practisingtax

# COMMONWEALTH BUDGET 2010-11

## A TAX SUMMARY

**11 MAY 2010**

# About Practising Tax

Practising Tax is a specialist tax information provider. Practising Tax is a team of passionate tax professionals with diverse experience ranging from 'Big 4' accounting firms, top tier law firms, private practice, ATO and tax education providers.

Practising Tax is unrivalled in the quality, accuracy and approachability of its product. We pride ourselves on ensuring that our clients get the most up-to-date, easy to understand and practical tax information available.

## CONTACT DETAILS

Practising Tax Pty Ltd
PO Box 6152
Hawthorn VIC 3122

Ph: (03) 9815 2998
Fax: (03) 8648 6808

Jenny Daborn
0403 170 572
jdaborn@practisingtax.com.au

Karen Goodfellow
0418 990 901
kgoodfellow@practisingtax.com.au

## TABLE OF CONTENTS

**INDIVIDUALS AND FAMILIES** ........ 1

STANDARD DEDUCTION FOR WORK-RELATED EXPENSES AND THE COST OF MANAGING TAX AFFAIRS.. 1
PERSONAL INCOME TAX – INCREASE IN THE NET MEDICAL EXPENSES TAX OFFSET CLAIM THRESHOLD 1
PERSONAL INCOME TAX – INCREASING THE MEDICARE LEVY LOW-INCOME THRESHOLDS........ 1
AMENDMENT TO THE SENIOR AUSTRALIANS TAX OFFSET REGULATIONS........ 2
FAMILY TAX BENEFIT NON-LODGER FORTNIGHTLY PAYMENT PROHIBITION – MORE FLEXIBLE ARRANGEMENTS ........ 2
INCREASING FLEXIBILITY OF FIRST HOME SAVER ACCOUNTS ........ 3

**DEDUCTIONS** ........ 4

FIFTY PERCENT DISCOUNT FOR INTEREST INCOME........ 4
CAPITAL PROTECTED BORROWINGS — CHANGE TO BENCHMARK INTEREST RATE ........ 4

**CGT** ........ 5

LOOK-THROUGH TREATMENT FOR EARNOUT ARRANGEMENTS ........ 5
LIMITED ROLL-OVER FOR FIXED TRUSTS — IMPROVING INTEGRITY........ 5
EXTENSION OF THE ROLL-OVER FOR CONVERSION OF A BODY TO AN INCORPORATED COMPANY ........ 5

**SUPERANNUATION** ........ 7

SUPERANNUATION CO-CONTRIBUTION - PERMANENT REDUCTION TO THE MATCHING RATE AND MAXIMUM PAYABLE........ 7
SUPERANNUATION CO-CONTRIBUTION — PAUSE TO THE INDEXATION OF THE INCOME THRESHOLD FOR TWO YEARS ........ 7
DEDUCTIBILITY TO FUNDS OF COST OF PROVIDING TERMINAL MEDICAL CONDITION BENEFITS ........ 7
TRANSFER OF STATE AND TERRITORY UNCLAIMED SUPERANNUATION TO THE COMMONWEALTH ........ 8
MINOR AMENDMENTS ........ 8

**GST** ........ 9

GOVERNMENT RESPONSE TO BOARD OF TAXATION REPORT - GST CROSS-BORDER TRANSACTIONS. 9
REFORMS TO THE GST MARGIN SCHEME........ 9
REFORMS TO THE GST FINANCIAL SUPPLY PROVISIONS........ 9
SALE OF BOATS FOR EXPORT WITHIN 12 MONTHS OF DELIVERY ........ 10
REFORM TO THE ARRANGEMENT FOR EXEMPTING TAXES, FEES AND CHARGES FROM THE GST ........ 10
GOVERNMENT RESPONSE TO BOARD OF TAXATION REPORT - MINOR CHANGES ........ 10

**DROUGHT ASSISTANCE** ........ 12

EXCEPTIONAL CIRCUMSTANCES ASSISTANCE FOR PRIMARY PRODUCERS ........ 12
EXCEPTIONAL CIRCUMSTANCES ASSISTANCE FOR SMALL BUSINESS ........ 12
PROFESSIONAL ADVICE AND PLANNING — EXTENSION........ 12
RE-ESTABLISHMENT ASSISTANCE — EXTENSION........ 13
TRANSITIONAL INCOME SUPPORT — EXTENSION ........ 13

## INDIVIDUALS AND FAMILIES

### Standard deduction for work-related expenses and the cost of managing tax affairs

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

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.

