



2009 Federal Budget FBA – Next Generation

A Review Of The Budget's Major Tax Implications

Key Areas Of Focus

- Executive summary
- Taxation
 - Personal taxation
 - Superannuation
 - Business taxation
 - Indirect taxation
 - Research and development
- Economic and fiscal analysis

Executive summary



The policy task

What the Budget needed to do

- The Government had a very difficult task ahead of it
- On Budget night the Government had to:
 - (1) spend more in the short term (to protect the economy) yet
 - (2) spend less thereafter (to return the Budget to balance)

Overview

- The Government has responded to the GFC by restructuring the budget to focus on new stimulus spending around infrastructure and construction, job protection and pension increases funded by cuts to middle class welfare
- The economy is forecast to
 - Contract by 0.5% next year
 - Grow by 2.5% in 2011
 - Grow by 4.5% in 2012 and 2013
- Business will benefit from infrastructure spending focused on
 - Transport bottlenecks
 - Investment allowances
 - New research and development concessions
- Cuts to middle class welfare will help pay for a \$30 a week rise in pensions
 - Changes to private health insurance rebates
 - Concessional superannuation contributions
 - Cuts to family tax benefits
- Workplace, labour market and training programs have been big winners from the new stimulus package
- Climate and agriculture will benefit from a large investment in clean energy by encouraging innovation
- Security will be boosted by a \$26.6bn defence budget

A Difficult Budget For Tough Times

How did we go from a surplus to a deficit?

Surplus for 2007/08	\$19.7bn
Revenue	- 45.0bn
Stimulus	
Pre-budget	- 20.0bn
Post-budget	- 14.5bn
Budget savings	2.1bn
Deficit 2009-10	- 57.7bn

Personal Taxation



Individual Tax – Who Are The Winners?

<u>Wins</u>	<u>Losses</u>
Announced income tax cuts maintained	30% rebate for private health insurance reduced/removed and Medicare levy surcharge increased to 1.5%
Paid parental leave from 2011 where taxable income of \$50,000 or less	Quarantining of non-commercial losses if income greater than \$250,000
First Home Owners boost extended to 31 December 2009	Participants in broad-based employee share and option plans
Low income tax threshold for Medicare levy increased	Removal of tax exemption for individuals earning income overseas
	Employees salary sacrificing superannuation contributions

Personal Tax Rates And Thresholds

Current rates from 1 July 2008		Enacted rates from 1 July 2009		Enacted rates from 1 July 2010	
Taxable income (\$)	Rate (%)	Taxable income (\$)	Rate (%)	Taxable income (\$)	Rate (%)
0 – 6,000	0	0 – 6,000	0	0 – 6,000	0
6,001 – 34,000	15	6,001 – 35,000	15	6,001 – 37,000	15
34,001 – 80,000	30	35,001 – 80,000	30	37,001 – 80,000	30
80,001 – 180,000	40	80,001 – 180,000	38	80,001 – 180,000	37
180,001 +	45	180,001 +	45	180,001 +	45

Note: Excludes 1.5 percent Medicare Levy

Personal Tax Savings

Income (\$)	2009-10 (\$)	2010-11 (\$)	Total (\$)
Up to 75,000	150	450	600
75,001 – 150,000	550	1,050	1,600
150,001 – 180,000	1,550	2,550	4,100
180,001 +	2,150	3,450	5,600

Reduction In Private Health Insurance Rebate

\$1.9b

Income (\$) - couples	Rebate	
	Now	From July 2010
Up to 150,000	30%	30%
150,001 – 180,000	30%	20%
180,001 – 240,000	30%	10%
240,001 and above	30%	0%

Cost to opt out of private health insurance

\$1.9b

Income (\$) - couples	Medicare levy surcharge		Decrease in disposable income (\$)
	Now	From July 2010	
Up to 180,000	1.00%	1.00%	Up to 1,800
180,001 – 240,000	1.00%	1.25%	2,250 – 3,000
240,001 and above	1.00%	1.50%	3,600 +

Employee share schemes

\$0.2b

- Broad-based employee share/option plans “dead”
- Ability to defer tax removed
- Applies from budget night
- Consider structuring alternatives for executives

