

2010-11 Federal Budget Summary

12 May 2010

A quicker return to surplus... On 11 May 2010, the 2010-11 Federal Budget was handed down by the Treasurer, the Hon. Wayne Swan, at a time when the Government was under pre-election scrutiny.

The Treasurer spoke of the resilience and discipline of the Australian economy and forecast that it would return to surplus in 2013, three years ahead of last year's forecast. Real GDP growth is forecast to be 3.25% in 2011 and 4% in 2012.

This has led to major spending announcements to bolster the country's expected new economic growth including:

- \$661m for a Skills for a Sustainable Growth Strategy to lift our workforce skills
- \$5.6bn for a new Infrastructure Fund to fund Federal and State projects
- \$652m for a Renewable Energy Future Fund to support renewable energy initiatives
- \$2.2bn to modernise our health and hospitals system

Whilst the taxation measures were mainly repeats of what had already been recently announced, there were numerous small changes which are outlined in our report. More ambitious is the proposal for further financial sector reform and the easing of tax rules that restrict the managed funds industry.

The aspiration to establish Australia as a global financial centre is noble, but no doubt there will be traps in the detail of all of these changes.

Of potential concern for business will be the plan to boost GST audits and investigations. The Government expects to yield \$2.7bn over the next four years from these efforts.

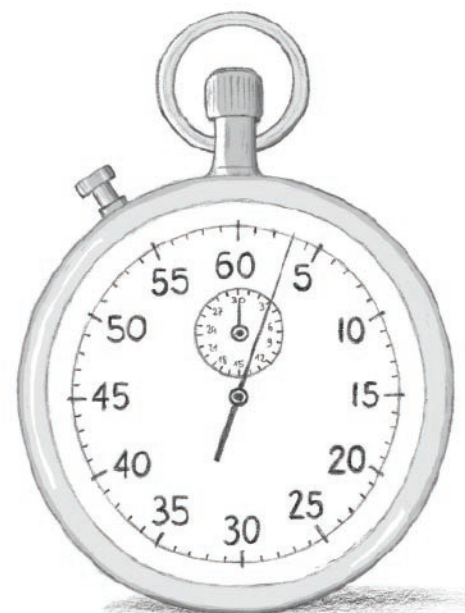
The popular changes were focussed on individuals – relief for workers and tax simplification. Savings were a focus, including a 50% discount on tax on the first \$1,000 of savings income from 1 July 2011. Simplification will include providing individuals with an optional \$500 tax deduction in lieu of claiming all work related expenses. This will start in the 2013 year.

Revenue from increased tobacco excise and the already unpopular new resource super profits tax underpins a lot of the expenditure measures. The theme of the Government is that the latter represents an equitable exploitation of our natural resources.

However, they will be hoping that the electorate thinks enough of it all to elect it to a second term.

Contents

2	Managed investment regimes
3	Australia as a financial centre
4	Goods and Services Tax
6	Consolidation and Earnouts
7	Capital Gains Tax
8	Individuals
10	Superannuation
11	Other measures
13	Compliance and administration



Managed investment regimes

Managed Investment Trusts

The Government has clarified the capital account treatment proposed for eligible Australian Managed Investment Trusts (MITs) in the 2009-10 Budget.

In summary, this measure is to be refined by:

- broadening the definition of MITs
- expanding the scope of eligible assets
- preventing amendments of prior year MIT tax returns by the Commissioner of Taxation without the consent of the taxpayer in respect of the characterisation of assets from capital to revenue and vice versa, and
- treating the following on revenue account:
 - gains and losses on disposal of shares and units by eligible MITs that do not make an election, and
 - distributions or gains on carried interest units in MITs.

Government response to the Board of Taxation's Review

The Government has announced the introduction of a new taxation regime for Australian MITs, effective from 1 July 2011.

The new regime was announced on 7 May 2010 in response to the Board of Taxation's report on its review of tax arrangements applying to MITs.

The key features of the new regime include the:

- ability for MITs to elect to use an attribution method of taxation in place of the existing present entitlement to income system
- establishment of a *de minimis*



rule whereby MITs are able to carry forward any over or under distributions into the next year where they are no more than 5% of the amount in the distribution statement

- elimination of double taxation by allowing unit holders to make upward cost base adjustments to their trust interests in certain circumstances, and
- abolition of the corporate unit trust provisions in Division 6B of the 1936 Act.

