



**Industry Fund
Financial Planning**

Australian Federal Budget Summary 2010

On 11 May 2010 the Labour Government delivered what it describes as a 'no frills federal budget'. The main focus for the budget is its aim to return the Government to surplus ahead of schedule.

Outlined below are the major announcements made on the night (please note that any changes announced have not yet been legislated):

1. Superannuation

Changes Previously Announced

The Government re-confirmed its commitment to the following 4 changes to Super that were announced in the Henry Tax Review:

a. Increase the Superannuation Guarantee Contribution (SGC) rate from 9% to 12%

The Government has announced that it will increase the SGC to a maximum of 12% by the 2019/20 financial year. The increase will happen in increments (see right).

Income year	SGC annual rate	Increase from previous year
2009-10 to 2012-13	9%	None
2013-14	9.25%	0.25%
2014-15	9.50%	0.25%
2015-16	10%	0.50%
2016-17	10.50%	0.50%
2017-18	11%	0.50%
2018-19	11.5%	0.50%
2019-20	12%	0.5%

b. Superannuation Guarantee limit increased from age 70 to 75

- **1 July 2013** - employers will be required to make Superannuation Guarantee contributions (SGC) to employees up to the age of 75.

It is intended that increasing the age limit will provide an incentive for mature workers to remain in the workforce and continue to build their Superannuation nest egg.

c. Higher Superannuation Contribution limit for mature age workers with less than \$500,000

Currently persons aged 50 and older have a transitional 'concessional' contribution cap of \$50,000. A concessional contribution is basically your employer Superannuation Guarantee contributions plus your Salary sacrifice contributions. The transitional arrangements end 30 June 2012, however, the Government has now announced a permanent arrangement allowing persons aged 50 and over with Super balances below \$500,000 can continue to access the \$50,000 concessional contribution limit (as opposed to the standard \$25,000 limit).

d. Additional Government Superannuation Contribution for low income earners

- **1 July 2012** - a new Government contribution will apply to low income workers.

The new contribution of up to \$500 is proposed to be provided for workers with adjustable taxable income up to \$37,000. The contribution amount is calculated by:

Your Superannuation Guarantee contributions x 15%

To obtain the maximum contribution of \$500 your Superannuation guarantee contributions have to be at least \$3,300.

This proposal is seen to make Superannuation more attractive for low to middle income workers and is in addition to the existing Government co-contribution arrangements.

New Changes Announced

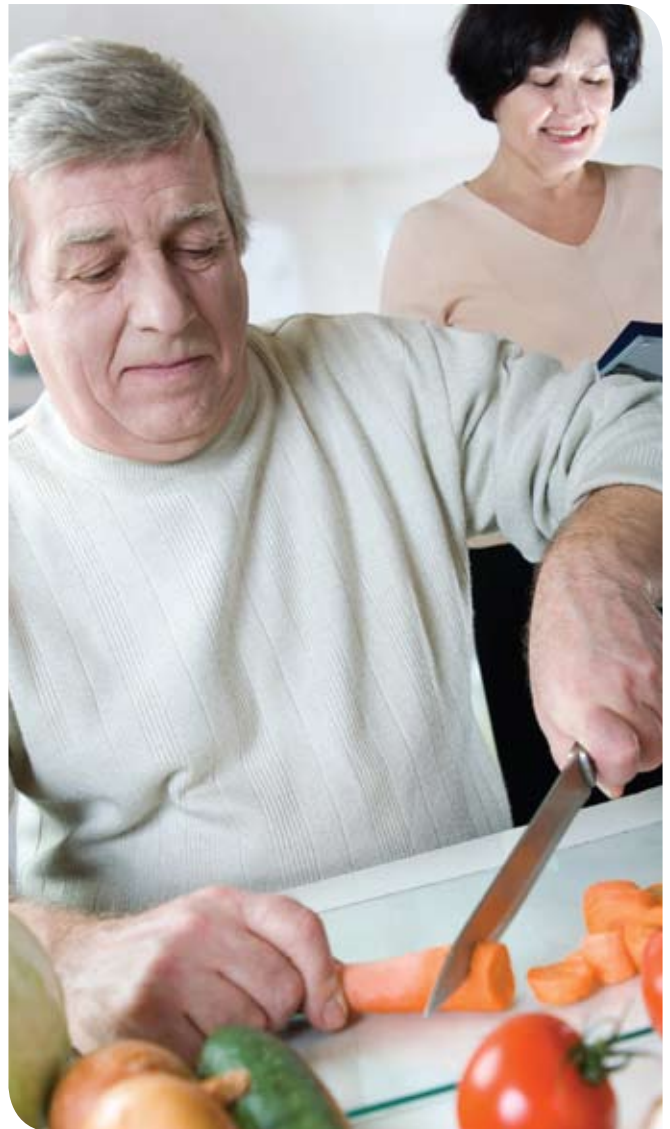
The following additional changes to Superannuation were also announced:

