

# Business Plus+



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CHARTERED ACCOUNTANTS

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## Issue Number 14 - 2009/10 Federal Budget

### Federal Budget 2009 Issues For SMEs

The Federal Treasurer, Mr Wayne Swan, presented the Rudd Labor Government's Budget on 12th May. This special edition of Business Plus+ incorporates a summary of matters within the Federal Budget that may affect SME operators. None of these items will become law until the Budget has been passed by the House of Representatives and the Senate, and signed by the Executive Council.

### Key 2009 Federal Budget Outcomes

The Government has honoured its earlier commitment for a further reduction in personal income tax rates from 1<sup>st</sup> July 2009. The personal income tax rates which apply for the 2009/10 financial year are:-

| Taxable Income (\$) | Tax Rate (%)                                  |
|---------------------|---|
| 0 – 6000            | 0   |
| 6001 – 35,000       | 15c for each \$1 over \$6,000                 |
| 35,001 – 80,000     | \$4,350 plus 30c for each \$1 over \$35,000   |
| 80,001 – 180,000    | \$17,850 plus 38c for each \$1 over \$80,000  |
| 180,001+            | \$55,850 plus 45c for each \$1 over \$180,000 |

In addition, there is a Medicare Levy payable of 1.5% plus a Medicare Levy Surcharge may apply. There has been some changes in the treatment of the Medicare Levy Surcharge so that it varies based on the taxable income of the taxpayer. **Refer to page 4 of this newsletter for more information...**

The low income tax offset will increase to \$1,200 from \$750.

There has been no changes in:-

- Corporate Tax - continues at 30%
- Superannuation Contribution Tax - continues at 15%
- Superannuation Funds Tax - continues at 15%



### Key Numbers At A Glance

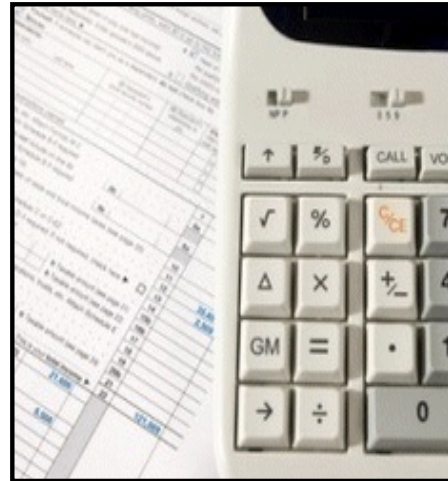
- Inflation at 4.2% (a 16-year high).
- Forecast deficit of \$57.6b. (The Government expects this deficit to be reduced to \$28b by 2012/13).
- Unemployment budgeted at 8.25% for 2010/11. (This equates to 1 million Australians out of work).

## Budget Initiatives Appealing To SMEs

### Small Business And General Business Tax Break

The Government has extended the previously announced Investment Allowance for small businesses with turnover under \$2m, to 50% for eligible assets ordered between 13th December 2008 and 31<sup>st</sup> December 2009. Subject to the eligible asset being installed by 31st December 2010.

The special tax deduction is available on capital items such as motor vehicles, computer hardware, machinery and equipment as well as for making capital improvements to existing machinery and equipment. There has been some confusion in the marketplace as to whether the original 30% will become law by 30<sup>th</sup> June 2009. Newspaper reports state that the Federal opposition has indicated that it will not "frustrate" the passage of the legislation relating to the small business and general business tax break. **Refer to Paper 28.01 - "Federal Budget 2009 Issues For SMEs"...**



### Research And Development

The Government has indicated that a new Research And Development Scheme will operate from 1st July 2010. It will replace the current research and development tax concession to include an expanded tax credit that will reward firms for research and development activities. The new scheme will provide tax credits at a rate of 45% on eligible research and development expenditure for firms with an annual turnover of less than \$20m. For businesses with turnover more than \$20m the tax credit will be 40%.

The Government has also announced that, as a transitional measure for 2009/10, the maximum expenditure that can be undertaken for access to the present tax offset rules will be increased from \$1m to \$2m.

### Small Business Support Line

The Government has announced that it will allocate \$10m over two years to establish a Small Business Support Line. **Refer to Paper 28.01 - "Federal Budget 2009 Issues For SMEs"...**

### Taxation Office Assistance

The Australian Taxation Office will receive \$168m to assist small businesses to remain viable.

### E-Commerce Capabilities

The Government intends to provide \$10m to eligible organisations to help businesses improve their e-commerce capabilities so that small businesses are able to access the benefits of the digital economy.

### Apprentices

Employers will be able to access incentive payments of \$4,000 when they take on apprentices who are studying diploma or advance diploma qualifications.

### Defence Contracts Assistance

The Government has provided \$15.3m to assist Australian small and medium-sized enterprises to compete for international and domestic defence contracts. **Refer to Paper 28.01 - "Federal Budget 2009 Issues For SMEs"...**

## Superannuation

The Government has announced changes to the taxation treatment of superannuation contributions after 1st July 2009. Currently, superannuation contributions made under specified aged based limits are taxed at 15% in the hands of the superannuation fund.

| Taxpayers aged:- | Current Cap:- | Cap from 1st July 2009:- |
|------------------|---------------|--------------------------|
| 50 and over      | \$100,000     | \$50,000                 |
| under 50         | \$50,000      | \$25,000                 |

## Possible Benefits To SMEs

### First Home Owners Grant To Continue

The First Home Owners Boost will be continued as is for a further 3 months until 1st October 2009. Then, for the three-month period 1st October 2009 to 31st December 2009 the grant will be halved to:-

- New Homes - \$14,000
- Existing Homes - \$10,500

The boost will cease as at 31st December 2009, although the existing First Home Owners Scheme Grant of \$7,000 will continue.



