



Special Topic

Federal Budget 2010

TaxBanter
Effective Tax Learning

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1.0 Introduction

The Kevin Rudd led Federal Labour Government handed down its third Budget on Tuesday 11 May 2009. The Government has committed to a range of measures in the area of taxation. Some of these measures will be introduced immediately into parliament. Others will be introduced in due course.

The Budget underlying deficit for 2010-11 is \$40.8b. The Government expects the nation to return to a surplus in 3 years (2013) some 3 years sooner than expected in last year's budget.

2.0 General Budget Announcements

- Taxing the Super profits of the mining sector with 40% Resource Super Profits Tax
- Use RSPT to fund cuts to company tax rate, boost retirement savings and help small business
- Invest in Infrastructure and Build skills for sustainable growth
- Invest in renewable energy
- Savings for the future
- Better Health and Hospitals
- Ease the cost of living, simplifying personal tax time

3.0 Budget Tax announcements

Personal Tax Rates - NO change to last year's legislated changes

New tax thresholds from 1 July 2009 (Income range)	Tax rate (%)	New tax thresholds from 1 July 2010 (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
\$180,001+	45	\$180,001+	45

Increase in the low income tax offset

2010 year – maximum offset \$1,350, cuts out where taxable income is \$63,750

2011 year – maximum offset \$1,500, cuts out where taxable income is \$67,500

The low income tax offset will still phase out at a rate of four cents for each dollar over \$30,000.

Medicare Levy Thresholds

The Medicare low income thresholds will also rise from \$17,794 to \$18,488 for singles and from \$30,025 to \$31,196 for couples. The additional amount for each dependent child or student will also rise from \$2,757 to \$2,865.

For pensioners below pension age the Medicare low income threshold also rises from \$25,299 to \$27,697. This should ensure that Age pensioners who have no tax liability should also have no Medicare levy.

Tax Discount on Savings

To provide an incentive to save, the Government has announced that a 50% discount on the tax applicable to interest earned up to \$1,000 will apply from 1 July 2011.

The measure is designed to promote deposits as a tax effective savings vehicle and encourage Australians to diversify their investments.

Simpler Tax Time

From 1 July 2012, individual taxpayers will be able to claim a standard \$500 deduction in lieu of work related expense and tax preparation costs. From 1 July 2013, the standard deduction will be increased to \$1,000.

Taxpayers will still be able to claim their actual work related expenses and costs of managing their tax affairs, but will be subject to scrutiny.

The pre filling of tax returns is to be improved.

First Home Owners

First Home Saver accounts provide a simple tax effective way for Australians to save for their first home through a combination of government contributions and low taxes.

FHS account holders must keep their savings in the account for 4 years before they are able to use those savings to buy a home.

The Government will increase the flexibility of this program by allowing savings in a FHS account to be paid into an approved mortgage after the end of a minimum qualifying period.

The changes will apply to homes purchased after the enabling legislation receives Royal Assent.

Consultation will occur on the proposed changes.

Superannuation

The SGC rate will be increased to 12%. The increase will be phased in gradually from 1 July 2013 with a .25% increase rising by .25, then .5 until 2020 when it reaches 12%.

SGC will also be extended to those workers aged up to 75 (up from 70).

The co-contribution will also be adjusted permanently. A 100% co contribution for 2011 and 2012 will be made permanent. The rate of co contribution will be no longer rise to 125% for 2013 and 2014. The income thresholds will also be frozen for these two years (\$31,920 and \$61,920).

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 will apply for the income year 2013 with contributions made in 2014.

The concessional cap will be increased to \$50,000 for those aged 50 and over from 1 July 2012 where the balance of their superannuation interests is below \$500,000.

CGT For Earnout Arrangements

The Government will clarify the law in relation to earnout arrangements by ensuring that the payments under eligible arrangements relate to the underlying asset and the rights do not represent a separate CGT asset.

Small Business Measures

The company tax rate will be reduced to 28% with effect from 1 July 2012. This is in advance of the reductions of the company tax rate for other companies.