Introduction of an Investment Manager Regime

The Government will start consultation on an Investment Manager Regime (IMR) that will reform and expand Australia's managed funds industry by removing impediments to international investment. Such consultation will be a two stage process to:

1. review the scope of the regime, and

2. align the regime with broader arrangements for taxing collective investment vehicles.

The Government will ask the Board of Taxation to:

- review the tax treatment of collective investment vehicles, having regard to the new MIT tax framework, including whether a broader range of tax flow-through vehicles should be permitted, and
- examine the treatment of Venture Capital Limited Partnership vehicles as part of the review to see if they are all necessary and consistent with the Government's objective of developing Australia as a leading financial centre.

Detailed Terms of Reference of the review, including the dates for reporting to Government, will be released in the near future.

Australia as a financial centre

Following the release on 15 January 2010 of the Report of the Australian Financial Centre Forum, **Australia as a financial centre: Building on our strengths**, prepared by Mark Johnson (the “Johnson Report”), the Government has provided its response.

The Government response provides in-principle or direct support for nearly all of the Johnson Report’s 19 recommendations. These include:

- the lowering of withholding tax on interest payments by financial institutions
- the introduction of the Investment Manager Regime.

In addition, the Government has asked Mark Johnson to chair a task force of senior financial sector representatives to continue its work in promoting Australia as a financial centre for the region. The role of the task force will cover three areas:

- regional engagement and enhancement of Australia’s presence in Asia
- engagement with the domestic industry on an informal basis
- facilitation of industry input into the design of several of the key outputs that flow from the recommendations of the Johnson Report.

Other recommendations made in the Johnson Report that the Government has commented on include:

- a comprehensive review of Australia’s tax laws by the Board of Taxation to ensure that, wherever possible, they do not inhibit the expansion of Islamic financial products in Australia, and
- an announcement of support for competition between markets for trading in listed shares in Australia – effectively competing against the ASX.

Lowering of interest withholding tax

The Government has announced that it will lower the rate of interest withholding tax paid by financial institutions to offshore lenders from the current 10%, to 7.5% from 1 July 2013, to 5% from 1 July 2014, with an “aspirational target”

of nil withholding. In the Assistant Treasurer’s press release, Senator Sherry confirmed that this would apply to:

- Australian subsidiaries and branches of foreign financial institutions paying interest to their parent
- Australian owned financial institutions borrowing from related parties overseas, and
- any financial institution borrowing offshore retail deposits which they on-lend in Australia.

As an integrity measure, the reduced rate of interest withholding tax will not apply to interest paid on non resident retail deposits held in Australia. It will also not apply to offshore borrowings by entities that are not financial institutions.

The withholding tax rates will be:

Type of borrowing	Current IWT	Future IWT	
		From 2013-14	From 2014-15
Financial institution borrows from a foreign financial institution (where not exempt under a tax treaty)	10%	7.5%	5%
Foreign bank branch borrows from overseas head office	5%	2.5%	Exempt
Financial institution borrows from offshore retail deposits (proceeds used and traced to Australian operations)	10%	7.5%	5%
Financial institution borrows through a publicly offered debenture issue, non equity share or syndicated loan	Exempt	Exempt	Exempt
Offshore banking unit (borrows and on-lends offshore)	Exempt	Exempt	Exempt
Financial institution borrows from non-resident retail deposits held in Australia	10%	10%	10%

Goods and Services Tax

Compliance program

The Government has announced that it will provide the ATO with funding of \$337.5 million over a period of four years to assist with activities that will promote voluntary GST compliance and a level playing field for Australian businesses. The Government believes that this measure will address issues that relate to fraudulent GST refunds, systematic under-reporting of GST liabilities, non-lodgement of GST returns and non-payment of GST debts.

The ATO will also be provided with additional capacity to store and analyse data obtained from external parties.

Cross-border transactions

The Government will implement all of the recommendations of the Board of Taxation from its review of the application of GST to cross-border transactions. The changes will take effect from 1 July 2012.

The Board of Taxation made 14 recommended improvements to the GST system designed to treat cross-border transactions in an efficient and effective manner, particularly in dealing with interactions with non-residents.

The recommendations included:

- limiting the connected with Australia rules and expanding the reverse charge rules to reduce the number of non-residents required to register in Australia for GST purposes
- a low value importation threshold
- a streamlined registration process for non-residents

- GST-free treatment of supplies made to a non-resident but provided to a registered business in Australia, and
- broadening of the non-resident agency provisions.

As certain components of the package will require changes to the GST base, unanimous agreement from the State and Territory governments will be required.

