

# CARBONI & CO

CHARTERED ACCOUNTANTS



“Making Your  
Business Count”

## REPORTS



### 2010 Federal Budget

#### Overview

The Federal Budget for the coming year was handed down on Tuesday 11th May 2010. This followed closely from announcements made earlier this month from the Henry Report into Taxation. The budget made few major changes affecting individuals, announcing a 50% tax savings discount on up to \$1,000 of interest earned and a standard \$500 deduction for work-related expenses.

On the business side, the 40% resource super profits tax will impact heavily on the mining industry and the Government is reliant on this to achieve a surplus. The reduction in the company tax rate to 28% will be welcomed along with increased depreciation for small businesses for assets purchased up to \$5,000.

#### INDIVIDUAL TAXATION

Individual tax rates will remain virtually unchanged for the 2010/11 financial year. The rates are as follows:

**Tax rates 2010/11**

<b>Taxable Income</b>	<b>Marginal Rate</b>
\$0 – \$6,000	NIL
<b>\$6,001 – \$37,000</b>	<b>15%</b>
\$37,001 – \$80,000	30%
\$80,001 – \$180,000	37%
Over \$180,001	45%

- *The above rates do not include the Medicare levy of 1.5% of taxable income and medicare levy surcharge (if applicable).*

**BUDGET 2010 SUMMARY**

**Personal tax changes announced include:**

<b>50% Savings Discount</b>	<ul style="list-style-type: none"><li>• From 1 July 2011, individuals will receive a 50% tax discount on the first \$1,000 of interest income. This applies to interest from banks, building society or credit union.</li><li>• Applies also to income earned indirectly through a managed investment scheme or trust.</li></ul>
<b>Standard Deduction for work-related expenses</b>	<ul style="list-style-type: none"><li>• From 1 July 2012, individual taxpayers can opt to receive a standard tax deduction of \$500 when filing their annual tax return. This covers both work-related expenses and cost of managing tax affairs.</li><li>• Taxpayers with more than \$500 claim in deductible expenses will still be able to claim a higher amount instead of the standard \$500.</li><li>• This standard deduction claim will increase to \$1,000 from 1 July 2013.</li></ul>
<b>Medical Expenses Rebate threshold increased</b>	<ul style="list-style-type: none"><li>• Taxpayers currently can claim a tax rebate of 20% of net medical expenses (ie. unreimbursed expenses) if spend more than \$1,500 per annum.</li><li>• From 1 July 2010, the threshold before can claim a rebate will increase to \$2,000 and indexed annually to the CPI.</li></ul>
<b>Low Income Offset</b>	<ul style="list-style-type: none"><li>• From 1 July 2010, the low income tax offset will increase to \$1,500 where the taxable income is less than \$30,000.</li><li>• This effectively increases the tax free threshold for individuals to \$16,000.</li></ul>
<b>First Home Savers Account</b>	<ul style="list-style-type: none"><li>• The current rules require First Home Savers Account (FSHA) to hold their savings for 4 financial years before they are able to use those savings to buy a home. If they buy before the 4 year period, currently the balance must be transferred to their superannuation fund if wish the money to be taxed concessionaly.</li><li>• The proposed changes will allow savings held in a FSHA to instead be paid into an approved mortgage after the end of the qualifying period, rather than requiring it to be paid into a superannuation fund.</li></ul>
<b>Medicare Levy Threshold Changes</b>	<ul style="list-style-type: none"><li>• From the 2009/10 income year, the Medicare Levy low income threshold will be increased for singles to \$18,488 (up from \$17,794 for 2008-2009) and to \$31,196 for those who are a members of a family (up from \$30,025 for 2009-2010).</li></ul>



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	<ul style="list-style-type: none"> <li>The additional amount of threshold for each dependent child or student will increase to \$2,865.</li> <li>Medicare Levy low-income threshold for pensioners who are below Age Pension age will increase to \$27,697. This will ensure that pensioners below age pension age do not pay the Medicare Levy while they do not have a tax liability.</li> </ul>
<b>Seniors Australian Tax Offset</b>	<ul style="list-style-type: none"> <li>As a consequence of the increase in the low income tax offset, the income level above which senior Australians (who are eligible for SATO) will begin to pay tax will increase. The new income level will be as follows: <ul style="list-style-type: none"> <li>For 2010/11 financial year, \$30,685 for singles and \$26,680 for each member of a couple.</li> <li>For the 2009/10 year, the rates are \$25,680 for singles and \$25,680 for each member of a couple.</li> </ul> </li> </ul>
<b>Superannuation Co-Contributions</b>	<ul style="list-style-type: none"> <li>The Government announced it will look to permanently set the matching rate for super co-contribution at only 100% of eligible personal contributions and the maximum contribution will be limited to \$1,000 per year.</li> <li>Income thresholds below which the full contribution will be paid will remain the same. For 2 years, the full co contribution will be made where taxpayers income is below \$31,920 and will phase down until income reaches \$61,920.</li> </ul>
<b>Other Superannuation Changes per Henry Report.</b>	<p>Other changes announced in the recent Henry Report into the tax system include:</p> <ul style="list-style-type: none"> <li>Superannuation Guarantee rate will rise to 12% by 2019-20 - to be phased in yearly increments from 1 July 2013.</li> <li>Superannuation Guarantee age limit will be increased from 70 to 75 from 1 July 2013.</li> <li>Super contributions cap concession: From 1 July 2012, workers aged 50 and over will be able to make up to \$50,000 in annual, concessional superannuation contributions (ie. taxed at only 15%) – PROVIDED that balance in the superfund is less than \$500,000.</li> <li>Superannuation Rebate – The Government will contribute up to \$500 each year to an individual's superannuation account, where the individual's adjusted taxable income is less than \$37,000. This will be paid as a refund of usual 15% contributions tax, making contributions tax free.</li> </ul>



