



Federal Budget 2009

BONGIORNO & PARTNERS ***“FOR FUTURE FINANCIAL HEALTH”***

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1.0 Introduction

The Kevin Rudd led Federal Labour Government handed down its second Budget on Tuesday 12 May 2009. The Government has committed to a range of measures in the area of taxation. Some of these measures will be introduced immediately into parliament. Others will be introduced in due course.

It is in stark contrast to the first Rudd Government budget. The \$21.9B surplus has become a \$57.6 deficit. The Government expects the nation to be "in the red" until 2016.

The Global Financial Crisis has impacted Australia and economic growth is set to contract. The unemployment rate is set to hit 8.5%.

2.0 General Budget Announcements

- Nation building through infrastructure and Job creation
- Roads, rail, ports clean energy and university projects
- Pension Reforms
- Paid parental Leave
- First home owners Boost extended 6 months
- SBE's tax break boosted to 50%
- Strategy to restore surplus by 2016

3.0 Budget Tax announcements

Personal Tax Rates - NO change to last year's legislated changes

New tax thresholds from 1 July 2008 (Income range)	Tax rate (%)	New tax thresholds from 1 July 2009 (Income range)	Tax rate (%)	New tax thresholds from 1 July 2010 (Income range)	Tax rate (%)
\$0-\$6,000	0	\$0-\$6,000	0	\$0-\$6,000	0
\$6,001-\$34,000	15	\$6,001-\$34,000	15	\$6,001-\$34,000	15
\$34,001-\$80,000	30	\$34,001-\$80,000	30	\$34,001-\$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

Tier 2 Singles > \$90,001 and couples > \$180,001
PHIR will be 10% for those up to 65 years
15% for those between 65 and 70
20% for those over 70

Medicare Levy Surcharge rises to 1.25%.

Tier 3 Singles > \$120,001 and couples > \$240,001
No PHIR

Medicare Levy Surcharge rises to 1.5%.

Employee Share Schemes

From 7.30pm on 12 May 2009, there will dramatic changes to the ESAS rules.

The discount under an ESAS will be assessed to the employee in the year of income in which the share or right is acquired. For a qualifying scheme, there will no longer be an assessing point at cessation time.

In addition, the \$1,000 concession for qualifying schemes will not apply to taxpayers who adjusted taxable income exceeds \$60,000.

First Home Owners Boost extended

The Government has announced that the first home owner's scheme boost payments will be extended for a six month period. From 1 July 2009 to 30 September 2009 the full boost payment of \$7,000 for existing homes and \$14,000 for new homes will continue.

From 1 October 2009 until 31 December 2009 the boost payment will be halved to \$3,500 for existing homes and \$7,000 for new homes.

This means first home owners will be entitled to \$14,000 (existing) and \$21,000 (new) until 30 September 2009 and \$10,500 (existing) and \$14,000 (new) until 31 December 2009.

Entrepreneurs Tax Offset delayed

The ETO will have a Family income test applied to determine eligibility.

From 1 July 2009, the ETO will not be available if the adjusted taxable income per year for singles is \$70,000 or \$120,000 for families.

PENSIONS

The Government has released and responded to the review of retirement incomes undertaken by Dr Jeff Harmer as part of the enquiry into the Future Tax System.

Pensioners in aged care and public housing

The pension increase will be shared between the pensioner and the aged care provider. Full pensioners in aged care will receive an additional \$10.09 per week. The aged care provider will be entitled to a fee equal to 84% (previously 85%) of the single pension base rate

Disability Pensioners

From 20 September 2009, disability support pensioners will receive increases of \$32.49 per week (singles) and \$10.14 per week (couples).

The increase includes the base rate and the new supplement.

From 1 July 2010, the assessment process will be simplified to fast track disability claims.

Carers

From 20 September 2009, Carers who receive Carer payment will receive increase of \$32.49 (singles) and \$10.14 (couples).

A new Carer supplement of \$600 will also be paid for each person they care for.

The first payment of the supplement will be made to carers before July 2009. The regular payment will be made from 1 July 2010 onwards.

Work Bonus

A new Work Bonus will treat age pensioners earned income more generously. Only half of the first \$500 employment income earned per fortnight will be assessed under the income test. Up to \$250 of earnings per fortnight will be excluded from means testing. A part time working pensioner may earn up to \$125.

TAPER Rates

The Government will change the taper rates of pensions. Where private income above the "free area" is earned, the pension will be reduced by 50cents (currently 40cents) for each extra dollar earned.

The income free area is currently \$138 per fortnight (singles) and \$240 (couples).

Indexing

New indexation arrangements will better reflect cost of living increases for pensioners. A new Pensioner and Beneficiary Living Cost Index (PBLCI) will be developed.

From 20 September 2009, this new index in addition to CPI will be used to adjust pensions. The base rate will be adjusted by whichever is the greater.

AGE Pension age increases

From 2017, the age pension qualifying age will rise to 67. This will be phased in from 2017 until 2023 with 6 months of age added for each 2 years.

Pensions Generally

The Pensions entitlements generally will be increased from 20 September 2009.

Age, Wife, disability support and carer recipients and veteran income support payments will be provided with two primary payments:

- A base fortnightly rate of pension; and
- A Pension supplement

For full rate pensioners the increase will be \$30.00 base payment plus \$2.49 supplement payment per week (singles) and \$10.14 (couples).