Government Co-Contribution

The Government is making the following two changes to the popular Government Co-Contribution;

1. Retention of the 100% 'Matching Rate'

The maximum co-contribution matching rate of 100% (i.e. dollar for dollar) of personal non-concessional (after tax) contributions to Superannuation will be permanently retained. It was previously announced that the co-contribution rate would be increased to 125% in 2012/13 and then 150% from 2014/15.



2. Indexation of income thresholds paused

The Co-Contribution thresholds will not be indexed for 2010/11 and 2011/12, indexation of the thresholds will resume from 2012/13. The current income threshold to receive the maximum 100% co-contribution is \$31,920. Once an individual's total income exceeds this threshold the co-contribution is reduced by 3.33 cents for every dollar over \$31,920 and cuts out once you receive total income of more than \$61,920.

Even with the above changes, the co-contribution remains an effective strategy to build Super savings for low to middle income workers.

Future Changes

It is worth noting the Government is still awaiting a final report into Australia's Superannuation system (the 'Cooper' review) and as a result further changes may be announced in the coming months

2. Taxation

Changes Previously Announced

In accordance with the tax cuts announced in the 2008 Budget, for 2010/11 the 30% tax bracket has been increased from \$35,000 to \$37,000 and the 38% tax rate has been reduced to 37%.

Additionally, the maximum low income tax offset will increase from \$1,350 to \$1,500.

As a consequence, the income tax thresholds for the 2010/11 year will be as follows:

2010/11 taxable income (\$)	Tax payable (\$)
Nil – \$6,000	Nil
\$6,001 - \$37,000	15% on each \$1 over \$6,000
\$37,001 - \$80,000	\$4,650 + 30% on each dollar over \$37,000
\$80,001 - \$180,000	\$17,550 + 37% on each dollar over \$80,000
Over \$180,000	\$54,550 = 45% on each dollar over \$180,000

New Changes Announced

The Government has announced the following changes in the Budget;

a. 50% Discount on Interest Income

The Federal Government has announced a new 50% tax concession for interest earned on savings accounts with banks and other financial institutions as well as on bonds, debentures and annuities. The tax concession will apply to the first \$1,000 of interest earned in a financial year.

This can mean more options for you if you are looking for low risk investment options for your money.

- **1 July 2011** - The new savings tax concession will apply to interest earned.

This measure will be welcomed, particularly by low income and older Australian who prefer to hold their non-superannuation savings in bank accounts and term deposits.

As an example, a person earning 6% interest on funds of \$16,667 held in an interest bearing account would earn \$1,000 p.a in interest. The individual would then receive the 50% tax discount, i.e. only \$500 would be taxable.

The discount not only reduces assessable income for tax purposes, it will also reduce assessable income for a range of other payments and concessions, such as Family Tax Benefits and the Commonwealth Seniors Health Care Card.

b. Standard Tax Deduction

A standard deduction for work-related expenses and the cost of managing tax affairs has been proposed. The deduction will be \$500 for the 2012/13 financial year, and then \$1,000 for the 2013/14 and subsequent financial years. The standard deduction will be 'optional', 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.

