

Federal Budget Bulletin

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WSC's Budget Bulletin is a summary of some of the announcements made in the recent Federal Budget and the effects these may have on your personal and business taxation affairs.

Please note that these comments are only summaries of the issues for general information and should not be taken to be advice by WSC. Consequently we accept no responsibility to any person who acts on information herein without consultation with WSC.

Personal tax rates

Residents

There are no changes to the previously announced tax rates for individuals:

Residents: proposed rates and tax payable from 1 July 2009

| Taxable income (\$) | Tax payable (\$) |
|---------------------|-------------------------------------|
| 0 – 6,000 | Nil |
| 6,001 – 35,000 | Nil + 15% of excess over 6,000 |
| 35,001 – 80,000 | 4,200 + 30% of excess over 35,000 |
| 80,001 – 180,000 | 18,000 + 40% of excess over 80,000 |
| 180,001 + | 58,000 + 45% of excess over 180,000 |

The current and proposed personal tax rates and thresholds for resident individuals (excluding 1.5% Medicare levy) are:

Residents: Personal tax rates and thresholds

| Current Taxable income (\$) | Rate (%) | From 1 July 2009 | | From 1 July 2010 | |
|--------------------------------------|-------------|---------------------------|-------------|---------------------------|-------------|
| | | Taxable income (\$) | Rate (%) | Taxable income (\$) | Rate (%) |
| 0 – 6,000 | 0 | 0 – 6,000 | 0 | 0 – 6,000 | 0 |
| 6,001 – 34,000 | 15 | 6,001 – 35,000 | 15 | 6,001 – 37,000 | 15 |
| 34,001 – 80,000 | 30 | 35,001 – 80,000 | 30 | 37,001 – 80,000 | 30 |
| 80,001 – 180,000 | 40 | 80,001 – 180,000 | 40 | 80,001 – 180,000 | 40 |
| 180,001 + | 45 | 180,001 + | 45 | 180,001 + | 45 |
| Low income tax offset | | | | | |
| | | 1,200 | 1,350 | 1,500 | |

Low Income Tax Offset

Currently, the low income tax offset (LITO) is \$1,200. Taxpayers eligible for the full LITO do not pay income tax until their annual income exceeds \$14,000.

From 1 July 2009 the LITO will increase from \$1,200 to \$1,350

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meaning the effective tax free threshold will increase to \$15,000. From 1 July 2010, the LITO will increase from \$1,350 to \$1,500, meaning the effective tax free threshold will increase to \$16,000.

Senior Australians Tax Offset

As a consequence of the changes in the low income tax offset, the tax free income threshold for eligible senior Australians will also change. Currently, eligible senior Australians have no tax liability until their incomes reach \$28,867 for singles and \$24,680 for each member of a couple.

With the changes to the senior Australians' tax offset, eligible senior Australians will have no tax liability until their incomes reach:

- \$29,867 for singles and \$25,680 for each member of a couple in the 2009-10 income year; and
- \$30,685 for singles and \$26,680 for each member of a couple in the 2010-11 income year.

Private Health Insurance Rebate and Surcharge Changes

The Budget contained the much anticipated measures to scale back the private health insurance rebate for individuals with higher earning capacities.

From 1 July 2010, the Government will introduce three new "Private Health Insurance Tiers". These are as follows:

Tier 1: for singles earning more than \$75,001 (couples \$150,001), the Private Health Insurance Rebate will be 20%, for those up to 65 years (25% for those over 65, and 30% for those over 70 years). The Surcharge for avoiding private health insurance will remain at 1%.

Tier 2: for singles earning more than \$90,001 (couples \$180,001), the Private Health Insurance Rebate will be 10%, for those up to 65 years (15% for those over 65, and 20% for those over 70 years). The Surcharge for avoiding private health insurance will be increased to 1.25%.

Tier 3: for singles earning more than \$120,001 (couples \$240,001), no Private Health Insurance Rebate will be provided. The Surcharge for avoiding health insurance will be increased to 1.5%.

All income thresholds will continue to remain indexed to wages.

For low and middle-income earners, the existing 30,35 & 40% Private Health Insurance rebates will remain in place.