Cross-border transport supplies

Some minor changes will again be made to the previously announced 2009-10 Budget measures in relation to cross-border transport supplies.

Specifically, the Government aims to reduce GST compliance costs in relation to the domestic transport of exported and imported goods by ensuring that the place of consignment will always be determined by the place of delivery in the principal contract.

The measure also aims to ensure that any services ancillary to the international transport of goods receive the same GST treatment as the transport supply being facilitated.

The Government has previously announced that the amended legislation in relation to the GST treatment of cross-border transport services will be introduced in the Winter Sittings of Parliament.

Financial supply provisions

The financial supply provisions in the GST law will be amended to clarify how the legislation should operate and reduce

compliance and administrative costs (especially for small businesses).

The proposed changes include:

- changing the \$50,000 input tax credit financial acquisitions threshold to \$150,000 (although no mention has been made in relation to whether the 10% threshold will also be amended)
- disallowing the bundling of services in order to utilise the Reduced Input Tax Credit (RITC) concessions, and
- allowing businesses that account for GST on a cash basis to claim upfront input tax credits in relation to hire purchases (currently, only entities that account for GST on an accruals basis can claim back the GST upfront).

These changes will apply from 1 July 2012.

Margin scheme

The Government announced in the prior year Budget that it had asked Treasury to review the operation of the GST margin scheme.

Although there were many industry submissions, options considered and recommendations made, the Government decided that the costs and risks to revenue integrity associated with addressing the perceived gaps would outweigh the potential benefits.

Therefore, the Government has limited itself to changes that will clarify and simplify compliance and reduce taxpayer/ATO disputes.

The changes announced are:

- Restructuring the provisions to give prominence to the main principles and insert objects clauses to make the intentions of the key principles clear
- Removal of an anomaly that allowed an approved valuation of land to be used for calculating the margin of subdivided land

These measures will take effect from 1 July 2012.

Exempt taxes, fees and charges

The GST law will be amended to replace the current mechanism for Australian taxes, fees and charges that are to be treated as being exempt from GST. This will provide more certainty to taxpayers and Government agencies.

An Australian tax, fee or charge is currently only exempt from GST if it is listed in a GST determination. The new mechanism will be a principles-based legislative exemption which will allow the GST treatment to be determined with reference to legislative provisions. This change will apply from 1 July 2011.

Various minor changes

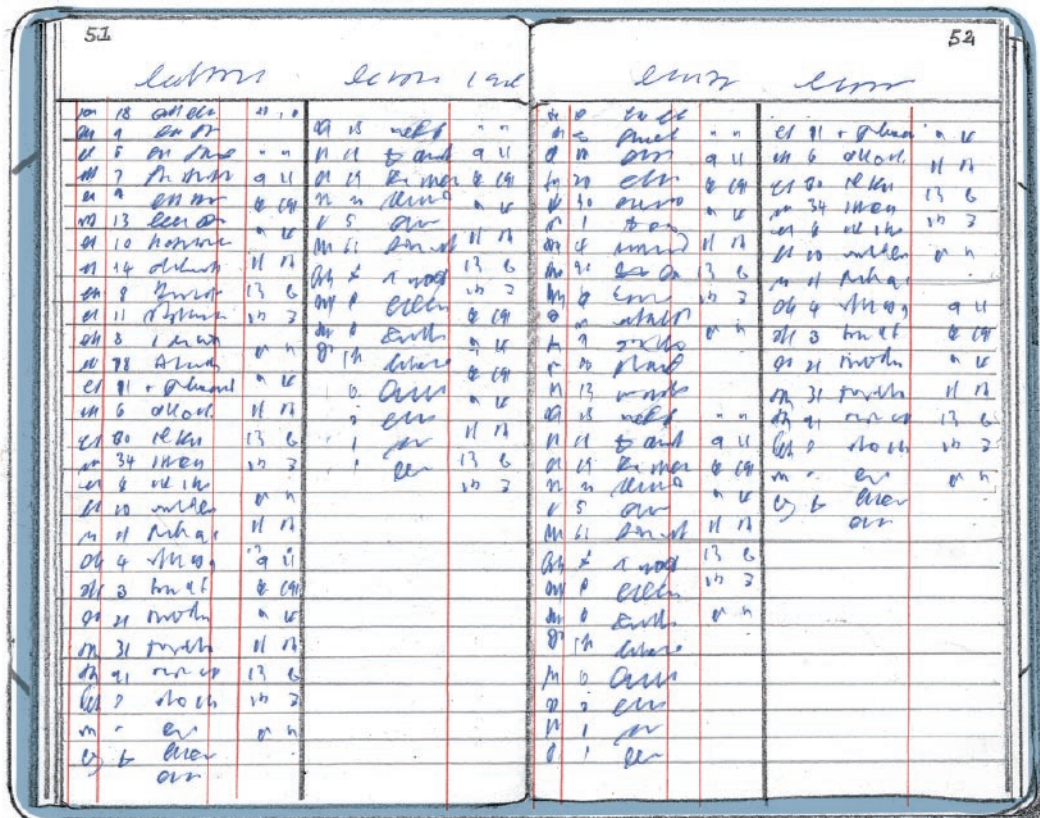
The Government has decided to defer the start date for a number of measures previously announced as part of the 2009-10 Budget to 1 July 2011. They include:

