

Business and Tax Bulletin Federal Budget Edition May 2009

In the midst of the global financial crisis, the Rudd government delivered its second budget on 12 May 2009. The economic outlook is bleak, with a forecast deficit of \$32.9 billion in 2008-09 and \$53.1 billion in 2009-10.

A number of budget announcements which affect tax have been summarised at a high level for your information.

Personal Income Tax

The changes to personal income tax rates announced in the budget are the same as proposed in the 2008 budget. The new rates and thresholds are:

Current	%	From 1 July 2009	%	From 1 July 2010	%
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
180,000+	45	180,000+	45	180,000+	45

Low Income Offset – This has been increased to \$1,350 from 1 July 2009 (currently \$1,200), which will effectively increase the tax free threshold for low income earners to \$15,000. It will begin to phase out once income reaches \$30,000.

Medicare Levy Low Income Threshold – The Medicare levy low income threshold will be increased to \$17,794 for individuals, and \$30,025 for couples. This will be increased by \$2,757 per child.

Private Health Insurance Rebate and Medicare Levy Surcharge – A new three tiered system to private health insurance rebates will be introduced from 1 July 2010. In association with the new tiers, the Medicare Levy Surcharge for individuals without private health insurance has also been increased for high income earners.

DFK LAURENCE VARNAY PTY LTD
LEVEL 7/131 YORK STREET
SYDNEY

TELEPHONE +612 92645400
FACSIMILE +612 92649294

The proposed tiers:

Tier	Single Threshold	Families Threshold	Rebate % (under 65 yrs)	Rebate % (aged 65-70 yrs)	Rebate % (aged 70+ yrs)	Medicare Levy Surcharge
0	\$0 - \$75,000	\$0 - \$150,000	30%	35%	40%	1%
1	\$75,001 - \$90,000	\$150,001 - \$180,000	20%	25%	30%	1%
2	\$90,001 - \$120,000	\$180,001 - \$240,000	10%	15%	20%	1.25%
3	\$120,001 +	\$240,001 +	0%	0%	0%	1.5%

Employee Share Schemes - All discounted employee share and option plans issued after 7:30pm on 12 May 2009 will be taxed at grant date. This removes the option of deferring the tax liability until a later time. Furthermore, the \$1,000 tax exemption will be limited to employees with an adjusted taxable income of less than \$60,000.

Non- Commercial Loss Rules - From 1 July 2009, individual income tax payers with an adjusted taxable income of greater than \$250,000 will have all business losses quarantined against the relevant business activity. This effectively limits the losses until the business generates profits. The existing non-commercial loss rules will continue to apply for taxpayers with an adjusted taxable income of \$250,000 or less.

Foreign Employment - From 1 July 2009, the foreign employment income tax exemption of Australians working overseas for greater than 90 days will be limited to aid/charitable workers and other specified government workers. All other Australians working overseas, will be taxable in Australia on their overseas earnings but will be eligible for a tax offset for any foreign tax paid.

Superannuation

Concessional Contributions Cap – will be halved from 1 July 2009 and the non-concessional contribution cap will be six times the concessional contribution cap.

Period	Concessional cap	Transitional concessional cap *	Non- concessional cap
1 July 08 – 30 June 09	\$50,000	\$100,000	\$150,000
1 July 09 – 30 June 10	\$25,000	\$50,000	\$150,000
1 July 10 – 30 June 11	\$25,000	\$50,000	\$150,000

* Applies to individuals 50 years or over during relevant year

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FACSIMILE +612 92649294



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Government Co-Contribution – From 1 July 2009, the co-contribution amount will be reduced to 100% of eligible contributions with a gradual phasing back up to 150% of eligible contributions by 2014/15.

