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When was the last time you updated:

- Your Will
- Power of Attorney
- Insurances
- Tax Affairs
- Finances



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MAY 2010

NEWSLETTER

ISSUE 5

Peter's Perspective

We have had the Government's response to the Henry Review and now the 2010/2011 budget has been delivered. I wish I were able to quote Big Kev and say that "I'm excited", but my reaction is well short of that.

The response to the Henry Review has indicated changes to superannuation for both employees and employers over the next few years. The Budget reveals more modifications to personal taxation as well as changes to aspects affecting business.

These broad revisions are the subject of this newsletter. If you require more detail on how the Henry Review or the Budget will impact on your circumstances, please contact our office and hopefully we can answer your queries.

I wish to thank all of you who have recommended our firm to either other family members, friends or colleagues over the past twelve months. Please remember that we are here to service all your financial needs from business and personal taxation, self managed superannuation funds, financial planning, auditing, etc.

I would also urge you to seek our advice before this financial year ends to make sure that all your tax planning is in order. A schedule of things to consider can be found on page 6 of this newsletter.

For your convenience and future reference, this and previous newsletters can be found on our website.

I look forward to either hearing from you or seeing you soon. Our invitation for you to drop in for a tea or coffee is always open, and remember, if you wish to park at the back of the Abbey, a space is available for you.

Cheers Peter.

VISIT US ONLINE AT:
www.geraghtyaccountants.com.au

Important: This is not advice. Clients should not act solely on the basis of material contained in this newsletter. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly and we therefore recommend that our formal advice be sought before acting in any area. This newsletter is issued as a helpful guide to clients and for their private information. Therefore, it should be regarded as confidential and not be made available to any person without prior approval.



2009/2010 Federal Budget

The Federal Government has delivered its Budget for 2010/11 year, and as expected, it held no great surprises. The main points to come out of the budget, including those previously raised as part of the release of the Henry Review, are as follows below. As is always the case, we remind you that these changes will not become law until they are passed through both houses of parliament.

- From 1 July, 2011 individual taxpayers will receive a 50% tax discount on their first \$1,000 of interest earned from a range of savings products. The savings products attracting the concessions include bonds, debentures or annuity products as well as deposits held with a banks, building societies or credit unions. Interest earned indirectly through trusts and managed investments may also be included, but this is yet to be confirmed.
- From 1 July, 2012, individual taxpayers will have the option of receiving a standard deduction of \$500 for work related expenses and the cost of managing tax affairs. From 1 July 2013, the Government will increase this standard deduction to \$1,000. If your deductible expenses are greater than the standard deduction amount, you will be able to claim the higher expenses when lodging your tax return under the existing rules, but will need to substantiate the higher claim. The Government expects that for many this will lead to a "tick and flick" system of pre-filled tax returns and reduce the reliance and cost of using tax agents to complete simple tax returns. We see this as an opportunity for many of our clients to possibly increase their tax return refunds. We expect that most taxpayers will still evaluate their entitlement to work related deductions then elect to claim the higher of their actual deductions or the \$500 standard deduction.
- The reduction in personal taxes announced in last year's Budget were not changed:

Current Thresholds 2009/2010		Proposed Thresholds 2010/2011	
Tax Rate (%)	Income Range (\$)	Tax Rate (%)	Income Range (\$)
0	0 - 6,000	0	0 - 6,000
15	6,001 - 35,000	15	6,001 - 37,000
30	35,001 - 80,000	30	37,001 - 80,000
38	80,001 - 180,000	37	80,001 - 180,000
45	180,001 +	45	180,001 +

Effective Tax-free income threshold		
Taxpayer Category	2009/2010 (\$)	2010/2011 (\$)
Ordinary taxpayer	15,000	16,000
Taxpayers eligible for Senior Australians Tax Offset		
- singles	29,867	30,685
- per member of couple	25,680	26,680

- The threshold above which you can claim the 20% net medical expense tax offset will be increased. From 1 July 2010 the threshold will rise from \$1,500 to \$2,000. In addition, this threshold will be indexed annually to the Consumer Price Index.
- The level of Government superannuation co-contribution matching will be permanently reduced. For the 09/10 year (and future years), the Government will match a contribution of \$1,000 with a maximum co-contribution of \$1,000. In addition, the current income thresholds applying for co-contribution eligibility will be retained for the next two years.

(See page 5 of this newsletter for a table showing the Co-contribution income thresholds.)



