

2010-2011 Commonwealth Budget Report

PERSONAL TAX RATES

The Government has not announced any further changes to personal tax rates currently legislated for 2010-2011. The income tax thresholds and tax rates for residents (excluding the 1.5% Medicare levy) are:

Current 2009-2010 Income year		From 1 July 2010	
Taxable income	Rate	Taxable income	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%
180,001+	45%	180,001+	45%

LOW INCOME TAX OFFSET INCREASE

The low income tax offset will increase to \$1,500 from 1 July 2010, taking the effective tax free threshold to \$16,000.

	Current 2009-2010	From 1 July 2010
Offset	\$1,350	\$1,500
Effective tax free threshold	\$15,000	\$16,000
Maximum tax-free distribution to a minor	\$3,000	\$3,333

As a consequence of the increase in the low income tax offset, the income level below which senior Australians (eligible for the senior Australians tax offset) will have no tax liability will also increase as follows:

	Current 2009-2010	From 1 July 2010
Effective tax free threshold – single person	\$29,867	\$30,685
Effective tax free threshold – each member of a couple	\$25,680	\$26,680

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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INCREASE TO MEDICARE LOW-INCOME THRESHOLDS

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

- \$18,488 for individuals and
- \$31,196 for individuals in families

The additional amount of threshold for each dependent child or student will also increase to \$2,865. 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 \$27,697. 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 2009

MEDICAL EXPENSES TAX OFFSET THRESHOLD

The medical expenses tax offset threshold will be increased from \$1,500 to \$2,000. The threshold will also be indexed annually (with effect from 1 July 2011).

Date of effect – 1 July 2010

50% SAVINGS DISCOUNT FOR INTEREST INCOME

Individuals will receive a 50% tax discount on up to \$1,000 of interest earned, including interest earned on deposits held with any bank, building society or credit union, as well as bonds, debentures or annuity products.

The discount will be available for interest earned directly, as well as indirectly, such as via a trust or a managed investment scheme.

Date of effect – 1 July 2011



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NEW STANDARD DEDUCTION FOR WORK RELATED EXPENSES

Individual taxpayers will be able to claim \$500 for work related expenses and the cost of managing their tax affairs as a standard deduction. Individuals with deductible expenses greater than \$500 will still be able to claim the higher amount with substantiation. The standard deduction will increase from 1 July 2013 to \$1,000.

The standard deduction will also reduce individuals' and families' adjusted taxable income for the purpose of determining their eligibility for Government benefits and other concessions (eg the Family Tax Benefit, Baby Bonus, Child Care Benefit, the Commonwealth Seniors Health Card and the Seniors Supplement).

Date of effect - 1 July 2012

REDUCTION IN CHILD CARE REBATE

The Child Care Rebate will be reduced from \$7,778 to \$7,500 per child, being the 2008/09 level. The indexation cap will be frozen for the next four years.

Date of effect - 1 July 2010

FIRST HOME SAVER ACCOUNT CHANGES

The first home saver account rules are to be amended to allow first home saver account (FHSA) monies to be transferred into an approved mortgage where the FHSA holder purchases a home before the end of the four-year period.

At present, FHSA holders who buy a house within four years of opening a FHSA have to transfer their money to their superannuation fund in order to maintain the concessional treatment.

CHANGES TO CONDITIONS APPLYING TO SPECIAL DISABILITY TRUSTS

Amendments will be made to the eligibility criteria and the allowable uses for Special Disability Trusts.

People with a disability who work up to seven hours per week (excluding work in an Australian Disability Enterprise) will now qualify as beneficiaries. 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.

Date of effect - 1 January 2011



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CAPITAL PROTECTED BORROWINGS - BENCHMARK INTEREST RATE

Capital protected products allow an investor to borrow to purchase shares, units or stapled securities. These shares, units or stapled securities purchased then become security for the loan. Under the terms of the financial product, if the shares, units or stapled securities fall in value below their purchase price, the purchaser can transfer the shares, units or stapled securities back (a put option) or surrender them to the lender to meet all outstanding obligations under the loan (a limited recourse loan).

Capital protected loans generally attract higher interest rates and/or additional fees therefore the government may not always allow a full deduction for the interest.

For investments in these products entered into from 1 July 2007, the allowable interest deduction has been the lower of the actual interest paid or the interest that would have been payable using the Reserve Bank of Australia's (RBA) indicator variable interest rate for personal unsecured loans (known as the benchmark interest).

However, the 2008-09 Budget announced that the benchmark interest would be changed to the RBA indicator rate for standard variable housing loans which was to substantially reduce the allowable interest deduction for investments in these products entered into after 13 May 2008.

In the current budget, the Government has announced that the benchmark interest rate to apply to capital protected borrowings entered into from 13 May 2008 will be the RBA indicator rate for standard variable housing loans **plus 100 basis points**.