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<b>Family Tax Benefit (FTB)</b>	<ul style="list-style-type: none"> <li>The Government will implement a more flexible arrangement where FTB recipients do not lodge tax returns.</li> <li>The participation requirements to remain eligible for FTB Part A will be further strengthened.</li> </ul>
<b>Child Care Rebate (CCR)</b>	<ul style="list-style-type: none"> <li>The cap for the CCR will be reduced to \$7,500 per child (from current \$7,778), with indexation of the cap paused for four years. Commencement date 1 July 2010.</li> </ul>
<b>War Widows Pension</b>	<ul style="list-style-type: none"> <li>The Government will remove eligibility for the War Widows (or Widowers) Pension for people whom before applying for the Pension, enter into a de facto relationship following the death of their veteran partner.</li> <li>However, war widows (or widowers) who remarry or enter into a defacto relationship after claiming the Pension will not lose their entitlement under this measure.</li> </ul>

**BUSINESS TAXATION CHANGES:**

<b>Company Tax Rate Reduction</b>	<ul style="list-style-type: none"> <li>The Government will reduce the general company tax rate from 30% to 28% in two steps: <ul style="list-style-type: none"> <li>29% for the 2013/2014 income year;</li> <li>28% from the 2014/2015 income year.</li> </ul> </li> <li>The Government will cut the company tax rate for small business entities (revenue under \$2m) <b>to 28% from the 2012/2013 income year</b>. This means that the small business companies will have a lower tax rate earlier than larger companies.</li> </ul>
<b>Instant Asset Write Off for Small Business</b>	<p>The current depreciation (capital allowances) concessions for small businesses (ie. turnover under \$2 Million), effective from 1 July 2012 will provide the following tax deductions:</p> <ul style="list-style-type: none"> <li>immediately write off assets valued under \$5,000 (up from current \$1,000); and</li> <li>write-off all other assets (except buildings) in a single depreciation pool at a rate of 30%.</li> </ul>
<b>40% Resource Super Profits Tax</b>	<ul style="list-style-type: none"> <li>As previously announced, a tax will be levied on profits from non-renewable resource projects from 1 July 2012, with a credit allowed for State Government royalties and a new resource exploration rebate introduced from 1 July 2011.</li> </ul>



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<b>Deemed Dividends Rules Clarified</b>	<ul style="list-style-type: none"><li>• This concerns arrangements where private companies make tax-free distributions to shareholders or shareholders' associates in the form of payments, loans or debts forgiven. These may be deemed a dividend if not paid back.</li><li>• Subject to finalisation, rules extended to cover payments to shareholders in the form of rights to use real property, chattels and licence rights. The aim is to bring such benefits into line with the treatment of benefits to employees subject to FBT.</li><li>• However changes will not apply where a private company provides a dwelling to a shareholder or their associate for use as their main residence. This exemption only applies to the use of a dwelling acquired pre 1 July 2009 &amp; continues to meet a modified continuity of ownership test.</li></ul>
<b>National System for Registering Business Names</b>	<ul style="list-style-type: none"><li>• The Government will establish a national system of registering business names and only pay one fee. This will replace the current system which requires businesses to register business names in each separate state and territory and pay separate fees to each state Government.</li><li>• Administration will be transferred from the States to ASIC. Online accounts will allow businesses to access registrations, monitor compliance requirements and access regulatory change notifications from all governments.</li></ul>
<b>Tax on Sale of Business</b>	<ul style="list-style-type: none"><li>• An 'earnout right' may entitle the buyer or seller of business to additional payments depending on the subsequent performance of the business following sale.</li><li>• Currently, an earnout right is treated as a separate CGT asset and such treatment may result in higher tax (CGT) resulting from not able to access CGT small business concessions.</li><li>• The Government will now enable all payments under a qualifying earnout arrangement to be treated as relating to the underlying business asset and <i>may</i> reduce capital gains tax.</li></ul>
<b>ASIC Fees</b>	<ul style="list-style-type: none"><li>• ASIC Fee increases will now be indexed to the CPI from 2010/2011.</li></ul>

