



2010 Federal Budget Analysis



2010 Federal Budget summary

11 May 2010

While the 2010 Federal Budget contained few surprises, some tax, super and social security changes were announced that may require a review of your personal situation.

Please note these announcements are yet to be legislated. For further clarification on any of the above changes or assistance on how they may impact your personal situation please contact your financial adviser or call MLC on 132 652.

Summary of key announcements

The key proposals announced in the Federal Budget include:

- the introduction of a 50% discount on up to \$1,000 of interest income
- the option of claiming a standard tax deduction of \$500 in 2012/13, increasing to \$1,000 in 2013/14 to simplify the tax system, and
- confirmation of personal tax cuts announced in the 2009 Federal Budget.

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Henry Review proposals confirmed

The Government confirmed the key proposals announced earlier this month in response to the Henry Review of tax. These include:

- the super guarantee (SG) rate will increase gradually from 9% to 12% from 1 July 2013
- the SG contribution age limit will increase from 70 to 75 from 1 July 2013
- a Government super contribution of up to \$500 pa will be made for people earning up to \$37,000 pa from 1 July 2012 to effectively refund contributions tax
- the concessional cap for contributions to super will be reinstated to \$50,000 pa from 1 July 2012 for people age 50 or over with super balances below \$500,000
- the company tax rate will gradually reduce to 28% by 1 July 2014 (and two years earlier for eligible small businesses)
- generous depreciation rules will apply to small businesses from 1 July 2012, and
- a 40% Resource Super Profit Tax will be introduced from 1 July 2012.

Personal tax changes

Interest income tax discount

Date of effect: 1 July 2011

Investors will be eligible for a 50% tax discount on up to \$1,000 of interest earned from 1 July 2011 on:

- deposits with authorised deposit taking institutions, bonds, debentures and annuity products, and
- the above investments where held indirectly via trusts or managed funds.

This discount will reduce the investor's adjusted taxable income (ATI), which may in turn increase his or her eligibility for payments and entitlements such as the Family Tax Benefit, Baby Bonus and the Commonwealth Seniors Health Card.

The table below shows the tax saving for a range of income levels where \$1,000 in interest is earned in 2011/12. This analysis takes into account the personal tax rate and threshold changes, as well as the enhancements to the low income tax offset scheduled to take effect on 1 July 2010 outlined on page 3.

ATI excluding \$1,000 interest	Without 50% tax discount		With 50% tax discount		
	ATI including \$1,000 interest	Tax payable	ATI including \$1,000 interest	Tax payable	Tax saving
\$20,000	\$21,000	\$750	\$20,500	\$675	\$75
\$40,000	\$41,000	\$4,790	\$40,500	\$4,620	\$170
\$60,000	\$61,000	\$11,590	\$60,500	\$11,420	\$170
\$80,000	\$81,000	\$17,920	\$80,500	\$17,735	\$185
\$100,000	\$101,000	\$25,320	\$100,500	\$25,135	\$185
\$120,000	\$121,000	\$32,720	\$120,500	\$32,535	\$185
\$140,000	\$141,000	\$40,120	\$140,500	\$39,935	\$185
\$160,000	\$161,000	\$47,520	\$160,500	\$47,335	\$185
\$180,000	\$181,000	\$55,000	\$180,500	\$54,775	\$225
\$200,000	\$201,000	\$64,000	\$200,500	\$63,775	\$225

Standard deduction limits

Date of effect: phased in from 1 July 2012

In a simplification of the tax system, a standard deduction of \$500 will apply to work-related expenses and the cost of managing tax affairs from 1 July 2012, increasing to \$1,000 from 1 July 2013.

Taxpayers who wish to claim a greater deduction will still be able to claim their higher expenses in lieu of the standard deduction.

Personal tax rate/threshold changes confirmed

Date of effect: 1 July 2010

The previously announced changes to the personal income tax rates and thresholds have been confirmed.

These changes are highlighted below.

Current thresholds (2009/10)	Tax rate ¹	Thresholds in 2010/11 (and thereafter)	Tax rate ¹
\$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%

¹ Doesn't include the Medicare Levy.

Low income tax offset enhancement confirmed

Date of effect: 1 July 2010

The increase in the maximum low income tax offset to \$1,500 per year from 1 July 2010 has been confirmed. This means the amount of tax-free income low-income earners can receive each year (and the upper limit to which a partial low income tax offset can be claimed) will increase to \$16,000 and \$67,500 respectively.

	Current year (2009/10)	2010/11 (and thereafter)
Maximum offset	\$1,350	\$1,500
Upper income threshold ²	\$63,750	\$67,500
Maximum tax-free income	\$15,000	\$16,000

Changes to income tax payable

Date of effect: 1 July 2010

The Government confirmed its commitment in last year's Federal Budget to reduce income tax. The following table outlines how these tax cuts will apply.

Taxable income	2009/10 Tax payable ³	2010/11	
		Tax payable ³	Tax saved
\$20,000	\$750	\$600	\$150
\$40,000	\$4,900	\$4,450	\$450
\$60,000	\$11,700	\$11,250	\$450
\$80,000	\$17,850	\$17,550	\$300
\$100,000	\$25,450	\$24,950	\$500
\$120,000	\$33,050	\$32,350	\$700
\$140,000	\$40,650	\$39,750	\$900
\$160,000	\$48,250	\$47,150	\$1,100
\$180,000	\$55,850	\$54,550	\$1,300
\$200,000	\$64,850	\$63,550	\$1,300

² The lower income threshold will remain at \$30,000.

