

## Conscious Money 2010 Budget Review

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### Taxation

#### **50% savings discount for interest income from 1 July 2011**

The Government plans to provide a 50% tax discount on up to \$1,000 of interest earned by individuals, including interest earned on deposits held in authorised deposit taking institutions, bonds, debentures and annuities.

Currently there are relatively higher levels of taxation applying to interest income, compared to other forms of investment income. The discount will be available for interest income earned directly as well as indirectly, such as via a trust or managed investment scheme, and is expected to benefit around 5.7 million taxpayers in 2011-12.

There will be a flow-on effect for taxpayers claiming the discount for interest income as they will have a reduced adjusted taxable income. The Government will consult during 2010-11 on details concerning the operation of the discount, including in relation to the scope of the discount and the mechanism for applying the discount to interest earned indirectly by individuals.

#### **Personal tax rate reductions already legislated from 1 July 2010**

In accordance with the tax cuts announced in the 2008 budget, the personal income tax thresholds for the 2010- 2011 year will be as follows:

Income threshold	Tax rate
\$0 - \$6,000	0%
\$6,001 - <b>\$37,000</b>	15%
\$37,001 - \$80,000	30%
\$80,001 - \$180,000	<b>37%</b>
\$180,000+	45%

#### **Standard tax deduction from 1 July 2012**

The Government plans to introduce a standard deduction for work-related expenses and the cost of managing tax affairs. The standard deduction will be **\$500** for the 2012/13 financial year, and then **\$1,000** for the 2013/14 and subsequent financial years.

Where a person's deductible expenses exceed the standard deduction amount, they will be able to claim the higher expenses instead of the standard deduction.

#### **Increased Medicare levy low income threshold from 1 July 2009**

The Government will increase the Medicare levy low income threshold to \$18,488 for individuals and \$31,196 for families. The additional amount of threshold for each dependent child or student will also increase to \$2,865. The Medicare levy threshold for pensioners below age pension age will also be increased to \$27,697. This is to ensure that pensioners below age pension age will not have a Medicare liability where they don't have an income tax liability.

#### **Net medical expenses tax offset from 1 July 2010**

The Government plans to increase the threshold above which a taxpayer may claim the net medical expense tax offset (NMETO) from \$1,500 to \$2,000. This threshold will be indexed to the Consumer Price Index (CPI) on an annual basis.

#### **Technical amendment to SATO from 1 July 2010**

The Government proposes to amend the senior Australians tax offset (SATO) regulations affecting the calculation of the rebate threshold, which is the amount of rebate income that can be earned before SATO is reduced. Currently, the formula, which is based in part on the low income tax offset (LITO), fails to reflect the fact that LITO reduces when taxable income exceeds \$30,000.

## Superannuation

### **Co-contribution – permanent reduction to matching rate and maximum payable**

The matching rate of 100 per cent and the maximum co-contribution that is payable on an individual's eligible personal non-concessional contribution of \$1,000 is proposed to be permanently retained.

### **Co-contribution - indexation of income thresholds paused for two years from 1 July 2010**

The Government plans to freeze for 2010/11 and 2011/12 the indexation applied on the income threshold above which the maximum superannuation co-contribution begins to phase down. The maximum co-contribution of \$1,000 is reduced by 3.333 cents for every dollar that a taxpayer's total income exceeds \$31,920 until it reaches or exceeds \$61,920.

### **ATO discretion on excess contributions tax assessments**

This measure proposes giving the Commissioner the ability to exercise its discretion prior to an assessment being issued for excess contributions tax. Currently, a taxpayer may apply to the Commissioner for a determination that part or all of their excess contributions be disregarded or reallocated to another income year.

Such an application must be made within 60 days of receiving an excess contributions tax assessment, which also includes the taxpayer's excess contributions tax liability. This measure would allow an application to be made prior to receiving the assessment, potentially allowing a person to have a decision made before having to pay excess contributions tax.

