Investment Allowance

Legislation has now been passed to give effect to the Government's announcement aimed at stimulating the economy by providing a tax incentive for businesses to buy new items of plant. Note that this investment allowance provides an additional tax deduction which will reduce taxable income, it is not a cash bonus or rebate.

Small Businesses

An additional 50% tax deduction for 2009 will be available for eligible assets costing $1,000 or more acquired from 13 December 2008 to 30 June 2009, and installed by 31 December 2010. The 50% deduction will be available for 2010 for assets acquired from 1 July 2009 to 31 December 2009 and installed by 31 December 2010.

This deduction is on top of the usual capital allowance deduction (i.e., depreciation) claimable for the asset in the taxpayer's income tax return.

To benefit from this tax break a small business must have a turnover of $2 million a year or less.

Larger Businesses

Larger businesses can receive a 30% deduction for eligible assets greater than $10,000 acquired between 13 December 2008 to 30 June 2009. A 10% deduction is available for eligible assets costing $10,000 or more that are acquired from 1 July 2009 to 31 December 2009 and installed by 31 December 2010.

`Assets eligible for the allowance are most new tangible depreciating assets and new expenditure on existing assets used in carrying on a business.

Land and trading stock are excluded from the definition of depreciating assets, and will not qualify for the deduction. Software is also excluded. Motor vehicles are eligible for the allowance but only up to the luxury car limit amount (currently $57,180).

As this investment allowance does not apply to second hand assets, businesses should analyse the cost/benefits of buying new just to get the allowance versus buying second hand.

The amount of expenditure taken into account when determining if the relevant threshold has been met is the GST exclusive amount. However, where a business is not registered for GST, it is the GST inclusive cost that counts towards the threshold.

Income Range from 1 July 2008	Tax rate (%)	Income Range from 1 July 2009	Tax rate (%)	Income Range from 1 July 2010	Tax rate (%)
$0 - $6,000	0	$0 - $6,000	0	$0 - $6,000	0
$6,001 - $34,000	15	$6,001 - $35,000	5	$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	38	$80,001 - $180,000	37
$180,001+	45	$180,001+	45	$180,001+	45

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Tax Topics

Private Health Insurance Rebate And Medicare Levy Surcharge Changes

The Government has announced changes to the private health insurance (PHI) rebate and Medicare Levy Surcharge (MLS) arrangements commencing 1 July 2010. Tax payers therefore have twelve months to consider how they may be affected by these changes.

PHI Rebate

Currently the Government gives a rebate equal to 30% of the premium to people with PHI. For people aged 65 to 70, the rebate is 35%and for people aged 70 or more, 40%. This is either deducted directly from the premium when it is paid, or claimed in the income tax return.

Rules for year ending 30 June 2011 and following:

» Singles earning between $75,000 and $90,000 (couples $150,000 - $180,000) will get a 20%rebate (age 65 – 70, 25%, age over 70, 30%)
» Singles earning between $90,000 and $120,000 (couples $180,000 - $240,000) will get a 10% rebate (age 65 – 70, 15%, age over 70, 20%)
» Singles earning more than $120,000 (couples $240,000) will get no rebate.

MLS

If you do not have private health insurance, you may have to pay MLS when you lodge your income tax return. This is in addition to the normal Medicare Levy which everyone pays.

Rule for years ending 30 June 2009 and 2010:

» Singles earning more than $70,000 (couples $140,000) pay MLS equal to 1% of their income.

Rules for year ending 30 June 2011 and following:

» Singles earning between $75,000 and $90,000 (couples $150,000 - $180,000) pay MLS equal to 1% of their income.
» Singles earning between $90,000 and $120,000 (couples $180,000 - $240,000) pay MLS equal to 1.25% of their income.
» Singles earning more than $120,000 (couples $240,000) pay MLS equal to 1.5% of their income.

Example 1: Say a single person under age 65 would pay $1,000 for insurance, before PHI rebate in 2010/11. Comparison between having PHI and not, at various income levels.

