

BENEATH THE SURFACE

2009 FEDERAL BUDGET ANNOUNCEMENTS!

Source: National Tax & Accountants' Association

2009 FEDERAL BUDGET ANNOUNCEMENTS

We have included most of the major tax announcements. Please note that at the time of going to print, many of these proposals were not law, so there may be some changes between now and when they become law.

Personal Income Tax Cuts

This Government will deliver in full the tax cuts promised by the previous Government, as follows:

From 1 July 2008 (\$)	Tax Rate	From 1 July 2009 (\$)	Tax Rate	From 1 July 2010 (\$)	Tax Rate
0-6,000	0%	0-6,000	0%	0-6,000	0%
6,001- 34,000	15%	6,001- 35,000	15%	6,001- 37,000	15%
34,001-80,000	30%	35,001-80,000	30%	37,001-80,000	30%
80,001-180,000	40%	80,001-180,000	38%	80,001-180,000	37%
180,001+	45%	180,001+	45%	180,001+	45%

Table of tax thresholds (with changes in **bold**)

Low Income Tax Offset (LITO)

These increases allow adults and children to earn more than the basic tax free threshold without paying tax, as follows:

Year	LITO	Tax-free Threshold (adult)	Tax-free Threshold (child <18)
2008-09	\$1,200	\$14,000	\$2,667
2009-10	\$1,350	\$15,000	\$3,000
2010-11	\$1,500	\$16,000	\$3,333

Low and average income earners will receive half the LITO benefit through their regular pay, rather than all as a lump sum when their income tax returns are assessed.

Medicare Levy - Low Income Thresholds for 2008-2009

Individuals	\$17,794	(previously \$17,309)
Families	\$30,025	(previously \$29,207)

The additional amount of threshold for each dependent child student will also be increased to \$2,757 (previously \$2,682).

Private Health Insurance (PHI) Rebate Reduced for High Income Earners

From 1 July 2010, the Government will introduce three new 'private health insurance tiers' in respect of the private health insurance rebate, as follows:

	Proposed MLS Thresholds at 1 July 10	Tier 1	Tier 2	Tier 3
Singles	\$0-\$75,000	\$75,001-\$90,000	\$90,001-\$120,000	>\$120,000
Couples	\$0-\$150,000	\$150,001-\$180,000	\$180,001-\$240,000	>\$240,000
Medicare Levy Surcharge (MLS)	0%	1%	1.25%	1.5%
PHI Rebate				
◇ > 65 years	30%	20%	10%	0%
◇ 65-69 years	35%	25%	15%	0%
◇ >70 years	40%	30%	20%	0%

Please note that "income" in the above table will be the **new** definition of income including adjustments for fringe benefits, salary sacrificed amounts and negative gearing losses.

Senior Australians Tax Offset (SATO)

The amount of income a senior Australian eligible for the SATO can earn before they incur an income tax liability will increase to the following amounts:

	2008-09	2009-10	2010-11
Singles	\$28,867	\$29,867	\$30,685
Couples	\$24,680	\$25,680	\$26,680

Senior Australians do not pay the Medicare levy until they begin to pay income tax.

Entrepreneurs' Tax Offset (ETO) - Proposed New Income Test Deferred

The Government will defer (for 12 months) the application of the income test in determining eligibility for the ETO which was announced in the May 2008 Federal budget. The new start date is 1 July 2009.

Non-Commercial Business Losses Quarantined for High Income Earners

From 1 July 2009, the Government will tighten the application of the rules on the use of non-commercial losses to prevent high income individuals (adjusted taxable income >\$250,000) from offsetting excess deductions

from non-commercial business activities against salary and other income.

Tax Exemption for Employment Income Earned by Australians Working Overseas Basically Abolished (regardless of timeframe overseas)

Currently, certain foreign employment income earned by Australians working overseas for a continuous period of 91 days or more is generally exempt from Australian income tax.

From 1 July 2009, the income tax exemption for foreign employment income (under s23AG) will only apply to income earned as:

- ◇ an aid or charitable worker employed by a recognised non-government organisation
- ◇ a government aid worker, or
- ◇ a specified government employee (eg defence and police force personnel deployed overseas)
- ◇ income earned in the national interest-approved by Minister for Trade (s23AF).

From 1 July 2009, foreign employment income will generally become taxable and taxpayers will be entitled to a foreign income tax offset for foreign tax paid on the foreign employment income. *(Provides more incentive to meet non-resident rules.)*



Employee Share Schemes - Now Everyone is Taxed Up Front

For shares and rights acquired after 7.30pm (AEST) on 1 July 2009, the ability to defer tax on a discount that relates to qualifying shares and rights will be removed. As a result, discounts on all shares or rights (ie qualifying and non-qualifying) will be taxed in the income year the shares or rights are acquired.