Date of effect – 13 May 2008

REDUCTION IN COMPANY TAX

The Company Tax rate will be reduced to 28%.

Small companies (less than \$2 million turnover) will benefit from this reduction in 2012-13, however for other companies it will be phased in at 29% from 2013-14 and 28% from 2014-15.

Income year	Small Companies	Other Companies
2010-2011	30%	30%
2011-2012	30%	30%
2012-2013	28%	30%
2013-2014	28%	29%
2014-2015	28%	28%

Date of effect - 1 July 2012



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SMALL BUSINESS ASSET WRITE-OFF

The Government announced that it will increase the threshold for low value assets that can be deducted immediately by small businesses (less than \$2 million turnover).

Small businesses will be able to immediately write-off assets valued at under \$5,000 (currently \$1,000) and all other assets (except buildings) will be written off in a single depreciation pool at a rate of 30%.

Date of effect - 1 July 2012

HIRE PURCHASE ARRANGEMENTS

Small businesses accounting for GST on a cash basis that purchase an asset using a hire purchase arrangement are currently not entitled to claim 100% of the GST at the time of purchase. Rather they can only claim back GST every month of approximately 1/11th of the monthly HP payment. Many businesses therefore opt to purchase these assets using a chattel mortgage in order to claim 100% of the GST at the time of the purchase.

It is proposed that these businesses will now be allowed to claim 100% of the GST up front in relation to these hire purchase arrangements rather than having to use the generally higher cost chattel mortgages.

Date of effect – 1 July 2012

GST MARGIN SCHEME REFORMS

The Government announced that the margin scheme provisions in Div 75 of the GST Act will be restructured to clarify and simplify the current provisions. The Government will also make a minor technical amendment to ensure that a valuation can be obtained for the purposes of using the margin scheme for subdivided land.

Date of effect - 1 July 2012

DEALING WITH THE CASH ECONOMY

The Government has announced that it will dedicate \$107.9 million over four years to the Australian Taxation Office to combat the cash economy.



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RESOURCE SUPER PROFITS TAX (RSPT)

A Resource Super Profits Tax (RSPT) will be introduced that will tax non-renewable resource projects. The RSPT will be charged at a rate of 40% on profits made from the exploitation of Australia's non-renewable resources.

The RSPT will replace the crude oil excise and will operate in parallel with State and Territory royalty schemes. Taxpayers will be eligible for a credit for royalties paid to State and Territory Governments.

Date of effect - 1 July 2012

REDUCTION TO THE SUPERANNUATION CO-CONTRIBUTION

The Government will permanently retain the 100% superannuation co-contribution matching rate on non-concessional superannuation contributions made by eligible individuals up to a maximum of \$1,000. The previously legislated increase in the matching rates to 125% in 2012/13 and 150% in 2014/15 will not proceed.

SUPERANNUATION CONTRIBUTIONS TAX REBATE FOR LOW INCOME EARNERS

Currently, all concessional contributions received by a superannuation fund are taxed at 15%. The Government proposes to provide a tax rebate of up to \$500 for low income earners. The rebate will be paid directly to an individual's superannuation fund, and will be calculated by applying a 15% rebate of tax to the concessional contributions made for or by individuals with adjusted taxable income not exceeding \$37,000 per annum.

Date of effect - 1 July 2012

INCREASED CONCESSIONAL CONTRIBUTION CAPS

The Government will permanently allow individuals over 50 years of age with superannuation balances less than \$500,000 to make concessional superannuation contributions of up to \$50,000 per annum. This doubles the threshold that was to apply from 1 July 2012 of \$25,000 per annum.

Date of effect - 1 July 2012



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SUPERANNUATION GUARANTEE

The following table outlines the expected incremental increases in the Superannuation Guarantee rate from 9% to 12% over the next 10 years:

Year	Rate (%)
2013-14	9.25
2014-15	9.5
2015-16	10
2016-17	10.5
2017-18	11
2018-19	11.5
2019-20	12

Date of effect – 1 July 2013

RAISING THE SUPERANNUATION GUARANTEE AGE LIMIT

The Government will raise the superannuation guarantee age limit from 70 to 75 years. The measure is designed to be an incentive for mature workers to remain in the workforce.

Date of effect – 1 July 2013

DEDUCTIONS FOR TERMINAL MEDICAL CONDITION BENEFITS

The Government will extend the range of benefits that are deductible by complying superannuation funds and retirement savings account (RSA) providers to include terminal medical condition (TMC) benefits. This seeks to address an anomaly whereby, currently, deductions are allowable for the cost of providing benefits relating to the death, permanent incapacity and temporary incapacity conditions of release, but not those relating to the TMC condition of release.

Date of effect – 16 February 2008

