION CAPS**

The cap on concessional (deductible) superannuation contributions will reduce from \$50,000 per year to \$25,000 per year. The transitional concessional cap for those aged 50 to 74 years (which applies until 30 June 2012) will be cut from \$100,000 pa to \$50,000 pa. From 1 July 2012, the transitional concessional cap will revert to the lower cap of \$25,000.

The non-concessional (undeductible) contributions cap will remain at \$150,000 for the 2009-2010 year (or \$450,000 over 3 years).

*Date of effect – 1 July 2009*

### **SUPERANNUATION PENSION DRAWDOWN RELIEF EXTENDED**

The minimum drawdown amount for account-based pensions will be halved for the 2009-10 year. This extends the current concession provided to self-funded retirees for the 2008-09 year.

### **TRANSITION TO RETIREMENT INCOME STREAMS (TRIS)**

The Government has not announced any changes to Transition to Retirement pension arrangements.

### **INCREASE IN GOVERNMENT PENSIONS**

New pension arrangements will provide single pensioners with an extra \$32.49 per week for full rate pensioners, increasing the maximum weekly pension to \$336.68.

Couple pensioners will receive a combined additional \$10.14 per week, increasing the maximum assistance to \$507.50 per week.

*Date of effect – 20 September 2009*

### **CHANGES TO GOVERNMENT PENSION INCOME TEST**

The rate at which the pension is scaled-back will increase from 40 cents to 50 cents for each additional dollar of private income. However, pensioners who also work part time will benefit from the introduction of a Work Bonus – only half of the first \$500 of fortnightly employment income will be assessed as part of the income test. This will enable up to \$250 of earnings a fortnight to be excluded from means testing.

A pensioner's earnings will be assessed on a fortnightly basis.

*Date of effect – 20 September 2009*



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### **INCREASE IN AGE PENSION AGE**

The Age Pension age will be increased to 67 years, at a rate of six months every two years.

Date	New Pension Age	Affects People Born	Current Age
1 July 2017	65.5	1 Jul 1952 – 31 Dec 1953	55.5 to 57
1 July 2019	66	1 Jan 1954 – 30 Jun 1955	54 to 55.5
1 July 2021	66.5	1 Jul 1955 – 31 Dec 1956	52.5 to 54
1 July 2023	67	1 Jan 1957 onwards	52.5 and younger

*Date of effect – 1 July 2017*

### **COMMONWEALTH SENIORS HEALTH CARD**

The government will not proceed with their announcement in the 2008/09 Budget to change the Commonwealth Seniors Health Card income test to include gross tax free superannuation pension income in the adjusted taxable income test.

### **PAID PARENTAL LEAVE**

Eligible primary carers earning less than \$150,000 per year will receive Paid Parental Leave (PPL) for a continuous period of up to 18 weeks at the weekly rate of the Federal Minimum Wage (currently \$543.78). The Government will pre-pay the PPL to employers who will then be required to make the payments to the relevant employees.

Primary carers will be eligible for the scheme if they:

- earned less than \$150,000 in the full financial year prior to the birth or adoption of a child;
- have worked at least 330 hours over the 10 months preceding the birth or adoption of a child; and
- have also worked continuously with one or more employers for at least 10 of the 13 months before the expected date of birth or adoption.

*Date of effect – 1 January 2011*



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### **FAMILY TAX BENEFIT CHANGES**

The Government announced several changes concerning the Family Tax Benefit:

The Government will maintain the higher income thresholds for family payments at their current level until July 2012. The following higher income thresholds will remain fixed until July 2012:

- the Family Tax Benefit Part B primary earner income threshold, which will remain at \$150,000;
- the income threshold for receiving the dependency tax offsets, which will remain at \$150,000;
- the Baby Bonus eligibility threshold, which will remain at \$75,000 of family income in the 6 months following the birth or adoption of a child (equivalent to \$150,000 a year); and
- the upper threshold of Family Tax Benefit Part A (FTB-A), which will remain at \$94,316 of family income (plus \$3,796 for each child after the first).

### **PRIVATE HEALTH INSURANCE REBATE**

The government will introduce three new “Private Health Insurance Tiers” in respect of the Private Health Insurance Rebate as follows.

- Tier 1: for singles earning more than \$75,000 (couples \$150,000), the Private Health Insurance Rebate will be 20% for those up to 65 years (25% for those over 65, and 30% for those over 70 years). The Surcharge for not having private health insurance will remain at 1%.
- Tier 2: for singles earning more than \$90,000 (couples \$180,000), the Private Health Insurance Rebate will be 10%, for those up to 65 years (15% for those over 65, and 20% for those over 70 years). The Surcharge for not having private health insurance will be increased to 1.25%.
- Tier 3: for singles earning more than \$120,000 (couples \$240,000), no Private Health Insurance Rebate will be provided. The Surcharge for not having private health insurance will be increased to 1.5%.

For low and middle-income earners, the existing 30%, 35%, 40% Private Health Insurance rebates will remain in place.

