

The logo for Financial Spectrum features three curved, overlapping lines in shades of green and yellow on the left, followed by the text "Financial Spectrum" in a dark blue, sans-serif font.

# Financial Spectrum



# Federal Budget 2010

## Welcome

Welcome to our Federal Budget review for 2010.

On the 11th May 2010, the Federal Government handed down its Budget for the 2010/11 financial year.

From a financial planning perspective, this Budget has few surprises. There has been little in the way of "pre-election sweeteners" except for some concessional tax treatment for some non-super investments and a proposed simplification of the tax return process. These changes however will not come into effect until after the next election, indicating that they will form part of the Government's re-election plans.

Of benefit to many Australians in this Budget is the lack of "stimulus measures" and a greater emphasis on savings as these may reduce the need for future interest rate rises.

Remember, if you have any questions or would like to discuss any concerns with your financial planner, please give us a call on 02 8238 0888.

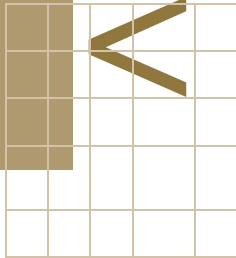
Kind regards,

A handwritten signature in black ink, appearing to be "Jan", written in a cursive style.

The Financial Spectrum team



# Tax



> **Income Tax Changes:** From 1 July 2010, personal income tax changes will come into effect. These changes were announced in 2008 and no further adjustments have been made.

## Current

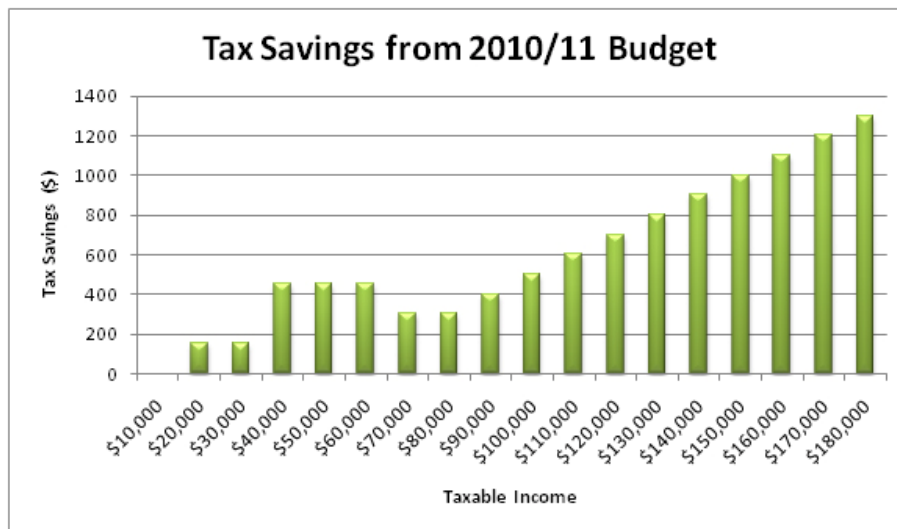
Taxable Income	Rate
\$0 - \$6,000	0%
\$6,001 - \$35,000	15%
\$35,001 - \$80,000	30%
\$80,001 - \$180,000	38%
\$180,001 +	45%

## From 1 July 2010

Taxable Income	Rate
\$0 - \$6,000	0%
\$6,001 - \$37,000	15%
\$37,001 - \$80,000	30%
\$80,001 - \$180,000	37%
\$180,001 +	45%

> The Low Tax Offset will increase from \$1,350 to \$1,500 for 2010/11, phasing out after \$30,000 by 0.04 cents in the dollar to a maximum of \$67,500.

> The graph below shows the tax savings for the 2010/11 financial year as compared to the 2009/10 financial year\*.



\* All calculations are approximate

> As a result of these changes, from 1 July 2010 if your taxable income doesn't exceed \$16,000 you will have no tax to pay. If your taxable income is up to \$30,000, you will effectively receive the first \$16,000 tax free and only pay 16.5% tax on the balance.



