

Federal Budget: The decade of debt

May 2009

The 2009-10 Federal Budget was delivered last night by the Federal Treasurer, The Hon Wayne Swan. What a difference a year makes!

In last years budget, a surplus of \$19.7bn was projected with a growth rate of 2.75% for 2009. Fast forward to this years budget and the Treasurer is now forecasting a deficit of \$57.6bn and negative growth of -0.5%. This represents a staggering \$79bn turnaround in 12 months.

The 2009-10 Budget represents the second budget for the Australian Labour Party and has been framed in dramatically different economic circumstances to recent budgets. In 2009, the Government is confronted with the global financial crisis, rising unemployment, the need to stimulate economic activity but rapidly shrinking tax collections.

In particular, we would like to draw your attention to the following tax and superannuation highlights which will impact our business owner clients:

Superannuation changes

Reduction in the Concessional Contributions Caps

As widely rumoured, the concessional contribution cap was reduced from \$50,000 down to \$25,000 (\$100,000 down to \$50,000 for transitional contributions). These changes will only take effect, however, from 1 July 2009.

Accordingly, you still have until 30 June to contribute \$50,000 (\$100,000) for this financial year, but this is the last year you will be able to make this level of contribution.

Non-Concessional Contribution Cap stays at \$150,000 (or \$450,000 over three years)

While there has been no change to the concessional contribution cap, the indexation of that cap to \$155,000 (or \$465,000) appears to have been reversed.

The reduction in the concessional and non-concessional caps makes it even more important that you maximise your contributions each year.

Minimum Pension Drawdown Relief Extended to 30 June 2010

In a welcome move given the current economic environment, the Government will extend the 50% reduction in the minimum drawdown amount for account based pensions and annuities for another year.

Government Co-Contribution Matching Rate Temporarily Reduced

The Government has announced that it will temporarily reduce the co-contribution matching rate from 150% to 100% for the next three years. It will then gradually be increased back to 150%.

Increase in the Age Pension Age – Changes Flagged for Preservation Age

For the first time in 100 years, the age pension age is to be increased to 67 for both men and women. The transition to the new age level will begin in July 2017 and be fully effective from 1 July 2023.

While the Government has not announced any corresponding change in preservation ages (that is, the age at which you can start to access your super) in the budget, the Henry Review on the Retirement System released its preliminary report yesterday, which proposed gradually aligning the preservation age with the increased pension age. This is a development that we will be closely monitoring.

Tax Changes

No Change in Legislated Tax Cuts for 2010 and 2011

The Government has decided to proceed with the already legislated tax cuts due to take effect from 1 July 2009 and 1 July 2010, although tax and means testing changes will claw some of the benefit back.

The “aspirational” goal set by the Rudd Government of reducing the tax rates to 15%, 30% and 40% by 1 July 2013 appears to have been abandoned.

New Asset Investment Allowance Increased to 50% for Small Business

Even though the previous announcements have not yet been passed by Parliament, the Government announced that it will increase the tax break for small businesses to 50% (up from 30% if spent before 30 June 2009 and 10% if spent before 31 December 2009) for eligible expenditure on new assets before 31 December 2009.

Extension to Rules Regarding the Use of Private Company Assets

Division 7A treats loans, payments and the forgiveness of debts made by private companies to their shareholders (or their associates) as deemed dividends. In a not widely publicised announcement in the Budget, the Government proposes to extend Division 7A to situations where land or chattels such as cars, boats and planes are used by shareholders or their associates for free (or less than market value). We will be closely following this announcement.

Changes to the Employee Share Scheme Rules

Changes have been announced to the employee share scheme rules to effectively remove the ability to defer tax on discounts associated with the grant of shares or options under a qualifying scheme. As a result, all discounts will be taxed in the year the shares or rights are provided.

Further Restrictions on Non-Commercial Losses

The non-commercial loss rules are to be tightened to prevent high income earners (that is, adjusted taxable income over \$250,000) from offsetting excess deductions from non-commercial business activities against salary and other income. Instead, these losses will be quarantined to be offset against income from those activities.

Non-commercial activities are more likely to relate to lifestyle choices or hobbies.

Limited CGT Rollover Relief for Fixed Trusts

With the removal of CGT relief associated with the transfer of assets between trusts with identical terms and beneficiaries, the Government will introduce a new rollover relief to allow assets to be transferred between fixed trusts. This will allow eligible trusts to restructure without immediate CGT consequences.

Means Testing of the Private Health Insurance Rebate and Changes to the Surcharge

In another widely anticipated measure, the Government has adopted the “less carrot” and “more stick” approach towards the private health insurance rebate and associated surcharge for high income earners.

Under the announcement, access to the rebate reduces on a sliding scale for taxpayers who earn over \$75,000 (\$150,000 for couples) and is removed entirely when they earn over \$120,000 (\$240,000 for couples).

Likewise, the surcharge increases to 1.25% for taxpayers who earn over \$90,000 (\$180,000 for couples) and 1.5% for taxpayers who earn over \$120,000 (\$240,000 for couples).

To assist you in understanding the impact on you and your business, [click here](#) for a comprehensive summary prepared by the Tax Institute of Australia.

If you would like to discuss the analysis in further detail, please contact your Fordham director or our Director of Taxation [Brendan Henderson](#).