2009/2010 Federal Budget - Continued

Superannuation

- The superannuation concessional contribution caps for those taxpayers over 50 years of age were to have been reduced to \$25,000 from 1 July 2012. This has been relaxed for those taxpayers over 50 with an accumulated superannuation balance of less than \$500,000. For those taxpayers, the concessional contribution cap will remain at \$50,000 indefinitely. The concessional contribution cap for those under 50 remains at \$25,000.
- The non-concessional (undeducted) contribution cap remains at \$150,000 for 2010/11, and the three year averaging rules still remain available (currently increasing the cap to \$450,000 over a three year period for those under 65).
- The reduction in minimum pension amounts for certain retirement income streams for 2009/2010 will not extend to the 2010/11 financial year. The reduction had applied to account-based, allocated and market-linked (term allocated) pensions and annuities.
- The superannuation guarantee (SG) rate will be increased from 9% to 12% over a seven year period, commencing from 1 July 2013, with the increased rate of 12% applicable from 1 July 2019, as per the following table:

Year	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
SG rate	9.25%	9.50%	10.00%	10.50%	11.00%	11.50%	12.00%

- In a move designed as an incentive to keep people working for longer, the age limit at which an employer's requirement to make SG contributions for employees ceases will be lifted from 70 to 75. This change will have effect from 1 July 2013, coinciding with the increased rate of SG contributions.
- From 1 July 2012, low income earners will be entitled to an additional Government contribution into their superannuation fund of up to \$500. This is in addition to any Government co-contribution payment you may be entitled to. The payment is available if your adjusted taxable income is \$37,000 or less, with the amount of the contribution being equal to the contributions tax that would be payable on your compulsory SG contributions.



Peter hedging his bets



2009/2010 Federal Budget

Business

- As detailed in its response to the Henry Tax Review, the Government has announced that the company tax rate will be gradually reduced from its current 30% level to 28% in accordance with the following timeline:

Income year	Rate for small business companies	Rates for other companies
Up to and including 2011/12	30%	30%
2012/13	28%	30%
2013/14	28%	29%
2014/15 and later years	28%	28%

For investors, the reduction in company tax rates will have an impact on the tax effectiveness of franked dividends, meaning they will either have to pay additional tax on franked distributions or suffer a reduction in any excess imputation credits that would otherwise have been refunded. However, the reduction in company tax may mean these companies could pay a higher level of dividend in future years.

- Currently small businesses (those with annual turnover of under \$2 million or net assets less than \$6 million) can immediately write-off expenses for assets worth up to \$1,000 in value. From 1 July 2012, small businesses will be able to immediately write-off assets which have a value of less than \$5,000.

Additionally, small businesses will be able to have one depreciation pool for all other assets (excluding buildings) and write-off this pool of assets at 30%. Currently, these assets are allocated across two different depreciation pools.

- Small business entities accounting for GST on a cash basis will now be able to claim the GST credits upfront in relation to assets purchased under hire purchase finance arrangements.

Other proposed changes

- Balances in first home saver accounts (FHSAs) will be allowed to be paid into an approved mortgage after the end of the minimum qualifying period rather than requiring it to be paid to a superannuation account. Under the current rules, deposits must be held in FHSAs for four financial years before they are able to use those savings to buy a home. If the account holder buys a home prior to the end of the four year period, the balance of the account had to be transferred to the holder's superannuation fund.

The changes mean that individuals who choose to purchase a home before the end of the four year qualification period will be able to pay any accumulated balance in their FHSA into an approved mortgage at the end of the qualification period.

- The Paid Parental Leave (PPL) scheme was announced in the May 2009 Budget. The scheme will provide a new parent of a child born or adopted from 1 January 2011 a payment equivalent to the national minimum wage for 18 weeks. The payments (current rate is \$543.78 pw) will be made through the parent's employer. To be eligible the parent must:
 - be working for 10 out of 13 months before the birth or adoption of the child; and
 - have at least 330 hours paid work in the 10 month period; and
 - have an adjusted taxable income up to \$150,000 in the previous financial year.

The scheme is available to employees, casual workers, contractors and self-employed individuals. PPL can be claimed as an alternative to the Baby Bonus (except for multiple births). Family Tax Benefit B will not be paid for the 18 week period. Total PPL (\$9,788.04) will be more generous than the Baby Bonus (\$5,185) and FTB B (\$3,828.85) combined. Dependent spouse, child, and housekeeper tax offsets will not be available for the PPL period.