### **Super fund deductions for terminal medical conditions benefits from 16 February 2008**

The Government has announced that it will be seeking to extend the number of benefits that are deductible for complying super fund and retirement savings account providers to include terminal medical conditions (TMC). The measure seeks to address the current anomaly in taxation laws where deductions are only allowed for benefits relating to death, permanent incapacity and temporary incapacity conditions of release. This will allow super fund providers to be able to recoup the costs of paying out TMC claims and ensure these can be paid out in a more timely fashion.

### **Other amendments to super contributions from 2010-11**

The Government will introduce a number of measures to improve the eligibility for a tax deduction on superannuation contributions. These are:

- To increase the time-limit for deductible employer contributions for former employees (currently two months after termination).
- To clarify the due date of the shortfall interest charge for the purposes of excess contributions tax.

### **Changes to First Home Owners Savers Accounts (FHSA) scheme from date of assent**

The Government proposes that savings in an FHSA can 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. The current rules require that FHSA holders keep their savings in an FHSA for 4 financial years before they are able to use those savings to buy a home. At present if an account holder buys a home before the end of that 4-year period, the balance of their FHSA must be transferred to their superannuation. The changes will apply for houses purchased after assent of the legislation that will give effect to this measure.

## Social Security and Family Assistance

### **Family Tax Benefit non-lodgement suspensions - exemptions**

In the 2008 Budget, the Government had proposed to suspend FTB payments to people who had not lodged their tax return in 12 months and had not responded to Centrelink requests to do so. This measure will be retained with two exceptions. Payments will continue to people who do not have any FTB debt, or where ceasing the payments would cause undue hardship.

### **Family Tax Benefit –A: Strengthening participation requirements from 1 July 2010**

In the 2009 Budget, the Government extended FTB Part A to cover children aged 16-20 who do not have a Year 12 or equivalent qualification, and who participate in full-time education or training, or part-time education or training in combination with other approved activities. The participation measure will now be strengthened. Children will now be required to participate in full-time education or training. Part-time education or training will not be sufficient. These participation requirements will be introduced when the measure commences on 1 July 2010.

### **Child Care Rebate capped from 1 July 2010**

The Child Care Rebate will be capped at \$7,500 per child (2008/09 level) from the current annual cap of \$7,778 per child. Also indexation of the cap will be paused for four years from 1 July 2010. The out-of-pocket reimbursement of child care expenses will remain at 50 per cent up to the annual cap.

### **Expanded Special Disability Trust criteria from 1 January 2011**

The Government will amend the eligibility criteria and allowable uses for Special Disability Trusts. The definition of a beneficiary will be expanded to include people with a disability who can work up to seven hours per week. 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

### **Disability Support Pension (DSP): refined assessment process**

When determining eligibility for the DSP Centrelink will have a greater focus on the individual's potential to work. Claimants who do not have sufficient evidence to demonstrate that they cannot be assisted back to work will have their DSP claim rejected and will instead be referred to an employment service to build their employment capacity. Claimants who are clearly unable to work will not be affected, including those with profound disability, serious medical conditions or terminal illness.

## Henry response confirmation

As expected, the 2010 Budget reiterated the Government's commitment to the following proposals announced in response to the Henry Tax Review:

- Increase of super guarantee rate from 9% to 12%, commencing 1 July 2013.
- Raising the super guarantee maximum eligibility age to 75 from 70.
- Introducing a 15% low income earners Government contribution capped at \$500, effectively refunding contributions tax on up to \$3,330 of concessional contributions.
- Retaining the \$50,000 concessional cap for those aged 50 or over who have super balances of less than \$500,000.
- Reducing the standard company tax rate to 29% from 1 July 2013 then 28% from 1 July 2014.
- Reducing the small business company tax rate to 28% from 1 July 2012.
- Allowing small businesses to immediately write off assets valued at under \$5,000 and other assets in a single 30% rate depreciation pool.

*The above document is for general advice purposes only, to find out how these changes affect your personal situation please don't hesitate in booking an appointment with your advisor.*

Regards



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