# Super Update

## 2010 Federal Budget: key initiatives

11 May 2010

**Last night's Federal Budget contained a number of key initiatives. Some of the proposals continue the Government's on-going response to the Henry Tax Review recommendations released on 2 May 2010.**

### Initiatives covered:

1. Taxation
2. Superannuation
3. Social Security
4. First Home Saver Accounts
5. Henry tax review

## 1. Taxation

### Tax break on interest savings

From 1 July 2011, individuals will 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).

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

The Government will consult during 2010-11 on details concerning the operation of the discount.

### Tax saving resulting from 50% discount

| Individual's MTR (%)* | Interest earned ($) | Discount received ($) | Tax saving ($) |
|---|---|---|---|
| 15 | 1,000 | 500 | 75 |
| 30 | 1,000 | 500 | 150 |
| 37 | 1,000 | 500 | 185 |
| 45 | 1,000 | 500 | 225 |

* Ignores Medicare Levy/Surcharge

### Standard tax deduction for work-related expenses & costs of managing tax affairs

From 1 July 2012, the Government will provide individual taxpayers with a standard tax deduction of $500 for work-related expenses and the cost of managing tax affairs (e.g. tax agent fees).

From 1 July 2013, the standard deduction will increase to $1,000.

Those taxpayers with deductible expenses greater than the standard deduction amount will still be able to claim their higher expenses instead of claiming the standard deduction amount.

### Personal tax rates applicable from 1 July 2010

#### Personal tax rates 2010/11 onwards

| Tax thresholds | Tax rate* (%) |
|---|---|
| 0 – 6,000 | 0 |
| 6,001 – 37,000 | 15 |
| 37,001 – 80,000 | 30 |
| 80,001 – 180,000 | 37 |
| 180,001 + | 45 |

* Plus Medicare Levy/Surcharge

## Improvement to Low Income Earner Tax Offset (LITO)

The increase to the Low Income Earners Tax Offset to $1,500, and the shade-out threshold of $30,000, means that the amounts that various individuals can earn before they are liable to 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

| Client scenario | ($) |
|---|---|
| Individual | 16,000 |
| Super pension<br>(All taxable component) | 48,158 |
| Minors<br>(Unearned income) | 3,333 |

* Ignores Medicare Levy/Surcharge

## Senior Australian Tax Offset (SATO)

The amount of income a senior Australian eligible for SATO can earn before they pay income tax or the Medicare levy, will increase from $29,867 to $30,685 for singles, and from $25,680 to $26,680 for each member of a couple.

### Increasing the Medicare levy low-income thresholds

With retrospective effect from 1 July 2009, the Medicare levy low-income thresholds will increase to $18,488 for individuals and $31,196 for families.

The additional amount of threshold for each dependent child or student will also increase to $2,865.

Also effective from 1 July 2009, the Medicare levy threshold for single pensioners below Age Pension age will increase to $27,697.

### Increase in the net medical expenses tax offset claim threshold

Effective from 1 July 2010, the threshold above which a taxpayer may claim the net medical expenses tax offset (NMETO) will increase from $1,500 to $2,000. This threshold will also be indexed annually to the Consumer Price Index from that date. The first indexation adjustment to the threshold will take place on 1 July 2011.

The NMETO currently allows taxpayers to receive a tax offset equal to 20 per cent of net unreimbursed eligible medical expenses above $1,500. The claim threshold is not currently indexed and was last increased in the 2002-03 income year.

### Improvements in CGT small business concessions

Arrangements for the sale of a business where the buyer or seller may be entitled to additional payments (referred to as "earnouts") if certain profit targets are reached, are to potentially qualify for the small business CGT concessions.

If legislated, the proposals will have effect from the date of Royal Assent with transitional relief available in certain cases from 17 October 2007.

## 2. Superannuation

### Permanent reduction to the superannuation co-contribution

The Government will permanently retain the matching rate for the superannuation co-contribution at 100% and the maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions at $1,000.

### Superannuation co-contribution: Suspension to the indexation of the income threshold for two years

The Government will freeze, for two years, the indexation applied on the income threshold above which the maximum superannuation co-contribution begins to phase down. This measure will freeze these thresholds at $31,920 and $61,920 for 2010/11 and 2011/12.

### Other minor amendments

A range of minor amendments were announced to improve the operation of the superannuation legislation, with intended effect from the 2010/11 income year.