This standard deduction will make some individuals and families eligible for transfer payments or eligible for a larger transfer payment by reducing their adjusted taxable income for the purpose of determining their eligibility for those transfer payments e.g. Family Tax Benefit, Baby Bonus, Child Care Benefit, Commonwealth Seniors Health Card (CSHC) and the Seniors Supplement.

This measure will take effect from 1 July 2012. From 1 July 2013 the Government will increase the standard deduction to $1,000.

### Personal income tax – Increase in the net medical expenses tax offset claim threshold

The Government will increase the threshold above which a taxpayer may claim the net medical expenses tax offset (NMETO) from $1,500 to $2,000, and commence annually indexing the threshold to the Consumer Price Index. 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.

This measure will take effect from 1 July 2010.

### Personal income tax – Increasing the Medicare levy low-income thresholds

The Government will increase the Medicare low-income thresholds to:

| Taxpayer | Threshold |
| --- | --- |
| Individuals | $18,488 |
| Families | $31,196 |
| Additional dependent child or student | $2,865 |
| Single pensioners below Age Pension age | $27,697 |

This measure will take effect from 1 July 2009.

## Amendment to the Senior Australians Tax Offset regulations

The Government will amend the senior Australians tax offset regulations affecting the calculation of the rebate threshold.

The rebate threshold is the amount of rebate income an eligible taxpayer can have before the amount of senior Australians tax offset is reduced. Currently, the formula specified in the regulations for calculating the rebate threshold fails to reflect the fact that the low income tax offset (LITO) is reduced when taxable income exceeds $30,000.

This measure will ensure that in situations where the rebate threshold exceeds $30,000, the calculation of the rebate threshold incorporates the reduction in the LITO.

This measure will take effect from 1 July 2010.

## Family Tax Benefit non-lodger fortnightly payment prohibition – More flexible arrangements

The Government will put in place a more flexible arrangement for the 2008-09 Budget measure *Responsible Economic Management — Family Tax Benefit — cease fortnightly payments for recipients who do not lodge tax returns*.

Under the 2008-09 Budget measure, all Family Tax Benefit (FTB) recipients who had not lodged tax returns for more than 12 months and had not responded to Centrelink requests to do so, would no longer receive FTB payments through fortnightly instalments until they lodged their tax returns. Lodgment of tax returns is necessary to reconcile a person's FTB entitlement on the basis of their actual taxable income. This ensures people receive only their correct entitlements.

This measure will retain these arrangements in general but will ensure that payments continue to be made where:

- people do not have any FTB debt; or
- ceasing payments would cause undue hardship.

The measure does not affect whether a person accrues eligibility for FTB, only when it is paid.

## Increasing flexibility of First Home Saver Accounts

The Government will allow savings in a First Home Saving (FHS) Account 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.

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

The Government will release draft amendments for consultation over the coming months.

The changes will apply for houses purchased after Royal Assent of the legislation giving effect to this change.

## DEDUCTIONS

### Fifty percent discount for interest income

The Government will provide individuals with a 50 percent tax discount on up to $1,000 of interest earned by individuals, 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 trust or managed investment scheme.

The discount for interest income will make some individuals and families eligible for transfer payments or eligible for a larger transfer payment by reducing their adjusted taxable income for the purpose of determining their eligibility for those transfer payments e.g. Family Tax Benefit, Baby Bonus, Child Care Benefit, Commonwealth Seniors Health Card (CSHC) and the Seniors Supplement.

The Government will consult during 2010-11 on details concerning the operation of the discount, including in relation to any boundary issues relating to the scope of the discount and the mechanism for applying the discount to interest earned indirectly by individuals.

This measure will have effect from 1 July 2011.

### Capital protected borrowings — Change to benchmark interest rate

The Government will adjust the benchmark interest rate that applies to capital protected borrowings to the Reserve Bank of Australia (RBA) indicator rate for standard variable housing loans plus 100 basis points, instead of the RBA indicator rate for standard variable housing loans as announced in the 2008-09 Budget.

This measure will apply to capital protected borrowings entered into from 7:30 pm (AEST) 13 May 2008.

The Government will also extend the transitional arrangements for capital protected borrowings entered into at or before 7:30 pm (AEST) 13 May 2008 from the announced 13 May 2013 to 30 June 2013.

# CGT

## Look-through treatment for earnout arrangements

The Government will allow all payments under a qualifying earnout arrangement to be treated as relating to the underlying business asset.