This measure will also limit access to the upfront exemption (ie up to \$1,000) to employees with a taxable income of less than \$150,000 (after adjustment for fringe benefits, salary sacrifice and negative gearing losses).



New Research & Development (R&D) 45% Refundable Tax Credit

From 1 July 2010, the Government will replace the existing R&D concession with a simplified R&D tax credit as an incentive for business to invest in research and innovation – if you believe you are eligible, please phone us for more details.

Family Payments

From 1 July 2009, for a period of three years:

- ◇ the family tax benefit (FTB) **Part B** primary earner income threshold will remain at \$150,000;
- ◇ the income threshold for receiving **dependency tax offsets** will remain at \$150,000;
- ◇ the **baby bonus** eligibility threshold will remain at \$75,000 family income in the six months following the birth or adoption of a child (equivalent to \$150,000 a year); and
- ◇ the higher income free area of FTB **Part A** will remain constant - for example this means the income limit for a family with two children under 18 will remain around \$112,000 until 2012.

The FTB Part A lower income free threshold (currently \$42,559) and the FTB Part B secondary earner income threshold (currently



\$4,526) will continue to be indexed annually in line with increases in the costs of living.

Superannuation Initiatives:

1. Tax deductible (concessional) contributions caps halved:

- ◇ for individuals aged <50: from 1 July 2009, this cap will be reduced to \$25,000 (indexed) per annum (from existing \$50,000).
- ◇ for individuals aged >50: for the transitional years 2009-10, 2010-11 and 2011-12, this cap will be reduced to \$50,000 (non-indexed) per annum (from existing \$100,000).

2. Undeducted (non-concessional) contributions caps recalculated:

- ◇ the annual cap is \$150,000 per annum for the 2008-09 year and will remain at that level in 2009-10.
- ◇ in future this cap will be calculated as six times the level of the (indexed) concessional (tax deductible) contributions cap.

3. Minimum pension drawdowns halved for self-funded retirees:

Similarly to 2008-09, the Government will halve the minimum payment amounts for account-based, allocated and market-linked (term allocated) pensions for 2009-10 (eg the current minimum 4% drawdown for those <65 will be reduced to 2% for an ABP).

4. Temporary reductions in the superannuation co-contribution concession:

- ◇ the superannuation co-contribution matching rate will be reduced from 150% to 100% (ie maximum of \$1,000) for contributions made in the 2009-10, 2010-11 and 2011-12 income years, and to 125% (ie maximum of \$1,250) for contributions made in the 2012-13 and 2013-14 income years.
- ◇ the co-contribution matching rate will return to 150% (ie maximum of \$1,500) for contributions made in the 2014-15 and later income years.
- ◇ income thresholds will continue to be indexed in line with rises in wages.

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Division 7A Now Extended to the use of Company Property/Assets

From 1 July 2009, the deemed dividend rules in Division 7A (in respect of **private** companies) will be extended to include payments by way of a licence or right to use real property and chattels. This reduces the scope for private companies to allow their shareholders or associates to use company assets such as real estate, cars and boats, for free or at a discounted rate.

Fringe Benefits Tax (FBT) - Exemption for Donations Made to Charities

From 1 April 2008 the Government will amend the FBT law to ensure that donations to charities made under salary sacrifice arrangements do **not** attract an FBT liability.

Recognising Same-Sex Relationships

In 2008, the Australian Government passed wide-ranging reforms recognising all couples, regardless of sexual orientation or gender, making sure that same-sex couples and their families are recognised and have the same entitlements and obligations as opposite-sex couples.

From 1 July 2009, there will be changes to definitions of 'spouse', 'de facto relationship',

'relationship' and 'child' which will make sure that all couples and families will be treated the same way for tax purposes, regardless of gender. This includes having the same access to tax concessions, regardless of their partner's gender. This may have negative or positive financial implications.

If you are unsure or want more information phone Centrelink (13 62 80) or Family Assistance Office (13 61 50) direct or contact us about any taxation implications.

Tax programmes affected by this law change:

- ◇ Medicare levy reduction or exemption
- ◇ Medicare levy surcharge
- ◇ dependant tax offset
- ◇ parent/parent-in-law offset
- ◇ invalid relative tax offsets
- ◇ senior Australian tax offset
- ◇ pensioner tax offset
- ◇ beneficiary tax offset
- ◇ fringe benefit tax
- ◇ education tax refund
- ◇ spouse super contributions tax offset
- ◇ relationship breakdown and transferring assets
- ◇ main residence exemption in capital gains tax.



Holidays

Our office will be closed for annual holidays from Friday 2 October – Friday 9 October 2009 inclusive.

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