

Budget Edition

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PortfolioWatch

2010

What's in the 2010/11 Budget for you?

This year's Budget focused heavily on bringing Australia out of debt and into surplus by 2013 with the emphasis on reducing national debt levels much earlier than initially anticipated. 'Election sweeteners' were replaced with a 'no frills' budget, focused on the management of our economy. We've summarised some of the key points below but please note that most of these are subject to the passing of legislation. For more information on these issues and how they affect you, please speak to your Bridges financial planner.

TAX

Personal Income Tax

No changes were made to the tax cuts announced in the previous budget, see table below:

Current tax thresholds for 2009/10		Tax thresholds for 2010/11	
Income range (\$)	Tax rate (%)	Income range (\$)	Tax rate (%)
0 - 6,000	0	0 - 6,000	0
6,001 - 35,000	15	6,001 - 37,000	15
35,001 - 80,000	30	37,001 - 80,000	30
80,001 - 180,000	38	80,001 - 180,000	37
180,000 +	45	180,000 +	45

Low income tax offset (LITO)

Effective 1 July 2010, the low income tax offset and the tax offset thresholds will increase, as legislated earlier, to \$1,500 with a threshold of \$67,500.

The effective tax-free threshold will be \$16,000 in 2010/11, which is an increase from the current \$15,000 in 2009/10.

Standard deduction for individual taxpayers

From 1 July 2012, individual taxpayers will be entitled to an optional standard deduction of \$500 in lieu of claiming work-related expenses and the cost of managing their tax affairs. The standard deduction will be increased to \$1,000 from 1 July 2013.

Taxpayers with expenses above the standard deduction will be able to continue to claim those expenses when lodging their tax return under the existing rules.

For the purpose of determining eligibility for transfer payments and other concessions, the Government expects that the 'standard deduction' will reduce the adjusted taxable income of individuals and families. Therefore, more individuals and families may become eligible for some social security payments and/or the rate of payment may increase for benefits such as Family Tax Benefit, Baby Bonus, Child Care Benefit, Commonwealth Seniors Health Card and the Seniors Supplement.

Medicare levy

From 1 July 2009, the Medicare levy low income threshold will increase to \$18,488 (from \$17,794) for individuals and \$31,196 (from \$30,025) for families.

The additional amount of threshold for each dependant child or student remains at \$2,757.

Medical expenses tax offset threshold

The medical expenses tax offset threshold, which allows a taxpayer to claim the net medical expenses tax offset, will be increased from \$1,500 to \$2,000, effective 1 July 2010. The threshold will be indexed annually in line with the Consumer Price Index, with the first indexation adjustment occurring on 1 July 2011.

The offset currently allows taxpayers to receive a tax offset equal to 20% of net unreimbursed eligible medical expenses above \$1,500.

Savings incentives

From 1 July 2011, there will be a 50% tax discount for the first \$1,000 of investment income earned, ie interest.

This applies to directly held bank, credit union or building society accounts and includes bonds, debentures or annuity products, or indirectly held products via a managed fund.

For the purpose of determining eligibility for some social security payments and other concessions, taxpayers claiming the discount for interest income will have their adjusted taxable income reduced.

Company tax rate cut for small businesses

Small businesses will benefit from lower tax rates as outlined in the table below:

Tax rate for small business	Tax rate for other business	Effective from
28%	30%	2012/13
28%	29%	2013/14
28% for all companies		2014/15

Instant asset write off for assets under \$5,000 for small business

From 1 July 2012, the Government will allow small businesses to immediately write off all assets costing less than \$5,000 and will allow most other assets (except for buildings) to be depreciated in a single pool at a 30% rate.

The existing depreciation concessions available to small businesses will allow the immediate write-off for assets costing less than \$1,000 and to depreciate other assets in two pools, depending on the life of the asset.

SUPERANNUATION

Co-contribution scheme tightened

In the 2009 Federal Budget, the Government had mandated the following rates of co-contribution:

Maximum co-contribution	Tax year	Taper rate
\$1.00 for every \$1.00	2009/10	3.33%
	2010/11	
	2011/12	
\$1.25 for every \$1.00	2012/13	4.167%
	2013/14	
\$1.50 for every \$1.00	2014/15	5%
	onwards	

However, the Government announced its intention to permanently match contributions on a dollar-for-dollar basis with the maximum co-contribution being \$1,000.

In addition, the current thresholds of \$31,920 and \$61,920 will be frozen for the next two years (2010/11 and 2011/12).

This will affect low income earners. Although the reduced tax rates and savings incentives may improve an individual's cashflow, their entitlement to the co-contribution will be reduced.

Measures that were announced in the Government's response to the Henry Review:

- A superannuation contributions tax rebate for low income earners (up to \$37,000 of adjusted taxable income) will commence 1 July 2012.
- The concessional contribution cap for individuals aged 50 and over, with a superannuation balance below \$500,000, will be increased from 1 July 2012.
- The Superannuation Guarantee rate will gradually increase to 12%, commencing 1 July 2013.
- The Superannuation Guarantee age limit will rise from 70 to 75, from 1 July 2013.

AGED CARE

Protecting accommodation bonds

The Government will provide legislation to enhance the protection of accommodation bonds held by aged care providers by applying more stringent requirements on how accommodation bonds can be invested. Criminal penalties for the misuse of accommodation bonds will also be introduced.