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**Special points of interest:**

- Deficit 57.6 billion
- No significant tax changes
- Superannuation cap halved
- New Private health tiers
- Medibank Private to be converted to a "for profit" govt. owned business enterprise
- Administration of GST to be streamlined
- Funding for Hunter Expressway



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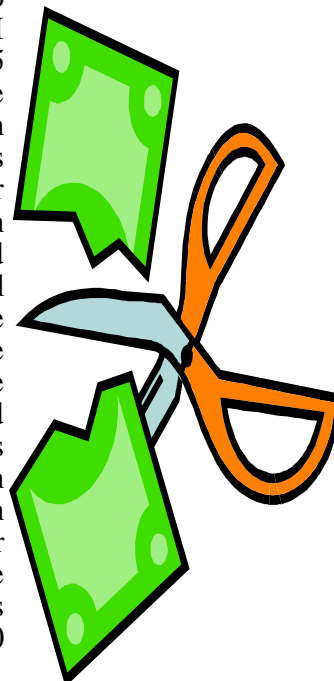
**HELPING  
 ACHIEVERS IN  
 THE COUNTRY.**

**Budget Overview**

The budget projects a deficit of \$57.6 billion or 4.9 percent as a percentage of GDP, negative .5% GDP growth for 2009/10 and unemployment rising to 8.25 percent with CPI projected to fall to 1.75 percent. This is the largest budget deficit in dollar terms ever, but is still a much lower percentage of GDP than most other developed Western countries. Global GDP is projected to be negative 1.1 per cent. The biggest impact on the budget is the projected fall in income tax receipts in 2008/09 of \$23 billion and a fall of \$50 billion in 2009/10. Over the four years to 2013 the decline in tax receipts is projected to be \$210 billion.

The government's strategy choices have been to issue stimulus packages of \$10.4 billion in December 2008 and \$42 billion in February 2009. Now, rather than increase taxes, which would depress the economy further, they have chosen to run budget deficits to

fund their stimulus packages and leave tax increases to a minimum with changes to the superannuation contribution rules and the medicare rebate.



However, if the global economy does not continue to recover, it will become difficult for all governments to borrow and they will increasingly turn to tax increases, as happened in the 1930's depression, to assist in funding the operation of government.

A collapse in revenue has prompted a program of borrowing. Infrastructure projects are to be commenced by the Rudd Labor Government, as announced in the Federal Budget. The government hopes that this will provide the stimulus needed for the economy, with the aim of bringing the budget back to surplus in the medium term.

As a result, no significant tax changes were announced, apart from the proposal to reduce tax concessions for high income earners in the form of superannuation reform and changes to the private health insurance offset. Contrary to speculation, the incentive for first home owners has been extended and so has the small business tax break. Reform of the tax system is high on the agenda, with the Treasury Henry review still underway, but tax cuts announced in last year's Budget will be honoured.

Here are the highlights of the tax and superannuation changes announced in the Budget.

*Thought for the Day*

*"...The only thing we have to fear, is fear itself..." Franklin Delano Roosevelt, First Inaugural Address 1933*

## Highlights

### Superannuation concessions

The annual cap for concessional superannuation contributions has been halved from \$50,000 to \$25,000, and the transitional concessional contributions cap for taxpayers over 50 has been reduced to \$50,000 per year from its former annual limit of \$100,000, commencing 1<sup>st</sup> July 2009, until 2013 when it reduces to \$25,000.

The superannuation co-contribution scheme will be reduced to a rate of 100% for contributed amounts for the 2009/10, 2010/11 and 2011/12 years, increasing to 125% for the 2012/13 and 2013/14 years and returning to 150% for the 2014/15 year.

The government has ruled out any reduction to the non-concessional caps at this time, stating that they remain at \$150,000 (indexed) which will now be six times the amount of the concessional cap for the 2009/10 income year and beyond.