Currently, an earnout right is treated as a separate capital gains tax (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.

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.

## Limited roll-over for fixed trusts — Improving integrity

The Government has refined the 2009-10 Budget measure, which provides a limited capital gains tax (CGT) roll-over for fixed trusts, to ensure the integrity of that measure with effect from 1 November 2008.

The 2009-10 Budget measure provided a CGT roll-over for transfers between trusts with no material discretionary elements (sometimes referred to as ‘fixed trusts’) and with the same beneficiaries.

This measure places limitations on the roll-over to ensure the integrity of the roll-over and other provisions of the tax law.

## Extension of the roll-over for conversion of a body to an incorporated company

The Government will expand the capital gains tax (CGT) roll-over for the conversion of a body to an incorporated company to include:

- transfers of incorporation by Indigenous incorporated bodies; and
- make the existing roll-over more accommodating to business practices.

### Transfers of incorporation by Indigenous incorporated bodies

The measure will extend the roll-over to include Indigenous incorporated bodies transferring incorporation to the *Corporations (Aboriginal and Torres Straight Islander) Act 2006* and transfers of incorporation from that Act to the *Corporations Act 2001*. This will allow Indigenous incorporated bodies to transfer their incorporation without immediate CGT consequences.

### Make the existing roll-over more accommodating to business practices

The measure will also make the roll-over more flexible to accommodate situations where a body is wound up and then reincorporated under a different corporations law. This includes providing a roll-over for any gains or losses realised by the original entity when it ceases to own its CGT assets, trading stock, and depreciating and revenue assets that become assets of the newly incorporated entity as part of the reincorporation.

The expanded roll-over will also allow a taxpayer to receive shares on incorporation that reflect all of the interests and rights they held in the body prior to the transfer of incorporation.

These measures will take effect from 7.30 pm (AEST) on 11 May 2010.

## SUPERANNUATION

### Superannuation co-contribution - Permanent reduction to the matching rate and maximum payable

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

This follows the measure announced in the 2009-10 Budget.

### Superannuation co-contribution — Pause to the indexation of the income threshold for two years

The Government will freeze for 2010-11 and 2011-12 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 provides a matching contribution for contributions made into superannuation out of after-tax income. The matching contribution is up to $1,000 for people with incomes of up to $31,920 in 2009-10 (with the amount available phasing down for incomes up to $61,920).

This measure will freeze these thresholds at $31,920 and $61,920 for two years.

### Deductibility to funds of cost of providing terminal medical condition benefits

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

Currently deductions are allowable for the cost 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 has effect from 16 February 2008, the date the TMC condition of release was introduced into the superannuation legislation.

## Transfer of state and territory unclaimed superannuation to the Commonwealth

The Government will improve the administration of superannuation by facilitating the transfer of any unclaimed superannuation monies held by the States and Territories to the ATO.

Private sector superannuation funds currently pay unclaimed money to the ATO, whereas unclaimed superannuation from state and territory public sector funds are instead held by the relevant state or territory authority. States and Territories also may currently hold some older private sector unclaimed superannuation. This measure will allow the States and Territories to transfer unclaimed superannuation to the ATO. Individuals will still be able to claim back their money from the ATO at any time.

This measure will have effect from the date of Royal Assent of the enabling legislation.

## Minor amendments

The Government will make a number of minor amendments to improve the operation of the superannuation legislation.

The amendments will include:

- permanently allowing a claim for a deduction for eligible contributions to be made to successor superannuation 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; and
- providing new arrangements for public sector defined benefit schemes which fund benefits through 'last minute contributions'.

These amendments will have effect from the 2010-11 income year.

# GST

## Government response to Board of Taxation report - GST cross-border transactions

The Government will implement all the recommendations of the Board of Taxation from its Review of the application of GST to cross-border transactions.

The package will significantly reduce the number of non-residents who are unnecessarily drawn into Australia's GST system, through:

- limiting the connected with Australia provisions;
- expanding the compulsory reverse charge provision;
- extending the GST-free rules for cross-border supplies; and
- removing the need for some non-residents to register.

This package will take effect from 1 July 2012.

## Reforms to the GST margin scheme

The Government will restructure the margin scheme provisions to clarify and simplify the current provisions.

The Government will also make a minor technical amendment to ensure that a valuation can be obtained for the purposes of using the margin scheme for subdivided land.

This measure will take effect from 1 July 2012.

