

Henry Review and Federal Budget

The centrepiece of the Government's response to the Australia's Future Tax System (AFTS) Report (also known as the Henry Review) released on 2 May 2010 is a new resource super profits tax (RSPT), which is a 40% tax on profits from specified mining projects. The Government has also accepted a number of recommendations relating to company and small business taxes and superannuation. However, the delivery of these other changes is contingent on the implementation of the RSPT. The Government has indicated that this is intended to be the first step in a 10-year tax reform agenda. As we can see in the media, the Government is hard up against the mining industry. The next few months will be very interesting in the world of tax reform.

The AFTS Report made a total of 138 recommendations. Alongside the recommendations specifically accepted by the Government, a great number were specifically rejected, and the Government flagged some areas for future reform.

The following tax changes were announced either in the Government's response to the Henry Review or in the Federal Budget handed down on 13 May 2010.

Tax Discount on Savings

From 1 July 2011, there will be a 50% tax discount on up to \$1,000 of interest income earned by individuals (including interest earned indirectly via a trust or a managed investment).

Standard Deduction for Work Related Expenses and Tax Return Costs

Individual taxpayers will get the option of a standard deduction of \$500 for work-related expenses and the cost of managing tax affairs from 1 July 2012 (increasing to \$1,000 from 1 July 2013). Taxpayers will still be able to claim their actual work related expenses and cost of managing tax affairs, if they wish, subject to the usual substantiation obligations.

Medical Expenses Tax Offset Threshold increased

The threshold above which a taxpayer can claim the net medical expenses tax offset will increase from \$1,500 to \$2,000 from 1 July 2010. Thereafter the threshold will be annually indexed to the CPI.

Reduction in Child Care Rebate

The Government has announced that it will cap the annual Child Care Rebate to the 2008-09 level of \$7,500 per child from the current annual cap of \$7,778 per child. However, the Government states that the reduction in the Rebate will not alter the percentage of out-of-pocket expenses reimbursed by the Commonwealth. The Government has also announced that it will pause the indexation of the cap for 4 years. The reduction and pausing of the indexation of the Rebate will commence from 1 July 2010.

Superannuation Co-contribution

The rate of co contribution will be adjusted permanently to 100%. The rate was originally 150% but was reduced to 100% in last year's Federal Budget, with an undertaking that it would go back up to 125% and then 150%. This will no longer happen. The co contribution is a system whereby the Government matches personal superannuation contributions for low income earners up to a maximum of \$1,000 of personal contributions.

New Government Superannuation contribution for low income earners

Low income earners do not benefit as greatly from concessional contributions as others as a result of the 15% contributions tax. The Government will provide a maximum \$500 contribution for those with income below \$37,000. This measure (not to be confused with the co contribution!) will apply from 1 July 2012.

Superannuation Guarantee Charge Contribution Rates to be increased – Employers must put in more compulsory superannuation for their employees!

Employers are currently required to contribute a minimum 9% of an employee's wage as superannuation. This contribution rate will be increased to 12%. The increase will be phased in gradually with 0.25%pa increases from

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1 July 2013, 2014 and 2015, then 0.5%pa increases until 2020 when the contribution rate reaches 12%. The maximum age threshold for compulsory superannuation contributions will also be lifted from 70 to 75 years of age.

Higher superannuation concessional cap for those aged 50 and over to be extended

Currently the concessional cap for those aged 50 and over is \$50,000, but only until 30 June 2012, after which it will generally revert back to \$25,000, being the limit for those under aged 50. Under the Federal Budget announcement, the \$50,000 cap will continue to be available after 1 July 2012 for those aged 50 and over where the balance of their superannuation interests is below \$500,000.

Company Tax Rate Reduction and Small Business Depreciation Write Off Advantage

The general company tax rate will be reduced from the current 30%. From 1 July 2013 it will be 29% and from 1 July 2014 it will be 28%. Eligible small business companies will be further advantaged. Their company tax rate will be reduced to 28% from the earlier date of 1 July 2012. The immediate write-off for assets of small businesses will be extended to assets valued at less than \$5,000 from 1 July 2012.

Other Budget announcements - Increased GST scrutiny

The Government will spend \$337.5 million over the next four years to 'promote voluntary GST compliance'. It expects to raise an extra \$2.7 billion over this period 'due to increased taxpayer compliance'!

National registration of business names

The Government will establish a national system of registering business names. Currently, businesses have to register separately in each State and Territory and pay registration fees to each government. Under the proposed measures, businesses will need to register only once and pay only one fee. The administration of business names will be transferred from the States to ASIC. The reforms should result in a single, national online registration system for business names and ABNs.