### Small Business

A bonus deduction of 50 per cent will be available to small businesses that acquire an eligible asset between 13



December 2008 and 31 December 2009 and install it ready for use by 31 December 2010. This is an increase of the 30 per cent investment allowance announced on the 12<sup>th</sup> February 2009.

The application of the income test for the entrepreneurs' tax offset will be deferred for 12 months and commence on 1 July 2009.

The government has made the income recovery subsidy payments for the Victorian bushfires and for the North Queensland floods exempt from income tax.

Certain grants to small businesses and primary producers affected by the Victorian bushfire will be income tax exempt.

### Individuals and families

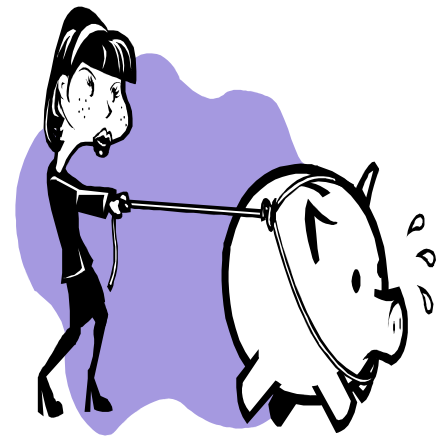
From 1 July 2010, the government will introduce three new "Private Health Insurance Tiers" in respect of the Private Health Insurance Rebate phasing in from \$75,000 for individuals and \$150,000 for couples.

From the 2008/09 year, the Medicare levy low-income thresholds will be increased to \$17,794 for individuals and \$30,025 for individuals in families.

The First Home Owner's Boost will be extended for an extra six months, at full rates to the 30<sup>th</sup> September and at half rates until 31<sup>st</sup> December 2009.

The employee share scheme deferral election will not apply to shares and options acquired after 7.30pm on 12 May 2009.

From the 2009/10 income year, taxpayers with an adjusted taxable income of over \$250,000 will have excess deductions quarantined to the business activity under the non-commercial losses rules.



From 1 July 2009, the foreign employment income exemption will only be available for income earned by aid or charitable workers, government aid workers, and specified government employees.

From 1 July 2009, Family Tax Benefit Part A (FTB-A) payment rates will be indexed by the Consumer Price Index. The higher income thresholds for family payments (FTB-A, FTB-B and Baby Bonus) will be maintained at their current level until July 2012.

A Paid Parental Leave scheme will be available to parents for births and adoptions that occur on or after 1 January 2011.

## Companies and trusts

**Deemed Dividends** - From 1 July 2009, the non-commercial loan rules will be extended to payments by way of a licence or right to use real property and chattels. This will reduce the scope for private companies to allow their shareholders or associates to use company assets such as real estate, cars and boats for free or at less than arm's length value. Other technical amendments will be made to Div 7A of ITAA 1936, including to ensure that corporate limited partnerships cannot be used to avoid its operation.

From 2010/11, the current R&D concession will be replaced by the new R&D tax credit.

The government will convert Medibank Private to a "for profit" government-owned business enterprise in early 2009/10.

There has been confirmation that the immediate annuity conditions for life insurance companies did not change when they were transferred to ITAA 1997.

Australia's foreign source income attribution regimes will be reformed.

A number of technical amendments will be made to the Uniform Capital Allowance rules.

The government will implement the recommendations of the Board of Taxation to improve the taxation treatment of off-market share buy-backs.

The government will change the thin capitalisation regime for ap-

proved authorised deposit taking institutions.

Australian managed investment trusts will be able to make an irrevocable election to apply the capital gains tax regime as the primary code for taxing certain disposals of assets, with effect from the 2008/09 income year.

A limited CGT roll-over will be provided for assets transferred between trusts that have the same beneficiaries with the same entitlements and no material discretionary elements (ie fixed trusts).

From 1 July 2010, TFN withholding arrangements will apply to closely held trusts.

## Philanthropy

The government has released its interim response to the High Court decision in *FC of T v Word Investments Ltd* 2008 ATC 20-072, principally that non profit organisations can run commercial businesses free of income tax by reason of the exemptions available to non profit organisation.

