



A “temporary collapse in revenue” has prompted a “program of responsible borrowing” and “longer term nation building projects” by the Rudd Labor Government, as announced in tonight’s Federal Budget. The government hopes that this will provide the stimulus needed for the economy, with the aim of bringing the budget back to surplus in the medium term.

As a result, no significant tax changes were announced, although measures have been proposed to reduce tax concessions for high income earners in the form of superannuation reform and changes to the private health insurance offset. Contrary to speculation, the incentive for first home owners has been extended and so has the small business tax break. Reform of the tax system is high on the agenda but tax cuts announced in last year’s Budget will be honoured.

Here are the highlights of the tax and superannuation changes announced in the Budget.

Superannuation concessions

The annual cap for concessional superannuation contributions has been halved from \$50,000 to \$25,000, and the transitional concessional contributions cap has been reduced to \$50,000 per year from its former annual limit of \$100,000.

The superannuation co-contribution scheme will be reduced to a rate of 100% for contributed amounts for the 2009/10, 2010/11 and 2011/12 years, increasing to 125% for the 2012/13 and 2013/14 years and returning to 150% for the 2014/15 year.

Individuals and families

From 1 July 2010, the government will introduce three new “Private Health Insurance Tiers” in respect of the Private Health Insurance Rebate

From the 2008/09 year, the Medicare levy low-income thresholds will be increased to \$17,794 for individuals and \$30,025 for individuals in families.

The First Home Owner’s Boost will be extended for an extra six months.

The employee share scheme deferral election will not apply to shares and options acquired after 7.30pm on 12 May 2009.

From the 2009/10 income year, taxpayers with an adjusted taxable income of over \$250,000 will have excess deductions quarantined to the business activity under the non-commercial losses rules.

From 1 July 2009, the foreign employment income exemption will only be available for income earned by aid or charitable workers, government aid workers, and specified government employees.

From 1 July 2009, Family Tax Benefit Part A (FTB-A) payment rates will be indexed by the Consumer Price Index. The higher income thresholds for family payments (FTB-A, FTB-B and Baby Bonus) will be maintained at their current level until July 2012.

A Paid Parental Leave scheme will be available to parents for births and adoptions that occur on or after 1 January 2011.



Small Business

A bonus deduction of 50 per cent will be available to small businesses that acquire an eligible asset between 13 December 2008 and 31 December 2009 and install it ready for use by 31 December 2010.

The application of the income test for the entrepreneurs' tax offset will be deferred for 12 months and commence on 1 July 2009.

The government has made the income recovery subsidy payments for the Victorian bushfires and for the North Queensland floods exempt from income tax.

Certain grants to small businesses and primary producers affected by the Victorian bushfire will be income tax exempt.

Companies and trusts

From 2010/11, the current R&D concession will be replaced by the new R&D tax credit.

From 1 July 2009, the non-commercial loan rules will be extended to payments by way of a licence or right to use real property and chattels.

The government will convert Medibank Private to a "for profit" government-owned business enterprise in early 2009/10.

There has been confirmation that the immediate annuity conditions for life insurance companies did not change when they were transferred to ITAA 1997.

Australia's foreign source income attribution regimes will be reformed.

A number of technical amendments will be made to the Uniform Capital Allowance rules.

The government will implement the recommendations of the Board of Taxation to improve the taxation treatment of off-market share buy-backs.

The government will change the thin capitalisation regime for approved authorised deposit taking institutions.

Australian managed investment trusts will be able to make an irrevocable election to apply the capital gains tax regime as the primary code for taxing certain disposals of assets, with effect from the 2008/09 income year.

A limited CGT roll-over will be provided for assets transferred between trusts that have the same beneficiaries with the same entitlements and no material discretionary elements (ie. fixed trusts).

From 1 July 2010, TFN withholding arrangements will apply to closely held trusts.

Philanthropy

The government has released its interim response to the High Court decision in *FC of T v Word Investments Ltd* 2008 ATC 20-072.

The government will provide a mechanism to conduct a triennial review of the guidelines for, and organisations on, the four deductible gift recipient registers, with effect from the 2009/10 income year.



Tax administration

The government will provide \$595.2m over four years to help businesses remain viable in the face of the global recession, to tackle emerging revenue risks and promote community confidence in the tax system.

Treasury will be provided with additional funding to fund private sector expert input on the practical and commercial issues arising from proposed tax changes.

A discussion paper has been released to progress the Tax Design Review Panel's recommendation that consideration be given to whether or not the Commissioner should be given further power to modify the tax law to give relief to taxpayers.

Over 100 provisions in the tax laws that provide unlimited amendment periods will be repealed.

Other superannuation and retirement measures

The age pension age will be gradually increased to 67 years of age.

Superannuation funds will be required to align their lost superannuation reporting with unclaimed money regulations and to transfer lost superannuation accounts with balances less than \$200 to unclaimed monies.

The minimum drawdown amount for account-based pensions will be halved for the 2009/10 income year.

The future tax panel's review into retirement incomes has released its report, recommending keeping the superannuation guarantee charge at 9%, increasing the age pension age to 67 years and aligning the age pension with the preservation age.

Australia and New Zealand have agreed in principle to allow movement of superannuation benefits between Australian and New Zealand superannuation funds.

Indirect and other taxes

The administration of GST is to be streamlined, and compliance costs reduced, from 1 July 2010.

The GST law will be amended to clarify the GST treatment of the Carbon Pollution Reduction Scheme.

Countries eligible for the Indirect Tax Concession Scheme have been expanded.

The offshore exploration incentive in the petroleum resource rent tax will be extended by one year.

Carbon Pollution Reduction Scheme

With effect from the introduction of the Carbon Pollution Reduction Scheme all Kyoto units registered in Australia will be subject to the scheme's proposed tax treatment.

The government will delay the start date of the Carbon Pollution Reduction Scheme by one year to 1 July 2011.

Source: *Institute of Chartered Accountants in Australia website (www.charteredaccountants.com.au)*



Comparison of income tax rates and thresholds

Income Tax Rates—1 July 2009 to 30 June 2010

Resident Taxpayer		Non-Resident Taxpayer	
Taxable income	Tax payable	Taxable income (\$)	Tax payable (\$)
\$0 - \$6,000	Nil	\$0 - \$35,000	29%
\$6,001 - \$35,000	Nil + 15% of excess over \$6,000	\$35,001 - \$80,000	\$10,150 + 30% of excess over \$35,000
\$35,001 - \$80,000	\$4,350 + 30% of excess over \$35,000	\$80,001 - \$180,000	\$23,650 + 38% of excess over \$35,000
\$80,001 - \$180,000	\$17,850 + 38% of excess over \$80,000	\$180,001 and over	\$61,650 + 45% of excess over \$35,000
\$180,001 and over	\$55,850 + 45% of excess over \$180,000		

Income Tax Rates—1 July 2008 to 30 June 2009

Resident Taxpayer		Non-Resident Taxpayer	
Taxable income	Tax payable	Taxable income (\$)	Tax payable (\$)
\$0 - \$6,000	Nil	\$0 - \$34,000	29%
\$6,001 - \$34,000	Nil + 15% of excess over \$6,000	\$34,001 - \$80,000	\$9,860 + 30% of excess over \$35,000
\$34,001 - \$80,000	\$4,200 + 30% of excess over \$35,000	\$80,001 - \$180,000	\$23,660 + 40% of excess over \$35,000
\$80,001 - \$180,000	\$18,000 + 40% of excess over \$80,000	\$180,001 and over	\$63,660 + 45% of excess over \$35,000
\$180,001 and over	\$58,000 + 45% of excess over \$180,000		