

FEDERAL BUDGET MAY 2010 SUMMARY

Taxation

50% savings discount for interest income from 1 July 2011

The Government plans to provide a 50% tax discount on up to \$1,000 of interest earned by individuals, including interest earned on deposits held in authorised deposit taking institutions, bonds, debentures and annuities. The discount will be available for interest income earned directly as well as indirectly, such as via a trust or managed investment scheme.

Income threshold	Tax rate
\$ 0 - \$ 6,000	0%
\$ 6,001 - \$37,000	15%
\$ 37,001 - \$80,000	30%
\$80,001 - \$180,000	37%
\$180,000+	45%

Personal tax rate reductions already legislated from 1 July 2010

In accordance with the tax cuts announced in the 2008 budget, the personal income tax thresholds for the 2010-2011 year will be as follows:

These personal tax rates differ from the tax rates for 2009-2010 in that the income threshold for the 30% tax rate has been increased from \$35,000 to \$37,000 and the 38% tax rate has been reduced to 37%.

Additionally, the low income tax offset will increase to \$1,500 from its current \$1,350 with the upper income threshold being raised to \$67,500 from \$63,750.

Standard tax deduction from 1 July 2012

The Government plans to introduce a standard deduction for work-related expenses and the cost of managing tax affairs. The standard deduction will be \$500 for the 2012/13 financial year, and then \$1,000 for the 2013/14 and subsequent financial years.

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.

Increased Medicare levy low income threshold from 1 July 2009

The Government will increase the Medicare levy low income threshold to \$18,488 for individuals and \$31,196 for families. The additional amount of threshold for each dependent child or student will also increase to \$2,865.

The Medicare levy threshold for pensioners below age pension age will also be increased to \$27,697. This is to ensure that pensioners below age pension age will not have a Medicare liability where they don't have an income tax liability.

Net medical expenses tax offset from 1 July 2010

The Government plans to increase the threshold above which a taxpayer may claim the net medical expense tax offset (NMETO) from \$1,500 to \$2,000. This threshold will be indexed to the Consumer Price Index (CPI) on an annual basis.

Superannuation

Co-contribution – permanent reduction to matching rate and maximum payable

The matching rate of 100 per cent and the maximum co-contribution that is payable on an individual's eligible personal non-concessional contribution of \$1,000 is proposed to be permanently retained.

Co-contribution -indexation of income thresholds paused for two years from 1 July 2010

The Government plans to freeze for 2010/11 and 2011/12 the indexation applied on the income threshold above which the maximum superannuation cocontribution begins to phase down.

The maximum co-contribution of \$1,000 is reduced by 3.333 cents for every dollar that a taxpayer's total income exceeds \$31,920 until it reaches or exceeds \$61,920.

Other amendments to super contributions from 2010-11

The Government will introduce a number of measures to improve the eligibility for a tax deduction on superannuation contributions. These are:

- To increase the time-limit for deductible employer contributions for former employees (currently two months after termination).
- To clarify the due date of the shortfall interest charge for the purposes of excess contributions tax.

Changes to First Home Owners Savers Accounts (FHSA) scheme from date of assent

The Government proposes that savings in an FHSA can be paid into an approved mortgage after the end of a minimum qualifying period, rather than requiring it to be paid to a superannuation account.

The current rules require that FHSA holders keep their savings in an FHSA for 4 financial years before they are able to use those savings to buy a home. At present if an account holder buys a home before the end of that 4-year period, the balance of their FHSA must be transferred to their superannuation.

The changes will apply for houses purchased after assent of the legislation that will give effect to this measure.

Social Security and Family Assistance

Family Tax Benefit non-lodgement suspensions -exemptions

In the 2008 Budget, the Government had proposed to suspend FTB payments to people who had not lodged their tax return in 12 months and had not responded to Centrelink requests to do so. This measure will be retained with two exceptions. Payments will continue to people who do not have any FTB debt, or where ceasing the payments would cause undue hardship.

Family Tax Benefit –A: Strengthening participation requirements from 1 July 2010

In the 2009 Budget, the Government extended FTB Part A to cover children aged 16-20 who do not have a Year 12 or equivalent qualification, and who participate in full-time education or training, or part-time education or training in combination with other approved activities.

The participation measure will now be strengthened. Children will now be required to participate in full-time education or training. Part-time education or training will not be sufficient. These participation requirements will be introduced when the measure commences on 1 July 2010.

Child Care Rebate capped from 1 July 2010

The Child Care Rebate will be capped at \$7,500 per child (2008/09 level) from the current annual cap of \$7,778 per child. Also indexation of the cap will be paused for four years from 1 July 2010. The out-of-pocket reimbursement of child care expenses will remain at 50 per cent up to the annual cap.

Henry response confirmation

As expected, the 2010 Budget reiterated the Government's commitment to the following proposals announced in response to the Henry Tax Review:

- Increase of super guarantee rate from 9% to 12%, commencing 1 July 2013.
- Raising the super guarantee maximum eligibility age to 75 from 70.
- Introducing a 15% low income earners Government contribution capped at \$500, effectively refunding contributions tax on up to \$3,330 of concessional contributions.
- Retaining the \$50,000 concessional cap for those aged 50 or over who have super balances of less than \$500,000.
- Reducing the standard company tax rate to 29% from 1 July 2013 then 28% from 1 July 2014.
- Reducing the small business company tax rate to 28% from 1 July 2012.
- Allowing small businesses to immediately write off assets valued at under \$5,000 and other assets in a single 30% rate depreciation pool.