Foreign income exemption for employees

\$0.7b

From 1 July 2009:

- Tax exemption removed for foreign employment over 90 days
- Increase income tax and FBT costs
- Review cost of existing and future assignments

Other individual measures

\$0.7b

From 1 July 2009:

- Non-commercial loss rules tightened
 - Collins Street farmers?
- Non-arm's length use of private company assets by shareholders deemed as dividends

E.g. Boats, cars, rental properties

Superannuation

- Concessional contribution limits reduced from 1 July 2009
 - \$25,000 if aged less than 50 (presently \$50,000)
 - \$50,000 if aged 50 or more (presently \$100,000)
- Effective tax increase of up to \$15,750 per annum
- Impact of 'grandfathering' rules for defined benefit schemes

Superannuation – the good news

- Opportunity to maximise current year contributions
- No increase to 15% tax rate on contribution or earnings
- No change to tax free pension benefits after 60
 - Potential increase in preservation age to 67

Business Taxation



Listed company off-market share buy backs



- Reduction in tax effectiveness
 - Super funds & tax exempt entities
- Commercial implications
 - Future buyback pricing
 - Easier to obtain tax certainty
- New tax rules from date of future legislation

Investment Allowance

\$0.1b*

	Contract by 30/6/09 First use by 30/6/10	Contract by 31/12/09 First use by 31/12/10
Small business (less than \$2m turnover)	50%	50%
Medium and large business	30%	10%

* This budget extended the Small Business Concession from 30% to 50% from 13 December 08

Still no legislation!

Other measures

- Managed investment trusts
- Changes in Controlled Foreign Company (CFC) and Foreign Investment Fund (FIF) rules
- Tax return amendment periods
- ATO compliance funding

\$1.3b

Indirect Taxation

New GST announcements

- The government also responded to the Board's review of the legal framework for the administration of GST, which encompassed an initial issue paper in July 2008 and additional summaries of key issues in August 2008
- The government has agreed to implement almost all of the Boards recommendations
- GST liability on insolvency

Research & Development



R&D changes Small companies – **turn over <\$20m pa**

\$1.4b

- Increase in benefits for eligible R&D activities
 - Current benefit 7.5% of expenditure
 - Proposed benefit 15% of expenditure
 - Fully refundable in cash
- Removal of 175% premium

R&D changes

Large companies – **turn over > \$20m pa and all foreign subs**

\$1.4b

- Increase in benefits for eligible R&D activities
 - Current benefit 7.5% of expenditure
 - Proposed benefit 10% of expenditure
- Removal of 175% premium

R&D tax credit – winners and losers

- Winners
 - Start-ups and small companies
- Losers
 - Companies claiming 175% premium
 - Claims for large scale R&D projects

