



EDITION 1

JUNE 2009

Welcome to the first edition of Nexis News. With a very turbulent financial year soon coming to a close, the government delivered what can only be called a relatively unsurprising or even boring budget. However there are a number of changes that will affect many people. The main changes that you should be aware of are as follows:

### Personal Tax Rates from 1 July 2009

The Government did not make any changes to the currently legislated tax rates for 2009 and 2010. This means that for the year commencing 1 July 2009, the resident tax rates will be as follows:

From 1 July 2009	
Taxable income (\$)	Rate (%)
0 - 6,000	0
6,001 - 35,000	15
35,001 - 80,000	30
80,001 - 180,000	38
180,001+	45
<b>Low income tax offset</b>	
1,350	

### Investment Allowance: small business and general business tax break

In the 2009 Federal Budget the government extended the investment allowance for small business. We previously advised all business clients regarding this last month. We can now confirm that this legislation has now passed parliament and is now awaiting Royal Assent. To recap the main details of the investment allowance are as follows:

#### Small business entities (turnover of less than \$2 million a year):

An additional tax deduction of 50 per cent of the cost of eligible new tangible depreciating assets where the business commits to investing in the asset between 13 December 2008 and 31 December 2009 and first uses the asset, or installs it ready for use, or (in the case of new investment in an existing asset) brings the asset to its modified or improved state on or before 31 December 2010.

#### Other business entities (turnover of \$2 million or more a year):

An additional tax deduction of 30 per cent of the cost of eligible new tangible depreciating assets where the business commits to investing in the asset between 13 December 2008 and 30 June 2009 and first uses the asset, or installs it ready for use, or brings the asset to its modified or improved state on or before 30 June 2010.

An additional tax deduction of 10 per cent of the cost of eligible new tangible depreciating assets where the business commits to investing in the asset between 13 December 2008 and 30 June 2009 and first uses the asset, or installs it ready for use, or brings the asset to its modified or improved state between 1 July 2010 and 31 December 2010.

An additional tax deduction of 10 per cent of the cost of eligible new tangible depreciating assets where the business commits to investing in the asset between 1 July 2009 and 31 December 2009 and first uses the asset, or installs it ready for use, or brings the asset to its modified or improved state on or before 31 December 2010.

Generally, a business 'commits' to investing when: it enters into a contract under which the asset will be held or improved; it starts to construct the asset or improvement; or starts to hold the asset in some other way. Small businesses entities will be able to claim the 50% deduction for investments in eligible assets of \$1,000 or more. For other businesses, a minimum expenditure threshold of \$10,000 will apply to be eligible to claim the 30% or 10% deduction. The cost of items forming part of a set and the cost of identical or substantially identical assets may be added together for the purposes of meeting the thresholds. All assets must be used principally in Australia for the principal purpose of carrying on a business and meet certain eligibility criteria. Provided all of the eligibility criteria are satisfied for the income year, the tax break can be claimed as a tax deduction in the income tax return for the income year in which the asset is first used or installed ready for use.

### **Concessional Superannuation Contributions Caps Cut**

With effect from 1 July 2009 the Government will cut the superannuation concessional contributions cap to \$25,000pa (from \$50,000pa) from the 2009-10 financial year. This cap will be indexed.

The transitional concessional contributions cap for those aged 50-74 (applicable to the 2009-10, 2010-11 and 2011-12 financial years) will be cut to \$50,000pa (down from \$100,000pa). The transitional cap is not indexed. From 1 July 2012, the concessional contributions cap for those aged 50 and over will revert to the lower \$25,000 cap (or applicable indexed amount at that time).

The non-concession contributions cap will remain at \$150,000 for the 2009-10 financial year (or \$450,000 over 3 years). In the future, the non concessional contributions cap will only increase when the new lower \$25,000 cap is increases by indexation. It will be calculated as 6 times the level of the (indexed) concessional contributions cap.

### **Education Expenses Tax Offset**

With effect from the 2009 financial year, a new refundable tax offset is available for eligible education expenses incurred in respect of a child or student who is undertaking primary or secondary school studies. There are three primary conditions on eligibility for the claim – the expenses must be eligible, the student must satisfy a schooling requirement, and the taxpayer must either satisfy certain Family Tax Benefit requirements or be classed as an independent student – and a limit on the maximum amount.