³ Doesn't include the Medicare Levy, or tax offsets other than the low income tax offset.

Tax-free incomes for older Australians

Date of effect: 1 July 2010

Investors aged 60 or over will still receive an unlimited tax-free income from pension investments commenced from a taxed super fund. See below for the amount of taxable income that can be received tax free by older Australians in other circumstances.

People who are:	Tax-free incomes ⁴	
	2009/10	2010/11 (and thereafter)
Aged 55 to 59 using pension investments ⁵ :		
• Singles	\$45,789	\$48,158
• Per member of a couple	\$45,789	\$48,158
Eligible for Senior Australians Tax Offset and not using pension investments:		
• Singles	\$29,867	\$30,685
• Per member of a couple	\$25,680	\$26,680

First Home Saver Account

Date of effect: For houses purchased after Budget changes have been legislated

A minor change has been made to the First Home Saver Account (FHSA), allowing savers to roll the balance of the account into his or her mortgage on the purchase of an eligible first home after a minimum qualifying period. Under the original legislation, home purchases prior to the end of a four year period resulted in the balance of the FHSA being rolled into super.

Capital protected borrowings

Date of effect: 13 May 2008

In the 2008 Budget, it was proposed:

- the benchmark interest rate for capital protected borrowings be lowered to the RBA indicator rate for standard variable housing loans, and
- any cost above the benchmark rate would be taken to be the cost of 'protection', which would not be deductible and would be added to the cost base.

This proposal was never legislated. It's now proposed, with retrospective effect, that the benchmark interest rate will be the indicator rate plus 100 basis points.

Other measures:

- The net medical expenses tax offset of 20% will apply to net medical expenses above a threshold of \$2,000 in 2010/11. The threshold will also be indexed to the Consumer Price Index, starting on 1 July 2011, and
- the annual Child Care Rebate will be capped at \$7,500 per child (reduced from the current cap of \$7,778), and indexation will be paused for four years from 1 July 2010. Out of pocket expenses will continue to be rebated at 50% of the annual cap.

⁴ Doesn't include the Medicare Levy, but includes the low income tax offset and Senior Australians Tax Offset, where applicable.

⁵ Assumes no income from other sources is received.

Super changes

Reduced Government co-contributions

Date of effect: 1 July 2012

The Government will permanently retain:

- the matching rate for the super co-contribution at 100%, and
- the maximum co-contribution payable on after-tax super contributions at \$1,000.

This overrides the measure announced in last year's Federal Budget to reduce the matching rate and maximum co-contribution temporarily (as per the following table).

The Government also indicated the income thresholds for eligibility won't be indexed for 2010/11 and 2011/12.

Contribution year	Before Budget		After Budget	
	Matching rate	Max. co-cont	Matching rate	Max. co-cont
2009/10	100%	\$1,000	100%	\$1,000
2010/11	100%	\$1,000	100%	\$1,000
2011/12	100%	\$1,000	100%	\$1,000
2012/13	125%	\$1,250	100%	\$1,000
2013/14	125%	\$1,250	100%	\$1,000
2014/15 onwards	150%	\$1,500	100%	\$1,000

Social security changes

Greater accessibility to Special Disability Trusts

Date of effect: 1 July 2010

The eligibility criteria and allowable uses for Special Disability Trusts (SDTs) will be changed to make them more accessible and to increase uptake. These trusts enable parents and immediate family members to put money aside for the future care and accommodation needs of a family member with a severe disability.

With SDTs, up to \$551,750 (indexed annually) and the family home can be kept in the trust without being counted as an asset under the pension means tests for the beneficiary of the trust. No income of, or distributions from, the SDT are assessable under the pension means test.

Under the changes, the definition of a beneficiary will expand to include people with a disability who can work up to seven hours a week (excluding work in an Australian Disability Enterprise). In addition, this measure will change the allowable uses for the trust to incorporate all medical expenses, including membership costs of private health funds, maintenance expenses for SDT property and discretionary spending of up to \$10,000 per year.

Disability support pension assessments

Date of effect: from 1 July 2010

Assessments will improve for disadvantaged job seekers and Disability Support Pension (DSP) claimants who are currently required to undergo a Job Capacity Assessment to make sure appropriate employment and income support is provided, as follows:

- From **1 July 2010**, job seekers who want a temporary exemption from participation requirements due to a medical condition won't require a Job Capacity Assessment. Exemption determinations will be made by Centrelink staff.
- From **1 July 2011**, job seekers who need to have their work capacity assessed will undergo a revised and more efficient assessment of their need for employment services, which will be conducted by an allied health professional.
- From **1 January 2012**, DSP claimants without sufficient evidence of a future work capacity of less than 15 hours per week may be referred to an alternative income support payment and offered employment assistance through Job Services Australia, or Disability Employment Services. These services will assist in developing the skills of job seekers or building evidence of their future work capacity for subsequent claims which may be made at any time.

Protection for accommodation bonds

Date of effect: 1 July 2011

The Government will provide enhanced protection of accommodation bonds held by aged care providers by applying more stringent requirements on how they can be invested. In addition, criminal penalties for misuse of accommodation bonds will be introduced and reporting requirements will be strengthened.

Conclusion

Although this year's Federal Budget can be regarded as one of the more mild, the changes outlined may still impact you and your family and present new financial opportunities.

To find out how you can make the most of these, please contact your financial adviser or call MLC on 132 652.

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