FEDERAL BUDGET 2010 SUMMARY

Some of the decisions announced in Tuesday night's budget had been released the week before in the Government's response to the Henry Tax Review.

The 2010 Federal Budget follows last week's announcements on the Henry Tax Review. While many of last night's key budget proposals had already been released with the Henry Tax Review, there are a few important new budget announcements.

In this report, Aon Consulting focuses on the key issues that may affect you. We cover the budget and Tax Review announcements relating to superannuation, personal savings, company tax, health insurance and employee benefits.

Superannuation

Increase in the Superannuation Guarantee (SG)

Budget and Henry Tax Review decision: The Government will increase the SG to a maximum of 12% by the 2019-20 financial year. The SG rate will increase in small increments starting from 2013-14 as outlined in the table below.

Income year	SG annual rate	Increase from previous year
2009-10 to 2012-13	9.00%	None
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%

What this means: Employers who currently pay the 9% SG rate have three years to plan for the increase. They can take the SG increases into account when negotiating salaries and benefits for their employees that will extend beyond 2012-13.

Superannuation Guarantee (SG) extended for older workers

Budget and Henry Tax Review decision: Employers will have to pay SG contributions for employees up to 75 years of age. Currently, they only have to pay SG for workers aged up to 70. This change will commence from 1 July 2013.

What this means: The extension to age 75 will align the SG cut-out age for employees with the maximum age for voluntary contributions and contributions by the self-employed (provided a person aged over 65 meets the work test).

New concessional contribution limit for some

Budget and Henry Tax Review decision: The concessional contribution limit of $50,000 will be retained for people aged 50 or more who have superannuation balances under $500,000.

The concessional contribution limit for people aged 50 or more was due to halve from 1 July 2012, going from $50,000 down to $25,000, bringing it in line with that already applying to younger people.

What this means: This measure provides a tax incentive to older workers with low superannuation balances, giving them the opportunity to boost their superannuation balances as they near retirement. It will particularly benefit lower income earners and those who spend time out of the workforce caring for children.

However, the potential to boost your superannuation in later years is still quite limited so workers wanting to build their retirement savings should start adding to their superannuation early on.

Details on how the limit will be applied and administered have not been finalised. The Government plans to hold discussions with the superannuation industry to finalise the implementation of this decision.

Additional Government superannuation contribution for low income workers

Budget and Henry Tax Review decision: A new Government superannuation contribution will be introduced for low income workers who earn less than $37,000 pa. It will commence in the 2012-13 income year and be paid into the superannuation funds of eligible workers in 2013-14.

What this means: People on a marginal tax rate of 15% or less currently pay higher tax on their superannuation than on other income. The new Government contribution is designed to offset the higher tax. The contribution will provide a tax concession on Superannuation Guarantee (SG) contributions for those on a marginal tax rate of 15% or less, with a maximum rebate of $500.

People who also qualify for the current Government co-contribution will be able to access both benefits.

Co-contributions

Budget decision: In last year's budget, the Government announced that it was reducing its maximum co-contribution from $1,500 down to $1,000. At the time it said that it would increase the co-contribution to $1,250 in 2012 and to $1,500 in 2014. The Government has now said it will retain the maximum amount at $1,000. It also announced that the income thresholds for eligibility to the co-contribution will be frozen at the levels applying in 2009-10 and not be indexed as previously planned.

What this means: Although the maximum co-contribution won't be increasing, it remains a great way to increase your superannuation. The Government will still put $1 into your superannuation for every after-tax $1 you contribute to your superannuation if you earn less than $30,920. While the amount of Government co-contribution you can get decreases for those on incomes above this amount, you can still get some money provided you earn less than $61,920 and you make an after-tax contribution to your super.

Superannuation Complaints Tribunal (SCT)

Budget decision: The Government has announced increased funding for the Superannuation Complaints Tribunal (SCT). The SCT is an independent body that resolves disputes between super fund members and trustees. The budget is to increase by $5.9 million over four years to cover rising workloads and increased complexity of complaints handled.

What this means: The Government has confirmed its confidence in the SCT's efficiency and its ability to resolve complaints in the superannuation industry.

Personal savings

Tax discount on interest

Budget decision: From 1 July 2011, a 50% discount will apply to the tax payable on interest income up to a maximum of $1,000. This will apply to interest earned by individuals, trusts or managed investment schemes from deposits in banks, building societies, credit unions, debentures and annuity products.

What this means: You will pay 50% less tax on your first $1,000 of interest on your bank deposits. Anything over this amount will be taxed at your marginal tax rate.

Superannuation earnings are still extremely tax effective, being taxed at a maximum of up to 15%.

Company tax

Company tax rates

Budget and Henry Tax Review decision: The company tax rate will be reduced from 30% down to 29% for the 2013-14 financial year and to 28% for the 2014-15 financial year. Small businesses will have their tax rates reduced earlier than this (see below).

What this means: The Government has tied the reduction in company tax to the introduction of the Resource Super Profits Tax so the cut may depend on what happens with the resource tax. The lower rate will position Australia as 17th among similar-sized OECD countries (from 22nd).

Small business tax rates

Budget and Henry Tax Review decision: The company tax rate for eligible small businesses will be reduced from 30% to 28% in the 2012-13 financial year. That is, small businesses will benefit from the lower tax rate earlier than larger businesses.

What this means: Approximately 720,000 incorporated small businesses will benefit from the reduced tax rate. This will increase their cash flow and free up capital for reinvestment.

Small business asset write-offs

Budget and Henry Tax Review decision: From 1 July 2012, small businesses will be able to write-off assets valued at less than $5,000 immediately in the year of purchase. All other assets (except buildings) can be pooled and a single depreciation rate of 30% applied.

What this means: Up to 2.4 million small businesses will benefit from these changes.

Increasing the current $1,000 threshold for immediate asset write-offs will help improve cash flow and simplify asset depreciation requirements.

Grouping all assets into the one pool and applying the same depreciation rate to all assets also helps reduce costs for administration of asset depreciation. Currently, small businesses have to separate assets into two different pools for depreciation.

Health insurance

Private health insurance incentives

Budget decision: In last year's budget the Government announced that higher income earners would face an increased penalty if they did not have private health insurance and will receive a lower (or no) rebate. The penalty was to apply from 1 July 2010. The Government has now deferred introduction of the penalty because of opposition in the Senate. It is now due to take effect from 1 July 2011.

What this means: While there is no change in the rebate for 2010-11, from 1 July next year there will be an even greater incentive for higher income earners to take out private health insurance given the increased Medicare levy surcharge. However, the insurance will cost more given the reduction in the rebate.

Employee benefits

Impact of a two-speed economy and ageing population

Budget comment: The continuing resources boom combined with the ageing population will put pressure on access to workers for those in non-mining industries. The budget papers noted that the number of working age people to support each retiree is expected to fall from 5 people today to 2.7 people in 2050.

What this means: Many employers will find it difficult to find workers to meet their business requirements. Being able to attract and retain employees will become more critical for business success. A well constructed employee benefit program can make employers more competitive.

For further information about the budget, or to find out more about how Aon Consulting's human capital experts can assist you and your organisation, please speak to your regular Aon contact.

The information in this budget summary is general in nature. Your personal objectives, financial situation or needs were not taken into account when preparing this information. You may want to seek independent advice before making any financial decisions.

This budget summary was prepared and issued by Aon Consulting Pty Limited (ABN 48 002 288 646, AFSL 236667).

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