Henry Review Recommendations Not Accepted

In its response to the AFTS Report, the Government has rejected the following recommendations, or potential misinterpretations of recommendations, and has stated that they will not be implemented at any stage:

- including the family home in means tests
- imposing land tax on the family home
- requiring parents to work when their youngest child turns four
- adversely affecting single income families
- restricting eligibility to rent assistance for families
- changing the tax treatment of the not-for-profit sector, including removing the benefit of tax concessions, raising the gift deductibility threshold or changing income tax arrangements for clubs
- reducing overall remuneration for members of the defence forces
- reducing the CGT discount
- applying a discount to negative gearing deductions
- changing CGT grandfathering arrangements
- removing the Medicare levy
- reducing indexation of the age pension
- removing the benefits of dividend imputation
- reducing pensioner and low income concessions for utilities, transport and other services
- introducing a bequests tax
- aligning preservation age with pension age
- offering a government annuity product
- asking the states to charge market rents to public housing recipients
- abolishing the luxury car tax
- indexing fuel tax to CPI
- changing alcohol tax

The Government also pointed out that both the rate and tax base of the GST and the tax-free status of superannuation payments for over-60s would not be changed and, as such, these issues were excluded from the AFTS terms of reference.

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Personal Tax Rates For Year Ending 30 June 2010

\$0 - \$6,000	Nil
\$6,001 - \$35,000	15c for each \$1 over \$6,000
\$35,001 - \$80,000	\$4,350 plus 30c for each \$1 over \$35,000
\$80,001 - \$180,000	\$17,850 plus 38c for each \$1 over \$80,000
\$180,001 and over	\$55,850 plus 45c for each \$1 over \$180,000

Personal Tax Rates For Year Ending 30 June 2010

\$0 - \$6,000	Nil
\$6,001 - \$35,000	15c for each \$1 over \$6,000
\$35,001 - \$80,000	\$4,650 plus 30c for each \$1 over \$37,000
\$80,001 - \$180,000	\$17,550 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$54,550 plus 45c for each \$1 over \$180,000

The above rates do not include the Medicare levy of 1.5%.

Miscellaneous Tax Items

Personal Tax Rates For Year Ending 30 June 2010

Small car	Up to 1,600 cc engine capacity	63 cents per km
Medium Cars	1,601 - 2,600 cc engine capacity	74 cents per km
Large Car	More than 2,600 cc engine capacity	75 cents per km

No more than 5,000 business kilometres can be claimed under this method.

Team News

We would like to welcome Amanda Krause who joined our dedicated team late last year. Amanda made the move to the big smoke from Temora NSW, and is not only starring at the front desk, but also with her new team on the netball court.

Tax deductions for superannuation contributions for the year ending 30 June 2010

From 1 July 2009, the concessional contribution cap for people under age 50 is \$25,000. The transitional threshold for concessional contributions by people aged 50 and over is \$50,000 for the 2009/10, 2010/11 and 2011/12 years.

Concessional contributions are tax deductible by an employer or by eligible individuals and usually attract a 15% contributions tax to be paid by the superannuation fund.

To obtain the income tax deduction, the contribution must be made before 30 June 2010. This applies to all businesses (companies, trusts etc) and eligible individuals, self employed persons etc. It also applies to 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 current year for the June quarter, however, the contributions need to be paid to the fund prior to 30 June.

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Changes to Tax Rules for Employee Share Schemes

The employee share scheme rules have been changed with effect from 1 July 2009. Discounts on shares, rights and options etc. acquired under an employee share scheme will be assessed in the year they are acquired, with only a limited tax deferral available for some schemes. Further, the upfront exemption of \$1,000 will only be available to those earning no more than \$180,000.

Changes to Tax Rules for Overseas Employment Income

It should be remembered that just because you leave Australia, you do not automatically or immediately become a non-resident for Australian tax purposes. There are a number of tests to be met in order to become a non-resident. It is important to determine what your residency status is for tax purposes because a non-resident is not taxed in Australia on overseas employment income, whereas a resident taxpayer can be.

Prior to 1 July 2009, foreign earnings derived by an Australian resident taxpayer from at least 91 days' continuous employment in a foreign country were generally exempt from Australian tax. From 1 July 2009, this exemption is now only available for aid and charitable workers. All other Australian resident taxpayers will need to include the gross foreign earnings in their Australian tax return and claim a credit for any foreign tax paid on that income.

Important

Important: This is not advice. These are general comments on what can be complex issues and different for each client's circumstances. Also, changes in legislation may occur (and is occurring) very quickly. We therefore recommend that formal advice be sought before acting in any of these areas. The newsletter is issued as a helpful guide to clients and for their private information. It should be regarded as confidential and not be passed on without our prior approval.

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