

RSM! Bird Cameron
Chartered Accountants

Budget Review

“Boring Budget” - **but beware!**

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Boring Budget but beware!

The Budget has been handed down announcing a return to surplus in three years, three years sooner than anticipated?

With the Governments announcements in regards to the Henry Review, this Budget has no real surprises.

The Government has announced increased spending in health, infrastructure, education and training. This additional spending has been funded mainly from the introduction of a Resource Super Profits Tax (RSPT), and the 25% increase in tobacco excise.

The Government acknowledges that the Resource Sector underpins the strength of the Australian economy, with the RSPT expected to fund the reduction in the corporate tax rate and the spending proposed in this Budget. What it fails to acknowledge is the impact of the RSPT on the competitiveness of our Resources Sector versus countries such as Canada, USA, South Africa and Brazil.

Over the past week mining executives in the Resources sector have announced they will be deferring projects and reviewing their operations in Australia. With an RSPT of 40% and a corporate tax rate of approximately 28% mining companies face an overall tax rate in the vicinity of 58%, a tax rate which is unacceptable.

The reduction in the corporate tax rate to 28% effective for most companies from the year ended 30 June 2015 will be welcomed, however this saving will be offset by the increase in Superannuation Guarantee to 12%.

The Resource Exploration Refundable Tax Offset provides companies with a refund for expenditure on exploration carried out in Australia and will be welcomed by many of the junior explorers.

The overall aim of the Budget is to return to a surplus in three years. The concern is that it predominantly relies on a booming Resource Sector which has only just recovered from the Global Financial Crisis and now faces the uncertainty of the RSPT.

Further details on the Budget can be found in this review and we would encourage you to contact your RSM Bird Cameron adviser to discuss issues that will impact your business.

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Business Tax Measures

Capital Gains Tax

Changes to CGT to make it easier for businesses to restructure

The Government will introduce legislation to make amendments to the CGT provisions to improve the ability of businesses to restructure.

The Government will:

- extend the CGT rollover for the conversion of a body to an incorporated company;
- make the share sale facility exclusion more broadly available for CGT rollovers; and
- allow CGT demerger relief for certain demerger groups that currently cannot access the relief.
- The three measures will apply to CGT events happening after 7.30 pm (AEST) on 11 May 2010.

The Government will allow Australian interest holders access to a broader range of CGT rollovers where an entity restructures using a share or interest sale facility for foreign interest holders. Currently, where a business restructures and it uses a share or interest sale facility for foreign interest holders, Australian resident interest holders are unable to access some CGT rollovers.

Resource Super Profits Tax

Since the announcement of the Resource Super Profits Tax (RSPT) as part of the Henry Review, there has been much comment and criticism of the RSPT.

The Federal Government response to criticism over the RSPT, has been that it is in consultation phase. As the RSPT underpins other initiatives in the Budget, the Federal Government reaffirmed its intention to introduce the RSPT.

Key Features of the RSPT are:

- RSPT will commence on 1 July 2012.
- The RSPT is effectively a profit based tax that economically replaces the State based royalty payments.
- The Government will provide resource entities with a refundable credit for state royalties paid (available at least up to the amount of royalties imposed at the time of announcement, including scheduled increases).
- The RSPT will apply to all mining and petroleum projects, including low value commodity projects.
- It will replace crude oil excise
- Opt in arrangements apply for existing Petroleum Resource Rent Tax (PRRT) projects.

The RSPT is the single largest fiscal measure affecting the Resources Sector this century. The Federal Government believes that the RSPT will not discourage investment in the sector within Australia. Commentary from participants in the Resources Sector since the introduction of the RSPT has been widespread and include:

- Foreign investors evaluating exiting from their investments prior to the 1 July 2012 start date
- Potential bidders for resource companies reducing their bid price
- Shelving of potential projects

Resource Exploration Refundable Tax (RER)

Also announced as part of the Henry Review initiatives implemented by the Government, the RER:

- commences 1 July 2011
- provides a refundable tax offset that will benefit small pre-profit exploration companies.

The RER essentially allows loss making junior explorers to essentially cash out their losses and will assist in funding future exploration activities.

The definition of exploration expenditure for RER purposes has been expanded to include geothermal exploration.

Business Tax Measures

Corporate Tax

Consolidation: calculation and collection of income tax liabilities

The Government will improve the operation of the rules relating to the calculation and collection of income tax liabilities from consolidated groups and multiple entry consolidated groups (MEC groups) by:

- clarifying that the Commissioner of Taxation can recover unpaid PAYG liabilities under the liability for payment rules, with effect from 11 May 2010;
- clarifying that the liability for payment of tax rules applies to MEC groups, with effect from 11 May 2010;
- clarifying that an entity that pays its contribution amount under a tax sharing agreement can leave a consolidated group or MEC group clear from any further liability, with effect from the 2004-05 income year;
- ensuring that, where there is a change in the provisional head company of a MEC group during an income year, any PAYG instalments paid by the former provisional head company on behalf of the group are attributed to the group, with effect from 1 July 2002; and
- clarifying that relevant parts of the income tax law that apply to MEC groups in the same way as they apply to consolidated groups, with effect from 1 July 2002.