An immediate write off for depreciable assets acquired from 1 July 2012 with a cost of \$5000 or less.

The long life pool will be scrapped and small businesses will have access to a single depreciation pool (30% rate).

The small business measures are dependant upon the passage of the RSPT (see below).

Business Measures

The Company tax rate will be reduced from 30%.

From 1 July 2013 29%

From 1 July 2014 28%

The Government has announced a resource rent tax of 40% on the Super Profits of the mining industry.

The RSPT will be calculated by a specific formula under legislation to be introduced. The profit will recognize the capital already invested by taxpayers in their mining projects.

A new Resource Exploration Refundable Tax offset will also be introduced to encourage activity in this industry.

From 7.30pm on 11 May 2010, three amendments will apply to certain CGT events.

A rollover will be available where an unincorporated body becomes a company, rollover relief will also be extended to certain restructures involving shares or interests where foreign residents exist, and demerger relief will be extended to certain structures where a sole company or complying superannuation fund is involved.

The Consolidation rules will be amended to clarify the ability of the Commissioner to recover PAYG under the joint and several liability rules. Entities will also be able to obtain a clear exit under the PAYG liability rules where that entity has paid their obligation under a valid tax sharing agreement.

Film Tax Offset

The Government will relax the requirement that 70% of a films expenditure be undertaken in Australia, and will also reduce the required spend for eligibility for Post, digital and visual effects production from \$5m to \$500,000.

Goods and Services Tax (GST)

Summary

Having undertaken the reviews foreshadowed in last years' Budget, this years' Budget announces the following key changes:

- Accepting all the Board of Taxation's recommendations regarding GST and cross border transactions;
- Slightly amending the GST and margin scheme rules;
- Amending the GST and financial supplies rules intending to reduce compliance for small businesses;
- Broadening the GST-free treatment for exported recreational boats;
- Altering the basis of exempting Australian taxes, fees and charges;
- Minor revision of previously announced GST administrative changes; and
- Increased funding to promote voluntary GST compliance.

GST and cross border transactions

- Implement from 1 July 2012 all the Board of Taxation recommendations regarding GST and cross border transactions:
 - limit the 'connected with Australia' provisions;
 - expand the compulsory reverse charge mechanism;
 - extend the GST-free export rules;
 - remove the need for some non-residents from registering;

GST and Margin Scheme

- Amend the margin scheme provisions to 'clarify the law and simplify compliance and reduce the potential for disputes between taxpayers and the ATO' by:
 - restructuring the provision to give prominence to the main principles by inserting 'objects clauses for the key provisions so that the intention is clear'; and
 - implement a minor technical amendment, effective from 1 July 2012, to remove an anomaly to allow an approved valuation when calculating the margin on subdivided land.

- It appears one way to 'reduce the potential for disputes between taxpayers and the ATO' is by way of the ATO having 'made significant changes to its approach' margin scheme valuations with the intent to reduce uncertainty for taxpayers.

The Government has not proceeded with any of the other potential margin scheme reforms discussed during the consultation and review process as the 'costs and risks to revenue ... outweigh the potential benefits'.

GST and financial supplies

- Amend the rules with effect from 1 July 2012 to 'clarify the operation of the legislation and reduce compliance and administration costs, particularly for many small businesses'. The proposed amendments are:
 - increasing the Financial Acquisitions Threshold (FAT) from \$50,000 to \$150,000;
 - simplify the treatment of hire purchase agreements making the whole supply as taxable;
 - allow cash basis taxpayers to claim input tax credits up front on hire purchase agreements (the same basis as for non-cash basis taxpayers);
 - bank deposits expressly excluded from the 'borrowing' exclusion of 'creditable purpose';
 - slightly broadening the range of acquisitions that qualify for RITCs (i.e. 75% credits);
 - limiting the access to RITCs via bundling arrangements

Note: changing the FAT threshold does not necessarily change the compliance requirements of applying the test, and it would appear there is no change to the additional 10% test.

