

2010 Budget

New measures announced in the 2010 Budget

Increasing the Medicare levy low-income thresholds

For the 2009/10 income year, the Medicare Levy low-income thresholds will be as follows:

- Individuals \$18,488 (previously \$17,794)
- Families \$31,196 (previously \$30,025)

The additional amount of threshold for each dependent child or student will increase to \$2,865 (previously \$2,757). The Medicare levy threshold for single pensioners below Age Pension age will be increased to \$27,697 (previously \$25,299) for the 2009/10 income year.

Increase in the net medical expenses tax offset claim threshold

From 1 July 2010, the Government will increase the threshold above which a taxpayer may claim the 20% net medical expenses tax offset from \$1,500 to \$2,000, and will commence annually indexing the threshold to the CPI. The first indexation adjustment will take place on 1 July 2011.

50% discount on tax on interest income

From 1 July 2011, individual taxpayers will be provided with a 50% tax discount on up to \$1,000 of interest earned, including interest earned on deposits held in authorised deposit taking institutions, bonds, debentures and annuity products.

The discount will be available for interest income earned directly as well as indirectly, such as through a trust or managed investment scheme.

Taxpayers claiming the discount for interest income will have reduced adjusted taxable income for the purposes of determining eligibility for transfer payments and other concessions. This will result in some individuals and families becoming eligible for transfer payments or eligible for a larger transfer payment.

Standard deduction for work-related expenses

From 1 July 2012, individual taxpayers will be provided with the choice of claiming a \$500 standard deduction to replace deductions for their work-related expenses and the cost of managing their tax affairs. This will increase to \$1,000 from 1 July 2013. Taxpayers with higher deductible expenses or more complex tax affairs can continue to claim their higher expenses (in lieu of the standard deduction).

The standard deduction will reduce individuals' and families' adjusted taxable income for the purpose of determining their eligibility for transfer payments and other concessions. This will make some individuals and families eligible for transfer payments or eligible for a larger transfer payment.

Note: *The Treasurer stated that this "is a key step towards a 'tick and flick' system of pre-filled tax returns..."*

Changes to First Home Saver Accounts

The First Home Saver ('FHS') initiative will be made more flexible, particularly for people who buy their first home earlier than the current four year qualifying period for maintaining an FHS account.

Currently, an FHS account holder is required to keep their savings in an FHS account for four 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 that four year period, the balance of their FHS account must be transferred to their superannuation so that it remains in a concessional tax environment.

In order to increase the flexibility of FHS accounts and to help Australians buy their first home sooner, the Government will allow savings in an FSA account to be paid into an approved mortgage after the end of a minimum qualifying period, rather than requiring it to be paid to a superannuation account.

Permanent reduction to the superannuation co-contribution matching rate and maximum payable

The Government will permanently retain the matching rate for the superannuation co-contribution at 100% or \$1 (rather than 150% or \$1.50), and the maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions at \$1,000 (rather than \$1,500). That is, the Government will continue to match contributions dollar for dollar for eligible individuals, up to a maximum co-contribution of \$1,000, and will **not** be increasing these matching rates in future (which reverses the announcement made in last year's Budget).

Superannuation co-contribution – pause to the indexation of the income threshold for two years

The income threshold for the superannuation co-contribution (above which the maximum superannuation co-contribution begins to phase-out) will be frozen for 2010/11 and 2011/12 (i.e., it will **not** be indexed). In 2009/10, the maximum co-contribution (of up to \$1,000) is available to people with incomes of up to \$31,920 (with the amount available phasing-out for incomes up to \$61,920). This measure will freeze these thresholds at \$31,920 and \$61,920 for two years.

Superannuation funds allowed to claim the cost of providing terminal medical condition benefits

The Government will extend the range of benefits that are deductible by complying superannuation funds and retirement savings account providers to include Terminal Medical Condition ('TMC') benefits. The measure will have effect from 16 February 2008 (i.e., the date the TMC condition of release was introduced into the superannuation legislation).

Currently, deductions are allowable for the cost of benefits relating to the death, permanent incapacity and temporary incapacity conditions of release, but **not** relating to the TMC condition of release.

Capital gains tax – look-through treatment for earnout arrangements

The Government will allow all payments under a qualifying earnout arrangement to be treated as relating to the underlying business asset. The measure will have effect from the date of Royal Assent of the enabling legislation, with transitional provisions available in certain cases from 17 October 2007.

Earnout arrangements are used to structure the sale of a business (or business assets) to manage uncertainty about the value of the business. Under such an arrangement, an earnout right may entitle the buyer or seller to additional payments depending on the subsequent performance of the business.

Currently, an earnout right is treated as a separate CGT asset. This treatment can result in anomalous outcomes where the actual payments under the earnout right differ from the amounts estimated at the start of the arrangement, such as by reducing access to the CGT small business concessions.

This measure will ensure that the CGT treatment of earnout arrangements does not create an impediment to the efficient market for the sale of businesses or business assets.

Reforms to the GST margin scheme

From 1 July 2012, the margin scheme provisions will be restructured to clarify and simplify the current provisions. The Government will also make a minor technical amendment to ensure that a valuation can be obtained for the purposes of using the margin scheme for subdivided land.

Reforms to the GST financial supply provisions

From 1 July 2012, the Government will amend the financial supply provisions of the GST law to clarify the operation of the legislation and reduce compliance and administrative costs, particularly for many small businesses. The reforms will include the following:

- Increasing the threshold above which businesses need to interact with the financial supply provisions from \$50,000 to \$150,000 of input tax credits; and
- Allowing small businesses accounting for GST on a cash basis to claim input tax credits upfront in relation to hire purchase arrangements.

Other Budget announcements

Further key initiatives announced in the 2010 Federal Budget include the following:

- (a) For capital protected borrowings entered into from 7.30 pm (AEST) 13 May 2008, the Government will adjust the benchmark interest rate that applies to capital protected borrowings to the Reserve Bank of Australia ('RBA') indicator rate for standard variable housing loans plus 100 basis points, instead of the RBA indicator rate for standard variable housing loans as announced in the 2009 Budget. This will allow borrowers to allocate a smaller proportion of the expenses on the borrowings to the cost of capital protection (which is not deductible if on capital account).
- (b) The Government will make several minor amendments (intended to apply from the 2010-11 income year) to improve the operation of the superannuation law including allowing the Commissioner to exercise his discretion for excess contributions tax purposes before an assessment is issued.
- (c) Cash Economy – \$107.9 million will be provided over four years to the ATO to address the unfair competitive advantages that arise where small businesses avoid their tax obligations by conducting some or all of their business in the cash economy.
- (d) GST compliance program – \$337.5 million will be provided over four years to the ATO for GST compliance. This measure will address issues relating to fraudulent GST refunds, systematic under-reporting of GST liabilities, non-lodgment of GST returns and non-payment of GST debts.
- (e) Superannuation co-contribution – \$16 million will be provided over five years to the ATO to enhance the administration of the existing eligibility requirements for the superannuation co-contribution program (including \$1.1 million in 2009/10).