- adopting the income tax self assessment regime for indirect taxes and refreshing the period of review
- reform of the change of use adjustments
- allowing adjustments for pre-registration acquisitions
- clarifying the treatment of tax law partnerships
- simplifying the GST grouping membership interest rules and allowing grouping of non-operating holding companies, and
- introducing a reverse charge for supplies of going concerns and farmland.

Sale of boats for export within 12 months of delivery

This measure is an expansion of the existing provision that allows for a boat to be sold GST-free if the boat is exported by the purchaser within 60 days and only used for recreational purposes whilst in Australia. The amendment will have affect from 1 July 2011 and will extend the 60 day time limit to 12 months.

This measure is seen to provide recreational boat builders with flexibility to be more competitive with international manufacturers.



Consolidation

The Budget introduced several measures designed to improve the operation of the consolidation regime. These measures confirm current existing practice.

Calculation and collection of tax liabilities

- The Commissioner of Taxation can recover unpaid PAYG under the liability for payment rules that are effective from 11 May 2010
- The liability for payment rules applies to Multiple Entry Consolidated (MEC) groups effective from 11 May 2010

- An entity which pays its contribution amount under a tax sharing agreement can leave a consolidated or MEC group clear of any further liability, effective from the 2004-05 year
- Where there is a change in the provisional head company during the year, PAYG instalments paid by the former head are attributable to the group, effective from 1 July 2002

Non-membership Equity Interests

The Government intends to modify the consolidation regime so that non-membership equity interests issued by an entity are taken into account in the tax cost setting rules when the entity leaves or enters a consolidated group, effective from 10 February 2010.



Company taxation

Commitment to the following was confirmed:

- the phased reduction in the company tax rate to 28%
- small business asset write-offs and pooled depreciation.

Sale of business earnouts

We welcome the Government's announced plans to adopt a "look-through" approach to earnout arrangements under business sales, rather than the previous approach of treating the earnout as an asset separate from the underlying business.

In October 2007, the ATO released a draft ruling in relation to earnout arrangements which adopted a position that had adverse consequences for purchasers and vendors. The response has been a long-time coming and there has been a lot of uncertainty in between. We have been involved in consultation with the ATO on this matter.

Whilst there is no detail to the announcement at present, a "look-through" approach eliminates many of the issues otherwise raised by the draft ruling. What is meant by a "look-through" approach is not yet known. We are under the impression that a

profits emerging basis might be adopted. Under this approach proportionate gains would be calculated on the disposal of the original asset and the earnout components to avoid the requirement for taxpayers to amend prior year assessments for any earnouts received. Any losses on the earnouts would be able to be carried back to any related capital gains.

With the effective date being the date of Royal Assent of the legislation and some provisions applying from 17 October 2007, we hope that the legislation is delivered quickly to remove what has for too long been an area of uncertainty.

Capital Gains Tax

A handful of Capital Gains Tax (CGT) amendments have been announced with the aim of “improving the ability of businesses to restructure”. The changes will be effective from 7:30pm, 11 May 2010, unless noted otherwise.



CGT roll-over for share sale facilities

A range of CGT roll-overs will be made available to Australian resident shareholders. This is specifically for situations where an entity undertakes a restructure in order to deal with its foreign shareholders via a share or interest sale facility. Currently, such events, where roll-over relief is not available, may constitute a deemed sale with a resulting capital gain to the Australian resident shareholder.

These changes will ensure the Australian resident shareholder does not have CGT consequences until such time as their shareholding is disposed.

Extension of current demerger rules

An amendment is intended to remove a current defect in the CGT legislation that has prevented groups from accessing CGT demerger relief. The proposed measures will allow access to demerger relief where the head entity of a demerged group is a corporation sole or a complying superannuation entity.

