

2010 Tax Season

Editor – David Whitson

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INDIVIDUAL TAX RATES

As outlined in the recent Federal Government budget, the individual tax rates have been changed for the 2010/2011 financial year.

\$	2009/2010	Rates %
0 – 6,000		0
6,001 – 35,000		15
35,001 – 80,000		30
80,001 – 180,000		38
180,001 +		45

\$	2010/2011	Rates %
0 – 6,000		0
6,001 – 37,000		15
37,001 – 80,000		30
80,001 – 180,000		37
180,001 +		45

+ Plus Medicare levy 1.5%

INVESTMENT ALLOWANCE

As a part of the Government \$42 billion stimulus package a temporary investment allowance to encourage capital investment by Australian businesses has been introduced.

For small business entities (broadly a business with turnover under \$2 million per year):

- Bonus deduction of 50% for eligible assets costing \$1,000 or more (exclusive GST).
- To qualify for the 50% rate the asset must have been purchased or construction commenced between 13 December 2008 and 31 December 2009, also the business must start to use the asset or have it installed ready for use by 31 December 2010.

As the Investment Allowance is in addition to standard depreciation claimed, a small business has the ability to claim a 150 percent deduction over the effective life of the asset. As an example, on a piece of equipment worth \$100,000 you could receive a tax deduction of \$50,000 additional to the \$15,000 depreciation allowance you can already claim. That adds up to a \$65,000 tax deduction in the first year.

How much tax could you save?

In the above example, for a \$100,000 investment with a total \$65,000 tax deduction, if your tax rate is 30% the bonus investment allowance has potential to save you \$15,000 in tax in addition to the \$4,500 tax saving with ordinary depreciation. As the investment allowance is a tax deduction, it will reduce your tax liability at the end of the year, it is not a bonus cash payment.

If you are not a small business entity (that is, you have a turnover of \$2 million or more):

- A bonus deduction of 30% may apply for eligible assets costing \$10,000 or more (exclusive of GST).
- To qualify for the 30% rate the asset must have been purchased or construction commenced by 30 June 2009 and the business must start to use the asset or have it installed ready for use by 30 June 2010.
- If you miss the investment deadline you may only be eligible for the tax break at the reduced rate of 10% for purchases made between 1 July 2009 and 31 December 2009.

Expenditure on water facilities **are not eligible** for the investment allowance but are entitled to a one-third deduction in the income year in which you incurred the expenditure and one-third in each of the following two years.

For investments in motor vehicles the tax break is only eligible:

- For the portion of the cost under the luxury car limit which is \$57,180 for the year ended 30 June 2010.
- If the motor vehicle is used primarily (i.e. greater than 50%) for business purposes.

Taxpayers using the Cents Per Kilometre and 1/3 Of Costs methods to claim their motor vehicle costs will not be eligible for the tax break.

MEDICARE LEVY SURCHARGE

Individuals and families on incomes above the Medicare levy surcharge thresholds who do not have private patient hospital cover may have to pay the Medicare levy surcharge.

This surcharge is in addition to the Medicare levy at the rate of 1% of your taxable income (including your total reportable fringe benefits).

The increased thresholds are as follows:

	2010/11
Singles	\$77,000
Couples & Family	\$154,000

“The hardest thing in the world to understand is income tax!” – Albert Einstein

SUPERANNUATION GUARANTEE

As an employer you are required to make superannuation guarantee contributions on behalf of your eligible employees at least once each quarter. Contributions are due by: 28 October, 28 January, 28 April and 28 July each year.

From 1 July 2008 you must use ordinary time earnings, as defined in the super guarantee law, to calculate the minimum super guarantee contributions for your employees.

Ordinary time earnings include over-award payments, commissions, allowances, and paid leave. Overtime is not included however if an employee is required under a workplace agreement to regularly work more than the standard 38 hour week you must pay super on the total hours worked including the hours in excess of the standard 38 hour week.

Please review your earnings base calculation in your payroll systems or software for all your employees to ensure you are calculating your super contributions based on ordinary time earnings. Feel free to contact our office for more specifics of ordinary time earnings.

SUPERANNUATION GUARANTEE (CONT.)

