Special Issue

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BENEATH THE SURFACE

2010 FEDERAL BUDGET ANNOUNCEMENTS!

Source: National Tax & Accountants' Association

2010 FEDERAL BUDGET ANNOUNCEMENTS

We have included most of the major tax announcements. Please note that at the time of going to print, many of these proposals were not law, so there may be some changes .

Personal Income Tax Cuts

These previously announced tax cuts have already been legislated:

Table of tax thresholds *(with changes in **bold**)*

Current (2009-10) ($)	Tax Rate	From 1 July 2010 ($)	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%**
180,001+	45%	180,001+	45%

Low Income Tax Offset (LITO)

These increases allow adults and children to earn more than the basic tax free threshold without paying tax, as follows:

Year	LITO	Tax-free Threshold (adult)	Tax-free Threshold (child <18)
2009-10	$1,350	$15,000	$3,000
2010-11	$1,500	$16,000	$3,333

Low and average income earners will receive half the LITO benefit through their regular pay, rather than all as a lump sum when their income tax returns are assessed.

"Henry Report" initiatives announced - see separate "*Henry Report*" newsletter

Medicare Levy - Low Income Thresholds for 2009-2010:

Individuals	$18,488	(previously $17,794)
Families	$31,196	(previously $30,025)

The additional amount of threshold for each dependent child student will also be increased to $2,865 (previously $2,757). The 2009-10 Medicare levy threshold for single pensioners below Age Pension age will be increased to $27,697 (previously $25,299).

Senior Australians Tax Offset (SATO)

The amount of income a senior Australian eligible for the SATO can earn before they incur an income tax liability will increase to the following amounts:

	2009-10	2010-11
Singles	$29,867	$30,685
Couples (each)	$25,680	$26,680

Senior Australians do not pay the Medicare levy until they begin to pay income tax.

Increase in the Net Medical Expenses Tax Offset Claim Threshold

From 1 July 2010, the Government will increase the threshold above which a taxpayer may claim the 20% net medical expenses tax offset from $1,500 to $2,000, and will annually index this amount to the CPI - first adjustment on 1 July 2011.

Standard Deduction for Work-Related Expenses

Individual taxpayers will be provided with the choice of claiming a standard deduction (**not** a cash refund) to replace deductions for their work-related expenses **and** the cost of managing their tax affairs, as follows – these amounts will be refunded at your marginal tax rate **plus** Medicare (1.5%):

2012-13	15% Tax Rate	30% Tax Rate
$500 deduction	$82.50 refund	$157.50 refund
2013-14		
$1,000 deduction	$165 refund	$315 refund

50% Discount on Tax on Interest Income

From 1 July 2011, individual taxpayers will be provided with a 50% tax discount on up to $1,000 of interest earned, including interest earned on deposits held in authorised deposit taking institutions, bonds, debentures and annuity products, and interest earned indirectly such as through a trust or managed investment scheme.

Tax Tip: Both the above standard deduction and 50% discount on interest income reductions in income will result in *reduced adjusted taxable* income for the purposes of determining eligibility for transfer payments and other concessions.

Changes to First Home Saver Accounts (FHSAs)

The FHSAs initiative will be made more flexible, particularly for people who buy their first home earlier than the current four year qualifying period. This flexibility will be achieved by allowing savings in FHSAs 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.

Permanent Reduction to the Superannuation Contribution Matching Rate and Maximum Payable

The Government has reversed its announcement in last year's Budget and will permanently retain the matching rate for the superannuation co-contribution at 100% or $1 (rather than 150% or $1.50). The maximum co-contribution that is now payable on an individual's eligible personal non-concessional superannuation contributions is $1,000 (rather than $1,500).

Superannuation Co-Contribution - Pause to the Indexation of the Income Threshold for 2 Years

The income thresholds will be **frozen** for 2010-11 and 2011-12 at $31,920 (maximum co-contribution matching) and then it begins to phase out with no eligibility for income above $61,920.

Superannuation Funds Allowed to Claim Cost of Providing Terminal Medical Condition Benefits

From 16 February 2008, Terminal Medical Condition (TMC) benefits will be deductible by complying superannuation funds and retirement savings account providers. Currently deductions are allowable for the cost of benefits relating to the death, permanent incapacity and temporary incapacity conditions of release, but not relating to the TMC condition of release.

Reforms to the GST Margin Scheme

From 1 July 2012, the margin scheme provisions 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.

Reforms to GST Financial Supply Provisions

From 1 July 2012, the Government will amend the financial supply provisions of the GST law to clarify the operation of the legislation and reduce compliance and administrative costs, particularly for many small businesses. The reforms will include the following:

◊ increasing the threshold above which businesses need to interact with the financial supply provisions from $50,000 to $150,000 of input tax credits, and
◊ allowing small businesses accounting for GST on a cash basis to claim input tax credits upfront in relation to hire purchase arrangements.

Other Budget Announcements

Further key initiatives announced in the 2010 Federal Budget include the following:

a) For capital protected borrowings entered into from 7.30 pm (AEST) 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 2009 Budget. This will allow borrowers to allocate a smaller proportion of the expenses on the borrowings to the cost of capital protection (which is not deductible if on capital account)

b) The Government will make several minor amendments (intended to apply from the 2010-11 income year) to improve the operation of the superannuation law including allowing the Commissioner to exercise his discretion for excess contributions tax purposes before an assessment is issued
c) Cash economy - $107.9 million will be provided over four years to the tax office to address the unfair competitive advantages that arise where small businesses avoid their tax obligations by conducting some or all of their business in the cash economy
d) GST compliance programme - $337.5 million will be provided over four years to the tax office for GST compliance. This measure will address issues relating to fraudulent GST refunds, systematic under-reporting of GST liabilities, non-lodgement of GST returns and non-payment of GST debts
e) Superannuation co-contribution - $16 million will be provided over five years to the tax office to enhance the administration of the existing eligibility requirements for the superannuation co-contribution program (including $1.1 million in 2009-10).

Capital Gains Tax (CGT) - Look-Through Treatment for Earnout Arrangements

The Government will allow all payments under a qualifying earnout arrangement to be treated as relating to the underlying business asset. The 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.

Earnout arrangements are used to structure the sale of a business (or business assets) to manage uncertainty about the value of the business. Under such an arrangement, an earnout right may entitle the buyer or seller to additional payments depending on the subsequent performance of the business. Currently, an earnout right is treated as a separate CGT asset. This treatment can result in anomalous outcomes where the actual payments under the earnout right differ from the amounts estimated at the start of the arrangement, such as by reducing access to the CGT small business concessions.

This measure will ensure that the CGT treatment of earnout arrangements does not create an impediment to the efficient market for the sale of businesses or business assets.

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Holidays

Our office will be closed for annual holidays from Thursday 1 July 2010 – Monday 12 July 2010 inclusive.