

The Key

Budget 2010

Financial Services Partners



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In a year where we're expecting a Federal election, this year's Federal Budget has been a much anticipated event. The Federal Government, through the budget, released a number of new measures which will have an impact upon income earners and investors once they are implemented. These initiatives (some of which are outlined below), require the successful passage of legislation through Parliament before they can be implemented. The final form of these budget initiatives may yet be subject to significant change.

Although the Budget outlined changes in a number of areas including health, environment, social security and infrastructure we'll keep the focus of this newsletter on some of the financial planning issues that may affect you. Of course, your Financial Services Partners adviser is committed to keeping up to date with all of the changes and will be able to assist you make the most of any opportunities that arise.

Key changes to Super

Following the Henry Review which was a review of Australia's tax system, the budget confirmed four proposed changes to superannuation.

Increasing Superannuation Guarantee (SG) from 9% to 12%.

From 1 July 2013, SG for employers will increase as follows:

- 2013-14 – 9.25%
- 2014-15 – 9.5%
- 2015-16 – 10%
- 2016-17 – 10.5%
- 2017-18 – 11%
- 2018-19 – 11.5%
- 2019-20 and following – 12%

The three year lead in time is to allow employers and employees to factor in these changes to future wage negotiations.

Additional contribution to low income earners

From 1 July 2012 the Government will provide a contribution of up to \$500 annually into the superannuation account of individuals on adjusted taxable incomes of up to \$37,000.

This effectively refunds all contributions tax that would otherwise be payable on any SG payments made for these individuals. This will be paid in addition to the existing co-contribution scheme.

Retaining higher concessional cap for over 50's

From 1 July 2012 individuals aged 50 or over with superannuation balances below \$500,000 will be able to make up to \$50,000 in annual concessional contributions. This means that from 1 July 2012, those individuals age 50 or over with superannuation balances above \$500,000 cannot continue with the current arrangement and will have the amount of annual concessional contributions they can receive reduced from the current \$50,000 to \$25,000.

Raising the SG age limit from 70 to 75

From 1 July 2013 the SG age cut-off will be raised from 70 to 75 so that employees aged 70 to 74 will be eligible for the first time to have SG contributions paid on their behalf.

In addition to the Henry review the Government has proposed:

Government co-contribution

The government will permanently retain the current co-contribution matching rate of 100%. This means the maximum co-contribution an eligible person may receive remains at \$1,000. The co-contribution income thresholds will not be indexed for the 2010/11 and 2011/12 financial years. This overrides last year's budget which announced increases to the matching rate and maximum co-contribution amount.

Key tax issues

Interest income tax discount

From 1 July 2011 taxpayers will be entitled to a lower tax on savings. Individuals can claim a 50% tax discount, on up to \$1,000 of interest earned on deposits held with any bank, building society or credit union as well as on debentures, annuity products or bonds.

The discount is available for interest income earned directly and indirectly, such as via a managed fund or trust.

Income tax - standard deductions

From 1 July 2012 individuals can claim an optional standard deduction of \$500 (increasing to \$1,000 in 2013-14) instead of claiming work-related expenses. This proposal should help simplify the preparation of tax returns and reduce or eliminate the cost of managing tax affairs.

Individuals with expenses above the standard deduction can continue to claim those expenses under existing rules.

Resident income tax table for 2010/11

The changes to personal income tax rates and thresholds announced in the 2009 Federal Budget have been confirmed and are highlighted in bold in the following table:

Taxable income 2010/11 (thresholds)	Tax rate
\$0 - \$6,000	0%
\$6,001 - \$37,000*	15%
\$37,001* - \$80,000	30%
\$80,001 - \$180,000	37%**
\$180,001 +	45%

*The 30% threshold has been increased to \$37,001

**The second highest marginal tax rate is cut from 38% to 37%

Low income tax offset

As previously legislated the low income tax offset has been increased from \$1,350 to \$1,500. As a result, the amount of tax-free income low-income earners can receive each year will increase to \$16,000. The upper limit to which a partial low income tax offset can be claimed will increase to \$67,500.

Effective tax savings

The combination of the changes to the resident income tax rates and the low income tax offset result in the following tax savings:

Taxable income	Saving in 2010/11
\$10,000	\$0
\$15,000	\$0
\$30,000	\$150
\$45,000	\$450
\$60,000	\$450
\$80,000	\$300
\$100,000	\$500
\$130,000	\$800
\$160,000	\$1,100
\$180,000+	\$1,300

Senior Australian's tax offset

For 2010/11 the taxable income that can be earned by recipients of the Senior Australians tax offset before paying tax or Medicare is \$30,685 for a single person or \$53,360 for a couple.

First home saver account (FHSA)

Current rules require that a first home saver account holder must keep their savings in the account for 4 financial years before they can use the savings to buy a home. If the holder buys a home before the 4 year period, the account balance must be transferred into super. It is proposed that savings in an FHSA can be paid into an approved mortgage after the end of a minimum qualifying period, rather than requiring it to be paid into super.

The changes apply for homes purchased after the legislation receives Royal Assent.

What does it mean for me?

Once the budget legislation is passed and the initiatives outlined take their final form, your adviser will be able to assess your situation and provide you with personal advice to help you make the most of the changes. Until then, your adviser and their support team at Financial Services Partners will work to make sure we identify all potential client opportunities. As we like to say: We're here to help you grow your wealth faster, manage it better and safeguard it more effectively. In a fast-changing world we're ever-ready to master change and turn it to your advantage; to build you a brighter future.

You can never get enough good advice

Identifying opportunities resulting from legislation changes like the budget requires significant time and effort. At Financial Services Partners we believe that everyone should have the opportunity to realise a brighter future. Setting goals and working towards them can be a positive experience. If you know someone who could benefit, your adviser is more than happy to meet them.

Sources:

1. www.budget.gov.au
2. ASFA (www.superannuation.asn.au)
3. ING Australia Technical Services 2010/11 Federal budget

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