Your money
Your future

Financial Planning newsletter Edition 2, 2010

Federal Budget 2010/11: What does it mean for you?

Budget highlights

Top 10 key changes which may affect your financial planning strategies:

- More money in your pocket
- Tax offset for out-of-pocket medical expenses
- Easier tax returns
- Tax boost for savings
- 'Catch-up' with super contributions
- Increased retirement savings
- Super break for older workers
- Super top-up reductions confirmed but...
- ...super boost for low income earners
- Good news for first home buyers

The Federal Budget 2010/11 has many of the traditional hallmarks of an election year budget.

Many of the budget measures confirmed the Government's response to the Henry Tax Review. While mining companies and smokers have been hit with tax increases, the final instalment of cuts to personal tax rates announced in 2008 will go ahead, and there is increased spending on health.

One of the most significant financial planning changes is the 50 per cent tax discount on the first $1,000 of interest earned, providing an incentive for increased saving. Also welcome is the permanent higher concessional contribution cap for those aged 50 or over whose total superannuation balance is less than $500,000.

Economically, there is good news, with an earlier return to surplus predicted and lower forecasts for unemployment.

More money in your pocket

The Government has confirmed the income tax rates and thresholds announced in the 2008/09 budget.

The maximum annual low income tax offset will increase from $1,350 to $1,500 from 1 July 2010. The threshold at which the offset begins to phase out will remain at $30,000. Those eligible for the full offset will have an effective tax-free threshold of $16,000 in 2010/11.

If your annual income exceeds $16,000 the changes will give you a tax saving of between $150 and $1,300.

2009/10 financial year		2010/11 financial year	
Taxable income $	Tax rate %	Taxable income $	Tax rate %
0 – 6,000	0	0 – 6,000	0
6,001 – 35,000	15	6,001 – **37,000**	15
35,001 – 80,000	30	**37,001** – 80,000	30
80,001 – 180,000	38	80,001 – 180,000	**37**
Over 180,000	45	Over 180,000	45

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Federal Budget 2010/11: What does it mean for you? continued

Tax offset for out-of-pocket medical expenses

The Government has raised the threshold for the medical expenses tax offset from $1,500 to $2,000, meaning that you have to spend $2,000 on medical expenses before you are eligible for a 20 per cent tax offset on amounts over this.

Easier tax returns

From 1 July 2012, you will be able to claim a standard deduction of $500 for work-related expenses and the cost of managing your tax affairs, increasing to $1,000 a year later. If you have deductible expenses greater than the standard deduction amount, you will still be able to claim for higher expenses.

Tax boost for savings

From 1 July 2011, the Government will introduce a 50 per cent tax discount on up to $1,000 of interest earned on investments such as deposits, bonds, debentures and annuity products held in authorised deposit-taking institutions, including eligible banks, building societies and credit unions. If you're on a 30 per cent personal tax rate, you stand to gain a maximum benefit of approximately $157, while if you're on the top rate you'll benefit by $232 per annum.

'Catch up' with super contributions

From 1 July 2012, the $50,000 transitional concessional contributions cap will be extended permanently for investors age 50 or over with total super balances of less than $500,000. This gives you more opportunity to play 'catch up' on your super if you're nearing retirement.

Increased retirement savings

There will be a phased increase in the superannuation guarantee (SG) rate from 9 to 12 per cent, starting in 2013. This will boost retirement savings for all working Australians.

Financial year	SG rate %	Increase from previous year %
2009/10 to 2012/13	9.00	–
2013/14	9.25	0.25
2014/15	9.50	0.25
2015/16	10.00	0.50
2016/17	10.50	0.50
2017/18	11.00	0.50
2018/19	11.50	0.50
2019/20	12.00	0.50

Super break for older workers

Older workers will stand to benefit from an increase in the SG age limit from 70 to 75 in 2013. The new limit will bring employer obligations in line with the age limit for voluntary and self-employed contributions.

Super top-up reductions confirmed but…

The reduced matching rate for Government super co-contributions will be permanently held at 100 per cent, up to a maximum of $1,000 per annum. Current eligibility thresholds will be frozen at $31,920 and $61,920 for the next two financial years.

…super boost for low income earners

From 1 July 2012, the Government will make a 15 per cent super contribution (up to a maximum of $500 a year) to match concessional contributions made by investors with an adjusted taxable income of up to $37,000. The annual maximum of $500 will be available if you have employer, salary sacrifice or personal deductible contributions of $3,333 or more, and will be paid by the Government into your super account.

Good news for first home buyers

At the moment, if you have a First Home Saver Account (FHSA), you have to keep your savings there for four years before you can use the funds to buy a home. If you buy a home before the end of the minimum qualifying period, the Government is proposing to allow you to pay your FHSA savings into an approved mortgage, rather than requiring them to be paid into your super account.

The Government also contributes $850 a year if you deposit $5,000 or more into your FHSA. And you will benefit from a flat 15 per cent tax rate on any interest earned.

For more information on how the Federal Budget 2010/11 will affect your personal financial situation, please contact us today.