The standard deduction will be available regardless of whether the relevant expenditure was actually incurred. This will provide a windfall for clients who are employed with little to claim and it will also simplify the preparation of tax returns for many tax payers.

It's your tax. It may be time to review your tax strategy with a Financial Planner

c. Increasing in the Medicare Levy Low Income Thresholds

The Medicare levy thresholds are also proposed to change for low income earners and pensioners of less than age pension age. The Medicare levy is based on taxable income. Medicare levy will not be payable until the following income thresholds are exceeded:

Single Income	2008/09 Threshold	2009/10 Threshold
Standard Taxpayer	\$17,794	\$18,488
Pensioner*	\$25,299	\$27,697

Family Income	2008/09 Threshold	2009/10 Threshold
Standard Taxpayer	\$30,025	\$31,196
Pensioner*	\$30,025	\$31,196

*Below Pension Age

d. Net Medical Expenses Tax Offset

- **1 July 2010** - The Government plans to increase the threshold on which a taxpayer may claim the net medical expense tax offset from \$1,500 to \$2,000.

This threshold will then be indexed on an annual basis. The offset allows clients to receive tax offsets equal to 20% of net medical expenses above the threshold.

This proposal reduces the tax offsets available for eligible clients. Eligible medical expense includes ongoing aged care fees and charges, dental and optical expense, laser eye surgery etc.

3. Social Security

New Changes Announced

The Budget has proposed the following changes to Social Security:

a. Disability Support Pension (DSP)

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.

- **1 July 2010** - Assessment for the DSP will be simplified to fast-track more claimants who are clearly eligible due to a cancer, congenital or catastrophic disability.

Individuals who are looking to claim the DSP may be affected by these measures depending on their individual circumstances; those with a severe disability will benefit from a quicker assessment whereas others may be rejected.

4. First Home Owner Saver Account Changes

New Changes Announced

Under the current rules, a first home saver account holder must keep their savings in the account for 4 financial years before they can use the savings to buy a home. If the holder buys a home before the 4 year period, the account balance must be transferred into super.

The new rules allow savings in the account to be paid into an approved mortgage after the end of 4 years, rather than requiring the amount to be paid into super.

The first home saver account aims to make it easier to save bigger sums faster via a combination of Government Co-Contributions and tax concessions. The changes will provide extra flexibility which in turn could lead to these types of accounts becoming more popular.

5. Other Changes

The Government has re-confirmed the following major changes that were recently announced;

a. Resource Super Profits Tax introduced

- **1 July 2012** - A Resource Super Profits Tax (RSPT) will be introduced at a rate of 40% on profits made from the exploitation of Australia's non-renewable resources.



The Government has promised to consult extensively on the final design of the RSPT. The Government has also stated that it is relying on the introduction of the RSPT to fund some other elements of its tax reform agenda.

b. Reduction in Company Tax

The company tax rate will be reduced from 30% to 29% from 2013/14, and to 28% from 2014/15. The reduction will have little real effect on Australian shareholders, however the rate of Franking Credits may reduce when the company tax rate reduces.

c. Small Business Taxation

- **1 July 2012** - The Government has proposed expanding capital allowances for small businesses. This will enhance the existing capital allowance concessions by:
- Allowing small businesses to immediately write-off assets valued at under \$5,000 (up from \$1,000).
- Allowing small businesses to write off other assets, with the exception of buildings, in a single 'depreciation pool' (currently there are two different pools).

The above small business changes aim to simplify the rules and to increase the cash flow of a small business and reduce compliance costs.

More Information

The Governments full report is comprised of an overview, terms of reference, executive summary, twelve chapters, and appendices.

These reports can be found at: <http://budget.australia.gov.au/>