GST

Further reductions in GST compliance costs for business

The Government will reduce compliance costs for businesses through a package of GST reform.

The key components of the plan are:

- restructuring the margin scheme provisions with effect from 1 July 2012. This will clarify and simplify the rules and ensure greater certainty for taxpayers on issues surrounding the use of valuations;
- significantly increasing the threshold above which businesses need to interact with the financial supply provisions from \$50,000 to \$150,000 of input tax credits with effect from 1 July 2012;
- introducing measures to protect the GST base by reducing opportunities for businesses to inappropriately take advantage of the reduced input tax credit concessions by bundling services; and
- allowing small businesses accounting for GST on a cash basis to claim input tax credits upfront in relation to hire purchase arrangements. This change will significantly assist those businesses that have been forced into higher cost chattel mortgages following the introduction of the GST.

GST and cross-border transactions

The Government has announced that it will implement all the recommendations of the Board of Taxation from its Review of the application of GST to cross-border transactions, with effect from 1 July 2012.

GST and cross-border transport supplies

The Government will make a number of minor revisions to its 2009-10 Budget measure that reduces GST compliance costs for businesses involved in the domestic transport of exported and imported goods.

Reform to the arrangement for exempting taxes, fees and charges from the GST

The Government will amend the GST law to replace the current mechanism for exempting Australian taxes, fees and charges with a principles-based legislative exemption, with effect from 1 July 2011.

The GST law currently specifies that Australian taxes, fees and charges are exempt from GST if they are included in a determination made by the Treasurer. This measure will allow the GST treatment of an Australian tax, fee or charge to be determined against legislative principles.

Business Tax Measures

Small Business

Jump start in company tax rate cut

The company income tax rate for small businesses (turnover less than \$2 million) will reduce to 28% from the 2012-13 income year. This is two years earlier than all other companies whose rate is not expected to reduce to this level until the 2014-15 income year.

Although this is a welcomed change it does not help small businesses who operate through structures such as Trusts and Partnerships. Small businesses which are operated through Trust and Partnership structures will more than likely re-evaluate their current structure in light of this change. Those wishing to change to a corporate structure will be faced with other challenges such as Division 7A and the use of private assets within corporate structures.

Disappointingly the Government has not increased the \$2 million threshold which defines a small business. This threshold has been around for over three years and reflects the Government's inability to keep up with the times.

Capital Allowances Changes

The existing capital allowance concessions available for small businesses will be simplified and streamlined from the 2012-13 income year.

Small business instant write - off

Small businesses will be allowed to immediately write - off assets valued at under \$5,000 (this is increased from \$1,000 under the present law) from 1 July 2012. This will enable small businesses to immediately write-off many of their assets.

This is purely a timing measure and only accelerates the timing of the deduction. It is questionable how many small businesses will benefit from this \$5,000 threshold.

Single depreciation pool for all other assets

Small businesses can elect to allocate all other depreciable assets (except buildings) to a single depreciation pool, which can be written off at a rate of 30% per annum. Currently, small businesses can allocate assets to two different depreciation pools. This will remove the need for small businesses to monitor two different depreciation pools and will simplify their tax affairs.

Personal Tax

2011 Personal Income Tax Rates

As expected, no changes have been made to the personal income tax rates that were announced in the previous budget.

Taxable income	Tax on this income*
\$0 - \$6,000	Nil
\$6,001 - 37,000	15% for each \$1 over \$6,000
\$37,001 - \$80,000	\$4,650 + 30% for each \$1 over \$37,000
\$80,001 - \$180,000	\$17,550 + 37% for each \$1 over \$80,000
Over - \$180,000	\$54,550 + 45% for each \$1 over \$180,000

* Tax does not include Medicare Levy

The maximum Low Income Tax Offset is \$1,500 and phases out from a taxable income of \$30,000.

So what's new?

Whilst the changes to corporate and small business were expected, the budget contemplates minor changes to the taxation of individuals.

Small Savers Benefit

From 1 July 2011, individuals will receive a 50% discount on the first \$1,000 of interest earned from deposits, bonds, debentures and annuity products. This measure will save the average taxpayer earning \$1,000 of eligible interest, \$150 per annum in tax. The Government will consult on the implementation of this measure during 2010-11 income year.

Simpler treatment of work-related expenses

Leading from the Henry Review, the Government have announced a standard deduction for work-related expenses. For the 2012-13 income year, taxpayers will have the option to claim a \$500 standard deduction to replace deductions for work related expenses and managing tax affairs. This standard deduction will increase to \$1,000 from the 2013-14 income year.

