2010 FINANCIAL BUDGET BRIEFING

Please find below a briefing on the Federal Budget delivered last night.

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INTRODUCTION

Last night the Federal Treasurer, Wayne Swan, handed down his third Budget which is promising to return us to a surplus in three years. Following the extensive stimulus they have given the economy over the last two years to soften the impact of the Global Financial Crisis, the government believes that a “no-frills, no-nonsense” budget is appropriate.

The winners from the 2010 Budget include taxpayers at all levels, who will receive the benefit of the final range of tax cuts that were originally announced in the 2008 Budget.

Self-funded retirees will also gain as they continue to receive unlimited tax-free income from superannuation pensions. Families will win from changes to the Family Tax Benefits regime, while the status for pensioners remains largely unchanged.

Despite many of the changes, it’s important to keep things in perspective. Many of the Budget proposals do not become effective until future financial years, and being an election year there is the possibility that these initiatives may be amended as we get closer to ballot time.

SUMMARY

Compared to the previous year’s offerings, the 2010 Federal Budget was relatively austere and contained few surprises.

Some of the key announcements include:

- Individual taxpayers will need to report only half of their interest income up to $1,000 from certain investments in their annual income tax return;
- An elimination for many taxpayers of having to keep receipts to claim a tax deduction with the option to claim a standard deduction of $500 becoming available in the 2012/13 income year, increasing to $1,000 in 2013/14;

- No changes to the co-contribution thresholds, with the maximum co-contribution matching rate and payment amount remaining at 100% and $1,000 respectively;

- Additional flexibility being incorporated in regards to excessive superannuation contributions with the Taxation Commissioner now able to exercise discretion in relation to excess contributions tax before a tax assessment is issued;

- Super funds being eligible to claim a deduction when paying benefits on terminal medical conditions;

- Assistance to those who are seeking to make provision for vulnerable family members with changes being made to improve the accessibility of Special Disability Trusts.

- The fiscally conservative Budget reconfirmed the recent announcements by Treasurer Swan in response to the Henry Taxation Review.

THE FEDERAL BUDGET IN MORE DETAIL

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. At present there are higher levels of taxation which apply to interest income, compared to other forms of investment income such as share dividends and managed fund distributions. The discount will be available for interest income earned directly through a bank or term deposit as well as indirectly, such as through a trust or managed fund, and is expected to benefit around 5.7 million taxpayers in 2011-12.

Comment:

To generate $1,000 of interest income a taxpayer would need savings of $16,667 (assuming a 6% interest rate).

As there is no preservation or holding period requirement apparently included in this measure, the 50% savings discount provides an alternative shorter-term savings mechanism, particularly for those affected by super contributions caps. However, over the longer term the taxation concessions applying to super provide greater scope for increased savings.

PERSONAL TAX RATE REDUCTIONS ALREADY LEGISLATED FROM 1 JULY 2010

Following on from the tax cuts originally announced in the 2008 Budget, the personal income tax thresholds for the 2010- 2011 year will be revised as follows:

Current Thresholds (2009/2010)	Tax Rate	Thresholds in 2010/2011 and beyond	Tax 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%**
$180,001 +	45%	$180,001 +	45%

There have also been some slight changes to the thresholds available in order to access the low income tax offset - 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.

Comment:
Those who have already established and implemented a transition to retirement strategy may wish to review the level they are salary sacrificing from 1 July 2010 to take into account the new income tax thresholds.

TAX-FREE INCOME REMAINS FOR SELF-FUNDED RETIREES AGED 60 AND OVER
People aged 60 or over will still be able to receive an unlimited tax-free income from pension investments commenced from a taxed super fund. The table below shows the amount of taxable income that can be received tax-free by older Australians in other circumstances.

People who are:	Tax-free incomes[1]	
	2009/10	2010/11 and beyond
Aged 55 to 59 using pension investments[2] • Singles • Per member of a couple	 $45,789 $45,789	 $48,158 $48,158
Eligible for SATO not using pension investments • Singles • Per member of a couple	 $29,867 $25,680	 $30,685 $26,680

1 Doesn't include the Medicare levy, but includes the low income tax offset and Senior Australians Tax Offset (SATO), where applicable.
2 Assumes no income from other sources is received.

STANDARD TAX DEDUCTION LEVELS AVAILABLE FROM 1 JULY 2012
In order to streamline personal tax management, the Government plans to introduce a standard deduction for work-related expenses as well as the cost of managing tax affairs. The standard deduction will be set at $500 for the 2012/13 financial year, and then $1,000 for the 2013/14 and subsequent financial years.

Where a person's level of tax deductible expenses exceed the standard deduction amount, they will remain able to claim the higher expense deduction.

Comment:
This standard deduction would be available regardless of whether relevant expenditure was actually incurred. For example, a person who completes their own tax return would be able to claim a deduction for their own efforts. The standard deduction will translate into a $157.50 saving for a person on a 30% marginal tax rate in the first year, and a $315 saving in subsequent years.

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 to ensure that pensioners below age pension age will not have a Medicare liability in instances 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 MATCHING RATE AND MAXIMUM PAYABLE AMOUNTS REMAIN UNCHANGED
The Government will permanently retain the matching rate for co-contributions at 100% and the maximum co-contribution that is payable at $1,000 for the 2012/13 years and beyond. The co-contribution levels before and after the 2010 Budget are shown below:

	Before Budget		After Budget	
Contribution year	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

INDEXATION OF CO-CONTRIBUTION INCOME THRESHOLDS PAUSED FOR TWO YEARS FROM 1 JULY 2010
It is proposed that the indexation applied to the income thresholds will be frozen for the 2010/11 and 2011/12 tax years. In these years, eligible individuals will receive the full co-contribution if their adjusted taxable income (ATI) is less than $31,920 and a partial co-contribution if their ATI is less than $61,920.