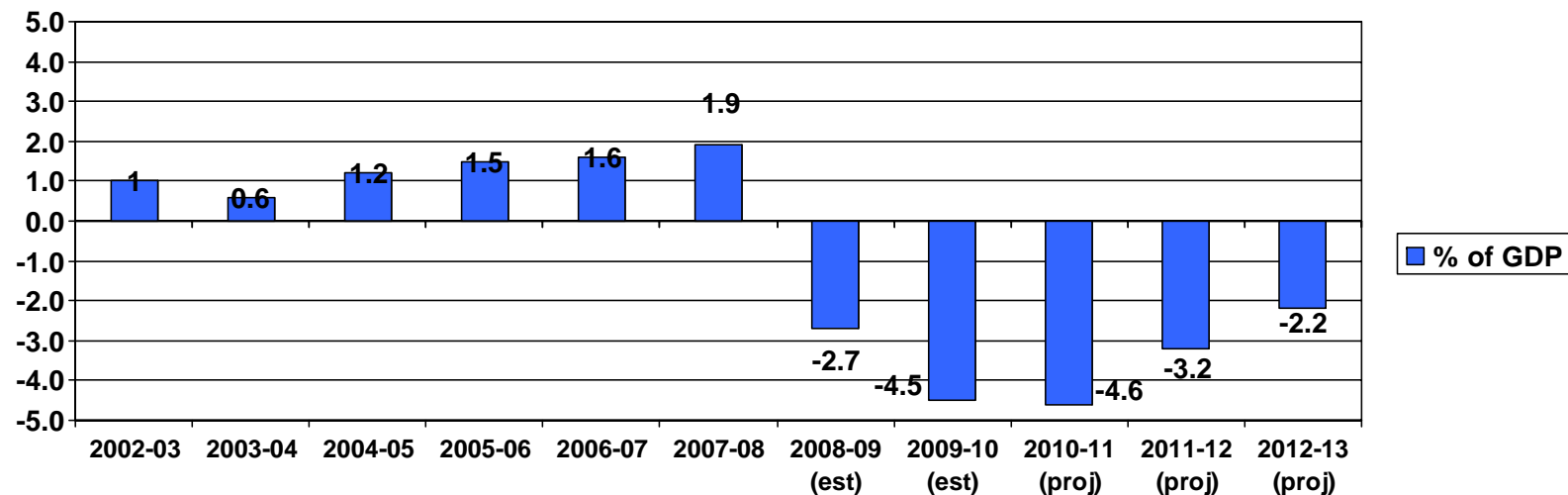
Tax actions

- Immediately review all employee share schemes
- Examine outbound expatriate secondments
- Restructure private company asset usage
- Consider R&D strategy and timing
- Consider entering into capex contracts pre 1 July 2009
- Maximise current super contributions
- Review salary sacrificing of superannuation contributions
- Focus on tax risk management

Economic And Fiscal Analysis

Key Economic Data - Treasury

- The forecasts for 2009/10
 - GDP to contract by 0.5 percent
 - Inflation at 1.75 percent
 - Unemployment rising significantly to 8.25 percent
