

2010 / 2011 FEDERAL BUDGET

BUSINESS TAXATION

Look-through Treatment for Earnout Arrangements

All payments under a qualifying 'earnout' arrangement will be treated as relating to the underlying business asset.

Earnout arrangements are used to structure the sale of a business (or business assets) to manage uncertainty regarding the value of the business.

Under the earnout arrangement, an earnout right may entitle the buyer or seller to additional payments, depending on the subsequent performance of the business.

The proposed amendment will have effect from the date of the Royal Assent of the enabling legislation, with transitional provisions available for certain cases from 17 October 2007.

Increased Funding to Counter Cash Economy

The Government will provide \$107.9 million over four years to the Tax Office, to address small business operators who use cash transactions to avoid tax. The Government states that this is expected to increase the "visibility of the Tax Office in the community".

This measure is expected to result in:

- an additional \$491.8 million in revenue in fiscal balance terms over four years; and
- an increase of \$39.9 million in Tax Office-administered expenses over the same period.

In underlying cash terms, the expected increase in revenue is \$366.5 million over four years, including \$146.7 million in GST collections that will be paid to the states and territories.

GST Compliance Program — funding for the Tax Office

The Government states that it will provide \$337.5 million over four years (from the 2010/11 to the 2013/14 income years) to the Tax Office to fund additional activities that will promote voluntary GST compliance and provide a level playing field for Australian businesses.

The Government also states that the funding will address issues relating to:

- fraudulent GST refunds;

- systematic under-reporting of GST liabilities;
- non-lodgment of GST returns; and
- non-payment of GST debts.

SUPERANNUATION

Co-contribution Matching Rate Permanently Reduced to 100%

The Government has announced that it will seek to permanently set the matching rate for the superannuation co-contribution at 100% and the maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions at \$1,000.

As a result, the previously-legislated increase in the matching rate to 125% for the 2012/13 and 2013/14 years (and to 150% for 2014/15 and later years) will not proceed.

Eligible income thresholds frozen

In addition, the Government says that for 2010/11 and 2011/12 it will freeze the indexation applied on the income threshold above which the maximum superannuation co-contribution begins to phase down.

Under the superannuation co-contribution scheme, the Government currently provides a matching contribution for contributions made into superannuation out of after-tax income. The matching contribution is up to \$1,000 for individuals with incomes of up to \$31,920 in 2009/10 (with the amount available phasing down for incomes up to \$61,920). The new measure will freeze these thresholds at \$31,920 and \$61,920 for two years.

The Government says this measure follows its earlier announcement in response to the Henry Tax Report, proposing a \$500 annual superannuation contribution for individuals with an adjusted taxable income up to \$37,000.

Superannuation Fund Deductions for Terminal Medical Condition Benefits

The Government has announced that it will seek to extend the range of benefits that are deductible by complying superannuation funds and retirement savings account providers to include terminal medical condition (TMC) benefits.

The Government says that this proposal addresses an anomaly in the taxation law regarding deductibility by superannuation funds and retirement saving account

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providers of the costs of providing certain benefits to members or holders.

Currently, the Government says deductions are allowable for the costs of providing benefits relating to the death, permanent incapacity and temporary incapacity conditions of release, but not those relating to the TMC condition of release.

This measure is proposed to have effect from 16 February 2008, the date the TMC condition of release was introduced into the superannuation legislation.

PERSONAL TAXATION

50% Savings Discount for Interest Income

From 1 July 2011, the Government will provide individuals with a 50% tax discount on up to \$1,000 earned on interest.

This includes interest earned on deposits held with any bank, building society or credit union as well as on bonds, debentures or annuity products.

The discount will be available for interest income earned directly as well as indirectly, such as via a trust or a managed investment scheme (MIS).

Adjusted taxable income

The Government states that taxpayers claiming the discount for interest income will have a reduced adjusted taxable income for the purpose of determining eligibility for transfer payments and other concessions.

This may result in some individuals and families becoming eligible for transfer payments or for a larger transfer payment.

The Government notes that the consequential expense primarily affects Family Tax Benefit, but will also affect other payments such as:

- the Baby Bonus;
- Child Care Benefit;
- the Education Tax Refund;
- the Commonwealth Seniors Health Card (CSHC); and
- the Pensioner Supplement (which is linked to eligibility for the CSHC).

Standard Deduction for Work-related Expenses

The Government will provide individual taxpayers with a standard deduction of \$500 for work-related expenses

and for the cost of managing tax affairs from 1 July 2012.

The standard deduction will increase to \$1,000 from 1 July 2013.

Those taxpayers with deductible expenses greater than the standard deduction amount will still be able to claim their higher expenses, in lieu of claiming the standard deduction amount.

The standard deduction will reduce individuals' and families' adjusted taxable income for the purpose of determining their eligibility for transfer payments and other concessions (e.g. the Family Tax Benefit, the Baby Bonus, Child Care Benefit, the Commonwealth Seniors Health Card (CSHC) and the Seniors Supplement).

This will make some individuals and families eligible for transfer payments or for a larger transfer payment.

Medical Expenses Rebate Threshold Raised

From 1 July 2010, the medical expenses rebate threshold will increase from \$1,500 to \$2,000.

Taxpayers presently receive a rebate equal to 20% of net un-reimbursed eligible medical expenses above \$1,500. This \$1,500 threshold will increase to \$2,000.

In addition, from 1 July 2011, the threshold will be indexed annually to the Consumer Price Index (CPI).

Medicare Levy Thresholds Increased for 2009/10

From the 2009/10 income year, the Medicare levy low-income thresholds will be increased to \$18,488 for singles (up from \$17,794 for 2008/09) and to \$31,196 for those who are members of a family (up from \$30,025 for 2008/09).

The additional amount of threshold for each dependent child or student will also be increased to \$2,865 (from \$2,757).

From 1 July 2009, the Medicare levy low-income threshold for pensioners below Age Pension age will be increased to \$27,697 (from \$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.

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