Water entitlements

This measure will defer any CGT consequences arising from replacement

of water entitlements with one or more different water entitlements. The aim is to ensure CGT is not a barrier to any alterations to water entitlements.

This measure will apply retrospectively from the 2005-06 income year with transitional provisions applying until the date of Royal Assent.

Limited roll-over for fixed trusts

Roll-over relief was proposed in last year's Budget for transfers between trusts with fixed entitlements where the trusts have the same beneficiaries. The Government has refined this further to ensure the integrity of that measure with effect from 1 November 2008.

Scrip for scrip – alignment with Corporations Act 2001

This measure removes an inconsistency between the requirements for the roll-over as specified in the CGT legislation to that set out in the Corporations Act 2001. Specifically, it proposes an alignment of the member participation requirements where there is a takeover or merger.

The above measures will take effect from 6 January 2010.

Extension of rollover for conversion of a body to an incorporated company

The Government will amend the CGT rollover rules to allow indigenous incorporated bodies to convert to a company incorporated under the Corporations (Aboriginal and Torres Strait Islander) Act 2006 (“CATSI Act”) without immediate CGT consequences. Also, indigenous companies will be able to move between the Corporations Act 2001 and the CATSI Act without CGT consequences.

Individuals

Personal tax rates & Medicare thresholds

- No changes will occur to the previously announced and legislated tax rate changes detailed in the tables to the right
- Resident taxpayers with income of \$180,000 will save \$25 per week from 1 July 2010
- The Low Income Tax Offset will increase by \$150 to \$1,500 for the 2010-11 year. The offset phases out by four cents in the dollar from \$30,000, with no offset available above \$67,500
- The Senior Australians Tax Offset thresholds will increase accordingly in the 2010-11 income year: incomes up to \$30,685 for singles and \$26,680 for each member of a couple will not be taxable
- The interaction of the Low Income Tax Offset and the Senior Australians Tax Offset will be improved to prevent inadvertent tax for certain taxpayers earning less than \$30,000
- Senior Australians will also see an increased Medicare levy phase-in limit of \$36,100 from 1 July 2010 (or \$52,353 for certain eligible couples)

TIP

Children under 18 will be tax-free on the first \$3,333 of unearned income for the 2010-11 year. If all income is fully franked, the first \$7,000 will be tax-free.

Residents: rates and tax payable from 1 July 2010

Taxable income (\$)	Tax payable (\$)
0 - 6,000	Nil
6,001 - 37,000	Nil + 15% of excess over 6,000
37,001 - 80,000	4,650 + 30% of excess over 37,000
80,001 - 180,000	17,550 + 37% of excess over 80,000
180,001+	54,550 + 45% of excess over 180,000

Non-residents: rates and tax payable from 1 July 2010

Taxable income (\$)	Tax payable (\$)
0 - 37,000	29%
37,001 - 80,000	10,730 + 30% of excess over 37,000
80,001 - 180,000	23,630 + 37% of excess over 80,000
180,001+	60,630 + 45% of excess over 180,000

- The 2009-10 Medicare Levy low-income thresholds increase to \$18,488 for singles and \$31,196 for families, with the additional threshold per child increasing to \$2,865
- Pensioners below the Age Pension age will have a Medicare low-income threshold of \$27,697 to ensure no liability arises on those individuals without an income tax liability

50% discount for interest income

From 1 July 2011, individuals will obtain a 50% tax discount on the first \$1,000 of interest income earned. This will include interest earned on deposits held in authorised deposit taking institutions (including any bank, building society or credit union), bonds, debentures and annuity products. This discount will also be available for interest income earned directly as well as indirectly, such as via a

trust or managed investment scheme.

The Government also intends to allow the discount in determining eligibility for transfer payments and other concessions (e.g. Family Tax Benefit, the Baby Bonus, Child Care Benefit, Education Tax Refund, Commonwealth Seniors Health Card and the Pensioner Supplement).

The change, which arises out of the Australia's Future Tax System Review deliberations attempts to align tax relief for investors in interest-bearing products with other types of investment. Other types of investment yield that already enjoy tax relief include:

- dividends: franking credits
- rental income: capital allowance deductions
- capital gains: 50% discount for assets held for greater than 12 months.