The government will provide a mechanism to conduct a triennial review of the guidelines for, and organisations on, the four deductible gift recipient registers, with effect from the 2009/10 income year.



## Tax administration

The government will provide \$595.2million over four years to help businesses remain viable in the face of the global recession, to tackle emerging revenue risks and promote community confidence in the tax system. This will involve \$101.1 million for debt collection from small business, Funding of \$122 for the Wickenby project, \$302.1 million for investigation of wealthy family groups and individuals and \$70.9 million for investigations into the cash economy.



Treasury will be provided with additional funding to fund private sector expert input on the practical and commercial issues arising from proposed tax changes.

A discussion paper has been released to progress the Tax Design Review Panel's recommendation that consideration be given to whether or not the Commissioner should be given further power to modify the tax law to give relief to taxpayers.

Over 100 provisions in the tax laws that provide unlimited amendment periods will be repealed.

## Other superannuation and retirement measures

The age pension age will be gradually increased to 67 years of age.

Superannuation funds will be required to align their lost superannuation reporting with unclaimed money regulations and to transfer lost superannuation accounts with balances less than \$200 to unclaimed monies.

The minimum drawdown amount for account-based pensions will be halved for the 2009/10 income year.

The future tax panel's review into retirement incomes has released its report, recommending keeping the superannuation guarantee charge at 9%, increasing the age pension age to 67 years and aligning the age pension with the preservation age.

Australia and New Zealand have agreed in principle to allow movement of superannuation benefits between Australian and New Zealand superannuation funds.

### Indirect and other taxes

The administration of GST is to be streamlined, and compliance costs reduced, from 1 July 2010.

The GST law will be amended to clarify the GST treatment of the Carbon Pollution Reduction Scheme.

Countries eligible for the Indirect Tax Concession Scheme have been expanded.

The offshore exploration incentive in the petroleum resource rent tax will be extended by one year.



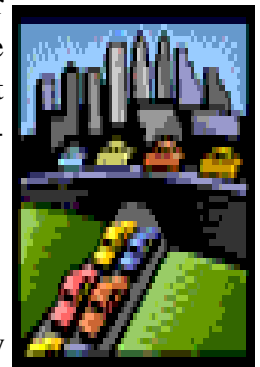
## Carbon Pollution Reduction Scheme

With effect from the introduction of the Carbon Pollution Reduction Scheme all Kyoto units registered in Australia will be subject to the scheme's proposed tax treatment.

The government will delay the start date of the Carbon Pollution Reduction Scheme by one year to 1 July 2011.

### Branxton to F3 Link — boost for NW

The government announced an allocation of \$1.5 billion for the Hunter Expressway. This road will link the F3 Freeway with the New England Highway near Branxton. This initiative will reduce travel times between the North West and Sydney providing benefits to individuals and businesses alike.



### Economic Outlook.

The 2009 May Statement of Monetary Policy extract is set out below:

‘...Taken together, the last two quarters indicate a modest decline in the pace of underlying inflation from its peak last year, and a further decline is likely over the period ahead. Capacity utilisation is declining and, with the labour market weakening, there are early signs of a slowing in wage growth. Upstream price pressures also appear to be moderating and measures of inflation expectations have moved to the bottom of the range seen over the inflation-targeting period, after they were at high levels a year ago. The decline in inflation is, however, expected to be gradual, partly due to higher prices for imported goods as a result of the depreciation of the exchange rate last year.

Overall, the marked deterioration in the global economy in the latter part of 2008 and early this year has led to considerable slowing in the Australian economy. While near-term outcomes are likely to be weak, there are reasonable grounds to expect that a recovery will begin by the end of the year, provided global conditions continue to stabilise. The recovery, however, is likely to be gradual at first, largely reflecting developments abroad, where growth is forecast to be below trend for some time...’

The information in the newsletter is of general news content only.

If you have any questions on any point raised here, please contact our office.



