Newsletter articles – June 2010

Henry tax review

Dr Ken Henry, Secretary to the Treasury and chairman of the Henry Tax Review, was asked to review the Australian taxation system to deal with the "demographic, social, economic, and environmental challenges of the 21st Century and enhance Australia's economic and social outcomes" and his report was released by the Government on 2 May 2010.

The Henry tax review made 138 recommendations, of which 26 were rejected in whole or part. The following recommendations regarding superannuation were either accepted or added by the Government:

- Increasing Superannuation Guarantee (SG) rate from 9% to 12%
- Extending the SG age limit from 70 to 75
- Providing a Government superannuation contribution of up to $500 to those with income below $37,000; and
- Continuing ability for those aged 50 and over to make concessional contributions up to $50,000 where their superannuation balances are less than $500,000.

We can only wait and see which recommendations will be implemented.

Budget 2010 highlights

On 11 May 2010, the Treasurer, the Hon. Wayne Swan MP, delivered his third Federal Budget. The Budget's main focus was a move from supporting the economy through the economic slowdown to bringing Australia back into surplus in three years time. As with most of the Federal Budget, the majority of the announcements concerning superannuation were pre-empted in the Government's response to the Henry Tax Review. The following areas of the Budget are those which may be of significant interest to our clients in the area of personal taxation and superannuation.

Tax changes

Tax threshold and rate changes

On a positive note for all taxpayers the previously legislated taxation cuts due to commence on 1 July 2010 have not been altered by the Budget. The tax thresholds and rates applicable from 1 July 2010 are provided in the table below. Note the highlighted figures represent the changes between this financial year and next:

2009/10		2010/11	
Tax Thresholds	Tax Rates	Tax Thresholds	Tax Rates
$0 - $6,000	0%	$0 - $6,000	0%
$6,001 - $35,000	15%	$6,001 - **$37,000**	15%
$35,001 - $80,000	30%	**$37,001** - $80,000	30%
$80,001 - $180,000	38%	$80,001 - $180,000	**37%**
$180,001 +	45%	$180,001 +	45%

As was the case last year, changes to tax thresholds and rates may affect existing salary sacrifice, transition to retirement and/or margin lending strategies. More disposable income can assist to increase your wealth accumulation strategies and it is worthwhile reviewing your position in light of the threshold and tax rate changes.

Low income tax offset (LITO) and Senior Australians Tax Offset (SATO)

Similarly, changes to the LITO and SATO that have already been legislated have been left intact.

The LITO will increase from $1,350 to $1,500 from 1 July 2010. This will provide tax free income for those whose taxable income is less than $16,000.

From 1 July 2010 senior Australians entitled to the SATO will have no income tax liability until their income reaches $30,685 for singles and $26,680 for each member of a couple.

Medicare levy thresholds increased

The Government has announced the annual increased level of income that a taxpayer can earn without having to pay the Medicare levy. These revised thresholds apply for the 2009/10 financial year and are:

- $18,488 for singles; and
- $31,196, plus $2,865 for each dependent child or student, for families.

In addition, the threshold for pensioners who are below Age Pension age will be increased to $27,697 ensuring that no Medicare levy is payable when these pensioners do not have an income tax liability in a financial year.

Net medical expenses tax offset

The net medical expenses tax offset allows an individual to be reimbursed for some out of pocket medical expenses in a financial year. Currently, the tax offset is 20% of net medical expenses that exceed the threshold of $1,500. This offset is not means tested.

The Government has announced an increase to the threshold from $1,500 to $2,000 with effect from 1 July 2010. In addition, this threshold would commence to be indexed annually from 1 July 2011. An increase in the threshold means less offset is available to individuals.

50% discount for interest income

A measure that previously had not been announced is that from 1 July 2011, the Government will provide a 50% tax discount on up to $1,000 of interest earned by individuals, including through trusts or managed investment schemes. This will apply to interest earned on deposits in bank accounts, building societies, credit unions and savings held through bonds, debentures and annuities.

The table below illustrates the tax saving on $1,000 of interest income:

Tax thresholds – 2010/11	Tax rates	Tax savings
$0 - $6,000	0%	$0
$6,001 - $37,000	15%	$75
$37,001 - $80,000	30%	$150
$80,001 - $180,000	37%	$185
$180,001 +	45%	$225

The Government has stated that it will consult during 2010/11 on the operation of the discount, including the scope of the discount and the mechanism for applying the discount to interest earned indirectly by individuals.

An added benefit of the 50% discount means individuals and families will have a reduced adjusted taxable income for the purpose of determining eligibility for the Family Tax Benefits and others such as the Baby Bonus, Child Care Benefit, Education Tax Refund, Commonwealth Seniors Health Card (CSHC) and the Seniors Supplement.

Most people who have some form of bank account savings should benefit from the discount, however we don't envisage any significant change in a person's investment strategy because of the measure.

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

As recommended in the Henry Tax Review, the Government will provide individuals with a standard tax deduction for work related expenses and the cost of managing their tax affairs.

From 1 July 2012, the standard deduction will be $500 increasing to $1,000 from 1 July 2013.

However, individuals who may have tax deductible work related expenses greater than the standard deduction amount will still be able to claim their higher expenses in lieu of claiming the standard deduction.

As with the interest discount, the standard deduction will reduce adjusted taxable income for individuals and families when determining their eligibility for other benefits as listed above.

This measure may benefit people whose work related expenses and costs for managing their tax affairs are below the standard deduction amounts potentially increasing their tax refunds.

Superannuation changes

Contribution rebate for low income earners

From 1 July 2012, the Government will provide a superannuation contributions tax rebate to superannuation fund member's accounts where adjusted taxable incomes (ATI) are less than $37,000.

