



2010/2011 Budget Update

Highlights of the 2010/11 Federal Budget

INCOME TAX | SUPERANNUATION | FIRST HOME SAVERS ACCOUNT | SMALL BUSINESS | COMPANY TAX

It's been a busy time in Canberra of late, especially for the people working in the Treasury Department.

Treasurer Wayne Swan's third Federal Budget was delivered recently, hot on the heels of the Government's response to the Henry Review of Taxation, only a week earlier.

Some of the Treasurer's announcements were already covered in the Henry Review so there weren't too many surprises – nasty or sweet – in the Budget. In fact it was the 'no frills' Budget we were told to expect.

Please note the proposed budget is not legislation until endorsed by the Senate later this month.



Your situation

It's always a good idea to speak to a financial adviser if you have any concerns about the effect of changes on your financial situation. Your adviser will have a deep understanding of the implications of the Budget and Henry Review, including the timing of certain changes. They may also see an opportunity not previously available to you.

Looking out for your interests

Not long after the global financial crisis started to unfold, the Rudd Government commissioned a number of reviews into areas covering our current tax, superannuation and wealth management systems and policies. These included the Henry Review into taxation, the Cooper Review into the operation of our superannuation system and the Ripoll inquiry into financial services.

The Government's overarching objective in initiating these reviews was to find ways to improve the ability of Australians to save for their retirement - reducing their dependency on the likely decreasing support from Government, while ensuring adequate protection from questionable practices in the financial services industry.

Big Sky FS through its joint venture partner, the Snowball Group, has already made submissions to the Government as part of the consultation process. We are supportive of any refinements to the financial services industry that lead to a better outcome for investors.

We've been vocal in our calls for measures that are likely to see more transparency in the provision of financial advice or the recommending of products, as well as ensuring clients receive genuine value for money. We've also been advocates of a process that gives you, the investor, greater control over the advice process.

We are broadly supportive of measures being proposed as we believe they are squarely intended to deliver better outcomes to investors.

The Government has wisely allowed time for discussion regarding the intricacies of implementation and we will continue to participate in it. We will keep you informed of progress as and when the details emerge.

We have summarised the key highlights of the budget proposals below

Income Tax

Tax break on interest savings

From 1 July 2011, you'll receive a 50% tax discount on up to \$1,000 of interest income 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 via a managed fund (unit trust).

When you claim the discount for interest income you will have a reduced adjusted taxable income for the purpose of determining your eligibility for Government payments (e.g. family tax benefits) and other concessions.

Changes to personal tax rates

From 1 July 2010, personal income tax rates will change as shown below. These changes were first announced in the 2008 Budget.

Current		From 1 July 2010	
Taxable Income	Rate	Taxable Income	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%
\$180,001 +	45%	\$180,001 +	45%

Improvement to tax offset for low income earners

The Low Income Tax Offset which is a tax rebate for individuals on low incomes will increase from \$1,350 to \$1,500 for 2010/11. It then phases out after an income of \$30,000 pa, stopping at a maximum income of \$67,500 pa. The amount that individuals can earn before they are liable to pay tax (i.e. the effective tax free threshold resulting from the low income earners tax offset) is outlined in the table below.

Effective tax-free thresholds 2010/11 onwards for different scenarios	(\$)
Individual	16,000
Super pension (all taxable component)	48,158
Minors (unearned income)	3,333

In the case of individuals commencing a transition to retirement strategy where you may be reducing your working hours and therefore your earned income, you may become eligible for the low income tax offset. Speak to your adviser to find out more.

Medicare levy thresholds for lower incomes

These thresholds will increase to \$18,488 for individuals and \$31,196 for families. The additional amount for each dependent child or student will also increase to \$2,865. These changes are effective for the financial year 2009/2010.

Medical expenses tax offset

Net medical expenses are the medical expenses you have paid less any refunds you got, or could get, from Medicare or a private health insurer. The threshold above which you can claim the 20% net medical expenses tax offset will increase from \$1,500 to \$2,000 from 1 July 2010. It will then be indexed to the CPI from 1 July 2011.

Standardising your tax deductions

From 1 July 2012 you will have the option of claiming a standard tax deduction of \$500 for work-related expenses and the cost of managing your tax affairs. This will increase to \$1,000 from 1 July 2013. If your expenses are higher than the standard amount you can claim these under the current rules.

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Superannuation

The Budget simply restated the main changes announced by the Government in its response to the Henry Review last week. In summary, these were:

- An increase in the superannuation guarantee (mandatory employer contributions on your behalf) rate from 9% to 12% by 2019/2020. This is a belated boost for compulsory super savings, but most people should be looking to complement this with other savings and investment strategies.
- A Government super contribution for low income earners – up to \$500, in addition to any Government co-contributions you might be eligible for (starts 1 July 2012). The payment is available if your adjusted taxable income is \$37,000 or less. The amount of the Government contribution is equal to the 15% superannuation contributions tax that you'd be paying on your employer's super guarantee contributions.
- Thresholds for eligibility for the Government Co-contribution scheme to be frozen for the next 2 years, rather than being indexed on 1 July. That means the thresholds stay at \$31,920 pa for the maximum contribution and \$61,920 pa for when it phases out.
- A permanent extension of the concessional contributions cap of \$50,000 pa if you're 50+ and have a super balance less than \$500,000. The cap was to be reduced to \$25,000 pa from 1 July 2012, so it's good news for people considering a transition to retirement strategy with a salary sacrifice arrangement. This is also an opportunity to discuss contribution splitting as a strategy. This is great news for many saving for their retirement and we urge you to discuss the opportunities with your adviser.
- Raising the super guarantee age limit from 70 to 75 (starts 1 July 2013). This enables older Australians who decide to continue working longer to be able to receive super contributions from their employer.