Standard deduction for work-related expenses

The Government intends to take up the recommendation of the Australia's Future Tax System Review to move towards a standard deduction for work related expenses and the costs of managing tax affairs. This is to:

- be phased in from 1 July 2012 as a standard deduction of \$500 per taxpayer moving to \$1,000 from 1 July 2013
- allow taxpayers with actual expenses exceeding the standard limit to claim on an actual basis, and
- be part of an overall aim to move to a simplified "tick and flick" system and is estimated to cost \$410 million once fully implemented.

First Home Savers Accounts

The current regulations require investors in the First Home Savers Account (FHSA) scheme to hold their savings for a minimum of four years before purchasing a home. Where this condition is not met, the funds are required to be transferred to a superannuation fund to maintain the concessional treatment.

It is now proposed that, instead of transferring to superannuation, after meeting a minimum qualifying period, savers will be able to apply the funds against an approved mortgage. This measure will commence once the enabling legislation commences.

Increase in the net medical expenses tax offset claim threshold

The Government will increase the threshold above which a taxpayer may claim the net medical expenses tax offset (NMETO) from \$1,500 to \$2,000 with effect from 1 July 2010. The measure also allows for the commencement of annually indexing the threshold to the CPI, with the first indexation adjustment to the threshold to take place on 1 July 2011.

The NMETO currently allows taxpayers to receive a tax offset equal to 20% of net unreimbursed eligible medical expenses above \$1,500. The Government states that the motivation for this measure is to ensure the ongoing sustainability of the NMETO.

War Widows Pension

Currently war widows (or widowers) are not eligible for the War Widows Pension if, before applying for the pension, they have remarried since the death of their veteran partner. This rule did not apply if the widow (or widower), before applying for the War Widows Pension, had entered into a de facto relationship following the death of their veteran partner. The Government has announced that they will now amend this rule so both married and de facto relationships will be treated the same in determining the eligibility of the widow (or widower) for the War Widows Pension. The amendment will state that if the widow (or widower) is either remarried or in a de facto relationship before they apply for the pension, they will not be eligible for the pension. However, war widows (or widowers) who remarry or enter into a de facto relationship after claiming the pension will not lose their entitlement under this new measure.

Proposed changes to Family Tax Benefit arrangements

The Government proposes amendments to the Family Tax Benefit (FTB) as follows:

- More flexible arrangements will apply to FTB beneficiaries who have outstanding income tax returns
- Participation in full-time education or training will be required by children aged 16 to 20 for families to remain eligible for FTB-Part A
- The annual Child Care Rebate (CCR) will be capped to the 2008-09 level of \$7,500 per child from the current \$7,778 per child and indexation will be frozen for four years from 1 July 2010. The percentage of out-of-pocket expenses reimbursed by the Commonwealth will remain at 50% up to the annual cap.



Superannuation

The Budget contained very little to impact superannuation other than reinforcing those announcements in response to the Australia's Future Tax System Review. For individuals, the following changes are to apply from 1 July 2010.

The Government co-contribution for personal non-concessional superannuation contributions

- The matching rate to be permanently set to 100%
- Capped at \$1,000
- The income threshold is to be frozen for two years ending 2011-12 (incomes of up to \$31,920 will receive maximum phasing out at \$61,920)

Excess Contributions Tax

- The Commissioner will be permitted to exercise discretion prior to the issuing of an excess contributions tax assessment to the individual
- Currently the Commissioner is only able to exercise his discretion to overlook excess contributions or allocate the contribution to a different income year after an excess contributions tax assessment has been made

Superannuation Funds will now obtain a deduction for providing Terminal Medical Condition benefits

- Currently deductions are only available for the cost of providing benefits in relation to death, permanent incapacity and temporary incapacity
- The change aligns deductions available for various benefit payments and has effect from 16 February 2008

Superannuation funds are also expected to benefit from reforms to Public Trading Trust rules. These rules currently require Unit Trusts to be taxed like companies in certain circumstances if superannuation funds and exempt entities hold equity of 20% or more in the trust. From 1 July 2011, the 20% tracing rule will not apply to public unit trusts to the extent that units are held by superannuation funds and exempt entities that are entitled to a refund of excess imputation credits.