The amendments will include:

- Allowing a claim for a deduction for eligible personal contributions where funds have been transferred to a successor superannuation fund (e.g. on merging of funds);
- Increasing the time-limit for deductible employer contributions made for former employees;
- Clarifying the due date of the shortfall interest charge for the purposes of excess contributions tax;
- Allowing the Commissioner of Taxation to exercise discretion for the purposes of excess contributions tax before an assessment is issued;
- Providing new arrangements for public sector defined benefit schemes which fund benefits through 'last minute contributions'; and
- Extend the deduction available to complying superannuation fund providers to include terminal medical condition (TMC) insurance related benefits. Effective from 16 February 2008, the date the TMC condition of release was introduced into the superannuation legislation, this addresses an anomaly in the taxation law regarding deductibility to superannuation funds of the costs of providing certain benefits to members.

## 3. Social Security measures

### Child Care Rebate

The Government will cap the annual Child Care Rebate to the 2008-09 level of $7,500 per child, a decrease from the current annual cap of $7,778 per child. In addition, the indexation of the cap will be suspended for four years from 1 July 2010.

Reducing the cap will not alter the percentage of out-of-pocket expenses reimbursed by the Government, which will remain at 50 per cent up to the annual cap.

### Youth allowance: Extending eligibility and increased benefits for low income earners

The concessional arrangements recently implemented to the independence criteria for youth allowance will be extended by continuing to allow access to all workforce independence criteria to the following groups of students:

- Prior to 1 January 2011, the concessional arrangements will apply to students who took a 'gap year' in 2009 after completing school in 2008. To be eligible, students must come from a family with a combined annual parental income of less than $150,000 or need to live away from home because their parental home is located more than 90 minutes away from the university of their choice.
- From 1 January 2011, the concessional arrangements will apply to students who need to move away from home to study and whose parental home is located in an area defined as very remote, remote or outer regional. To be eligible, students must come from a family with a combined annual parental income of less than $150,000.
- Students who are not included in these concessional arrangements may establish independence under existing workforce participation criteria until 1 July 2010.

### Special Disability Trusts — greater accessibility

Currently, Special Disability Trusts enable parents and immediate family members to put money aside for the future care and accommodation needs of a family member with a severe disability. Up to $551,750 (indexed annually) and the beneficiary's home can be kept in the trust without being counted as income or assets under the pension means tests for the beneficiary of the trust.

The Government will amend the eligibility criteria and allowable uses for Special Disability Trusts, to make them more accessible and increase uptake.

These changes will expand the definition of a beneficiary to broadly include people with a disability who can work up to seven hours per week. In addition, this measure will amend the allowable uses for the trust to include all medical expenses, including membership costs of private health funds, maintenance expenses of Special Disability Trust property and discretionary spending of up to $10,000 per year.

## 4. First Home Saver Accounts (FHSA)

Currently, an FHSA holder is required to keep their savings in an FHSA 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 FHSA must be transferred to their superannuation so that it remains in a concessionally taxed environment.

In order to increase the flexibility of FHSAs, the Government will allow savings in an FHSA 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.

## 5. Henry tax review

The Budget also contained a number of measures released last week in the Government's response to the Henry Review, including:

- A reduction in the corporate tax rate to 29% from 2013/14, and to 28% from 2014/15;
- The reduction in corporate tax rate for 'eligible small business companies' to 28% from 2012/13;
- Immediate write-off for assets of small businesses extended to assets valued at less than $5,000 from 1 July 2012;
- Increasing the superannuation guarantee charge (SGC) by annual increments until it reaches 12% by 2019/20;
- Increasing the SGC maximum age threshold to 75 years of age from 1 July 2013;
- Provision of a new Government superannuation contribution which will pay up to $500 for individuals with adjusted taxable incomes less than $37,000, from 1 July 2012;
- Raising the concessional contributions cap to $50,000 per year for individuals who are 50 and over and who have superannuation balances less than $500,000, from 1 July 2012; and
- Introducing a Resource Super Profits tax on 1 July 2012 at a rate of 40% on profits made from the exploitation of Australia's non-renewable resources

AMP will continue to analyse and follow the proposals highlighted above and will keep you abreast of developments through future Super Updates.

## More information

Should you have any queries relating to this Super Update please contact your Business Relationship Manager or Segment Advice Specialist.

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