- Deficit anticipated until 2015-16



Some thoughts <Access Economics>

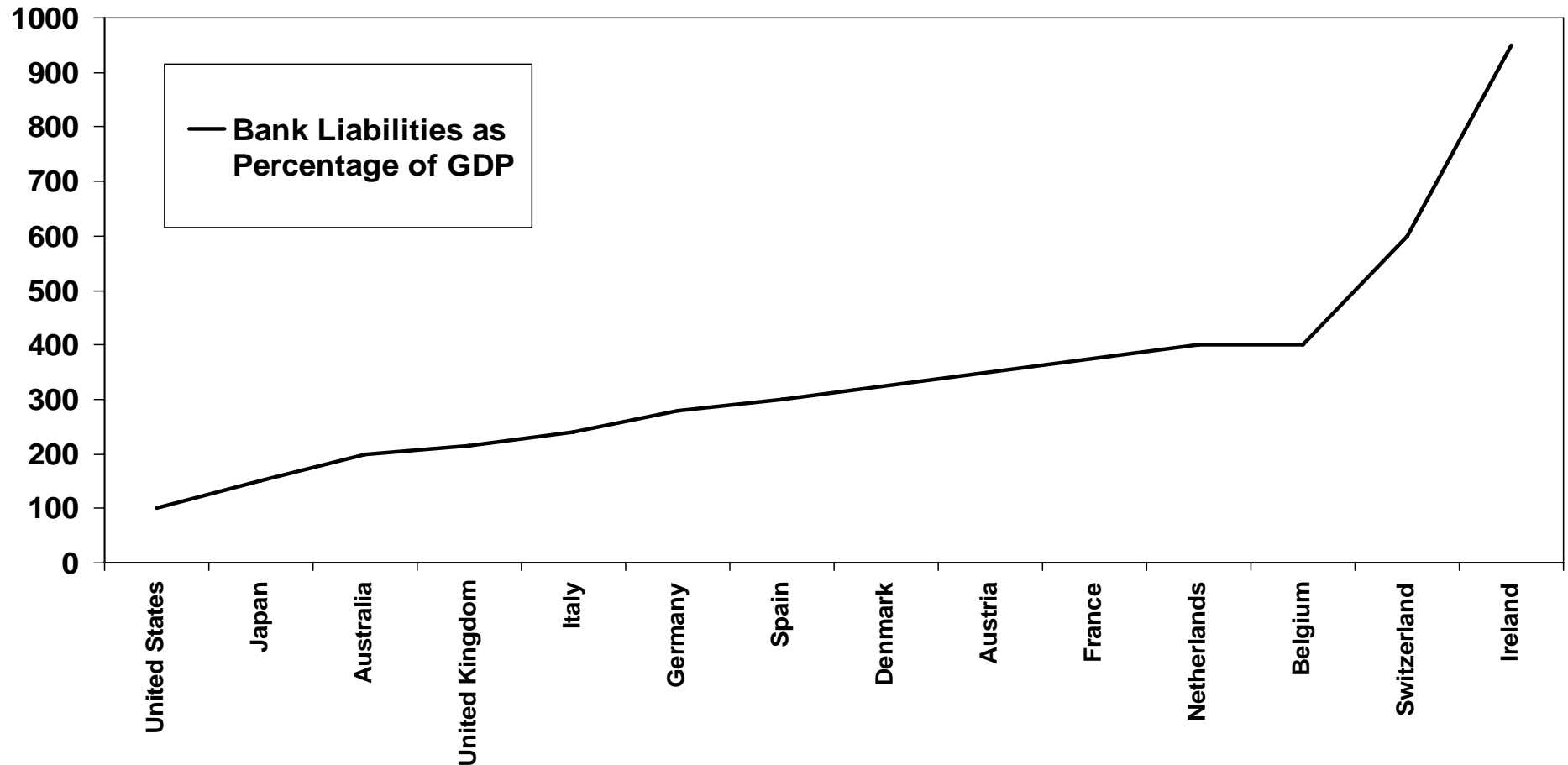
- The defining characteristic of the current crisis is that the global banking system broke down in September 2008, and it hasn't come good yet
- Healthy green shoots, yes, but this recession isn't over yet
- Sharemarkets celebrating, but banking markets still have problems
- The global and Australian policy responses to the crisis have been solid
- But there is no path back to Budget balance in the recovery. Even after the crisis is over, deficits may be \$25-30 billion a year

