



Federal Budget 2010-11

Yesterday, the Treasurer Mr Swan handed down the 2010-11 Federal Budget. It is intended to be a responsible Budget that will return the government to a surplus ahead of schedule. As expected, it contained measures to provide a tax discount on savings and to make it easier to fill in tax returns. However, the Budget unexpectedly contained a raft of other minor tax changes.

To help you in your understanding of the 2010 Federal Budget we provide your Budget review in two (2) parts:

PART 1: A breakdown of how the Budget will impact your industry sector; and

PART 2: A summary of how the Budget impacts on Personal Tax, Superannuation and Business Tax.

PART 1: Budget Impacts on Industry Sectors

Advertising and marketing

Nothing specific for this industry, although as we said when the Henry Report was released, the changes around small business investment write-offs is likely to create plenty of interest in B2B selling when it kicks in mid-2012, particularly in the lead up to tax time. At least there was nothing bad in the Budget for this sector, unlike last year when the extension of the Do Not Call Register to cover business numbers gave this sector a shock.

Agribusiness

As in previous years the focus here is on drought assistance to the nation's farmers. Most programs have received extra funding, which should help the sector with its recovery. The sector will also benefit from new bio security measures, which received \$61.3 million in funding.

Construction and engineering

The creation of a new \$700 million infrastructure fund, announced as part of the Government's response to the Henry Report, is good news for the sector. On top of this there was \$1 billion for rail upgrades, which should also provide work for those in this sector.



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Knowledge

Financial services and insurance

If there is one sector that is a real winner from the Budget, it is financial services. For starters, the Government will encourage savings by providing a 50% tax discount on the first \$1,000 of interest earned on deposits, bonds, debentures and annuity products. The Government will also phase down the interest withholding tax rate on interest paid on offshore borrowing to encourage foreign institutions into the market, and create something called the Centre for International Finance & Regulation to provide research and training in the sector. Add to this the increase in the superannuation guarantee and it's easy to see that money will pour into this sector over the next decade.

Health and pharmaceuticals

A winner and a loser. On the plus side, there was \$2.2 billion for new health initiatives, including \$467 million for a new e-Health initiative. On the negative side, Government spending on pharmaceuticals will fall by around \$2 billion, and the tax break for medical expenses has been reduced. Still, it's worth remembering that this is another sector that will get plenty of budgetary attention in the future as the population ages.

Information technology

A winner on two fronts. The new e-Health initiative should provide a real boost to the sector, which has been pushing for the Government to take medical records online for many years. The IT sector should also enjoy a boost from the Government's new skills package, which was worth \$600 million. As one of the sectors already suffering acute skills shortages, at least some of the 39,000 training places will go to IT.

Manufacturing

While the new spending on skills will be welcomed by manufacturing, the automotive sector will be less pleased with Industry Minister Kim Carr's decision to axe the green car innovation fund. It's a strange decision – while the Government's climate pollution reduction scheme is on the backburner, it seems strange to cut one of the programs that would have helped the car sector in the long-term.

Media

The media sector already knew all about its big win – a \$210 million rebate on broadcast licence fees. In another win, the Government will invest \$375.4 million over 12 years to provide transmission of digital free-to-air television services from a new satellite platform as part of the switch to digital television.



Professional services

Accounting bodies have been positive about the Government's decision to simplify tax returns by creating an option for taxpayers to take a standard deduction of work-related and tax expenses, starting at \$500 in 2012-13 and rising to \$1,000 in 2013-14. However, what impact this will have on smaller tax agents, accountants and bookkeepers really remains to be seen. The Government predicts 6.4 million taxpayers could eventually use the option, meaning they might not even need to see a tax agent at all at tax time. That could really hurt those accountants who concentrate on fast-turnaround individual tax work.

Property

Nothing specific for this sector, although the Property Council has welcomed extra funding for infrastructure and skills, as well as the fact the Budget is heading back towards the black.

Resources and energy

The Government's reliance on the resources sector is highlighted by the budget papers. Not only are the Budget's growth forecasts largely underpinned by a big rise in business investment by the mining sector, but the new Resources Super Profit Tax is forecast to add a whopping \$12 billion to the Government coffers over the next four years. Of course, these two facts do appear to be at odds – if Super Profit Tax gets up, will mining investment really be as strong as the Government thinks?

Retail

The Australian Retailers Association were extremely disappointed with the Budget, claiming there was no immediate help for small retailers who find themselves operating in some of the worst trading conditions in years. While the cuts to the corporate tax rate and the immediate asset write-off are good, smaller retailers won't see the benefits of these programs for more than two years.

Telecommunications

Nothing specific for this sector, although Wayne Swan did make it clear that the National Broadband Network is a key focus for the Government going into the next election.

Tourism and leisure

Two areas of the leisure sector received a boost. Recreational boat builders will benefit from a change to GST laws that will make it easier for people to buy boats for export without needing to pay GST, while the film industry will be helped with more attractive tax breaks.



Transport and logistics

Another big winner. The Government will invest \$1 billion in the Australian Rail Track Corporation to help improve the efficiency of Australia's freight rail system. The new \$700 million infrastructure fund paid for by the Resources Super Profit Tax will also be focused on rail, roads and ports.

PART 2: Budget Impacts on Personal Tax, Superannuation and Business Tax

Some of the tax changes are summarised in the table below.

Personal tax

Proposed reform	Proposed start date
The government has not made any change to the currently legislated tax rate cuts, these changes are: <ul style="list-style-type: none"> • Increase the threshold at which the 30% marginal tax rate begins to apply • Decrease the 38% marginal rate to 37% 	1 July 2010
50% tax savings discount – the government will provide a 50% tax discount on up to \$1,000 of interest earned by individuals (including interest indirectly earned via a trust or managed investment scheme)	1 July 2011
Standard Deduction for work-related expenses – individuals will get a standard deduction of \$500 for work-related expenses and cost of managing tax affairs from 1 July 2012 (increasing to \$1,000 from 1 July 2013).	1 July 2012
Increase in Medicare levy low-income thresholds – the increase is to take into account movements in the Consumer Price Index and to ensure that low-income families and individuals are exempt from paying the levy	1 July 2009
Increase in medical expenses tax offset threshold – increased from \$1,500 to \$2,000, this means that you will be eligible to receive 20% of the net unreimbursed eligible medical expenses that exceed \$2,000	1 July 2010



Business tax and superannuation

Proposed reform	Proposed start date
Reduction in company tax rate from 30% to 28% - as announced as part of the Henry Report	1 July 2012 & 1 July 2013
Small business instant write-off for depreciable assets that cost up to \$5,000 – as announced as part of the Henry Report	1 July 2012
GST – restructure of margin scheme provisions – to make the rules simpler and clearer and to reduce taxpayer uncertainty	1 July 2012
Increase the rate of Super Guarantee contributions to 12% - as announced as part of the Henry Report	From 1 July 2013
Low income earners Government superannuation contributions tax rebate - as announced as part of the Henry Report	1 July 2012
Concessional contributions cap for those aged over 50 with balances under \$500,000 - as announced as part of the Henry Report	1 July 2012
Increase the super guarantee age to 75 - as announced as part of the Henry Report	From 1 July 2013
Change to reduction in Government co-contribution – the government will permanently retain the 100% date of co-contribution up to \$1,000	1 July 2012

We hope you find this information valuable. Please contact us with any queries you may have.

Best wishes

The Forsyths Team

Sources: *Cyntax Tax Training*
The Institute of Chartered Accountants and Thomson Reuters Budget Night Report 2010-2011.

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