GST-free export of boats

- Amend the rules with effect from 1 July 2011 to allow boats used for recreational purposes to be sold GST-free if the boat is exported by the purchaser within 12 months, provided that the boats are only used for recreational purposes while in Australia;
- The changes 'allow Australian boat builders to overcome disadvantages they face relative to foreign competitors who can more easily sell boats for export tax-free', and is aimed at making Australian-made boats 'more attractive to overseas purchases'.

Exempt Taxes, Fees and Charges

- With effect from 1 July 2011 amend the basis for determining the GST exemption for Australian taxes, fees and charges by moving from the current determination-based approach to a principles-based approach.

Minor GST changes

- Minor revisions to GST administrative changes announced in the 2009-10 Budget, and for these to be effective from 1 July 2011:
 - adopt the income tax self-assessment regime for indirect taxes and refresh the period of review;
 - reform the change of use adjustments;
 - allow adjustments for pre-registration acquisitions;
 - clarify treatment of tax law partnerships;
 - simplify the GST grouping rules and allow grouping for non-operating holding companies; and
 - introduce a reverse charge for supplies of going concerns and farmland.

GST Compliance

- The Government will spend \$337.5m over four years to promote voluntary GST compliance – specific issues to be addressed include fraudulent GST refunds, systematic under-reporting of GST liabilities, non-lodgement of GST returns and non-payment of GST debts.
- Expected to raise an extra \$2.7b over four years ‘due to increased taxpayer compliance’!

Financial Markets

Boost Business Credit – Banking competition

ASIC to allow listed entities to issue bonds to retail investors under strict conditions

- Good disclosure history
- “Vanilla” bonds
- At least \$50 million issue

Interest withholding tax (IWT) on Financial Institutions will be reduced gradually on certain financial arrangements between subsidiaries and parents and between banks and their branches:

Subsidiary Lending

- IWT Rate 7.5% (2014)
- IWT Rate 5% (2015)
- IWT Rate - maybe 0%

Branch lending

- IWT Rate 2.5% (2014)
- IWT Rate 0% (2015)

Capital Protected Borrowings

The benchmark rate of interest on capital protected borrowings will be increased slightly to the Reserve Bank Variable housing rate PLUS 100 basis points.

Standard Business Reporting

The Government will provide funding of \$89.9m over 4 years for SBR.

Funding will be provided to ASIC, APRA, ATO and Treasury to maintain and operate SBR. Funding will also be provided to the states and territories to maintain and operate SBR.

The process of registration of a business name will also be streamlined with a single registration across all of the States. This will remove the need for 8 separate registrations.

Investment Measures

\$661m will be provided for Skills for Sustainable growth Program. The 4 year program will provide

- 39,000 training places in sectors facing high demand through critical skills investment fund
- 22,500 apprenticeship commencements
- Guaranteed training place for all <25 yr olds
- Numeracy, literacy and language courses for 140,000

Infrastructure investment

The Government is planning a major investment in infrastructure projects including:

- \$1 billion in Rail
 - Australian Rail Track Corporation will invest in a number of rail projects including Albury to Melbourne to Geelong.
- \$5.6 billion in Infrastructure Fund over 10 years
 - Allocated to resource rich states
 - Ports & roads \$700m in 2013
- Aviation investments for border protections and security issues

Renewable energy measures

\$652 Renewable Energy Future Fund

Wind, solar, biomass low emission technologies
Encourage and support private sector investment

Better Health and Hospitals

\$2.2b includes:

- \$417m for better after hours access to GP's
- \$355m increase in GP Super Clinics
- \$523m to train and support nurses
- \$467m for electronic health records

Financial Services Centre

Specific Regime for MIT's - An exposure draft of the proposed changes was released for discussion and consultation on Friday 7th May 2010.

The government is looking to establish Australia as a Centre for International Finance & Regulation. The Board of Taxation will be asked to undertake a consultation on a proposed Investor Manager Regime and the rules that should apply to Collective Investment Vehicles

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