### Infrastructure And Rail Projects

The Government has announced an investment totalling \$13.1b in specific projects. **Refer to Paper 28.01 - "Federal Budget 2009 Issues For SMEs"...**

### Paid Parental Leave Scheme

The Government has announced the commencement of Paid Parental Leave from 1st January 2011. The Government has indicated that the Paid Parental Leave Scheme will enable parents to maintain links with their employers and to receive an income whilst nurturing their child.

From commencement date 1st January 2011, eligible parents will receive taxable payments at the rate of the Federal minimum wage for up to 18 weeks. This will be around \$540 a week. If working parents accept the Paid Parental Leave option they will forfeit the right to receive the Baby Bonus and some other family tax benefits. The Paid Parental Leave Scheme will be available for eligible primary carers earning less than \$150,000. The Government has indicated that it will prepay the statutory Paid Parental Leave to employers who will then make the payments to their eligible employees. No comment has been made in relation to Superannuation Contribution liability on these payments which will be made by the employer.

## Changes To Tax Treatment

### Non Commercial Business Losses

The Government has announced that it intends to tighten the rules applying to non-commercial business losses to prevent taxpayers deducting losses from activities that are unlikely to make a profit against their salary or other income. This measure will apply to activities that the taxation office do not believe have a reasonable expectation of making a profit, such as hobby farms.

### Private Use Of Assets

The Government intends to introduce legislation that will ensure shareholders in private companies and their associates are taxed when they use company assets for private purposes, which includes free use of assets such as cars, boats, holiday apartments etc by shareholders rather than employees. From 1st July 2009 the benefits provided by private companies to shareholders and their associates will be taxed in the same way that the use of the asset by an employee would be taxed. This would be as a fringe benefit tax item.

### Share Scheme

The Government intends to change the rules effective from 12th May, 2009 that employees who buy shares or options under Qualifying Employee Share Schemes will no longer be able to defer payment of tax on the discount that they have benefited from in the share buying transaction.

### Trust Distributions

From 1st July 2010, closely held trusts will need to withhold amounts from trust distributions at the top marginal rate where taxpayers have failed to provide a tax file number to the trustee.

### Australians Who Work Overseas

The Government has also announced that where an Australian works overseas for more than 90 consecutive days, he or she will no longer be eligible for a general exemption from Australian income tax on their foreign income. The general exemption will only apply to charity or aid workers. Specific government employees, such as soldiers, police or individuals working on projects for the "national interest", will also be able to claim the general tax exemption. All other expatriates will have to claim a tax offset from the Government against any foreign tax paid on their foreign employment income.

## Personal Issues

### Aged Pension

The qualifying age for the aged pension will progressively be increased to 67 years by 2023, reflecting increases in life expectancy, with the staggered increase commencing from 2017.

### Private Health Insurance Rebate

From 1 July 2010, the Private Health Insurance Rebate will be reduced for higher income earners.

| <i>For Singles earning:-</i> | <i>rebate will be:-</i> | <i>For Families earning:-</i> | <i>rebate will be:-</i> |
|------------------------------|-------------------------|-------------------------------|-------------------------|
| Less than \$75,000           | 30%                     | Less than \$150,000           | 30%                     |
| \$75,001 to \$90,000         | 20%                     | \$150,001 to \$180,000        | 20%                     |
| \$90,001 to \$120,000        | 10%                     | \$180,001 to \$240,000        | 10%                     |
| Over \$120,000               | Nil                     | Over \$240,000                | Nil                     |

### Medicare Levy Surcharge

The Government has also announced increases in the Medicare Levy Surcharge in an attempt to maintain the incentive for higher income earners to continue to pay for private health insurance cover.

| <i>For Singles earning:-</i> | <i>surcharge will be:-</i> | <i>For Families earning:-</i> | <i>surcharge will be:-</i> |
|------------------------------|----------------------------|-------------------------------|----------------------------|
| Less than \$75,000           | Nil                        | Less than \$150,000           | Nil                        |
| \$75,001 to \$90,000         | 1%                         | \$150,001 to \$180,000        | 1%                         |
| \$90,001 to \$120,000        | 1.25%                      | \$180,001 to \$240,000        | 1.25%                      |
| Over \$120,000               | 1.50%                      | Over \$240,000                | 1.50%                      |

The Government has announced further changes to:-

- Family Payments
- Superannuation Co-Contribution

Refer to Paper 28.01 - "Federal Budget 2009 Issues For SMEs"...

## Research And Future Projects

- Carbon Pollution Reduction Scheme
- Clean Energy Initiatives
- Renewables Australia
- Commonwealth Commercialisation Institute

Refer to Paper 28.01 - "Federal Budget 2009 Issues For SMEs"...

### DO YOU WANT MORE INFORMATION?

We have a special paper available - Paper 28.01 - "Federal Budget 2009 Issues For SMEs". If you would like to receive a copy of this, please contact us.

#### An Important Message

*While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.*



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