How painful would it be to raise an extra \$25-30 billion a year?

Pick one out of the following painful palette

- Abolish the entire Defence Department and related spending
- Or abolish the age pension rather than raise it
- Or abolish unemployment benefits plus disability pensions
- Or abolish Medicare and hospital funding
- Or raise the GST to 15% and not pass a cent to States or pensioners
- Or raise the marginal tax rate on any income earned above \$300,000 to 100%
- Or raise the marginal tax rate on any income earned above \$40,000 to 45%

Sharemarkets are recovering, but banking market risks remain



Source: Bloomberg, Bank of America Securities-Merrill Lynch

Signs of recovery - What to watch for

- A further narrowing in credit spreads (that is, the global banking system returning to better health)
- The GFC dropping off the front pages (that is, a return to better health on business and consumer confidence here and globally)
- Continuing recovery in sharemarkets (a key leading indicator of recovery)
- Stabilisation or even recovery in commodity prices (important for Australia)
- Steady rather than falling housing prices (the largest component of our wealth)

Australia is better off than most

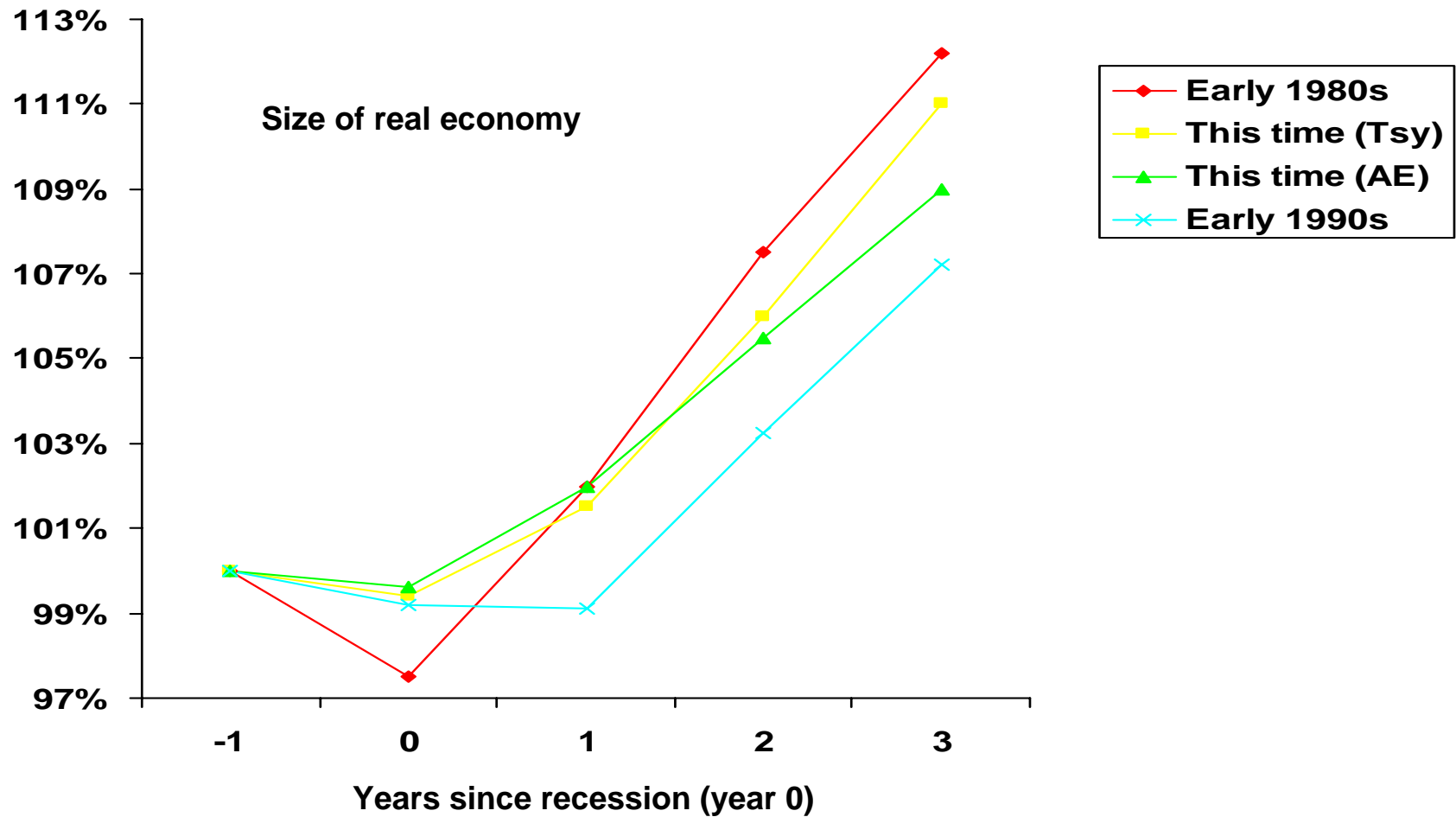
There are key reasons to be optimistic, including:

- The good health of our banks
- The big stomp on the accelerator from Australian policymakers (large and fast stimulus packages and big cuts to interest rates)
- The sharp fall in the \$A in the second half of 2008
- Our rapid population growth
- The lack of vacancies in housing markets and the large pipeline of engineering and commercial construction yet to be done

But it means recession nonetheless

- Australia had a bigger boom and a bigger bubble than much of the world: the lift in profits here was rather bigger as a share of national income than elsewhere
- Australian house prices are a larger multiple of income than in comparable nations
- Any industrial commodity prices have tanked: some \$40 billion a year is about to be stripped from Australian national income
- On balance, Access Economics forecasts a ‘small’ recession relative to our peers, but it is still going to hurt lots

The forecasts for Australia



The forecasts for Australia – Differing views

	Access Economics	Treasury	Westpac
	2009-10	2009-10	2009-10
Real GDP (%)	1.10	- 0.50	- 0.20
Private Consumption	1.00	- 0.25	1.00
Business Investment	- 19.50	-18.50	-15.50
Unemployment Rate	8.10	8.25	8.50
\$A / \$US	.664	-	.740

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Presenter's contact details

Dominic Pelligana

Partner

(03) 9288-6386

dpelligana@kpmg.com.au

kpmg.com.au