The superannuation contributions rebate would be a maximum of $500 paid annually and represents a refund of the tax payable by superannuation funds on concessional contributions.

The $500 rebate is effectively calculated by:
$37,000 x 9% x 15% = $500.

Where:

- 9% reflects the compulsory SG; and
- 15% reflects the complying superannuation fund tax rate.

In reality, as most superannuation funds effectively pay less than 15% tax due to allowable tax deductions, members who qualify for the rebate may find a greater amount rebated than tax deducted from their benefit by their superannuation fund.

The Government will consult on the details of these changes.

The contribution rebate ensures that those with ATI less than $37,000 who are paying less than 15% tax on their incomes are not disadvantaged by the tax paid by superannuation funds on concessional contributions.

Increasing concessional contribution cap

Individuals aged 50 and over who have superannuation balances of less than $500,000 will be able to continue making concessional superannuation contributions up to $50,000 without exceeding the concessional contribution cap from 1 July 2012.

For those individuals aged 50 and over whose superannuation balances are greater than $500,000, their caps will revert to $25,000 (indexed).

Even though this measure is proposed to commence on 1 July 2012, it is important for those whose superannuation balance is approaching or has just exceeded $500,000 to start considering now what they need to do to take advantage of the higher concessional contribution cap.

Strategies that could be used to manage this include:

- Reviewing or commencing a transition to retirement income stream
- Contribution splitting with your spouse; and
- Using reserves for 'return smoothing' in self managed superannuation funds.

These strategies may be especially beneficial for a couple where one member has a significantly lower superannuation balance than the other.

In the Government's response to the Henry Tax Review, the Government said they would consult further on the operation of the $500,000 balance. For example it is unclear at this stage whether pension balances will be included in the $500,000 figure.

Increase to superannuation guarantee to 12%

The Government will increase the SG rate from 9% to 12% as announced in their response to the Henry Tax Review.

The increase will be phased in from 1 July 2013 to 1 July 2019, as shown in the table below:

Year	Rate (%)
2013/14	9.25
2014/15	9.5
2015/16	10
2016/17	10.5
2017/18	11
2018/19	11.5
2019/20	12

High income earners, who may be salary sacrificing to superannuation, would need to regularly monitor their employers' SG contributions and salary sacrifice arrangements to avoid breaching their concessional contributions cap as the SG rate rises.

Extending superannuation guarantee to age 75

As announced in the Government's response to the Henry Tax Review, the Government will raise the SG age limit from 70 to 75 with effect from 1 July 2013.

From 1 July 2013, those aged 70 to 75 who are making personal concessional contributions or are salary sacrificing to superannuation should review their contribution arrangements to avoid breaching the concessional contribution cap.

Changes to co-contributions

In the 2008 Federal Budget, the Government announced and subsequently enacted a temporary reduction in the matching rate and the maximum co-contribution until 1 July 2014 when the co-contribution would return to the previous rate and amount.

However, in this Budget the Government announced it will be permanently retaining the matching rate for the co-contribution at 100% with the maximum co-contribution payable of $1,000. This was due to revert back to a 150% matching rate and a maximum co-contribution of $1,500.

In addition, the Government announced that it will freeze the income thresholds at which people qualify for the full or part co-contribution for the next two financial years. The threshold to qualify for the maximum co-contribution will be frozen at $31,920 and will continue to phase out for those with incomes of up to $61,920.

This is a disappointing development for the co-contribution scheme which is no longer as generous as it was prior to the 2008 Federal Budget. However, it does not diminish the benefit for those whose income is less than $31,920 who make a non-concessional contribution and in turn receive the maximum co-contribution benefit.

2010/11 thresholds

The ATO has released the 2010/11 indexed thresholds.

Maximum superannuation contribution base

$42,220 per quarter or $168,880 for the year.

Contribution caps

As outlined above, it is proposed the contributions caps for 2010/11 will be:

- Concessional contributions cap = $25,000 (and $50,000 for over 50s)
- Non-concessional contributions cap = $150,000

Government Co-contribution

The Co-contribution thresholds have been frozen this year as follows:

Lower income threshold = $31,920
Higher income threshold = $61,920

In the 2010/11 financial year, if an individual's total income is $31,920pa or less, they are eligible to receive the maximum Co-contribution. As a result, this means that the Government will pay $1.00 for every $1.00 contributed into a superannuation account, up to a maximum Co-contribution of $1,000 a year.

For an individual earning above $31,920pa, the maximum Co-contribution reduces by five cents for each dollar of income over that amount – phasing out completely at $61,920.

Low rate cap amount

The low rate cap amount for lump sum superannuation payments has increased from $150,000 to $160,000.

Tax free part of genuine redundancy payments and early retirement scheme payments

Base limit = $8,126
For each year of completed service = $4,064

Extension in drawdown relief for account based pensions

On 30 June 2010, the Gillard Government announced that they will continue to support self-funded retirees by extending the 50% reduction to the minimum pension payment requirement for account based pensions will continue for the 2010/11 income year.

The reduction applies to account based, allocated and market linked (term allocated) pensions, including when these pensions are used in a transition to retirement strategy. Minimum payment amounts are determined by age and the value of the account balance as at 1 July each year. In this financial year, recipients are only required to withdraw 50% of this figure.

Consequently, the minimum Account Based Pension % for 2010/11 will be:

Age	Minimum annual pension payment as a % of account balance
Under 65	2%
65 - 74	2.5%
75 - 79	3%
80 - 84	3.5%
85 - 89	4.5%
90 - 94	5.5%
95 and over	7%

The Federal Government also advised in the joint media release that the superannuation legislation will require amendment and such required amendments will be made in the new financial year.