Personal Income Tax – Medicare Levy Low Income Threshold

From 1 July 2008, the Government will increase the Medicare levy low-income thresholds to \$17,794 for individuals (up from \$17,309 for the 2007/08 income year) and \$30,025 for individuals in families (up from \$29,207 for the 2007/08 income year).

The additional amount of threshold for each dependent child or student will also increase to \$2,757 (up from \$2,682 for the 2007/08 income year).

The Medicare levy threshold for pensioners below Age Pension age will also be increased to \$25,299 with effect from 1 July 2008 (up from \$22,922 for the 2007/08 income year). This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

Superannuation

Concessional Contribution Threshold Reduction

From 1 July 2009, the concessional contributions cap will be reduced from \$50,000 pa to \$25,000 pa. This cap will be indexed.

The transitional cap for people over 50 years old will reduce from \$100,000 to \$50,000 with a further reduction to \$25,000 at 1 July 2012 (or equivalent indexed amount at that time).

Non - Concessional Contribution Threshold

This remains at \$150,000 (scheduled to increase to \$165,000 at 1 July 2009). It will be indexed in line with the concessional contributions cap and will remain at six times that cap.

Minimum Pension Withdrawal Reduction

The account based minimum pension withdrawal requirements will continue to be halved for 2009/10. This is an extension of the initiative announced earlier this calendar year. This measure assists self-funded retirees by not forcing a sale of assets at reduced market values and allowing the capital base to be invested for the future.

Co-Contribution Temporary Reduction

The co-contribution will be temporarily reduced. Non-concessional contributions of up to \$1,000 are currently matched by the Government with a co-contribution of \$1,500 for people earning less than \$30,342. The co-contribution will be phased out up to an income level of \$60,342.

The co-contribution will reduce to \$1,000 in 2009/10, 2010/11 and 2011/12 and increase to \$1,250 in 2012/13 and 2013/14. It is scheduled to return to the full \$1,500 in 2014/15 and future years.

Lost Superannuation Accounts

Superannuation accounts with less than \$200 and accounts that have been inactive for more than five years with insufficient information to determine the owner will be paid to unclaimed monies from 1 July 2010.

Trans-Tasman Retirement Savings Portability

This proposed scheme will enable the transfer between certain Australian superannuation funds to KiwiSaver accounts. A memorandum of understanding is in place between the Australian and New Zealand Governments and details will be forthcoming.

Small Business

Increase in Investment Allowance for Small Business

Small business entities will be able to claim an increased investment allowance of 50% (instead of the previously announced 30%) of the cost of eligible assets acquired between 13 December 2008 and 31 December 2010.

All other businesses will continue to access the investment allowance at 30% for eligible assets contracted for between 13 December 2008 and 30 June 2009, and 10% for eligible assets committed to investing in between 1 July 2009 and 31 December 2009, and installed by 31 December 2010.

Small business entities need to invest a minimum of \$1,000 on an individual asset in order to qualify for the 50% investment allowance.

Pay As You Go (PAYG) Instalments – Cash Flow Relief for Small Business

The Government will provide cash flow relief for small business by reducing Pay As You Go (PAYG) instalments for the 2009/10 income year for all taxpayers who pay quarterly PAYG instalments based on their previous year's tax adjusted by GDP growth.

For the 2009/10 income year, the Government will reduce the GDP adjustment factor for calculating quarterly instalments under the GDP adjustment method from around 9% to 2%. This aligns the GDP adjustment rate with the expected consumer price index (CPI) for 2009/10 as forecasted.

This measure was previously announced in a joint press release issued on 28 March 2009 by the Treasurer and the Minister for Small Business, Independent Contractors and the Service Economy.

Entrepreneurs' Tax Offset – Income Testing Deferred

The family income test for the entrepreneurs' tax offset which was announced in the 2008/09 Federal Budget will be deferred for a further 12 months. This means the family income test will commence on 1 July 2009 instead of 1 July 2008.

The entrepreneurs' tax offset provides a maximum 25% tax offset against the tax liability for small business entities with annual turnover below \$75,000. Under the proposed family income test, the entrepreneurs' tax offset would begin to be phased out for singles with income of \$70,000 and families with income of \$120,000. The deferral of the income test will mean eligible small business will not have their entrepreneur's tax offset reduced in the 2008/09 year.