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## 2010 - 2011 Federal Budget Follow Up

The Federal Government handed down its 2010-11 Budget on 11 May 2010.

There were few surprises in the Budget and little of major interest or concern to our clients that had not previously been announced.

There were no changes to the personal income tax rates applying from 1 July 2010 which have already been legislated.

Of interest, at least from an in-principle point of view, is the 50% tax discount on interest income. Although this is subject to a low cap, it reinforces the Henry Review's view that interest income should be concessionaly taxed in order to bring after-tax returns from savings more in line with other forms of returns on investment.

The standardisation of work-related expenses will simplify the preparation of tax returns for many taxpayers and adopts recommendation 11 of the Henry Review. However the Budget did not include the Review's proposal for pre-filled personal income tax returns to be used as a default lodgement mechanism, although this was widely tipped to be adopted.

The following is a summary of the Budget items of most relevance to our clients.

### Personal Taxation

#### 50% Savings Discount for Interest Income ([Click here to return to top](#))

From 1 July 2011, the Government will provide individuals with a 50% tax discount on up to \$1,000 earned on interest.

This includes interest earned on deposits held with any bank, building society or credit union as well as on bonds, debentures or annuity products.

The discount will be available for interest income earned directly as well as indirectly, such as via a trust or a managed investment scheme (MIS).

#### **Adjusted taxable income**

The Government states that taxpayers claiming the discount for interest income will have a reduced adjusted taxable income for the purpose of determining eligibility for transfer payments and other concessions.

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This may result in some individuals and families becoming eligible for transfer payments or for a larger transfer payment.

The Government notes that the consequential expense primarily affects Family Tax Benefit, but will also affect other payments such as Child Care Benefit.

The measure will apply from 1 July 2011.

### **Standard Deduction for Work-related Expenses** [\(Click here to return to top\)](#)

The Government will provide individual taxpayers with a standard deduction of \$500 for work-related expenses and for the cost of managing tax affairs from 1 July 2012.

The standard deduction will increase to \$1,000 from 1 July 2013.

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

The standard deduction will reduce individuals' and families' adjusted taxable income for the purpose of determining their eligibility for transfer payments and other concessions (eg the Family Tax Benefit, the Baby Bonus, Child Care Benefit, the Commonwealth Seniors Health Card (CSHC) and the Seniors Supplement). This will make some individuals and families eligible for transfer payments or for a larger transfer payment.

### **Medical Expenses Rebate Threshold** [\(Click here to return to top\)](#)

From 1 July 2010, the medical expenses rebate threshold will increase from \$1,500 to \$2,000.

Taxpayers presently receive a rebate equal to 20% of net un-reimbursed eligible medical expenses above \$1,500. This \$1,500 threshold will increase to \$2,000.

In addition, from 1 July 2011, the threshold will be indexed annually to the Consumer Price Index (CPI).

### **Medicare Levy Thresholds Increased for 2009/10** [\(Click here to return to top\)](#)

From the 2009/10 income year, the Medicare levy low-income thresholds will be increased to \$18,488 for singles (up from \$17,794 for 2008/09) and to \$31,196 for those who are members of a family (up from \$30,025 for 2008/09).

The additional amount of threshold for each dependent child or student will also be increased to \$2,865 (from \$2,757).

From 1 July 2009, the Medicare levy low-income threshold for pensioners below Age Pension age will be increased to \$27,697 (from \$25,299).

This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy while they do not have an income tax liability.

## Superannuation

### Co-contribution Matching Rate Permanently Reduced to 100% [\(Click here to return to top\)](#)

The Government has announced that it will seek to permanently set 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.

As a result, the previously-legislated increase in the matching rate to 125% for the 2012/13 and 2013/14 years (and to 150% for 2014/15 and later years) will not proceed.

### ***Eligible income thresholds frozen***

In addition, the Government says that for 2010/11 and 2011/12 it will freeze the indexation applied on the income threshold above which the maximum superannuation co-contribution begins to phase down.

Under the superannuation co-contribution scheme, the Government currently provides a matching contribution for contributions made into superannuation out of after-tax income. The matching contribution is up to \$1,000 for individuals with incomes of up to \$31,920 in 2009/10 (with the amount available phasing down for incomes up to \$61,920). The new measure will freeze these thresholds at \$31,920 and \$61,920 for two years.