Tables

Eligibility for the Superannuation Co-Contribution Scheme - 2009/2010

	If your personal super contribution is:			
	\$1,000	\$750	\$500	\$250
And your income is:	Your Super Co-Contribution will be:			
\$31,920 or less	\$1,000	\$750	\$500	\$250
\$33,920	\$933	\$800	\$500	\$200
\$35,920	\$867	\$800	\$500	\$200
\$37,920	\$800	\$800	\$500	\$200
\$39,920	\$733	\$733	\$500	\$200
\$41,920	\$667	\$667	\$500	\$200
\$43,920	\$600	\$600	\$500	\$200
\$45,920	\$533	\$533	\$500	\$200
\$47,920	\$467	\$467	\$467	\$200
\$49,920	\$400	\$400	\$400	\$200
\$51,920	\$333	\$333	\$333	\$200
\$53,920	\$267	\$267	\$267	\$200
\$55,920	\$200	\$200	\$200	\$200
\$57,920	\$133	\$133	\$133	\$133
\$59,920	\$67	\$67	\$67	\$67
\$61,920	\$0	\$0	\$0	\$0

Cents per Kilometre Rates for Motor Vehicles

Cents per Kilometre Method (Claim is limited to a maximum of 5,000 kilometres)				
Engine Capacity (cc)		Rate (cents/km)		
Conventional	Rotary	2007 / 2008	2008 / 2009	2009 / 2010
Up to 1600	Up to 800	58.0	63.0	63.0
1601 - 2600	801 - 1300	69.0	74.0	74.0
Over 2600	Over 1300	70.0	75.0	75.0

Amounts Individuals can Contribute to Superannuation

Year	Concessional Contribution Cap			Non-Concessional Contribution Cap*
	Under 50 Years*	50+ (Accumulated Balance less than \$500,000)	50+ (Accumulated Balance more than \$500,000)	
2009/2010	\$25,000	\$50,000	\$50,000	\$150,000
2010/2011	\$25,000	\$50,000	\$50,000	\$150,000
2011/2012	\$25,000	\$50,000	\$50,000	\$150,000
2012/2013	\$25,000	\$50,000	\$25,000	\$150,000
2013/2014	\$25,000	\$50,000	\$25,000	\$150,000

* Subject to indexation



End of Year Checklist

Small Business Taxpayers (Turnover less than \$2 million)

- Defer invoicing until after 30 June
- Incur business expenses before 30 June. These expenses do not need to have been paid before 30 June, only incurred. Eg. Repairs
- Purchase additional office consumables (eg. stationery) before 30 June. However to avoid apportionment rules do not purchase more goods than can be used in three months.
- Consider purchasing depreciating assets and software which cost less than \$1,100 (incl GST) each, as an outright tax deduction is available for these items.
- Consider purchasing depreciating assets costing more than \$1,100 (inc GST) as Small Business taxpayers are entitled to six months depreciation in the year the asset is purchased irrespective of the date of purchase.
- Prepay expenses for up to 12 months in advance. But note, the period covered by the prepayment must end during the next financial year. Examples of items to prepay include rent, lease payments, interest, travel, training courses, subscriptions and insurance.
- Ensure that all superannuation contributions have been received by the relevant fund before 30 June.

Other Taxpayers

- Defer invoicing until after 30 June
- Incur business expenses before 30 June. These expenses do not need to have been paid before 30 June, only incurred. (eg. Repairs)
- Purchase additional office consumables (eg. stationery) before 30 June. However to avoid apportionment rules do not purchase more goods than can be used in three months.
- Where *low value pooling* is used for depreciating assets, consider purchasing depreciating assets costing less than \$1,100 (inc GST) before 30 June as 6 months depreciation is available in the year the asset is purchased irrespective of the date of purchase.
- Avoid prepayment of expenses which exceed \$1,100 (inc GST). Prepayment of these expenses are not deductible in the year incurred and must be apportioned over the time period to which they relate.
- Ensure that all super contributions have been received by the relevant fund before 30 June.

Changes to Group Certificates

Employers will have to show all 'reportable employer super contributions', made on behalf of their employees, on the PAYG payment summaries (group certificates) for the year ended 30 June 2010, and all future years.

The change has been made as a result of the adjustments to the income tests for several of the Government's benefit payments and assistance programs including: Family Tax Benefits, Childcare benefits, HECS repayments, Superannuation Co-contributions, Medicare Levy Surcharge, and Child Support.

If you are an employer and think that you will need assistance to prepare your employees' group certificates in light of these changes, please feel free to contact us for assistance.

Services We Provide:

- Accounting •Auditing •Taxation •Self Managed Superannuation Funds
- Financial Planning •Preparation of Budgets and Cash Flow Projections
- General Business Advice •Baby Sitting •Coffee

**WE
WELCOME
REFERRALS**