Income Level	Cost if no PHI	Cost if PHI (net of PHI rebate)
$70,000	$nil	$700
$80,000	$800 (MLS)	$800
$100,000	$1,250 (MLS)	$900
$130,000	$1,950 (MLS)	$1,000

Example 2: Say a single person over age 70 would pay $2,000 for insurance, before PHI rebate in 2010/11. Comparison between having PHI and not, at various income levels.

Income Level	Cost if no PHI	Cost if PHI (net of PHI rebate)
$70,000	$nil	$1,200
$80,000	$800 (MLS)	$1,400
$100,000	$1,250 (MLS)	$1,600
$130,000	$1,950 (MLS)	$2,000

Example 3: Say a couple under age 65 would pay $2,500 for insurance, before PHI rebate in 2010/11.
Comparison between having PHI and not, at various income levels.

Combined **Income**	**Cost if no PHI**	**Cost if PHI (net of PHI rebate)**
$140,000	$nil	$1,750
$160,000	$1,600 (MLS)	$2,000
$200,000	$2,500 (MLS)	$2,250
$260,000	$3,900 (MLS)	$2,500

Superannuation Topics

Superannuation Concessional Contribution Caps Reduced

	Year Ending 30 June 2009	From 1 July 2009
Under 50 Years	$50,000	$25,000
50 - 75 years	$100,000	$50,000

» Self-employed and other eligible persons (receiving salary or wage income which is less than 10% of business income) will be entitled to a 100% deduction for their contribution up to these age based limits.
» The $50,000 contribution limit for 50 to 75 year olds is available until 2012. After this, it will reduce to $25,000.
» A work test must be satisfied for persons over age 65 to make a deductible contribution (40 hours in a 30 day period).
» A non-concessional contribution (a contribution for which no tax deduction is claimed) may still be made to a superannuation fund. The limit is a maximum $150,000 per year or $450,000 for any 3 year period.
» The contribution limits are "per person, per annum". Any contributions in excess of these limits will effectively be taxed at the top marginal tax rate.

Salary Sacrifice Arrangements

Income that is salary sacrificed as additional superannuation contributions is counted towards the concessional contributions cap. The 9% superannuation guarantee is also counted towards this cap.

If you are salary sacrificing into super, ensure that your sacrificed amount together with your employer's 9% contribution does not make you breach the cap.

We often see arrangements where people have an arrangement with their employer to automatically sacrifice a bonus into superannuation, causing a breach of the concessional cap.

Employers are entitled to a deduction for any contribution they make for an employee, so it is the employee's responsibility to ensure their cap is not breached.

If you rely on the '10%rule' in order to make personally deductible contributions, note that from 1 July 2009 salary sacrificed contributions will be included as employment income for this purpose.

The tax rate applied to contributions in excess of the caps is 46.5%. 15%is assessed to the superannuation fund, and 31.5% is assessed to the member of the fund. None of this is assessed to the employer.

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Superannuation Reporting

To assist assessing contributions, from 1 July 2009, all employers will be required to report certain super contributions they make on behalf of their employees on the employee's PAYG Payment Summary. The contributions required to be reported are those that are over and above the Superannuation Guarantee Charge amounts (9%), unless they are already compulsory amounts under an award or law. Typically, all salary sacrifice super amounts will therefore need to be reported.

Pension Drawdown Relief

Due to the effect that the current economic climate has had on the value of superannuation fund balances, the Government has allowed a temporary reduction in the minimum pension drawn down amount required to be taken. The minimum amount is now allowed to be reduced by 50% for the 2008/09 and 2009/10 years. If you are concerned or would like to discuss your pension payment requirements from your superannuation fund please contact us.