> **Standard rate of tax deductions to simplify tax returns:** From 1 July 2012, individual taxpayers will have the option of receiving a standard deduction of \$500 for work related expenses and the cost of managing tax affairs. From 1 July 2013, this standard deduction will increase to \$1,000. If your deductible expenses are higher than the standard deduction amount, you will be able to claim the higher expenses when lodging your tax return under the existing rules, but you will need to substantiate the higher claim. The Government expects that for many people, this will lead to a more simplified tax return process and reduce the reliance and cost of using tax agents to complete simple tax returns.

> **Discounted assessability on first \$1,000 of interest income:** From 1 July 2011, individuals will receive a 50% tax discount on up to \$1,000 of interest earned from a range of savings products. These include bonds, debentures or annuity products, as well as deposits held with a bank, building society or credit union.

#### Example

On 1 July 2011, Jack deposits \$10,000 in a one-year term deposit with an effective interest rate of 5% per annum. He earns \$500 in interest after one year. Jack would be required to include only \$250 of this interest income on his tax return.

> **Income tax treatment of instalment warrants:** Consistent with a pre-budget announcement, the Government intends to amend the taxation law surrounding instalment warrants to ensure that for capital gains tax purposes, the owner of an instalment warrant over an exchange traded security will be treated as the owner of the security. The amendments will provide certainty that a CGT event will not be realised once the legal ownership of the asset is transferred to the investor, it will happen on the disposal of the trust asset. This treatment will also apply to instalment arrangements within superannuation funds under the 2007 amendments that allowed gearing within superannuation.

> **Additional ATO discretion on excess superannuation contribution tax assessments:** The Government have announced that the Commissioner of Taxation will be permitted to exercise discretion for the purpose of excess contribution tax before an assessment is issued. This is intended to apply from 1 July 2010. With over 35,000 taxpayers having breached the contribution caps in the 2008/09 financial year, excess contribution tax has become an issue for a substantial number of individuals.

> **Family Tax Benefit Part A:** From 1 July 2010 if a parent qualifies for Family Tax Benefit Part A, a child aged between 16 and 20 who does not have a Year 12 or equivalent qualification must participate in full time education or training. Youth Allowance will remain an option for children in this age group.

> **Small business tax cuts:** From 1 Jul 2012 (for small businesses) and otherwise from 1 July 2013, the Government has announced that the company tax rate will be gradually reduced for its current level (30%) to 28% in accordance with the following timeline:

Income Year	Small business tax rate	Other companies
Up to 2011/12	30%	30%
2012/13	28%	30%
2013/14	28%	29%
2014/15 onwards	28%	28%

# Health



- > **Health care reform:** The Government confirmed its reform plans to health and the hospital system at a cost of \$7.3 billion over 5 years.
- > **Extra hospital funding:** Extra funding will be provided to hospitals with the aim to reduce emergency wait times and extra beds.
- > **Extra primary health care funding:** Increased funding towards primary health care will improve access to GP services and give doctors greater assistance in caring for patients with diabetes.
- > **Increase to the medical expense tax offset threshold:** The threshold above which you can claim the 20% net medical expense tax offset has increased. From 1 July 2010 the threshold will rise from \$1,500 to \$2,000. In addition, this threshold will be indexed annually with inflation (CPI).
- > **New Medicare levy thresholds:** New Medicare levy thresholds are applicable for the current financial year (ending 30 June 2010). These are \$18,488 for individuals (previously \$17,794) and \$31,196 for families (previously \$30,025). The increase on these thresholds for each dependent child/student will be \$2,865. If your taxable income is below these levels, you will not have to pay the 1.5% Medicare levy.

Medicare Levy Thresholds	Previous	Current
For individuals	\$17,794	\$18,488
For families	\$30,025	\$31,196

- > **Increased low income threshold for pensioners:** The low income threshold for pensioners below the aged pension age has been increased to \$27,697 for the current financial year (year ending 30 June 2010). This will ensure these pensioners do not pay the Medicare levy when they do not have an income tax liability.