## Reforms to the GST financial supply provisions

The Government will amend the financial supply provisions of the GST law to clarify the operation of the legislation and reduce compliance and administrative costs, particularly for many small businesses.

The reforms include:

- increasing the threshold above which businesses need to interact with the financial supply provisions from $50,000 to $150,000 of input tax credits;

- delivering compliance savings for many more small businesses;
- protecting the GST base by reducing opportunities for businesses to inappropriately take advantage of the reduced input tax credit concessions by bundling services; and
- allowing small businesses accounting for GST on a cash basis to claim input tax credits upfront in relation to hire purchase arrangements.

This measure will take effect from 1 July 2012.

## Sale of boats for export within 12 months of delivery

The Government will allow eligible supplies of boats used for recreational purposes to be GST-free if the boats are exported from Australia within 12 months. The current limit is 60 days.

Further details of the measure will be determined after consultation.

This measure will take effect from 1 July 2011.

## Reform to the arrangement for exempting taxes, fees and charges from the GST

The Government will amend the GST law to replace the current mechanism for exempting Australian taxes, fees and charges with a principles-based legislative exemption.

The GST law currently specifies that Australian taxes, fees and charges are exempt from GST if they are included in a determination made by the Treasurer. This measure will allow the GST treatment of an Australian tax, fee or charge to be determined against legislative principles.

This measure will take effect from 1 July 2011.

## Government response to Board of Taxation report - Minor changes

The Government has made further minor revisions to its 2009-10 Budget measure in response to the Board of Taxation's recommendations from its review of the legal framework for the administration of the GST.

The start date for the following components of the 2009-10 Budget measure has been revised to 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 the treatment of tax law partnerships;
- simplify the GST grouping membership interest rules and allow grouping of non-operating holding companies; and
- introduce a reverse charge for supplies of going concerns and farmland.

## DROUGHT ASSISTANCE

### Exceptional circumstances assistance for primary producers

The Government will provide $394.9 million over two years to continue support for primary producers in regions that have been declared eligible for Exceptional Circumstances assistance.

Exceptional Circumstances assistance provides interest rate subsidies and income support to assist viable farm businesses and farm families who have been adversely affected by prolonged drought. Eligible recipients are also provided with a health care concession card and access to Youth Allowance for their children.

The off-farm income exemption of $20,000 per annum and the off-farm assets exemption of $750,000 will remain. This will enable assistance to continue to be provided to a wider range of primary producers in areas declared eligible for Exceptional Circumstances assistance.

### Exceptional circumstances assistance for small business

The Government will provide $25.3 million over two years to continue support for small businesses with up to 100 employees that are dependent on business from farmers in regions declared eligible for Exceptional Circumstances assistance.

The small business assistance provides interest rate subsidies and income support to assist viable farm-dependent businesses and families who have been adversely affected by prolonged drought. Eligible recipients are also provided with a health care concession card and access to Youth Allowance for their children.

The non-business salaries and wages exemption of $20,000 per annum and the non-business assets exemption of $750,000 will remain. This will enable assistance to continue to be provided to a wider range of small businesses in areas declared eligible for Exceptional Circumstances assistance.

### Professional advice and planning — Extension

The Government will provide $17.8 million in 2010-11 to continue to provide taxable grants of up to $5,500 to eligible farmers in Exceptional Circumstances-declared areas for professional business and financial planning advice.

The grants may be used to undertake a farm business viability assessment and to obtain financial and agronomic advice on changes that may be necessary to ensure the farm business recovers from drought.

## Re-establishment assistance — Extension

The Government will provide $24.8 million in 2010–11 to continue to assist primary producers in severe financial difficulty who decide to leave their farms.

The assistance includes one-off exit grants of up to $150,000. The net assets limit for determining eligibility for the full exit grant remains at $350,000. The assistance also includes grants of up to $10,000 for advice and retraining, as well as up to $10,000 to assist farming families to relocate. The assistance is not dependent on primary producers being eligible for Exceptional Circumstances assistance.

## Transitional income support — Extension

The Government will provide $13.9 million in 2010–11 to continue providing eligible farm families experiencing hardship with up to 12 months of income support payments equivalent to the Newstart Allowance.

Eligibility criteria for assistance will include a similar income test to the Newstart Allowance and a limit on the net value of assets of $1.5 million. Recipients of Exceptional Circumstances Relief Payments are not eligible for this support.

Applicants will be required to obtain and act on business viability advice and training available through the Australia's Farming Future — Climate Change Adjustment program.