



TAXWISE® INDIVIDUAL NEWS

June 2010

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NEW FORMAT

Welcome to the June 2010 newsletter. You will notice that it looks quite different to the previous newsletter. Tenbenschel & Dee have decided to purchase our newsletter from a different provider. This newsletter provider writes two newsletters per year for individual clients and allows us greater flexibility in adding our own content and deleting topics that are less applicable to you.

STAFF NEWS AT TENBENSHEL & DEE

The Firm has had Izaak and Elaine join our Tax and Business Services Group during the second half of 2009.

Izaak has nearly 3 years experience in public practice and has gained a broad range of experience. Izaak is studying part-time at the University of Tasmania towards his Bachelor of Business Degree.

Elaine has over 20 years experience in the preparation of income tax returns for individuals and small business. Elaine is enjoying broadening her knowledge and working on a diverse range of clients here at Tenbenschel & Dee.

Rachael and Tricia are now both working full time with Tenbenschel & Dee; Rachael in the role of Partner Support Officer and Tricia as our Admin Support Officer.

We said farewell to Krystal in September 2009 who took up a position within the travel industry.

Jenny will be leaving us this September as she heads off on maternity leave until mid 2011. We wish her all the best with the new challenges ahead!





FEDERAL BUDGET 2011

Money in your pocket

The following changes take effect from 1 July 2010 to the individual tax rates (the changes are in bold):

Current Taxable Income (\$ p.a.)	Rate %
Nil to 6,000	0
6,001 to 35,000	15
35,001 to 80,000	30
80,001 to 180,000	38
180,001 plus	45

From 1 July 2010 Taxable Income (\$ p.a.)	Rate %
Nil to 6,000	0
6,001 to 37,000	15
37,001 to 80,000	30
80,001 to 180,000	37
180,001 plus	45

More for low income earners

From 1 July 2010: The Low Income Tax Offset (LITO) will increase to \$1,500 per annum (compared with \$1,350 in the previous year) giving a tax free income threshold of \$16,000 for taxpayers with incomes up to \$30,000 per annum in 2011 (compared with \$15,000 in the previous year).

The LITO is no longer available once the taxpayer's income reaches \$67,500 in 2011.

Medicare levy threshold

With effect from *1 July 2009*, the Government proposes to increase the low income Medicare levy threshold to:

- \$18,488 for a single person (up from \$17,794 for 2009);

- \$31,196 for a family (up from \$30,025 for 2009); and
- \$27,697 (up from \$25,299 for 2009) for pensioners below Age Pension Age (65 but increasing to 67 over the next 13 years).

Optional standard deductions for work related expenses

From 1 July 2012 the Government will provide individual taxpayers with an optional standard deduction of \$500 in lieu of claiming work-related expenses and the cost of managing their tax affairs.

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

NOTE

This measure is available to all taxpayers regardless of whether they have work related expenses or expenses related to managing their tax affairs.

In other words - under the current proposal any taxpayer can claim the standard deduction.

No taxpayers will be disadvantaged. Taxpayers with expenses above the standard deduction will be able to continue to claim those expenses when lodging their tax return under the existing rules.

WHAT IF MY EXPENSES ARE GREATER THAN THE STANDARD DEDUCTION?

All taxpayers will have the option to lodge an income tax return and continue to claim all their deductible expenses rather than the standard deduction being offered by the Government.





50% tax discount for certain interest income

From 1 July 2011, the Government will halve tax payable on interest income up to \$1,000. This is relevant for interest earned on deposits held with any bank, building society or credit union, as well as bonds, debentures or annuity products.

This means that for a person earning an average pre-tax interest rate of 6%, the discount would apply up to a savings balance of just over \$16,500.

This change will result in some individuals and families becoming eligible for transfer payments or eligible for a larger transfer payment, such as Family Tax Benefit, Baby Bonus, Child Care Benefit, Education Tax Refund, Commonwealth Seniors Health Card (CSHC) and the Pensioner Supplement (which is linked to eligibility for the CSHC).

Superannuation – minor amendments

The Government will make a number of minor amendments to improve the operation of the superannuation legislation, with intended effect from the 2011 income year.

Superannuation co-contribution - pause to the indexation of the income

The Government will freeze for 2011 and 2012 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 2010 (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.

Permanent reduction to the superannuation co-contribution

The Government will permanently retain 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.





YEAR END TIPS FOR PROPERTY INVESTORS

- As always, be able to prove your claim – keep your receipts to prove your deduction and show the connection between the expense and your assessable income.
- Expenses for repairs to your rental property are generally deductible provided that they relate to wear and tear or other damage. The cost of initial repairs at the time of purchase are never deductible.
- Investigate whether your lender will allow you to pre-pay mortgage interest. This tax planning strategy can reduce your current year tax by bringing forward the tax deduction. Factors such as anticipated future income, interest rates and the impact on cash flow should be fully considered beforehand.
- Ensure that any claims or interest on borrowings for investments can be clearly separated from interest on borrowings of a personal nature. Also bear in mind that repayments against a dual purpose loan must be allocated proportionately – you cannot decide to treat a repayment as a reduction of the private portion of the loan.
- You may be eligible for a deduction for depreciation on the cost of improvements made by a previous owner. Consider enlisting the help of a quantity surveyor to establish an appropriate 'cost' for your depreciation schedule.