From 20 September 2009 the supplement will be worth up to:

\$1462.76 a year for singles and;
\$2199.60 for couples.

From 1 July 2010, you may choose to take the supplement quarterly.

Preservation Age -warning

The AFTR report on retirement income system has recommended the increase in the age pension qualification age, the change in contributions caps and the Government has acted on these recommendations.

The Government has not yet acted on recommendations to **increase the preservation age to 67**. This will be part of the AFTR due for report by the end of the year.

Stay tuned!

Superannuation

The Government will reduce the concessional cap on superannuation contributions from \$50,000 to \$25,000. This reduced cap will be indexed.

The transitional cap for 50 years and over will be reduced from \$100,000 to \$50,000. This reduced cap will apply for 2010, 2011, 2012 financial years. It will then revert to \$25,000.

The non concessional cap will not be adjusted.

The co-contribution will also be adjusted temporarily. The 150% matching amount will be reduced to 100% co contribution for 2010, 2011 and 2012. The rate of co contribution will be 125% for 2013 and 2014. It will resume at 150% thereafter.

Lost members accounts that are small (< \$200) or inactive (5 years inactivity) will be required to be transferred to the ATO.

Minimum pension drawdown halved extended

Self funded retirees will have the minimum amounts halved for account based pensions from 1 July 2009 for the 2010 year.

From 20 September 2009, certain self funded retirees will be eligible for the Senior Supplement.

Small business tax break

The Small Business and General Tax Break (investment allowance) will be amended as follows:

Small business entities (< \$2m turnover) will be eligible for a tax break of **50%** for the acquisition of new tangible depreciating assets acquired between 13 December 2008 and 31 December 2009.

Research and Development

The tax concession will be replaced by an R & D tax credit from 2011.

A 45% refundable tax credit for firms with a turnover < \$20m will be available.

A 40% non refundable tax credit will be available for other businesses.

Eligibility rules to determine research and development will be developed in consultation with businesses.

The premium concession (175%) and the international concession will be repealed.

Integrity Rules - from 1 July 2009

Non commercial losses

A loss from an activity will not be able to be used against other income where the taxpayer's adjusted taxable income exceeds \$250,000.

Where the loss is due to exceptional circumstances, the Commissioner may exercise discretion to allow the loss.

Division 7A

The Deemed dividend rules will be tightened to extend to "payments" that include a right provided to a shareholder or their associate to use an asset of the company for free and less than market value.

Closely Held Trusts

From 1 July 2010, a trustee will be required to withhold 46.5% from distributions of income to beneficiaries where they have not quoted their TFN.

Resident's working overseas

The current exemption for foreign employment under s 23AG of the 1936 ITAA will be adjusted.

The exemption will only apply to certain workers offshore including:

- Aid and charity workers employed by a recognized non government organization;
- A government aid worker
- A specified government worker (police, defense personnel)

Where the exemption does not apply, the amount will be included in assessable income and a foreign income tax offset ought to be available.

Review of GST administration

The Government has responded and released the Board of Taxation's review of the GST administration.

The Board has made 46 recommendations and the Government has agreed to implement 41 of these.

More Reviews

The Government has also announced reviews into:

- GST and cross border transactions;
- GST and the Margin scheme
- GST and financial supplies

Charities

The High Court in *Word Investments* held that a commercial enterprise that passes its profits to a charitable entity could itself be endorsed by the ATO as a charitable entity. The court also rules that the requirement for charitable activities to be "in Australia" could be met where the Australian entity gave the money to another entity in Australia.

The Government will amend the "in Australia" definition in Division 50 of the ITAA 1997. This will apply from the date of Royal Assent of the enabling legislation.

The issue of a commercial entity will be deferred until the Henry AFTS review concludes its recommendations at the end of the year.

The register of DGR's will be reviewed triennially.

PRRT

The Government will extend by 1 year the 150% up front deduction for offshore exploration in prescribed remote areas known as designated offshore frontier areas (DFAs).

International Issues

The Government has released and responded to the Board of Taxation's review of foreign source income anti-tax deferral rules and the interim report on review of managed investment trusts.

As a result:

- The FIF rules will be abolished and replaced with a narrow specific defined anti avoidance rule;
- The CFC rules will be rewritten and modernized;
- Transferor trust rules will be rewritten

- The deemed present entitlement rules will be abolished

Managed investment Trust's will be able to make an irrevocable election to adopt CGT treatment for disposals of eligible assets. Residents will then be able to access the discount capital gains rule and non residents will be exempt from gains unless the asset is TAP.

Integrity and compliance measures

A range of measures have been announced in the Budget to improve the law and reduce compliance costs.

These include:

- Simplification: repeal of over 100 provisions where an unlimited period of review exists;
- Integrity:- A discussion paper on anti avoidance provisions will be released canvassing options to improve the system;
- GST: review administration of GST;
- Off market share buy backs: 6 recommendations of the BoT to be adopted
- Trust Cloning - Limited CGT rollover for fixed trusts with the same beneficiaries

ATO gets more funds for Compliance

The Government will provide the ATO an extra \$595.2m over 4 years for compliance programs. Additional revenue of \$1384m will result.

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