Miscellaneous Tax

Net Medical Expense Offset

An income tax offset is still available if you have out of pocket medical expenses (after rebates from Medicare and private health funds) exceeding $1,500. The offset amount is 20c per dollar over $1,500. This includes doctors, dentists, hospitals, optical, physiotherapy, prescriptions, and a number of other medical items. Medical expenses for a family can be aggregated and claimed by one family member. Cosmetic procedures do not qualify. If you are not sure, please ask us.

Education tax offset

From 1 July 2008, families receiving Family Tax Benefit Part A will be able to claim a refundable tax offset in respect of eligible education expenses (eg laptops, education software, school text books and stationery) for their children in primary or secondary school. A 50% offset is available each year for up to $750 of education expenses for each child attending primary school and $1,500 for each child attending secondary school. So the maximum offsets are $375 for primary school children and $750 for secondary. The offset is halved in a year where the child only qualifies for half of the financial year (starting or leaving school).

Age Pension Age To Gradually Increase To Age 67

Currently the age pension age is 65 for all men and for women born on or after 1 January 1949. The proposed changes will first start applying from 1 July 2017. People born before 1 July 1952 will not be affected. People born between 1 July 1952 and 31 December 1956 will be subject to the phase in regime. People born on or after 1 January 1957 will not reach age pension age until they are 67.

Tax Deductions for Super Contributions

To obtain an income tax deduction for superannuation contributions for the 2009 year, the contribution must be made before 30 June 2009. This applies to all businesses (companies, trusts etc) and eligible individuals, self employed persons etc. It also applies to super contributions made on behalf of business owners and employees. The superannuation requirements for businesses are that contributions for employees must be made within 28 days after the end of each quarter. To obtain the deduction for the June quarter, however, the contributions need to be paid to the fund prior to 30 June.

Superannuation Co-Contribution Decreased

In a further cut back announced in the May Federal Budget, the Government has announced that the co-contribution scheme will be reduced to 100% of eligible contributions for the 2009/10, 2010/11 and 2011/12 income years. Currently eligible contributions can attract a co-contribution of 150% up to a maximum of $1,500. After 2012 it is intended that the 150% rate will be gradually restored.

BAS Lodgments

A number of businesses have not been lodging Business Activity Statements by the due date as they do not have the immediate funds available to pay the required amount.

There are two levels of penalties here, one for late lodgment of the BAS, and one for late payment of the tax.

We urge clients to lodge their BAS on time, and then contact the ATO to make arrangements for payment of the tax. This reduces the penalty only to interest on the outstanding tax, currently at the rate of 10.16%. Obviously if loan funds can be arranged via a financial institution, the rate of interest will generally be lower than the ATO rate.

Note also that if the BAS is lodged electronically through registered tax agents such as ourselves, an automatic extension is given for the due date, usually around four weeks.

Please contact us if you require any further information regarding this process.

Poor Rick (Again)

Rick recently consulted a new doctor for a check up.

After two visits, blood tests and all the rest, the doc said Rick was doing 'fairly well' for his age.

A little concerned about that comment, Rick couldn't resist asking him, 'Do you think I'll live to be 90?'

The doc asked, 'Do you smoke or drink alcohol?'

'No,' Rick replied and 'I don't do drugs, either.'

Then he asked, 'Do you eat red meat, steaks and hamburgers?'

Rick says, 'No, I read everywhere that red meat is unhealthy'

'Do you spend a lot of time in the sun, like playing golf, sailing, hiking, or bicycling?' 'No, I don't' says Rick.

He asked, 'Do you gamble, drive fast cars, or have a lot of sex?'

'No,' Rick said. 'I don't do any of those things.'

The Doc looked at Rick and says, 'Then, why do you give a sh##?'

Financial Planning

Devine & McKenzie are not financial planners and we do not advise on financial planning strategies. We may, however, provide information and advice on various taxation and administrative requirements for super funds. We also work closely with a number of financial planners who advise on financial planning strategies incorporating superannuation and a client's overall financial circumstances. If any clients wish to obtain more information on superannuation, please give us a call.

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