

# 2010/11 Federal Budget



12 May 2010

On 11 May 2010 Treasurer Wayne Swan delivered his third Federal budget. There are a number of announcements of which customers should be aware. The announcements in this update are proposals unless it is stated otherwise. These alterations need to successfully pass through parliament before becoming law and may be subject to further changes during this process.

## **Tax - Interest discount 1 July 2011**

Taxpayers can claim a new 50% discount up to \$1,000 of interest earned, including deposits held with any bank, building society or credit union as well as bonds, debentures or annuity products. The discount is available for interest income earned directly and indirectly, such as via a trust or managed fund.

The discount not only reduces assessable income for tax purposes, it will reduce adjusted taxable income for the purpose of determining eligibility for transfer payments and other concessions, eg Family Tax Benefit and Commonwealth Seniors Health Card.

Note the Henry Tax Review recommended a 40% savings income discount to individuals for non-business related net interest income.

### **Example**

Ethel (67) has \$20,000 in a term deposit earning 6%pa. Under current rules, Ethel's assessable income includes \$1,200 ( $6\% \times \$20,000$ ). Based on the proposed rules, the amount she adds to her assessable income is calculated as \$700 ( $\$1,000 \times 50\% + \$200$ ).

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

Taxpayers can claim an optional standard deduction of \$500 instead of claiming work-related expenses and the cost of managing tax affairs. The deduction increases to \$1,000 from 1 July 2013.

Taxpayers with expenses above the standard deduction can continue to claim those expenses under existing rules. The deduction is expected to reduce adjusted taxable income for the purpose of determining eligibility for transfer payments and other concessions.

Note the Henry Tax Review recommended the standard tax deduction

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

The net medical expenses tax offset threshold increases from \$1,500 to \$2,000 from 1 July 2010. The threshold will be indexed annually to CPI from 1 July 2011. The offset allows taxpayers to receive a tax offset equal to 20% of net medical expenses above the threshold.

## **First home saver account changes Royal Assent**

Currently, 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 rules are proposed to be amended to allow savings in the account to be paid into an approved mortgage after the end of a minimum qualifying period, rather than requiring the amount to be paid into super. The changes apply for homes purchased after the legislation receives Royal Assent.

## **Capital protected borrowings 13 May 2008**

The benchmark interest rate on capital protected borrowings is the Reserve Bank indicator rate for standard variable housing loans (for borrowings from 13 May 2008). This means interest expense on a capital protected product is tax deductible up to this limit. The Government has proposed a new benchmark interest rate equal to the above rate plus 1% (i.e. 100 basis points) and applies to capital protected borrowings entered into from 7:30 pm 13 May 2008.

## Small business CGT changes Royal Assent

The Government has announced proposals to the small business capital gains tax concessions regarding earnout arrangements.

Under an earnout arrangement, an earnout right may entitle the buyer or seller to additional payments depending on the subsequent performance of the business.

All payments under a qualifying earnout arrangement are to be treated as relating to the underlying business asset. Currently, an earnout right is treated as a separate capital gains tax asset. The measure has effect from the date of Royal Assent, with transitional provisions available in certain cases from 17 October 2007.

## Tax cuts 1 July 2010

The Government recommitted to the already legislated marginal tax rates for 2010/11. There are two key changes from 2009/10:

- The 30% tax bracket increases from \$35,001 to \$37,001.
- The second top tax rate drops from 38% to 37%.

The 2010/11 resident income tax table is as follows:

Taxable income	Tax payable
\$0 - \$6,000	0%
\$6,001 - \$37,000	$\$0 + 15\% > \$6,000$
\$37,001 - \$80,000	$\$4,650 + 30\% > \$37,000$
\$80,001 - \$180,000	$\$17,550 + 37\% > \$80,000$
\$180,001 +	$\$54,550 + 45\% > \$180,000$

## Low income tax offset

Much like the marginal tax rates, the Government confirmed to the already legislated low income tax offset amounts. The offset amounts are as follows:

Year	Maximum amount	Cut out threshold
2009/10	\$1,350	\$63,750
2010/11	\$1,500	\$67,500

The low income tax offset reduces by 4c for every \$1 of taxable income exceeding \$30,000.

## Effective tax savings

The combination of the changes to the resident income tax rates and the low income tax offset result in the following tax savings:

Taxable income	Saving in 2010/11
\$10,000	\$0
\$15,000	\$0
\$30,000	\$150
\$45,000	\$450
\$60,000	\$450
\$80,000	\$300
\$100,000	\$500
\$130,000	\$800
\$160,000	\$1,100
\$180,000+	\$1,300

The increase in the low income tax offset will see individuals able to earn more before paying tax. The taxable income required before tax is paid is as follows:

Year	Taxable income
2009/10	\$15,000
2010/11	\$16,000

## Minors unearned income

Due to the increase in the low income tax offset, minors can earn more in unearned income before paying tax on their earnings.

The amount of unearned income minors can generate before paying tax is as follows:

Year	Unearned income
2009/10	\$3,000
2010/11	\$3,333

## Senior Australians offset recipients

The increase in the low income tax offset ensures that recipients of the Senior Australians tax offset can earn more before paying tax. The taxable income that can be earned by these individuals before paying tax or Medicare Levy is as follows:

Year	Single	Couple (each)
2009/10	\$29,867	\$25,680
2010/11	\$30,685	\$26,680

## 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 (excluding any lump sum super payments counting towards the low rate cap). Medicare levy will not be payable until the following income thresholds are breached:

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

\*Below pension age

Family income	2008/09	2009/10
Standard taxpayer	\$30,025	\$31,196
Pensioner*	\$30,025	\$31,196

\*Below pension age

## Child Care Rebate - Reduction in the annual cap and pausing indexation 1 July 2010

Eligible individuals can get a Child Care Rebate covering 50% of out of pocket child care expenses for approved child care up to a maximum annual cap (currently \$7,778). From 1 July 2010, the annual threshold will be returned to the 2008/09 level of \$7,500 and the indexation of this threshold will be paused for 4 years.