#### **Maximum Amount of Offset**

The offset is generally calculated as 50% of the eligible education expenses. Subject to the various rules a taxpayer may claim up to \$750 of eligible expenses for each child undertaking primary school studies (i.e., an offset of up to \$375 per child, per year) and up to \$1,500 of eligible expenses for each child undertaking secondary school studies (i.e., an offset of up to \$750 per child, per year).

Where a child moves from primary school to secondary school during a financial year, the

offset is available at the higher, secondary school level for the whole year.

The annual offset limits are indexed each year.

Where the eligible education expenses for a financial year are more than the allowable maximum for a child, the excess may be carried forward to the next financial year and counted as part of the eligible expenses for that child in the next year, provided that the other conditions for claiming the offset are met in the next year.

### Eligible Education Expenses

To be considered for the offset, the expense must relate to the education of the child or student, and must be incurred by either the taxpayer or the taxpayer's partners for the acquisition of:

- Laptop computer, home computer and associated costs (including where a number of components are acquired to build a home computer);
- Computer-related equipment such as printers and modems, and disability aids to assist in the use of computer equipment for students with disabilities;
- Establishment or maintenance of a home internet connection;
- Computer software, such as word processing, spreadsheet, database and presentation software, educational games, internet filters and antivirus software;
- School textbooks, associated learning material, study guides and stationery; and
- Tools of trade, as prescribed by the course.

### Private Health Insurance Rebate & Surcharge Changes

The Government announced that high income earners will receive less Government

payments for their private health insurance, but will face an increase in costs should they opt-out of their health cover.

From 1 July 2010, the Government will introduce what it calls 3 new "Private Health Insurance Tiers" – so that, in the Government's words, "higher income earners receive less 'carrot' and more 'stick' to be insured":

**Tier 1:** for singles earning more than \$75,001 (couples \$150,001), the Private Health Insurance Rebate will be 20% for those up to 65 years (25% for those over 65, and 30% for those over 70 years). The stick: The surcharge for avoiding private health insurance will remain at 1%.

**Tier 2:** for singles earning more than \$90,001 (couples \$180,001), the Private Health Insurance Rebate will be 10%, for those up to 65 years (15% for those over 65, and 20% for those over 70 years). The stick: The surcharge for avoiding private health insurance will be increased to 1.25%.

**Tier 3:** for singles earning more than \$120,001 (couples \$240,001), no Private Health Insurance Rebate will be provided. The stick: The surcharge for avoiding health insurance will be increased to 1.5%.

All income thresholds would continue to remain indexed to wages.

For low and middle-income earners, the existing 30, 35, 40% Private Health Insurance rebates will remain in place.

The opposition has stated they will block these changes so we will have to wait and see if they pass through parliament.

### Income Tax Planning

We feel that one of the most important ongoing services we can provide to you is the preparation of interim financial statements to assist in some savvy tax planning. At Nexis we consider tax planning to be an integral part of a structured wealth creation strategy and not one just to reduce tax. So with in mind tax

planning should be viewed as an investment in your wealth creation plan. The cost however of not engaging in annual tax planning will probably mean that you're paying more income tax than you have to, year after year. The lifetime cost can be enormous.

The benefits of annual tax planning include the following:

- Detailed assessment of potential tax issues;
- Planning strategies implemented to manage upcoming tax issues;
- Up to date tax information and how it might affect you;
- A review of your current structure and advice on whether it needs to be altered;
- Opportunity to prepare for tax obligations and loan account repayments; and
- Investment and Planning review;
- Maximising the governments once-off investment allowance;
- Maximising your entitlements to government benefits.

Should you feel your business will benefit from Tax Planning this financial year please contact our office as soon as possible to organise an appointment. Do not leave it till after June 30!!!

## **Welcome Ben and Maryam (and welcome back Scott)**

It is with great pleasure to introduce to you two new Nexis team members. Ben Ahern and Maryam Khanzada both commenced with us in April and have fitted in very well. Both have a number of years experience in taxation and business advisor services.

We are also very happy to report that Scott Hammond has recommenced working full time. After a nine month battle with post viral fatigue syndrome he is over the moon to be back and looking forward with catching up with everyone over the coming months.

## **Property Investment, Wealth and Passive Income Creation Seminars**

Over the coming months we will be holding a series on seminars on property investment, wealth and passive income creation. Should you wish to attend one of these seminars please contact our office to register your interest.

The above information is only of a general nature and should not be relied upon for decision making purposes. Please contact our office should you require any further details on any of the matters addressed.

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