

Federal Budget 2010

Snapshot

A quiet night in Canberra

There are few surprises in this year's Federal Budget, brought down just nine days after the release of the Henry tax review. Treasurer Wayne Swan has been promoting a message of 'no frills' for the last week, saying it would be a Budget low on expenses and high on reining in the deficit. And he didn't disappoint — there are no thrills in this year's Budget.

In his own words the Treasurer said this Budget targets three key challenges: the return to full capacity in a two-speed economy; climate change; and the fiscal pressures of an ageing population.

There are signs that he has addressed these issues but it was nevertheless a subdued delivery with few fireworks. However, this Budget will inevitably be viewed against the backdrop of an election year. The Rudd Government was determined to present an economically responsible Budget, summed up by Treasurer Swan's aim to "meet the highest standards of responsible economic management".





The Economy

The key thrust is that the Budget will return to surplus in 2012–13, three years earlier than originally scheduled. This will be achieved largely on the back of revenue from the resources boom and helped by an expected \$20 billion in new taxes, including the proposed Resource Super Profits Tax on miners from July 1, 2012 (\$12 billion) and the increased tobacco tax (\$5 billion).

A budget deficit of just \$40.8 billion is forecast for 2010–11 which is \$16.3 billion less than the figure expected a year ago. Net debt is projected to peak at 6.1 per cent of GDP, half the level estimated a year ago and, perhaps more importantly, less than one tenth of the average across the major advanced economies.

All new spending in the Budget is offset and real payments growth has been kept to less than 2 per cent a year. This is in keeping with the Government's promise last year that it would keep spending increases below 2 per cent once economic growth topped 3 per cent. And it has, with growth predicted at 3.25 per cent in 2010–11 (compared with 2 per cent this year), and 4 per cent in 2011–12.

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The Budget at a glance

Taxation

As foreshadowed in last year's Budget and as part of Labor's election promise in 2007, individual income tax rates will be lowered. As a result the 30 per cent tax threshold rises from \$35,000 to \$37,000. The tax cuts give workers on \$50,000 a year an extra \$9 per week in their pocket.

Meanwhile, those earning more than \$80,000 a year and up to \$180,000 see their tax rate fall from 38 per cent to 37 per cent.

In addition the effective tax-free threshold will be raised to \$16,000 in 2010–11 by increasing the low income tax offset (LITO) to \$1500. In 2007–08 the threshold was only \$11,000.

Savings

From July 1, 2011, there will be a 50 per cent tax discount on the first \$1,000 earned on deposits in banks, building societies, credit unions and other products such as bonds, debentures and annuities. It's aimed at low income earners who generally prefer to have their savings outside the superannuation environment. As the tax discount is only on the first \$1,000 earned, it should have a minor impact on the flow of funds into superannuation, still the primary means of saving for retirement.

Infrastructure

\$5.6 billion will be allocated over the next decade for a new infrastructure fund, with a further \$1 billion to renew rail networks.



Skills training

Some \$661 million will be used to fund skills training for people to support the sustainable growth strategy.

There will be up to 70,000 new training places and support for 22,500 new apprentices. All Australians aged under 25 will have access to courses to gain or improve their work qualifications.

Health

Health is the big winner in this year's Budget with total new investment over five years budgeted at \$7.3 billion, plus an additional \$2.2 billion for GP super clinics, the enhancement of after-hours services, and for the training of additional nurses.

Another key development is the introduction of electronic health records.

As a result of the Government's negotiations with the pharmaceutical companies, families will get a better deal on the price of prescription medicines. But on the downside those claiming pharmaceutical benefits must now spend more than \$2,000 a year before they can claim a deduction. Previously the figure was \$1,500.

Renewable energy

With the emissions trading scheme shelved, the Government maintained a focus on renewable energy with \$652 million going to a Renewable Energy Fund for such technologies as wind, solar and biomass. The target is for 20 per cent of energy to come from renewable sources by 2020.

Superannuation

Changes to superannuation were announced with the release of the Henry report. The superannuation guarantee will be increased gradually from 9 per cent to 12 per cent by 2019. The first increment of 0.25 per cent will take place from July 1, 2013, allowing small business time to prepare for the increase.

Lower income earners on less than \$37,000 a year will receive a contribution of up to \$500 a year from the government from July 1, 2012.

Also from 2012, workers aged over 50 with balances less than \$500,000 can still utilise the \$50,000 concessional contribution cap. Currently those over 50 can contribute \$50,000 but this transitional concession will be halved to a universal \$25,000 in 2012 for those with more than \$500,000 in their super fund.

Hopes that the co-contribution would revert to \$1,500 were dashed in the Budget. The co-contribution is aimed at low income earners to encourage them to make personal contributions to their super. The figure was dropped to \$1,000 in the financial crisis and will remain at that level. In addition indexation at the upper end for the co-contribution will be capped at the current \$61,920.



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Small business

Small business will enjoy a 2 per cent reduction in company tax from 30 per cent to 28 per cent after July 1, 2012 while larger businesses will see the rate cut by 1 per cent that year and then a further 1 per cent the following year.

Small business with revenue of less than \$2 million will also be able to write off eligible assets up to \$5,000. In addition they can place all other depreciable assets into a single pool to write off at 30 per cent.

Tax returns

A 'tick and flick' tax return system will be implemented starting from 1 Jul, 2012. By opting for standard work-related deductions of \$500 in 2011-12 (rising to \$1,000 on 1 Jul, 2013), an estimated 6.4 million Australians can save time when it comes to tax returns, instead of collecting receipts in the proverbial shoebox. Treasurer Swan maintains the average Australian worker will be \$190 better off. Those wanting to claim higher amounts still need to keep their paperwork.

Childcare

The childcare rebate has been capped at the 2008-09 level of \$7,500 per child, slightly lower than the current annual cap of \$7,778 per child. The out-of-pocket expenses remain at 50 per cent, up to the annual cap.

Looking ahead

The Budget figures assume that the resources boom will continue and the Resource Super Profits Tax is introduced at the stated level of 40 per cent.

Nevertheless the outlook for Australia does appear reasonably strong – certainly compared with other western economies.

It may have been a document with few frills or thrills but, as with any Budget, we need to wait to see what impact it will have on its major targets – health services, infrastructure, climate change, and services for our ageing population.

ROMA PO Box 42, 54 Hawthorne St, Roma Q 4455
P 07 4622 5999 F 07 4622 5989 roma@condontreasure.com.au

ROCKHAMPTON PO Box 588, 180 Quay Street, Rockhampton Q 4700
P 07 4927 7666 F 07 4927 7055 rockhampton@condontreasure.com.au

CHARLEVILLE PO Box 198, 58 Alfred Street, Charleville Q 4470
P 07 4654 1222 F 07 4654 1232 charleville@condontreasure.com.au

MAROOCHYDORE thornthwaite ct PO Box 1375, 2nd floor, 13 Carnaby St, Maroochydore Q 4558
P 07 5443 4300 F 07 5443 4244 info@thornthwaitect.com.au