

## CLIENT ALERT – BUDGET 2010

The Federal Budget was handed down on 11 May 2010 however many of the tax changes were introduced in the Government's response to the Henry Report issued 2 May 2010. Here is a summary of the main tax highlights of the 2010-11 Budget and Henry Review that will directly affect many of our clients.

### Company tax changes

- A Resource Super Profits Tax (RSPT) will be introduced on 1 July 2012 at a rate of 40% on profits made from the exploitation of Australia's non-renewable resources.
- The company tax rate will be reduced to 29% from the 2013-14 income year and to 28% from the 2014-15 income year.
- The company tax rate for "eligible small business companies" will be reduced to 28% from the 2012-13 income year.

### Depreciation

An immediate write-off for assets of small businesses (those with turnover less than \$2 million) will be extended to assets valued at less than \$5,000 from 1 July 2012 (currently \$1,000) and all other assets (except buildings) will be written off in a single depreciation pool at a rate of 30%.

### Superannuation

The superannuation guarantee charge (SGC) will be increased gradually to 12% by 2019-20.

The entitlement to the Superannuation Guarantee will be broadened by lifting the maximum age threshold from 70 to 75 years of age, enabling our older clients to increase their superannuation.

The concessional contributions cap will be raised to \$50,000 per year for workers who are 50 and over and who have superannuation balances of under \$500,000.

A new government superannuation contribution will be created which will pay up to \$500 for workers with adjusted taxable incomes of up to \$37,000.

The superannuation co-contribution which was reduced last year will remain at those levels at 100%. In addition the lower and upper co-contribution income limits will be frozen for the next two years at their present levels of \$31,920 and \$61,920. The Government had previously announced that they would gradually increase the co-contribution back to 150% up to \$1,500 but this will not occur.

### Savings

- *First home saver account changes*

The rules for the first home savers accounts will be changed to allow FHSA monies to be transferred into an approved mortgage where the FHSA holder acquires a home before the end of the four-year period. Prior to this amendment, FHSA holders who bought a house within 4 years of opening a FHSA could only maintain concessional treatment of their FHSA money if they transferred their money to their superannuation fund.

- *Bank interest*

From 1 July 2011, clients will be entitled to a 50% discount on the first \$1,000 of interest earned from any bank, building society or credit union, bonds, debentures and annuity products. The discount also will be available for interest income earned directly as well as indirectly, from a trust or managed investment scheme.

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## Medical expenses tax offset threshold

Clients with medical expenses will be worse off as the medical expense tax offset will be increased from \$1,500 to \$2,000 from 1 July 2010 and will be indexed to the CPI. This means that the 20% offset only will be applicable once the \$2,000 limit has been reached.

## Standard non-substantiated deductions for individual taxpayers

For the 2012-13 income year clients may elect to claim a standard non-substantiated deduction of \$500 instead of claiming work-related expenses and the cost of managing their tax affairs. This standard deduction will be increased to \$1,000 for the 2013-14 income year. The aim of this is to enable taxpayers to not have to complete income tax returns. The ATO simply will rely on data matching for PAYG summaries, interest and dividend income.

Clients with expenses above the standard deduction of \$500 will be able to claim those expenses when lodging their tax return under the existing rules, but will need to ensure that they can substantiate those claims.

Clients are warned that by adopting the standard deductions they may inadvertently end up paying more tax due to missed deductions, in particular motor vehicle expenses.

## Personal tax rates

There are no further changes to personal tax rates other than what was announced in last year's budget.

The tax rates for 2010 -2011 are as follows:

- \$0 - \$6000 - nil
- \$6,001 to less than \$37,000 - 15%
- \$37,001 to less than \$80,000 - 30%
- \$80,001 to less than \$180,000 - 37%
- \$180,001 and over - 45%

The Medicare levy remains unchanged (1.5%) and is in addition to the above.

**Sources:** The primary sources are Budget Paper No.2 and the Government's response to the *Australia's Future Tax System* report (Henry Review)