ATO GIVEN DISCRETIONARY POWERS REGARDING CONTRIBUTIONS TAX ASSESSMENTS

Currently, a taxpayer may apply to the Commissioner for a determination that part or all of their excess contributions be disregarded or reallocated to another income year. Such an application must be made within 60 days of receiving an excess contributions tax assessment, which also includes the taxpayer's excess contributions tax liability.

This Budget measure proposes giving the Taxation Commissioner the ability to exercise his discretion prior to an assessment being issued for excess contributions tax. This would allow an application to be made before receiving any assessment, potentially allowing a person to have a decision made before being required to pay excess contributions tax.

SUPER FUND DEDUCTIONS FOR TERMINAL MEDICAL CONDITIONS BENEFITS FROM 16 FEBRUARY 2008

The Government has announced that it will be seeking to extend the number of benefits that are deductible for complying super fund and retirement savings account providers to now include terminal medical conditions (TMC).

Comment:

The measure seeks to address the current anomaly in taxation laws where deductions are only allowed for benefits relating to death, permanent incapacity and temporary incapacity conditions of release. This will allow super fund providers to be able to recoup the costs of paying out TMC claims and ensure these can be paid out in a more timely fashion.

ELIGIBLE SUPER CONTRIBUTION DEDUCTIONS EXTENDED PERMANENTLY FROM 1 JULY 2010 WHERE FUND TRANSFERS OCCUR

The Government has announced plans to permanently allow a claim for a deduction for eligible contributions where a person makes a contribution to one fund and then transfers to a successor superannuation fund.

Comment:

This measure would allow a deduction notice to be lodged with a successor fund, even where the deductible contributions were actually made to the transferring fund. This addresses a current inequity in superannuation laws which deny investors a legitimate tax deduction due to circumstances that are mainly out of their hands.

Usually investors do not have any control over the transfer of their current benefits from one super fund to another if it occurs due to a fund transferring from one superannuation provider to another.

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 including:

- increasing the time limit for deductible employer contributions for former employees (currently the time limit for making deductible contributions is two months after termination).

- clarifying the due date of the shortfall interest charge which may be payable in the event of any excess contributions tax being levied.

Comment:

These measures will make some of the timeframes more reasonable and in line with when individuals and employers would engage in these activities.

SOCIAL SECURITY AND FAMILY ASSISTANCE BENEFIT CHANGES

FAMILY TAX BENEFIT (FTB) SUSPENSIONS FOR NON-LODGEMENT REMAIN
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 available where people 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.

PAID PARENTAL LEAVE FROM 1 JANUARY 2011
The Government's 18 week Paid Parental Leave Scheme will be paid to eligible new mothers from 1 January 2011 at a payment level equal to the level of the national minimum wage.

CHILD CARE REBATE CAPPED FROM 1 JULY 2010
The Child Care Rebate will be capped at $7,500 per child (the 2008/09 level) which is a reduction from the current annual cap of $7,778 per child. There will be no indexation of this cap for four years from 1 July 2010. The out-of-pocket reimbursement of child care expenses will remain at 50% up to the annual cap.

EXPANDED SPECIAL DISABILITY TRUST CRITERIA FROM 1 JANUARY 2011
The Government will amend the eligibility criteria and allowable uses for Special Disability Trusts which will be of significant benefit to those looking to provide for vulnerable family members.

As part of the 2010 Budget initiatives, the definition of a beneficiary will be expanded to include a person with a disability who can work up to seven hours per week. This will enable greater autonomy as the disabled person can obtain part-time or casual work without being in fear of breaching the conditions of a Special Disability Trust.

In addition, the allowable uses for the Special Disability Trust will be expanded to include all medical expenses, including membership costs of private health funds, maintenance expenses of Special Disability Trust property and the provision for discretionary spending of up to $10,000 per year.

DISABILITY SUPPORT PENSION (DSP) CHANGES
When determining eligibility for the DSP Centrelink will have a greater focus on the individual's potential to work. From 1 July 2010, claimants who do not have enough evidence to demonstrate that they are unable to work will have their DSP claim rejected and they will instead be referred to an employment service to build their employment capacity. It is important to note that claimants with profound disability, serious medical conditions or terminal illness who are clearly unable to work will not be affected.

Also, assessment for the DSP will be simplified from 1 July 2010 to fast-track more claimants who are clearly eligible due to a cancer, congenital or catastrophic disability.

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HENRY RESPONSE CONFIRMATION

As expected, the 2010 Budget reiterated the Federal Government's commitment to the key proposals announced as part of 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 age 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.
- A 40% Resource Super Profit Tax will be introduced from 1 July 2012.

CONCLUSION

We trust that you have found our 2010 Budget summary informative and interesting.

We have included as part of this analysis a discussion of the Budget initiatives that are of most relevance to our clients, however there are many more items we have not discussed here in order to keep this briefing as succinct and timely as possible.

Should you have any queries regarding the Budget announcement please contact us.

Source: Colonial First State and MLC Limited.

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Phone 1300 888 803
Email info@modoras.com

Level 3, 50-56 Sanders Street
Upper Mt Gravatt Q 4122
PO Box 6530 Upper Mt Gravatt Q 4122

www.modoras.com

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