*Date of effect – 1 July 2010*

### **FIRST HOME OWNERS GRANT SCHEME EXTENDED**

To further stimulate activity in the housing sector the Government will extend the first home owners grant scheme. Originally set to expire on 30 June 2009, the \$7,000 boost for existing dwellings and \$14,000 for new homes will continue at current levels until 30 September 2009. Therefore, purchasers of new homes will continue to be eligible for \$21,000 of assistance, and purchasers of existing homes will continue to be eligible for \$14,000 of assistance.



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From 1 October to 31 December 2009 however, the boost will be halved to \$3,500 for the purchase of established homes and \$7,000 for new homes. The boost will end after 31 December 2009.

This is in addition to the Victorian Government first home owners grant.

### **EMPLOYEE SHARE SCHEMES**

Changes to the rules governing the taxation of shares and options acquired under an employee share scheme, now result in assessing the arrangements in the income year in which they are acquired.

Therefore, employees acquiring shares or options under qualifying employee share schemes will no longer be able to elect to defer taxation on their discount to a later time.

Furthermore, there will be a limit to the \$1,000 tax exemption to employees with an adjusted taxable income of less than \$60,000.

*Date of effect – 12 May 2009*

### **LIMITING OF TAX EXEMPTION FOR FOREIGN EMPLOYMENT INCOME**

Tax exemptions that previously applied to Australians working overseas for a period of 91 or more consecutive days will now be available only to the following employees:

- aid workers (both in Government and non-Government organisations),
- charitable workers,
- certain Government Employees (such as police force personnel deployed overseas), and
- employees working on overseas projects approved by the Minister for Trade as being in the National Interest.

*Date of effect – 1 July 2009*

### **SMALL BUSINESS TAX BREAK**

Small businesses (businesses with less than \$2m annual turnover) that acquire eligible assets between 13 December 2008 and 31 December 2009 and install it ready for use by 31 December 2010 will be eligible for a bonus tax deduction of 50% of the cost of the asset. This is an increase on the 30% investment allowance announced on 3 February 2009, and extends the original end-date from 30 June 2009 to 31 December 2009.

Businesses other than 'small businesses' will continue to be eligible for the 30% rate for eligible assets acquired before 30 June 2009, and the 10% rate for eligible assets acquired before 31 December 2009.



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Further enhancements to the tax break include the ability to:

- aggregate their investment in assets that are substantially identical, or that form a set, to meet the threshold
- claim the deduction for additional investments made in an asset where the initial investment qualified for the tax break

*Date of effect – 13 December 2008*

### **SMALL BUSINESS CASH-FLOW**

PAYG Instalments payable by small businesses in 2009-10 will be reduced to help provide cash-flow relief. This measure applies to small business taxpayers who pay quarterly PAYG instalments based on their previous year's tax adjusted by GDP growth. The reduced instalment will be calculated by using a GDP adjustment factor of around 2 per cent instead of 9 per cent

### **RESEARCH & DEVELOPMENT (R&D) TAX CREDIT FOR COMPANIES AND TRUSTS**

The current R&D concession will be replaced by the R&D Tax Credit.

The new R&D tax credit will provide a 45% refundable credit for businesses with an annual turnover of less than \$20m (i.e. equivalent to a 150% deduction). The credit will be available to small companies in a loss position, with no limit on the level of R&D expenditure undertaken.

Businesses with a turnover of more than \$20m will be entitled to a 40% non-refundable credit (equivalent to a 133% deduction).

Companies undertaking R&D in Australia where the intellectual property is held offshore will also be able to access the 40% non-refundable credit.

*Date of effect – 1 July 2010*

### **NON COMMERCIAL BUSINESS LOSSES**

The Government will tighten non-commercial loss rules to prevent high-income individuals (that is, individuals earning more than \$250,000 per year) from deducting losses against their salary and wage income where the losses are derived from an activity that is unlikely to make a profit.

The existing rules will continue to apply to taxpayers earning less than \$250,000 a year. The new test for taxpayers with adjusted taxable income greater than \$250,000 will restrict the ability of such taxpayers to claim losses for non-commercial activities that are more likely to be in the nature of lifestyle choices or hobbies.

*Date of effect – 1 July 2009*



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### **DISTRIBUTIONS BY TRUSTS**

The tax file number (TFN) withholding arrangements will be extended to closely held trusts, including family trusts. Closely held trusts are trusts that generally have fewer than 20 beneficiaries.

Closely held trusts will need to withhold amounts from trust distributions at the top marginal tax rate where taxpayers have not provided a TFN to the trustee. This will ensure that taxable distributions to a beneficiary of a closely held trust, including a family trust, are included in the beneficiary's tax return. Individuals who have had tax withheld by trustees can claim a credit for that tax in their personal tax return.

The measure will not apply to income upon which tax is directly payable by the trustee of the trust, such as the income assessable to minors.

*Date of effect – 1 July 2010*

### **DIVISION 7A AND PRIVATE COMPANIES**

The Division 7A deemed dividend rules will be extended to payments by way of a licence or right to use real property and chattels, such as cars, boats and real estate.

This will reduce the scope for private companies to allow their shareholders or associates to use such company assets for free, or at less than their arm's length value, without incurring tax.

*Date of effect – 1 July 2009*

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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