## Superannuation Government co-contribution 1 July 2010

### Retain the matching rate

The Government will permanently retain the current co-contribution rate for eligible personal non-concessional contributions up to \$1,000. The rate will remain at 100% and will no longer increase to 125% in 2012/13 and 150% in 2014/15 as announced in the 2009/10 Federal Budget.

### Income thresholds

The co-contribution income thresholds will not be indexed for 2010/11 and 2011/12. The current lower threshold of \$31,920 and upper threshold of \$61,920 will be retained during this period.

## Discretion on excess contributions 1 July 2010

The Government has announced that the Commissioner of Taxation will have the power to exercise discretion for the purposes of excess contributions tax before an assessment is issued.

## Unclaimed superannuation benefits Royal assent

The Government is proposing to extend the reach of unclaimed superannuation administration by including benefits from State and Territory public sector funds. At present, only private sector superannuation funds transfer unclaimed superannuation monies to the ATO.

## Income tax treatment of instalment warrants 1 July 2007

The Government has confirmed previously announced proposals to clarify the taxation treatment of instalment warrants for CGT purposes.

The proposed CGT amendments confirm the current practice of treating the investor (superannuation fund) in an instalment warrant as the owner of the security for income tax purposes, as opposed to the trustee of the trust. This will mean that the investor is entitled to any distributions, associated franking credits, capital gains and losses on the underlying asset.

If the investor pays the final instalment, there will be no CGT payable on transfer of legal ownership of the asset and the cost base for the asset will be the amount paid to acquire the asset, not the market value at time of transfer of legal ownership. The tax amendments will apply for assessments for the 2007/08 and later income tax years.

## Measures previously announced in the Henry Tax Review

The Government has confirmed a number of proposals that were announced in the Henry Tax Review, such as:

- Retaining the higher concessional contribution cap
- Increasing Super Guarantee rate
- Super Guarantee age limit increasing to 75
- Government Superannuation Contribution
- Resource Super Profits Tax from 1 July 2012
- Company tax rate cut to 29% from 2013/14 and 28% from 2014/15
- Company tax rate cut to 28% for small businesses from 2012/13
- Instant asset write off for assets under \$5,000 and simplified write-off rules for small businesses from 1 July 2012.

[Read the ANZ summary of the proposed changes under the Henry Tax Review.](#)

## Social Security: Family tax benefit changes 1 July 2010

### Non lodgement of tax returns

Fortnightly payments of the Family Tax Benefit were ceased for recipients who had not lodged their tax returns for more than 12 months and did not respond to Centrelink requests to do so. Proposed changes will allow Family Tax Benefits to be paid where recipients don't have a Family Tax Benefit debt or where ceasing payments would cause undue hardship.

### Children aged 16-20

From 1 July 2010, to remain eligible for Family Tax Benefit Part A, families with children aged 16-20 who do not have a Year 12 or equivalent qualification must participate in full time education or training, or part time education or training in combination with other approved activities, leading to a Year 12 or equivalent qualification. Proposed changes will require the participation in education or training to be full time to remain eligible.

## Changes to the eligibility criteria and allowable uses for Special Disability Trusts

Special Disability 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. The proposed changes will expand the definition of those who can be a beneficiary of a Special Disability Trust to include someone disabled who can work up to 7 hours per week (excluding work in an Australian Disability Enterprise) and expand the allowable uses for the trust 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.

## Changes to eligibility for the War Widow/er Pension

Currently, war widow/ers that have entered a de-facto relationship following the death of their veteran partner can claim the War Widow/ers Pension, while those that have since married cannot. It is proposed that war widow/ers that have entered a de-facto relationship following the death of their veteran partner will not be eligible for the War Widow/er Pension.

## ANZ Report

[Review the ANZ Economics & Markets Research Australian Federal Budget Report](#)

### Full report

The full report is comprised of an overview, terms of reference, executive summary, twelve chapters, and appendices. The link to these sections is: <http://budget.australia.gov.au/>

If you would like to find out how the proposed changes may impact you or to make an appointment with an ANZ Financial Planner [click for a call back](#) or complete an [appointment form](#).

The information provided in this document is provided by Australia and New Zealand Banking Group Limited ABN 11 005 357 522 (ANZ), the holder of an Australian Financial Services Licence. It is intended as general information only and is current as at May 2009. The information is in summary form and does not purport to be complete and is not a substitute for professional advice. Examples are used for illustration purposes only and are not intended as advice. The information does not take into account your personal needs and financial circumstances and you should consider whether it is appropriate for you. Neither ANZ, nor any of its related bodies corporate warrants the accuracy or completeness of any information contained in, or referred to, in this document. ANZ recommends that you seek independent legal, financial and/or taxation advice, which takes into account your individual circumstances, before considering or acting on this material further.

Australia and New Zealand Banking Group Limited (ANZ) ABN 11 005 357 522. ANZ's colour blue is trade mark of ANZ. Item No. 75957 05.2010 W191019