

# The Kismet 2010-2011 Federal Budget Report



For all of our valued Kismet clients, we hope you find this budget summary useful, it is an amalgamation of information from a number of reputable sources. There have been key changes that will affect most people to some extent. If you are concerned regarding any of the changes or just have some questions please phone us on 94673355 for a quick chat or if more detailed conversation is needed we can book an appointment.

## Summary of key announcements

- individuals will only need to include 50% of interest income of up to \$1,000 from certain investments in their tax return
- taxpayers will have the option to claim a standard deduction of \$500 in 2012/13, increasing to \$1,000 in 2013/14
- the maximum co-contribution matching rate and payment amount will remain at 100% and \$1,000 respectively
- changes will be made to improve the accessibility of Special Disability Trusts

## Henry review proposals confirmed

The Government also confirmed the key proposals announced earlier this month in response to the Henry review of taxation. These include:

- the superannuation guarantee (SG) rate will increase gradually from 9% to 12% from 1 July 2013
- the SG contribution age limit will increase from 70 to 75 from 1 July 2013
- a Government super contribution of up to \$500 p.a. will be made for people earning up to \$37,000 p.a. from 1 July 2012 to effectively refund contributions tax
- the concessional contribution cap will be reinstated to \$50,000 p.a. from 1 July 2012 for people aged 50 or over with super balances below \$500,000
- the company tax rate will gradually reduce to 28% by 1 July 2014 (and two years earlier for eligible small businesses)
- changes to depreciation rules will apply to small businesses from 1 July 2012



## Personal taxation changes

### Personal tax rate/threshold changes confirmed

#### Date of effect: 1 July 2010

The previously announced changes to the personal income tax rates and thresholds have been confirmed. These changes are highlighted in bold below.

Thresholds in 2009/10	Tax rate <sup>1</sup>	Thresholds in 2010/11 and beyond	Tax rate <sup>1</sup>
\$0 – \$6,000	0%	\$0 – \$6,000	0%
\$6,001 – \$35,000	15%	\$6,001 – <b>\$37,000</b>	15%
\$35,001 – \$80,000	30%	<b>\$37,001</b> – \$80,000	30%
\$80,001 – \$180,000	38%	\$80,001 – \$180,000	<b>37%</b>
\$180,001+	45%	\$180,001+	45%

<sup>1</sup> Doesn't include the Medicare Levy. <sup>2</sup> The lower income threshold will remain at \$30,000. <sup>3</sup> Doesn't include the Medicare Levy, or tax offsets other than the low income tax offset.

### Tax payable and potential tax savings

#### Date of effect: 1 July 2010

The following table shows the amount of tax payable and tax saved in 2010/11 for a range of taxable incomes, when compared to the current (2009/10) financial year.

Taxable Income	Tax payable <sup>3</sup> In 2009/10	Tax payable <sup>3</sup> In 2010/11	Tax saved
\$20,000	\$750	\$600	\$150
\$40,000	\$4,900	\$4,450	\$450
\$60,000	\$11,700	\$11,250	\$450
\$80,000	\$17,850	\$17,550	\$300
\$100,000	\$25,450	\$24,950	\$500
\$120,000	\$33,050	\$32,350	\$700
\$140,000	\$40,650	\$39,750	\$900
\$160,000	\$48,250	\$47,150	\$1,100
\$180,000	\$55,850	\$54,550	\$1,300
\$200,000	\$64,850	\$63,550	\$1,300

### Interest income tax discount

#### Date of effect: 1 July 2011

Individuals will be eligible for a 50% tax discount on up to \$1,000 of interest earned from 1 July 2011 on:

- deposits with authorised deposit taking institutions, bonds, debentures and annuity products
- the above investments where held indirectly via trusts or managed funds



This discount will reduce the individual's adjusted taxable income (ATI), which may in turn increase their eligibility for payments and entitlements such as the Family Tax Benefit, Baby Bonus and the Commonwealth Seniors Health Card. The table below shows the tax saving for a range of income levels where \$1,000 in interest is earned in 2011/12.