OTHER YEAR END INFORMATION

- Please note that the caps for superannuation contributions have changed for 2010 – seek advice before topping up your super.

HENRY REPORT

Henry Report – highlights

The following are the highlights of the Government's response.

- The company tax rate will be reduced to 29% from 2014, and to 28% from 2015;
- The company tax rate for "eligible small business companies" will be reduced to 28% from 2013;
- The immediate write-off for assets of small businesses will be extended to assets valued at less than \$5,000 from 1 July 2012;
- The superannuation guarantee charge will be increased by annual increments until it reaches the plateau level of 12% by 2020;
- The entitlement to the SGC will be broadened by lifting the maximum age threshold from 70 to 75 years of age;
- The concessional contributions cap will be raised to \$50,000 per year for workers who are 50 and over and who have superannuation balances of under \$500,000;
- A new Government superannuation contribution will be created which will pay up to \$500 for workers with adjusted taxable incomes of up to \$37,000;
- A Resource Super Profits Tax (RSPT) will be introduced on 1 July 2012 at a rate of 40% on profits made from the exploitation of Australia's non-renewable resources;
- A refundable resource exploration rebate will be provided to companies, set at the prevailing company tax rate, for exploration expenditure





carried out in Australia from 2012;
and

- The States and Territories will be provided with new, ongoing infrastructure funding, with an initial total amount of \$700m in 2013;

The measures that the Government has announced that it will implement that may affect individuals are discussed in more detail below.

Superannuation

The Government has decided to implement four changes to superannuation.

The first two changes apply to superannuation concessional contributions. The Government will introduce a new concessional contribution threshold for low superannuation balance workers aged 50 and over and it will also create a new Government contribution for workers who earn less than \$37,000 a year.

The second group of measures impact on the superannuation guarantee charge scheme (SGC). The SGC will be increased up to a target level of 12%.

The entitlement age for the SGC will be lifted for workers, with the cut-out age limit increasing from 70 to 75 years of age. This change will commence on 2014 and will align the SGC cut-out age with voluntary and self-employed contributions.

New concessional contribution cap for mature low super balance workers

The concessional contribution cap will be doubled for eligible workers who are 50 years of age and older. Workers who are aged 50 or older and who have superannuation balances of under \$500,000 will be able to make contributions of \$50,000 per year (indexed annually according to Treasury).

The Government has referred to the measure as a "catch-up". This low balance cap applies from 1 July 2012 and effectively replaces the current transitional cap for workers aged 50 and older which expires on 30 June 2012.

Additional Government contribution for low income workers

A new Government contribution will apply to low income workers from 1 July 2012.

However, the new contribution is an offset that applies only to workers earning \$37,000 or less. The contribution is calculated by applying a matching rate of 15% on concessional contributions made, with a maximum rebate of \$500. This means that concessional contributions made by low income workers above \$3,333 will receive no additional rebate amount.

Future reforms

The Government has promised that in the coming months it will have more to say on a number of areas considered by the review, especially making tax time simpler for everyday Australians, improving incentives to save and improving governance and transparency of the tax system. This would be done over the Government's second term.

The Government noted that many everyday Australians find the personal tax system complex, and the overwhelming majority seek professional assistance to complete their annual tax returns. The Government is interested in exploring ways to reduce the burdens the tax system places on working Australians, while maintaining their access to the appropriate tax treatment of legitimate expenses. The Government will have more to say on this issue in coming months.





The Government also said that it is also important to move towards a system that improves how Australians interact with the tax and transfer system. The Government is interested in looking at how the tax and transfer system should operate into the future in a way that helps people and businesses make informed decisions that are in their best interests. These reform opportunities will be considered by the Government.

The specific simplification measures recommended by the Henry Review include:

- the introduction of a tax and transfer client account which would include presentation of income earned from all sources, tax withheld, tax liabilities, transfers received, other information from third parties, complete information from past periods, an optional single point for updating personal information, and the ability to test the impact of hypothetical changes in circumstances;
- the provision of pre-filled personal income tax returns to most personal taxpayers as a default method of settling their tax affairs each year;
- the reform of existing tax and transfer provisions in order to support improvements in client experience, including greater alignment of income definitions and reporting, rationalising of personal tax deductions and offsets, and streamlining of mandatory administrative requirements;
- the collection of information required for determining tax liabilities and transfer entitlements from third parties, including employers, Government agencies, financial institutions, and share and property registries;

- the development of a single client account for tax and transfer financial information, for example by linking records and existing client identifiers;
- pursuing further approaches (extending and building on Standard Business Reporting) to reduce the compliance costs associated with business interactions with Government (Rec 126). Small businesses should be assisted in becoming business ready when they commence business; and
- regularly monitoring the interaction of the tax and transfer system.

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