Taxpayers will have the option to continue to claim and substantiate deductions actually incurred as under the current rules. Together with improvements to pre-filing measures, the Treasurer foresees this as a step to the implementation of a 'tick and flick' method of tax return lodgement.

A far more efficient measure would be to allow salary and wage taxpayers with minor investment income, to elect not to lodge a tax return.

First Home Savers Accounts

The first home savers account initiative will be modified so that where an individual purchases a property prior to the end of the four year qualifying period, the balance of the account will eventually be paid to reduce the mortgage balance rather than paid into superannuation as presently required.

Medical Expenses Tax Offset

The Medical Expense Tax Offset Threshold is to be increased from \$1,500 to \$2,000 for the 2011-12 income year. This measure may cost eligible taxpayers \$100 per annum.

Superannuation

There were no surprises in the Budget as all the significant superannuation announcements were released with the Henry Review. The scope of the announcements favours the low income earners in an attempt to boost the national savings and help provide for the retirement of Australia's ageing population.

The measures the Government have taken to increase savings are targeted specifically at one of the three pillars of the retirement income system, compulsory contributions via Superannuation Guarantee. The outcome will be a greater retirement nest egg hopefully reducing the reliance on the government to support an ageing population.

Superannuation Guarantee (SG) increased to 12% by 2020

The Federal Government announced an increase in the SG payments made by employers from 9% to 12% by 2020. This represents a minimal increase in non-voluntary contributions by employers over a 9 year period.

Currently these payments are capped at 9% of a "maximum earnings base". This amount is indexed annually with AWOTE (Average Weekly Ordinary Times Earnings); however there has been no mention of an increase in this earnings base amount to compensate for the increased SG. These measures impact the SG of employees whose incomes exceeds the maximum earnings base of \$161,000 as they may receive little benefit from the SG increase.

SG for those over 70

Prior to the budget those between the age of 70 and 75, whilst eligible to make contributions if they were working, were not eligible to have any SG made into a superannuation fund. The news that the anomaly within the SG legislation that prevented employers from making SG contributions into superannuation funds for those over 70 will be removed, should be treated with caution.

All this extra administration for those that are eligible to access their superannuation tax free immediately is questionable. Or is it a pre cursor for the Government increasing the preservation age out further than 65?

The \$500 contributions tax rebate for low income earners

The Government has also announced that taxpayers with an adjusted taxable income of less than \$37,000 will receive a rebate in the form of a contribution of up to \$500 to compensate for contributions tax. This means that these taxpayers will pay no tax on concessional contributions made into a complying superannuation fund.



Superannuation (contd)

Catch up contributions

From 1 July 2012, taxpayers over 50 who have a superannuation balance under \$500,000 will be able to make extra concessional contributions to “catch up” on their superannuation contributions.

Ironically as the contributions caps for taxpayers over 50 were to be reduced from \$50,000 to \$25,000 on the 30 June 2012 this announcement reverses a previous Budget measure. The majority of people have superannuation balances less than \$500,000 so this will only impact on those that have saved significantly during their entire lifetime.

This announcement may encourage a greater use of contribution splitting, or for those with Self Managed Superannuation Funds (SMSF), allocating profits into reserve accounts to achieve the required superannuation account balance.

The announcements do not identify how the Government anticipates coping with these planning measures. This may be a greater incentive to establish a SMSF.

Government Co-Contributions

The Budget provides that the Government Co-Contribution matching rate will be permanently retained at \$1 for \$1. Prior to the previous year’s Budget the matching rate was \$1.50 for every \$1 of non-concessional contributions made into a superannuation fund for low income earners.

The previous year’s Budget announced that the matching rate would eventually be increased back up to its original levels.

There will also not be any increase in the maximum earnings amount to qualify for the Co-Contribution for the next two years. This measure will freeze the thresholds at \$31,920 and \$61,920 for two years.

Summary

Small business Tax Measures

- Jump start in company tax rate cut to 28% from 1 July 2012
- Capital Allowance changes
- Small business instant write-off
- Single depreciation pool for all other assets

Personal Tax

- Small savers benefit for interest up to \$1000
- Simpler treatment of work-related expenses
- First home savers accounts
- Medical expenses tax offsets threshold increase

Business Tax Measures

Corporate Tax

- Consolidation: calculation and collection of income tax liabilities
- Reduction in corporate tax rate to 28% from 1 July 2014

GST

- Further reductions in GST compliance costs for business
- GST and cross-border transactions
- GST and cross-border transport supplies
- Reform to the arrangement for exempting taxes, fees and charges from the GST

Capital Gains Tax

- Changes to CGT to make it easier for businesses to restructure
- Resource Super Profits Tax
- Resource Exploration Refundable Tax

Superannuation

- Superannuation Guarantee increased to 12% by 2020
- Superannuation Guarantee for those over 70
- The \$500 contributions tax rebate for low income earners
- Catch up contributions
- Government co-contributions

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