You can read more about these changes in our [Henry Review](#) news item on the next page.

Small business

Tax relief

Currently, small businesses with an annual turnover of less than \$2 million, or net assets less than \$6 million, can immediately write-off expenses for assets worth up to \$1,000. From 1 July 2012, this immediate write-off limit will increase to \$5,000.

Further relief will also be provided by allowing one depreciation pool for all other assets except buildings, with the pool being able to be written-off at 30%. This will simplify depreciation calculations and reduce compliance costs as well as increase cash flow by deferring tax liabilities.

Company Tax

Changes to tax rates

As covered in its response to the Henry Review, the Government will gradually reduce the tax rate for companies from 30% to 28% by 2014. For investors, this reduction will have an impact on the tax effectiveness of franked dividends. This means you will either have to pay additional tax on franked distributions or have a reduction in any excess imputation credits that would have been refunded to you. Of course, the flipside could be that with lower tax rates some companies may pay a higher dividend in future years.

First Home Savers Account

Under changes proposed in the Budget, you will now be able to pay any balance in a first home savers account into an approved mortgage at the end of the minimum qualifying period (four financial years). Currently you're required to pay the balance into your superannuation account if you buy a home prior to the end of the four year period.

This change should provide greater confidence for those people saving for their first home to invest using a FHSA and gain the associated tax benefits.

Where to from here?

As always, Budget changes affect different people in different ways. If you'd like to speak to a Big Sky financial adviser about the implications for your financial future, please contact us on 1300 700 189.

The Government's response to the Henry Review – what it means to you

The Government's long-awaited response to the 'Henry Review' of our tax system has been prominent in the print and TV news in the past few days, with the media focusing on the proposed 'resource super profit tax' as a means to pay for other changes, including to superannuation.

The Henry Review, headed by Treasury Secretary, Ken Henry undertook a broad-ranging review of Australia's current taxation system. In this update we look at some of the key proposals the Government has said it will implement – and some they are thankfully rejecting – to see how they might affect you.

Please note the Government's proposals need to be approved by the Senate before they become legislation. This article provides an insight into what the proposed changes may mean for you.

Overall, the proposals are good news for people saving for their retirement, or already enjoying it. As always, there are opportunities available to you, we strongly recommend you make an appointment to see your adviser to ensure you understand the impact on your individual circumstances.

Proposed Concessional contribution cap increase

If you're aged 50 or over and your super balance totals less than \$500,000 there is very good news. The annual concessional contributions cap will remain at \$50,000, not reduced to \$25,000 p.a. from 1 July 2012, as was proposed in last year's Federal Budget.

This means there will be less restriction on how much pre-tax money you could put into your super and, as a consequence, you'll be better able to take advantage of salary sacrificing and transition to retirement (TRAP) strategies. If you've been thinking about a TRAP strategy but weren't sure if it could work for you, now's the time to contact your adviser.

It is not yet clear how the Government will calculate the \$500,000 threshold but it's reasonable to expect it will include pension account balances.

The new threshold also raises the possibility of contribution splitting between you and your spouse – to help one of you avoid reaching the \$500,000 limit. This is an ideal time to review and optimise superannuation contributions and income tax positions for both you and your spouse. Considering the family unit while planning for your future can uncover new opportunities.

We encourage you to speak to your adviser about these proposed changes and consider how you could take advantage of any opportunities.

Proposal to increase superannuation guarantee contributions

The Government will finally lift the compulsory super contributions made by employers from 9% to 12% by 2019. While this is generally good news, it's really a case of too little, too late for many.

In reality, you can't rely on super guarantee contributions only – whether they're 9% or 12% – to provide you with a comfortable lifestyle in retirement. You should be working with a financial adviser to maximise your super and non-super investments through a financial plan that meets your retirement or earlier goals.

Note: the age limit for receiving super guarantee contributions from an employer is proposed to increase from 70 to 75 from 1 July 2013. This is an added incentive for some people to stay on in the workforce.

Government contribution for low income earners

If your annual adjusted taxable income is \$37,000 or less, the Government proposes to pay an extra contribution into your super – up to a maximum of \$500 pa – to offset the 15% tax you are currently paying on your employer's or your own super contributions. This is likely to commence from 1 July 2012.

This contribution will be on top of the current Government co-contribution scheme.

Items ruled out by the Government

Many of the Henry Review recommendations were rejected by the Government. This is good news for investors. Some of these items included:

- A gradual increase in the preservation age to 67, aligning it with the new age pension eligibility age
- Reviewing Australia's dividend imputation system
- Including the family home in means tests
- Changing the Capital Gains Tax rules to limit access to discount tax concessions for investors in direct shares or managed funds
- Applying a discount to negative gearing deductions
- Introducing a bequests tax

What next?

There are a number of other recommendations from the review that the Government has said it will consider over the coming months, so we can expect more announcements later in the year.

More information

If you need further information or clarification on any of the issues raised by the Budget, please contact Big Sky Financial Solutions on **1300 700 189**.

For more information on the other key changes in the Budget, go to **www.budget.gov.au**

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