The following reforms were announced alongside the release of the Australia's Future Tax System Review and are also included in the Budget

- Increase of the Superannuation Guarantee Contribution (SGC) rate to 12%: this will occur via 0.25% increases in 2013-14 and 2014-15, and then 0.5% increases for each of the following five years until 2019-20
- A Government contributions tax rebate for low income earners: the rebate of up to \$500 per annum will apply to those taxpayers earning less than \$37,000 p.a. (adjusted taxable income) and is designed to negate contributions tax on concessional contributions for low income earners
- The higher annual concessional contributions cap of \$50,000 available to those over 50 is to be retained (from 1 July 2012), but only for those with less than \$500,000 superannuation at that time
- Raising the SGC age limit to 75: currently, SGC is not required to be paid for those over 70 years of age

Introducing the excess contributions discretion is a welcome change that could benefit tens of thousands of Australians. Fund members will be able to actively manage excess contributions before the assessment arrives meaning they do not need to pay needless and unfair tax assessments. It also helps manage issues while "fresh of mind" rather than potentially years later when the assessment issues.

Other measures



Private company benefits

Recent changes to the Division 7A private company rules will be further amended to make it clear that a dwelling provided by the company that is used as a main residence by a shareholder or an associate will not be caught – provided that the company purchased the dwelling before 1 July 2009 and the company meets a continuity of ownership test.

Film tax offsets – change in eligibility

The Budget contains the following changes to the current eligibility requirements for the film tax offsets program:

- Reduction in the minimum qualifying expenditure threshold for the post, digital and visual effects (PDV) offset from \$5 million to \$500,000
- Removal of the requirement for films with qualifying expenditure of between \$15 million and \$50 million to have at least 70% of the film's total production expenditure as qualifying Australian expenditure in order to qualify for the location offset

The measures are intended to provide a boost to the Australian film industry and are to take effect from 1 July 2010.

Public ancillary funds

Many community and fundraising foundations are set up as public ancillary funds and hold Deductible Gift Recipient (DGR) status. This means that all donations made to the funds are tax deductible. These funds then

distribute the money gathered from public donations to other charitable organisations that also have DGR status.

The Government has proposed a new regulatory framework to improve the integrity of public ancillary funds and further boost confidence in the philanthropic sector.

The proposed regulatory framework would take effect from 1 July 2011 and will include legislative guidelines similar to those introduced for private ancillary funds from 1 October 2009.

The measures aim to provide trustees of these public ancillary funds with greater certainty as to their philanthropic obligations and provide donors and the charitable sector with greater confidence that donations are being used effectively. In practice this may mean further red tape for the trustees of these funds, however the government has promised consultation before legislating these rules.

Social security measures

A number of social security measures were announced in the Budget, including:

- the Government will extend the Distance Education Allowance Supplement of \$1,084 per annum, per student until 30 June 2011, and the Additional Boarding Allowance of \$1,000 per annum, per student and the consequential ABSTUDY Boarders' rate for School Fees Allowance until 31 December 2011
- from 1 July 2010, the Community Development Employment Projects (CDEP) program will be indexed by

a Wage Cost Index (WCI) instead of the previous arrangement of being indexed by a combination of the CPI and the non-farm GDP deflator

- the Government will require compensation payers, such as insurance companies, to notify Centrelink prior to making compensation payments to clients from 1 July 2011. Centrelink will then use this information to assess the recipient's ongoing entitlement to receive Centrelink payments
- Special Disability Trusts – the government will amend the eligibility criteria to make them more accessible and increase take-up. This will be applicable from 1 January 2011. The definition of a beneficiary will be expanded to include people with a disability who can work up to seven hours per week (excluding work in an Australian Disability Enterprise) The allowable uses for the trust will be expanded to include:
 - all medical expenses, including membership costs for private health insurance
 - maintenance expenses of Special Disability Trust property
 - discretionary spending of up to \$10,000 per year.

Amendments to Fuel Ethanol Tax arrangements

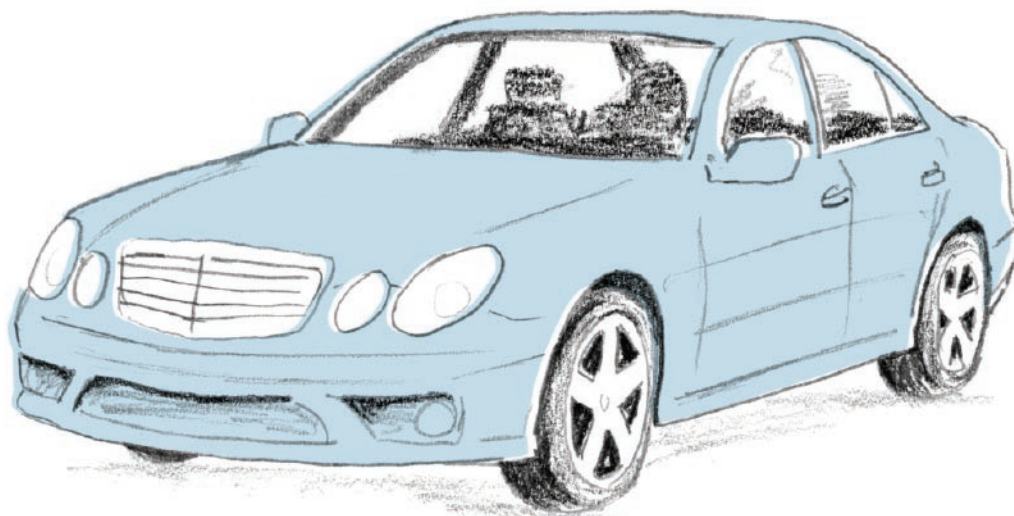
The Budget changes will introduce an energy content-based fuel system, as follows:

- The excise and excise equivalent customs duty rate for ethanol will be 25 cents per litre from 2011 phasing down to 12.5 cents per litre by 2015
- Offsetting grant payments to ethanol producers will be progressively reduced from 22.5 cents per liter on 1 July 2011 to zero by 1 July 2015
- There will be no offsetting grants for excise equivalent customs duty

Business borrowing directly from retail investors – simplified process

ASIC will allow listed entities meeting appropriate criteria to issue bonds to retail investors using a simplified process, including a shorter prospectus.

This measure will align the disclosure requirements for retail bond issues with the simplified process allowed for equity issuance.



Compliance and administration

Improvement to the Running Balance Account provisions

The Government will increase flexibility in managing taxpayer running balance accounts. It will provide interest to taxpayers where overpayments arise because of an amended franking deficit tax.

Capital borrowings – change to benchmark interest rates

The Government will adjust the benchmark interest rate that applies to capital protected borrowings from the RBA indicator rate for standard variable housing loans to the RBA indicator rate for standard variable housing loans, plus 100 basis points. This applies to all capital protected borrowings entered into after 7:30pm (AEST) on 13 May 2008.

ATO Compliance Program - dealing with the cash economy

The Government will provide \$107.9m to the ATO over four years to investigate small business operators who use the cash economy to avoid their tax liabilities. This is a considerable sum directed towards small business, following a period of leniency to allow small business to survive the economic downturn.

Continuation of standard business reporting

The Government will provide \$73.2m over five years to continue to maintain and operate the standard business reporting program. This is an initiative to reduce the compliance burden experienced by business when reporting to Government.

Tax reform funding

- \$65m over four years for Treasury to develop and implement the Government's response to the Australia's Future Tax System Review
- \$1.7m over two years to increase staffing in ATO call centers
- \$3.8m over four years to meet the demand for legislative drafting



Contact your local tax service line leaders

Peter Godber

National Head of Taxation Services
Grant Thornton Australia Ltd
T +61 7 3222 0290
E pgodber@grantthornton.com.au

Geoff Lloyd

Director
Grant Thornton Adelaide
T +61 8 8372 6666
E glloyd@gtsa.com.au

Paul Banister

Director
Grant Thornton Brisbane
T +61 7 3222 0202
E pbanister@grantthornton.com.au

Mark Azzopardi

Director
Grant Thornton Melbourne
T +61 3 8663 6000
E mazzopardi@grantthorntonvic.com.au

Gail Curtis

Director
Grant Thornton Perth
T +61 8 9480 2000
E gcurtis@gtwa.com.au

Peter Berg

Director
Grant Thornton Sydney
T +61 2 8297 2400
E pberg@grantthornton.com.au



If you want to know more, please contact us...

Adelaide

Level 1
67 Greenhill Road
Wayville SA 5034
T 08 8372 6666
F 08 8372 6677
E info@gtsa.com.au

Brisbane

Ground Floor
Grant Thornton House
King George Square
102 Adelaide Street
Brisbane QLD 4000
T 07 3222 0200
F 07 3222 0444
E info.qld@grantthornton.com.au

Melbourne

Level 2
215 Spring Street
Melbourne VIC 3000
T 03 8663 6000
F 03 8663 6333
E info@grantthorntonvic.com.au

Perth

Level 1
10 Kings Park Road
West Perth WA 6005
T 08 9480 2000
F 08 9322 7787
E info@gtwa.com.au

Sydney

Level 17
383 Kent Street
Sydney NSW 2000
T 02 8297 2400
F 02 9299 4445
E info.nsw@grantthornton.com.au



www.grantthornton.com.au

Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia. Liability limited by a scheme approved under Professional Standards Legislation.