ATI excluding \$1,000 interest	Without 50% tax discount		With 50% tax discount		
	ATI Including \$1,000 Interest	Tax payable	ATI Including \$1,000 Interest	Tax payable	Tax saving
\$20,000	\$21,000	\$750	\$20,500	\$675	\$75
\$40,000	\$41,000	\$4,790	\$40,500	\$4,620	\$170
\$60,000	\$61,000	\$11,590	\$60,500	\$11,420	\$170
\$80,000	\$81,000	\$17,920	\$80,500	\$17,735	\$185
\$100,000	\$101,000	\$25,320	\$100,500	\$25,135	\$185
\$120,000	\$121,000	\$32,720	\$120,500	\$32,535	\$185
\$140,000	\$141,000	\$40,120	\$140,500	\$39,935	\$185
\$160,000	\$161,000	\$47,520	\$160,500	\$47,335	\$185
\$180,000	\$181,000	\$55,000	\$180,500	\$54,775	\$225
\$200,000	\$201,000	\$64,000	\$200,500	\$63,775	\$225

Note: This analysis takes into account the personal tax rate and threshold changes, as well as the enhancements to the low income tax offset that are scheduled to take effect on 1 July 2010 and ignores the Medicare Levy.

### Comments

**This measure will provide a greater incentive to save in eligible deposit products.**

**If you have a mortgage, depositing cash in a 100% offset account is still likely to be the better option. This is because the cash will reduce the home loan balance on which interest is calculated. As a result, the cash will effectively 'earn' home loan interest rates and no tax will be payable on the interest savings.**

**Many retirees will find they are currently not paying any tax on interest income (and other sources of taxable income) when various tax offsets, such as the low income tax offset and Senior Australians tax offset (SATO) are taken into account. For example, a single person not using pension investments who is eligible for SATO can receive an income of up to \$30,685 in 2010/11 without paying any tax.**

### Standard deduction limits

#### Date of effect: phased in from 1 July 2012

A standard deduction of \$500 will apply to work-related expenses and the cost of managing tax affairs from 1 July 2012, increasing to \$1,000 from 1 July 2013. Those taxpayers who wish to claim a greater deduction will still be able to claim their higher expenses in lieu of the standard deduction.

### First Home Saver Account

#### Date of effect: For houses purchased after royal ascent of legislation

A minor amendment has been made to the First Home Saver Account (FHSA), allowing individuals to roll the balance into their mortgage on the purchase of an eligible first home after a minimum qualifying period. Draft amendments to the legislation will be released for consultation. Under the original legislation, home purchases prior to the end of a four year period resulted in the balance of the FHSA being rolled into super.

### Comment



First home savers are likely to be better off saving for a deposit using a First Home Saver Account and receiving the co-contribution of 17%, following the removal of the requirement to roll the funds into super if a first home is purchased within four years.

### Low income tax offset enhancement confirmed

**Date of effect: 1 July 2010**

The increase in the maximum low income tax offset to \$1,500 per year from 1 July 2010 has also been confirmed. As a result, the amount of tax-free income low-income earners can receive each year (and the upper limit to which a partial low income tax offset can be claimed) will increase to \$16,000 and \$67,500 respectively.

	In 2009/10	In 2010/11 and beyond
Maximum offset	\$1,350	\$1,500
Upper income threshold <sup>2</sup>	\$63,750	\$67,500
Maximum tax-free income	\$15,000	\$16,000

### Tax-free incomes for older Australians

**Date of effect: 1 July 2010**

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 <sup>4</sup>	
	2009/10	2010/11 and beyond
Aged 55 to 59 using pension investments: <sup>5</sup>		
■ singles	\$45,789	\$48,158
■ per member of a couple	\$45,789	\$48,158
Eligible for SATO not using pension investments:		
■ singles	\$29,867	\$30,685
■ per member of a couple	\$25,680	\$26,680

### Medical expense offset claim threshold increase

**Date of effect: from 1 July 2010**

The net medical expenses tax offset of 20% will apply to net medical expenses above a threshold of \$2,000 in 2010/11, instead of the current level of \$1,500. The threshold will also be indexed to the Consumer Price Index, starting on 1 July 2011.