Year Ending	Govt Co-contribution rate	Maximum Government Co-contribution
30 June 2009	150%	\$1,500
30 June 2010	100%	\$1,000
30 June 2011	100%	\$1,000
30 June 2012	100%	\$1,000
30 June 2013	125%	\$1,250
30 June 2014	125%	\$1,250
30 June 2015	150%	\$1,500

Pension Age Increased to 67 – The increased pension age will gradually be phased from the current 65 years to 67 years as follows

Date	New Pension Age	Affects people born	When group reaches new pension age
1 July 2017	65 years & 6 months	1 July 1952-31 Dec 1953	1 Jan 2018-30 June 2019
1 July 2019	66 years	1 Jan 1954-30 June 1955	1 Jan 2020-30 June 2021
1 July 2021	66 years & 6 months	1 July 1955-31 Dec 1956	1 Jan 2020-30 June 2023
1 July 2023	67 years	From 1 Jan 1957	From 1 Jan 2024

Pension Drawdown Relief – The minimum pension drawdown amount for account based pensions will be halved for the 2009/10 income year as an extension of the current concession in the 2008/09 income year.

Families

Paid Parental Leave - The scheme is proposed to start on 1 January 2011 and will provide 18 weeks postnatal leave at the federal minimum wage (currently \$543.78 per week) to eligible parents. To be eligible the primary carer must

- Have earned less than \$150,000 in the financial year prior to date of birth of child or adoption
- Must have worked continually for at least 10 months in the 13 months prior to birth of child or adoption
- Must have worked at least 330 hours in 10 months of work

Parents who receive paid parental leave will not be eligible for the baby bonus and Family Tax Benefit Part B unless there are multiple births.

Family Tax Benefit Part A & B - From 1 July 2009 the FTB-A will be indexed by the CPI, consistent with other family payments such as FTB-B and the Baby Bonus. The higher income thresholds will be fixed until July 2012 being FTB-B primary income earner at \$150,000; FTB-A family income of \$94,316 and baby bonus family income of \$75,000 in the six months following

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FACSIMILE +612 92649294



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the birth or adoption of a child.

Business

Small Business Tax Break Extended – Eligible small business with a turnover of less than \$2 million that acquire an eligible asset between 13 December 2008 and 31 December 2009 which is installed ready for use by 31 December 2010 will be allowed a 50% bonus deduction. The previous 10% and 30% investment bonuses will continue to apply to all other businesses.

Research and Development Concessions – From 1 July 2010 the R & D Concession will be replaced by a R & D Tax Credit with eligibility criteria to be released in the next few months. The new tax credit will provide a 45% refundable credit for businesses with annual turnover of less than \$20 million and a 40% non-refundable credit for businesses with turnover of greater than \$20million.

Deemed Dividend – Division 7A – From 1 July 2009 the non-commercial loan rules are extended to include the use of real property and chattels for free or less than arm's length value by a company's shareholders and associates. Trusts with distributions owing to company beneficiaries may also be subject to this change.

Carbon Pollution Reduction Scheme – The start of the scheme will be delayed until 1 July 2011 due to the impacts of the current global recession. A fixed price of \$10 per tonne will apply in 2011/12 and the market will set the price from 2012/13 onwards.

Trusts

CGT Rollover Relief for Fixed Trusts – From 1 November 2008, limited CGT rollover will be available to assets transferred between trusts that have the same beneficiaries and the same entitlements and no material discretionary elements. Trust will be able to defer CGT consequences until the subsequent trust disposes of the CGT asset.

TFNs for Closely Held Trusts – From 1 July 2010, all beneficiaries of a closely held trust (including family trusts) must provide their TFN to the Trustee otherwise the Trustee is required to withhold 46.5% from the distribution. The beneficiary is able to claim any tax withheld as a credit in their respective individual tax returns. This does not apply to minors where the tax is directly payable by the Trustee.

First Home Owners Boost (FHOB)

The FHOB grant has been extended for a further six months with the grant amount halved for the final three months of the extension period. For contracts entered into between 1 July 2009 and 30 September 2009, FHOB will be \$7,000 for existing home and \$14,000 for new residential dwellings. From 1 October 2009 to 31 December 2009, FHOB grants for existing homes will be \$3,500 and \$7,000 for new residential homes. This is in addition to the standing \$7,000 First Home Owners Grant for all homes.

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