veale partners
accountants & advisers

269 Centre Road
Bentleigh Victoria 3204
PO Box 354
Bentleigh Victoria 3204
T: 03 9557 9200
F: 03 9557 9400
info@vealepartners.com.au
www.vealepartners.com.au
ABN 92 771 069 548

Welcome to the May edition of our newsletter. This month's newsletter focuses on the 2010 Federal Budget. Please make an appointment to speak to us should you wish to discuss the impact the Budget may have on you or your business.

On the 11th May 2010, the Treasurer Mr Wayne Swan released the 2010 Federal Budget, his third Budget. The major features of this Budget are summarized below.

50% Discount for Interest Income

From 1st July 2011, individual taxpayers will be provided with a 50% tax discount on up to $1,000 of interest earned on deposits held in authorized deposit taking institutions, bonds, debentures and annuity products. An authorized deposit taking institution includes banks, building societies and credit unions.

The discount will be available for interest income earned directly as well as indirectly, such as through a trust or managed investment scheme.

Standard Tax Deduction

From 1st July 2012, individual taxpayers will be provided with the choice of claiming a $500 standard deduction for their work related expenses and cost of managing tax affairs, without any proof. This will increase to $1,000 from 1st July 2013. Taxpayers with higher deductible expenses or more complex tax affairs can continue to claim their higher expenses with substantiation.

Increase in Net Medical Expenses Tax Offset Claim Threshold

From 1st July 2010, the Government will increase the threshold above which a taxpayer may claim the 20% net medical expenses tax offset from $1,500 to $2,000 and will commence annually indexing the threshold to the CPI. The first indexation adjustment will take place on 1st July 2011.

Permanent Reduction to Super Co-contribution Matching Rate

The Government will permanently retain the matching rate for the superannuation co-contribution at 100% or $1 (rather than 150% or $1.50), and the maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions at $1,000 (rather than $1,500). That is, the Government will continue to match contributions dollar for dollar for eligible individuals, up to a maximum co-contribution of $1,000, and will not be increasing these matching rates in future (which reverses the announcement made in last year's Budget).

Personal Tax Rates – no change to already scheduled tax cuts

There were no changes to the currently legislated tax rates for 2010-11. The legislated current and 2010-11 personal tax rates and thresholds for resident individuals (excluding the 1.5% Medicare levy) are set out in the following table:

Current taxable income ($)	Rate (%)	From 1st July 2010 Taxable Income ($)	Rate (%)
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
180,000 +	45	180,000 +	45

Also, from 1st July 2010, the low income tax offset will increase from $1,350 to $1,500 thereby increasing the effective tax-free threshold to $16,000 for people earning $30,000 or less. This increase has also effectively increased the Div6AA tax-free threshold for 'unearned income' of an eligible minor to $3,333, up from $3,000 in 2009-10.

HENRY TAX REVIEW

The long awaited Henry Tax Review was released on the 2nd May 2010. Most of the 138 recommendations were not adopted by the Government. However the following measures resulted from this review:

Resource Super Profits Tax

This tax of 40% on resources super profits made by mining companies is planned to be introduced by the Government from 1st July 2012. This is on top of company tax.

This measure has been the subject of much controversy. The Minerals Council dubbed the proposed new tax a 'revenue grab, not taxation reform'.

Treasury has estimated the super profits tax will raise $3 billion in 2012-13 and $9 billion in 2013-14. This will be used to boost superannuation savings, fund company tax rate cuts and invest in infrastructure.

Superannuation

Compulsory employer super is to be gradually increased from 9% to 12% by 2020. It is to be paid until 75 years of age, up from 70, from 1st July 2013.

The Government will make a contribution of up to $500 annually into the superannuation account of low income workers on adjusted taxable incomes of up to $37,000. This applies from 2013-14.

Workers over 50 with less than $500,000 in super will be able to make concessional contributions of up to $50,000 from 2012. The Government has decided to make permanent a higher cap for the over-50s that was due to expire on 30th June 2012. The temporary cap was to be replaced with the same $25,000 cap that applies to younger age groups.

The Henry Review recommended that the tax on super fund earnings be cut in half to 7.5%. However this recommendation was not adopted.

Company Tax Rate Reduced

For small business, from 2012-13, the company tax rate will drop from 30% to 28%. For all other companies, the tax rate will fall from 30% to 29% in 2013-14, and then to 28% in 2014-15.

The Henry Review recommended that the company tax rate be dropped to 25%, however this was not adopted. The Government decided that a company tax rate of 25% could not be afforded at present.

Small Business Write Off Increased

Small businesses will receive the benefit of an immediate write off of assets valued at under $5,000 up from the current limit of $1,000, from 1st July 2012. And the claims for all other assets (except buildings) will be simplified to depreciate at the single rate of 30%, rather than the current split system.

These changes will let small business write off many assets more quickly, increasing their cash flows at the time when they are investing to grow.
The Henry review recommended that small business be able to write off assets under $10,000. However this was not adopted.

Other Recommendations Not Adopted

The Review proposed a flat 40% tax discount for income and expenses from a range of savings including interest on bank deposits, capital gains on shares and net income on residential property. The Government partially considered this by introducing the 50% tax discount on the first $1,000 of interest income. However the Henry Review did not recommend a cap as such.

The following were also suggested, but have all been ruled out by the Government:

- Reduce tax breaks for capital gains by reducing the existing capital gains tax concession on sale of shares and property from 50% to 40%.
- Reduce tax breaks for negative gearing.
- Imposing a capital gains tax on pre-1985 assets.
- Removing the Medicare Levy.
- Remove the benefit of dividend imputation.

Another proposal was to have a two-tier income tax system whereby there would be a $25,000 tax-free threshold. The other tax rates would be 35% and 45%. The vast majority of taxpayers would pay a flat marginal rate of 35%, and only high income earners earning above $180,000 would pay 45% tax. This system is not on the Government's agenda for the second term. However this suggestion may be considered at a later time, and was not ruled out completely.