You now need to:

- Calculate 9% of the ordinary time earnings for each eligible employee (generally employees who are paid \$450 or more per month).
- Pay this to a complying superannuation fund at least quarterly.
- Report in writing to your employees the details of the contributions you have made to their funds at least once every quarter on a pay slip, letter or email. You should note amount contributed, name of fund and, if known, the employee's account number.
- Keep a record of when, what and how you reported superannuation contributions to your employees.

If you don't make your superannuation contributions by the cut off dates you will face penalties. You may also face penalties if you don't report details to your employees.

50% EDUCATION TAX REBATE

From 1 July 2008 you can claim money back on your tax return for certain education costs for your primary and secondary school children. You are eligible if you receive Family Tax Benefit Part A or in other circumstances where your child received a payment preventing you from receiving Family Tax Benefit Part A such as Youth Allowance. Please contact our office if unsure. The rebate is calculated on 50% of eligible costs up to the following limits (per child per year):

Grade	Max spend #	Rebate	Max rebate
Primary	\$760	50%	\$380
Secondary	\$1,558	50%	\$779

Surplus expenditure can be carried forward and claimed in later years.

For shared care the rebate is based on the shared care percentage of Family Tax Benefit Part A that you receive. For example if your shared care is 60% the maximum rebate for a primary grade child is 60% X \$760 X 50% = \$228 tax rebate.

Eligible education costs include the cost of buying, establishing, and repairing any of the following:

- home computers and laptops;
- computer-related equipment including printers and software;
- home internet connection;
- school textbooks and other paper-based school learning materials and stationary;
- prescribed trade tools.

You cannot claim for:

- school fees;
- school uniform expenses;
- student attendance at school based extra curricular activities such as excursions;
- tutoring costs;
- musical instruments;
- sporting equipment;
- school subject levies;
- computer games and consoles.

PAYG – WAGES

PAYG payment summaries – should be issued to your employees by 14 July 2010. The payment summary annual report to the Australian Taxation Office should be remitted by 14 August 2010. Please ensure all wages balance for the financial year before the June declaration on your BAS is made to the ATO.

Employers, please remember the weekly PAYG withholding rates change 1 July 2010. Please ensure you relate to the Tax Office's new weekly tax tables. Whitson Dawson holds copies of these at our office should you require any.

"Benjamin Franklin said nothing is certain but death and taxes. But at least death doesn't get worse every year." – Anon

SUPERANNUATION UPDATES

Please note if you are thinking of contributing any money to your superannuation fund and claiming a deduction for your 2010 tax year the contribution must be received by the super fund by 30 June in any year.

DEDUCTIBLE CONTRIBUTION RULES

For the 2010/11 financial year the maximum deduction that can be claimed for a contribution to super is \$25,000 per person per year for members under age 50. A transitional cap of \$50,000 applies if you are aged 50 or over.

The limit applies across all employer, personal and salary sacrificed contributions. If you go over the limit you'll lose 31.5% of the excess amount in tax. The transitional cap will cease after 30 June 2012 when

all concessional caps will drop to \$25,000.

REPORTABLE SUPER CONTRIBUTIONS

From 1 July 2009 employers must include Reportable Super Contributions for employees on their PAYG Payment Summaries. This means all super payments the employee has influence over, such as salary sacrificed amounts, but excludes the compulsory 9% super guarantee payments. If your employee has asked you to pay more than 9% super to their fund, it is the excess over 9% that must be reported.

NON-DEDUCTABLE CONTRIBUTIONS

Non-concessional contributions include personal contributions for which you do not claim an income tax deduction. The non-concessional contributions cap is \$150,000 per person per year. If you're under 65 years of age for at least 1 day of a financial year, you can bring forward your future entitlements and contribute up to \$450,000 over a three-year period. Excess non-concessional contributions tax is payable at a rate of 46.5%

93% TAX!

Your excess concessional contributions also count towards your non-concessional contributions cap. If your contributions exceed both the concessional and non-concessional contributions caps in an income year, the excess amount could end up being taxed at 93% overall.

"We make a living by what we get, but we make a life by what we give." – Winston Churchill

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