# Superannuation



> **Increase to the superannuation guarantee rate from 9% to 12%:** The superannuation guarantee (SG) rate will be increased from 9% to 12% over a seven year period commencing from 1 July 2013. The rates will increase gradually in accordance with the following table:

Financial Year	SG rate
2013/14	9.25%
2014/15	9.50%
2015/16	10.00%
2016/17	10.50%
2017/18	11.00%
2018/19	11.50%
2019/20	12.00%

On a salary of \$50,000, the additional 3% SG contribution will add an extra \$1,500 p.a to superannuation (before tax). If that contribution were to earn 7% p.a (net of fees and taxes), its value would double every 10 years.

> **Low income earner government super contribution of up to \$500:** From 1 July 2012, low income earners will be entitled to an additional government contribution into their superannuation fund of up to \$500. This is in addition to any government co-contribution payment you may be entitled to.

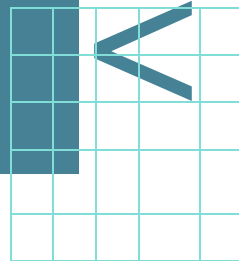
> **Raising the superannuation guarantee age limit from 70 to 75:** In a move designed as an incentive to keep people working for longer, the age limit at which an employer's requirement to make SG contributions for employees ceases will be lifted from age 70 to 75. This change will come into effect from 1 July 2013, coinciding with the increased rate of SG contributions.

> **Changes to government co-contribution:** In last year's Budget, the Government announced a temporary reduction in the matching rate for the government superannuation co-contribution measure. This reduction has now been made permanent, such that co-contributions will now only be available on a 1:1 matching basis to a maximum co-contribution level of \$1,000. In addition, the current thresholds applying for co-contribution eligibility will be frozen for the next two years instead of being indexed on 1 July. For the 2010/11 and 2011/12 financial years, the maximum co-contribution will only be available if your income level doesn't exceed \$31,920, and no co-contribution will be available once your qualifying level of income reaches \$61,920.

> **No minimum pension reduction extended:** For 2008/09 and 2009/10 financial years, the minimum payment required out of superannuation pensions was halved in recognition of the impact of the global financial crisis. This temporary reduction will not apply for the 2010/11 income year.



## Other Changes



> **More flexibility in First Home Saver Accounts:** Balances in First Home Saver Accounts (FHSAs) will be allowed to be paid into an approved mortgage after the end of the minimum qualifying period rather than requiring it to be paid to a superannuation account. Under the current rules, deposits must be held in FHSAs for 4 financial years before they are able to use those savings to buy a home. If the account holder buys a home prior to the end of the 4 year period, the balance of the account had to be transferred to the holder's superannuation fund. The changes mean that individuals who choose to purchase a home before the end of the 4 year qualification period will be able to pay any accumulated balance in their FHSA into an approved mortgage at the end of the qualification period.

To qualify under the current rules, individuals either have to attain age 60 or meet the 4 year rule and meet the following requirements:

- **Occupancy Rule:** must be a main residence for at least 6 months after the date of acquisition
- **4 Year Rule:** must have 4 qualifying years where at least \$1,000 p.a. is contributed to the FHSA. If the \$75,000 balance limit is breached, no contributions can be made and they must hold the account for at least 4 years.

> **Paid Parental Leave (PPL):** The Paid Parental Leave (PPL) scheme was announced in the May 2009 Budget. The scheme will provide a new parent of a child born or adopted from 1 January 2011 a payment equivalent to the national minimum wage for 18 weeks. The payments (current rate is \$543.78 pw) will be made through the parent's employer.

To be eligible the parent must:

- be working for 10 out of 13 months before the birth or adoption of the child; and
- have done at least 330 hours paid work in that 10 month period; and
- have an adjusted taxable income of up to \$150,000 in the previous financial year

The scheme is available to all employees, casual workers, contractors, and self-employed individuals.

> **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 Government has announced the following changes to Special Disability Trusts:

- the definition of a beneficiary will expand to include people capable of working up to 7 hours per week (excluding work in an Australian Disability Enterprise).
- allowable uses of trust funds will be expanded to include all medical expenses and private health insurance, maintenance of the principal residence if owned by the trust, and discretionary spending of up to \$10,000 per year.