The Government says this measure follows its earlier announcement in response to the Henry Tax Report, proposing a \$500 annual superannuation contribution for individuals with an adjusted taxable income up to \$37,000.

### Superannuation Fund Deductions for Terminal Medical Conditions Benefits [\(Click here to return to top\)](#)

The Government has announced that it will seek to extend the range of benefits that are deductible by complying superannuation funds and retirement savings account providers to include terminal medical condition (TMC) benefits.

The Government says that this proposal addresses an anomaly in the taxation law regarding deductibility by superannuation funds and retirement saving account providers of the costs of providing certain benefits to members or holders.

Currently, the Government says deductions are allowable for the costs of providing benefits relating to the death, permanent incapacity and temporary incapacity conditions of release, but not those relating to the TMC condition of release.

This measure is proposed to have effect from 16 February 2008, the date the TMC condition of release was introduced into the superannuation legislation.

## Business Taxation

### Look-through Treatment for Earnout Arrangements [\(Click here to return to top\)](#)

The Government will allow all payments under a qualifying earnout arrangement to be treated as relating to the underlying business asset. The measure will have effect from the date of Royal Assent of the enabling legislation, with transitional provisions available in certain cases from 17 October 2007.

Earnout arrangements are used to structure the sale of a business (or business assets) to manage uncertainty about the value of the business. Under the earnout arrangement, an earnout right may entitle the buyer or seller to additional payments depending on the subsequent performance of the business.

Currently, an earnout right is treated as a separate CGT asset. This treatment can result in anomalous outcomes for taxpayers where the actual payments under the earnout right differ from the amounts estimated at the start of the arrangement, such as by reducing access to the CGT small business concessions.

This measure will ensure that the CGT treatment of earnout arrangements does not create an impediment to the efficient market for the sale of businesses or business assets.

### Increased Funding to Counter Cash Economy [\(Click here to return to top\)](#)

The Government will provide \$107.9 million over four years to the Tax Office, to address small business operators who use cash transactions to avoid tax. The Government states that this is expected to increase the "visibility of the Tax Office in the community".

This measure is expected to result in:

- an additional \$491.8 million in revenue in fiscal balance terms over four years; and
- an increase of \$39.9 million in Tax Office-administered expenses over the same period.

In underlying cash terms, the expected increase in revenue is \$366.5 million over four years, including \$146.7 million in GST collections that will be paid to the states and territories.

### GST Compliance Program – funding for the Tax Office [\(Click here to return to top\)](#)

The Government states that it will provide \$337.5 million over four years (from the 2010/11 to the 2013/14 income years) to the Tax Office to fund additional activities that will promote voluntary GST compliance and provide a level playing field for Australian businesses.

The Government also states that the funding will address issues relating to:

- fraudulent GST refunds;
- systematic under-reporting of GST liabilities;
- non-lodgement of GST returns; and
- non-payment of GST debts.

### [Further reductions in GST compliance costs for business](#) [\(Click here to return to top\)](#)

The Government will reduce compliance costs for businesses through a package of GST reform measures.

The most relevant component of this plan is the restructuring the margin scheme provisions with effect from 1 July 2012. These are currently a way of working out the GST payable when property is sold as part of a business. This will clarify and simplify the rules and ensure greater certainty for taxpayers on issues surrounding the use of valuations;

### [International Taxation](#)

#### [New tax information exchange agreements](#) [\(Click here to return to top\)](#)

The Government has signed new tax information exchange agreements with the following countries. The measure allows for the full exchange of information in relation to Australia's federal taxes and the taxes of the relevant jurisdictions. The Government has updated its regulations to ensure that each of the countries is eligible to access a reduced rate of withholding tax on certain distributions from Australian managed investment trusts:

- Anguilla
- Aruba
- the Bahamas
- Belize
- the Cayman Islands
- Dominica
- Grenada
- Monaco
- Samoa
- San Marino
- St Kitts and Nevis
- St Lucia
- Saint Vincent and the Grenadines
- Turks and Caicos Islands
- Vanuatu