

2010 Federal Budget and Henry Review

The Federal Budget this year was rather a non-event for individual taxpayers and business taxpayers alike, for at least the immediate future. However, whilst a number of measures are not immediate, there are measures that will affect taxpayers in the medium term.

Highlights

Individual Tax Rates

From 1 July 2010 Individual Tax rates will remain as previously promised, however an increase to the low income offset to \$1,500 will effectively raise the tax-free threshold to a maximum of \$16,000 for those earning less than \$30,000 pa.

Tax on Savings

There will be a 50% discount of tax on up to \$1,000 of interest income beginning 1 July 2011. The discount will be available for interest income earned directly as well as indirectly through trusts or managed investments.

Standard Deduction

From 1 July 2012, individual taxpayers will be provided with the choice of claiming a \$500 standard deduction to replace deductions for work related expenses and the cost of managing their tax affairs. Alternately they can continue claiming as previously. The standard deduction will increase to \$1,000 from 1 July 2013.

Increasing Superannuation Guarantee Rate

The rate will increase from the current 9% to 12%, phasing in from 1 July 2013 to 1 July 2020.

Increasing Superannuation Guarantee Age Limit

From 1 July 2013, the superannuation guarantee (SG) age limit will be raised from 70 to 75, meaning employees aged between 70 and 74 will generally be eligible to have SG contributions made on their behalf.



Concessional Contribution Caps for over 50's to continue

From 1 July 2012, individuals aged 50 and over with total superannuation balances below \$500,000 will be able to make up to \$50,000 in concessional (tax deductible) superannuation contributions. This will maintain the current contribution limits for the over 50s that were due to revert to \$25,000 from 1 July 2012.

Government Superannuation Co-contributions

The temporary co-contribution measure announced in the 2009 Budget limiting the co-contribution to 100% of eligible member contributions up to a maximum of \$1,000 is now a permanent measure. Income thresholds to be eligible for the government contribution have also been kept at the same levels as previously.

Super tax offset for low income earners

From 1 July 2012, the government will contribute up to 15% of concessional contributions which are made on behalf of individuals with adjusted taxable incomes of up to \$37,000. An annual maximum contribution of \$500 will apply.

Company Tax rate reduction from 30% to 28%

The timing of this will depend on whether an entity qualifies as an 'eligible small business company'. If so, the reduction will be effective from 1 July 2012. Otherwise the rate will be phased in (29% for 2014 and 28% from 2015).

Small Business Asset write-off

From 1 July 2012, small businesses will be able to immediately write-off assets valued under \$5,000, (currently \$1,000) and all other assets (except buildings) will be written off in a single depreciation pool at a rate of 30%.

Medical Expenses Offset

From 1 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 CPI from 1 July 2011.

2010 Federal Budget and Henry Review cont. from p1

Paid parental leave but not until 1 Jan 2011

The government funded scheme will provide eligible parents with up to 18 weeks of leave at the Federal Minimum Wage. No super contributions from employers at this stage.



Changes to First Home Saver Accounts

The First Home Saver (FHS) initiative will be made more flexible, particularly where people buy their first home before the end of the four year qualifying period. Now, instead of the FHS account having to be transferred into a superannuation fund at the end of the four year qualifying period, the proposed changes allow the FHS account balance to be paid off the relevant mortgage account.

Free Small Business Superannuation Clearing House

From 24 May 2010, eligible small businesses will be able to register to use the Government's free Small Business Superannuation Clearing House, commencing from 1 July 2010. This free service will help reduce the compliance burden by enabling employers to pay their employee's superannuation in a single transaction and single location.

Small businesses with fewer than 20 staff can register and the service is being delivered through Medicare Australia. Registration can be completed by going to the following website: www.medicareaustralia.gov.au/super.



Tax Planning Tips to Prepare for 2010

Some tax planning strategies differ depending on the size and structure of the business, however, the most common strategies (subject to cashflow requirements) that could be considered prior to 30 June 2010 include:

- If you are self employed or employed by your own company consider making tax deductible superannuation contributions up to your concessional contributions cap (\$25,000 if you are under 50 years of age and \$50,000 if aged 50 and over).
- Look at prepaying up to 12 months of expenses such as rent, interest on loans, etc.
- If you have made a capital gain during the year, review any underperforming assets with a view to realising a capital loss in this current year to offset against the gain.
- If you are selling an asset now and look like making a capital gain, try and delay the sale until July 1 if you can to defer the tax payment and to allow 12 months to plan a way to offset the gain.
- If you want the full deduction for the year, make sure you pay the staff superannuation contributions by June 30.
- If you have any debts that you are unable to collect, write them off by June 30. This also allows you to claim a GST credit in your June activity statement on any GST that was previously remitted to the ATO.
- If you wish to obtain a deduction this financial year for the investment allowance on equipment ordered prior to 31 December 2009, you will need to have it installed ready for use by 30 June 2010.
- Carry out a stock review before June 30 and identify any obsolete stock that cannot be sold.

Team News

BBV welcomes Tui Silvester. Tui is a degree qualified Accountant who worked with BBV a number of years ago. We are glad to have Tui back in the team.

This newsletter is compiled for your private information and is subject to copyright. We suggest that you do not act, or refrain from acting solely on the basis of the material contained in this newsletter as items are of a general nature only and may be liable to misinterpretation in particular circumstances. We recommend that our advice should be sought before acting on any of these crucial areas.