

2009-10 Budget Update

Given the current economic conditions and actions already taken by both Australian and other national governments around the globe, the budget and policy put forward by the Rudd Government did not have many surprises in it. Below is a summary of the budget, how it impacts business and individual taxpayers in an overview format. For detailed information please go to <http://www.budget.gov.au>

Personal wealth

Income tax rates:

1 July 2009 - 30 June 2010

Individual taxes are the largest contributor to Government tax collections by far. Accordingly, the sustainability of any Budget is dependent on ensuring that personal tax rates and scales are properly set.

Effective from 1 July 2009:

- the 30 per cent threshold will be raised to \$35,001
- the 40 per cent tax rate will be reduced to 38 per cent

For residents, from 1 July 2010:

- the 30 per cent threshold will be raised to \$37,001
- the 38 per cent rate will be reduced to 37 per cent

Proposed income tax rates: 1 July 2009 – 30 June 2010

Resident		Non-resident	
Taxable income (\$)	Tax payable (\$)	Taxable income (\$)	Tax Payable (\$)
0 - 6,000	Nil	0 - 35,000	29%
6,001 - 35,000	Nil + 15% of excess over 6,000	35,001 - 80,000	10,150 + 30% of excess over 35,000
35,001 - 80,000	4,350 + 30% of excess over 35,000	80,001 - 180,000	23,650 + 38% of excess over 80,000
80,001 - 180,000	17,850 + 38% of excess over 80,000	180,001 above	61,650 + 45% of excess over 180,000
180,001 above	55,850 + 45% of excess over 180,000		

Medicare levy and private health insurance rebate

Opposition to challenge this one

From the 2008-09 income year, the Medicare levy low-income thresholds for singles will increase to \$17,794 and to \$30,021 for those who are members of a family. The additional amount of threshold for each dependent child or student will increase to \$2,757.

The Medicare levy low-income threshold for pensioners below Age Pension age will also be increased from 1 July 2008 to \$25,299. This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy while they do not have an income tax liability.

**Medicare Levy Surcharge (for those without private health insurance)
from 1 July 2010**

Single		Couple	
Income threshold	Rate	Income threshold	Rate
<75,000	0%	<150,000	0%
75,000 – 90,000	1%	150,000 – 180,000	1%
90,000 – 120,000	1.25%	180,000 – 240,000	1.25%
> 120,000	1.5%	> 240,000	1.5%

The private health insurance rebate for high income families has been abolished. This works as follows:

**Medicare Levy Surcharge (for those without private health insurance)
from 1 July 2010**

Single		Couple	
Income threshold	Rate	Income threshold	Rate
<75,000	0%	<150,000	0%
75,000 – 90,000	1%	150,000 – 180,000	1%
90,000 – 120,000	1.25%	180,000 – 240,000	1.25%
> 120,000	1.5%	> 240,000	1.5%

Work bonus for age pensioners

From 20 September 2009, a 50% discount will apply to the first \$500 of income per fortnight when income testing for entitlement. This will provide a maximum benefit of \$125 per fortnight and will replace the Pension Bonus Scheme which will close to new entrants from the same date.
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Business owners

Small Business Tax Break

The value of the much heralded Small Business and General Business Tax break has been increased for small businesses. The rate of the one-off bonus deduction available to small businesses (those with a turnover of \$2 million or less) acquiring eligible assets between 13 December 2008 and 31 December 2009 (installed and ready for use by 31 December 2010), will rise to 50%. For all other businesses, the previously announced 30% and 10% bonuses will continue to apply, including the earlier timeframes.

Non commercial losses

The Government will tighten the noncommercial losses rules. High income individuals will be prevented from offsetting excess deductions from noncommercial business activities against salary and other income from the 2009-10 income year. Rather the excess will be quarantined to be offset against future income from the business activity.

- The existing non-commercial loss rules will continue to apply to taxpayers with an adjusted taxable income of \$250,000 or less
- Taxpayers will still have the ability to apply to the Commissioner of Taxation for relief from these rules if there are exceptional circumstances

Entrepreneurs' offset – income test delayed

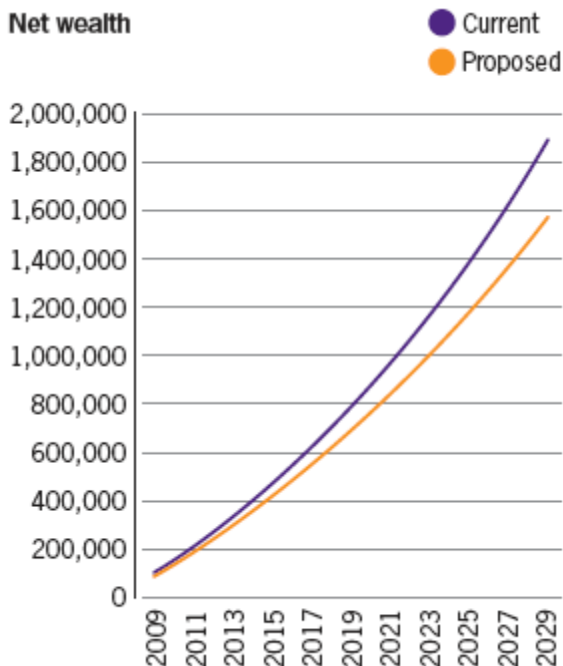
The proposed income test for the entrepreneurs' tax offset will be deferred for twelve months to the start of the 2009-10 income year. The proposed income test will limit access to the offset by restricting eligibility for singles from \$75,000 and families from \$120,000 (annual adjusted taxable income).

Superannuation and retirement incomes

Contribution caps

Opposition to challenge this

The concessional contribution cap will be reduced from \$50,000 to \$25,000 from 1 July 2009. The transitional cap applicable to over 50's for the 2009-10 to 2011-12 years will be reduced from \$100,000 to \$50,000. The non-concessional contribution cap will remain unchanged at \$150,000 for 2009 and 2010 (or \$450,000 over three years). In the future, the nonconcessional contributions cap will only increase when the new lower \$25,000 cap is increased by indexation. It will be calculated as six times the level of the (indexed) concessional contributions cap. The graph below highlights the difference in net wealth for a taxpayer who makes the maximum concessional contribution each year via salary sacrifice. Under the proposed caps, the net wealth will decrease by approximately \$300,000 (15.8%) due to the additional tax payable.



Co-contribution

The Government will temporarily reduce the co-contribution to 100% (ie, \$1 for each dollar of contribution) from the 2009-10 to 2011-12 years. For 2012-13 and 2013-14, the rate will be 125% and will revert back to 150% for the 2014-15 and later income years.

Seniors' health card and tax-free super

The Government will not proceed with proposed changes to include tax-free superannuation income in the income test for the Commonwealth Seniors Health Card. Salary sacrificed amounts, however, will be included.

Age Pension age

The Government will increase the qualifying age for the Age Pension and the Commonwealth Seniors Health Card for men and women to 67 years of age from 2023. The transition to the higher Age Pension age will commence in July 2017, with the qualifying age increasing by six months every two years, to reach 67 on 1 July 2023.

We will keep you updated with important changes as they happen.

Kind Regards
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