### Child care rebate cap reduced

**Date of effect: 1 July 2010**

The annual Child Care Rebate will be capped at \$7,500 per child (reduced from the current cap of \$7,778), and indexation will be paused for four years from 1 July 2010. Out of pocket expenses will continue to be rebated at 50% of the annual cap.



## Superannuation changes

### Reduced Government co-contributions

**Date of effect: 1 July 2012**

The Government will permanently retain the matching rate for co-contributions at 100% and the maximum co-contribution that is payable at \$1,000. This overrides the measure announced in last year's Federal Budget to reduce the matching rate and maximum co-contribution temporarily (as per the following table).

Contribution year	Before Budget		After Budget	
	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

#### Comment

**100% return on your contribution remains an excellent way to boost your retirement savings**

## Social security changes

### Greater accessibility to Special Disability Trusts

**Date of effect: 1 July 2010**

The eligibility criteria and allowable uses for Special Disability Trusts (SDTs) will be amended to make them more accessible and to increase uptake. The definition of a beneficiary will be expanded to include people with a disability who can work up to seven hours per week (excluding work in an Australian Disability Enterprise). In addition, this measure will amend the allowable uses for the trust to incorporate all medical expenses, including membership costs of private health funds, maintenance expenses for SDT property and discretionary spending of up to \$10,000 per year. Establishing an SDT enables parents and immediate family members to put money aside for the future care and accommodation needs of a family member with a severe disability. With SDTs, up to \$551,750 (indexed annually) and the family home can be kept in the trust without being counted as an asset under the pension means tests for the beneficiary of the trust. No income of, or distributions from, the SDT are assessable under the pension means test.

#### Comment

**This can allow you to reduce the assets that are assessable for Centrelink and Aged Care services. Also, the assets held in an SDT won't affect the level of assets assessed for the recipient.**



## More flexible Family Tax Benefit (FTB) payment arrangements

### Date of effect: To be determined

It was proposed in the 2008 Budget that all FTB recipients who had not lodged tax returns for more than 12 months and had not responded to Centrelink requests to do so, would no longer receive FTB payments until they lodged their tax returns. Lodgement of tax returns is necessary to reconcile a person's FTB entitlement based on their actual taxable income. This ensures people only receive their correct entitlements. It's now proposed these arrangements will be retained in general, but that payments continue to be made in circumstances where:

- people don't have any FTB debt, or
- ceasing payments would cause undue hardship.

The measure doesn't impact whether a person accrues eligibility for FTB, only when it's paid.

## Paid Parental leave

### Date of effect: 1 January 2011

The Government's 18 week Paid Parental Leave Scheme, which is at the level of the national minimum wage, will be paid to eligible new mothers from 1 January 2011. Also, funding will be provided to Centrelink, the Fair Work Ombudsman and the Social Security Appeals Tribunal to ensure employers meet their obligations and are able to seek a review of a decision that they must pay parental leave to an employee.

## Protection for accommodation bonds

### Date of effect: 1 July 2011

The Government will provide enhanced protection for accommodation bonds held by aged care providers by applying more stringent requirements on how they can be invested. In addition, criminal penalties for misuse of accommodation bonds will be introduced and reporting requirements will be strengthened.

## Youth Allowance enhancements

### Date of effect: To be determined

Funding has been confirmed to implement reforms to student income support announced in the 2009 Budget. These include changes to the criteria for independence and the personal income test and will provide greater access to the Youth Allowance for people from lower income backgrounds.

## War widow(er) pensions

### Date of effect: 1 July 2010

Eligibility for the war widow(ers) pension will be removed for people who, before applying for the pension, enter a de facto relationship following the death of their veteran partner. This measure will remove an anomaly which currently exists under the Veteran's Entitlement Act 1986, that allows widow(ers) who have entered into a de facto relationship following the death of the veteran partner to claim war widow(ers) pension entitlements, while those who have married cannot.

