

## BENEATH THE SURFACE

# 2008 Federal BUDGET ANNOUNCEMENTS!

Source: National Tax & Accountants' Association; National Institute of Accountants

### SNAPSHOT OF BUDGET 2008

Please note that at the time of going to print, many of these proposals were not law, so there may be some changes between now and when they become law.

#### **Personal Income Tax Cuts**

The Government will deliver in full the tax cuts it announced during the 2007 election campaign (including deferring the previously budgeted reductions in the top marginal tax rate until beyond 2010-11), as follows:

*Table of tax thresholds (with changes in **bold**)*

Current (2008) (\$)	From 1 July 2008 (\$)	Tax Rate	From 1 July 2009 (\$)	Tax Rate	From 1 July 2010 (\$)	Tax Rate
0-6,000	0-6,000	0%	0-6,000	0%	0-6,000	0%
6,001-30,000	6,001- <b>34,000</b>	15%	6,001- <b>35,000</b>	15%	6,001- <b>37,000</b>	15%
30,001-75,000	<b>34,001-80,000</b>	30%	<b>35,001-80,000</b>	30%	<b>37,001-80,000</b>	30%
75,001-150,000	<b>80,001-180,000</b>	40%	80,001-180,000	<b>38%</b>	80,001-180,000	<b>37%</b>
150,001+	<b>180,001+</b>	45%	180,001+	45%	180,001+	45%

Over six years the Government aspires to reduce the number of rates from 4 to 3, with a personal income tax scale of 15%, 30% and 40%.

#### **Medicare Levy - Low Income Thresholds**

Individuals	\$17,309	(previously \$16,740)
Families	\$29,207	(previously \$28,247)

The additional amount of threshold for each dependent child student will also be increased to \$2,682 (previously \$2,594).

#### **Medicare Levy Surcharge Thresholds from 1 July 2008**

These will be increased for singles (from \$50,000 to \$100,000) and for those who are members of a family (from \$100,000 to \$150,000). These thresholds apply for taxpayers who do **not** have adequate private health insurance.



#### **Senior Australians Tax Offset (SATO)**

The amount of income a senior Australian eligible for the SATO can earn before they incur an income tax liability will increase to the following amounts:

	2008-09	2009-10	2010-11
Singles	\$28,867	\$29,867	\$30,685
Couples	\$24,680	\$25,680	\$26,680

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**Great news:** Changes will ensure that senior Australians do not pay the Medicare levy until they begin to pay income tax.

### Low Income Tax Offset (LITO)

These increases allow adults and children to earn more than the basic tax free threshold without paying tax, as follows:

Year	LITO	Tax-free Threshold (adult)	Tax-free Threshold (child <18)
2008-09	\$1,200	\$14,000	\$2,667
2009-10	\$1,350	\$15,000	\$3,000
2010-11	\$1,500	\$16,000	\$3,333

The LITO will continue to be phased-out once taxable income exceeds \$30,000, ie by 4 cents for every \$1 of taxable income above \$30,000. Low and average income earners will receive half the LITO benefit through their regular pay, rather than all as a lump sum when their income tax returns are assessed.

### Dependant Tax Offset - Restricted Eligibility

From 1 July 2008, an income threshold of \$150,000 (indexed) will apply when determining a taxpayer's eligibility for claiming a Dependent Spouse, Housekeeper, Child Housekeeper, Invalid Relative and Parent/Parent-in-law tax offset.

From 1 July 2009, the Government will align the definition of **income** for these tax offsets with that applying to family assistance payments.

### Child Care Tax Rebate (CCTR) - Greater Claims

From 1 July 2008, the CCTR (which is paid through the Family Assistance Office) for out-of-pocket child care expenses will increase from 30% to 50%, and the maximum claim will increase from \$4,354 to \$7,500 (indexed) per child, per annum. Payments of the CCTR will be made every three months, instead of once a year.

### First Home Saver Accounts (FHSA)

Eligible individuals will be able to make post-tax contributions into an FHSA (earnings taxed at 15%), and these contributions will be partly matched with a Government co-contribution. Key changes to the original proposal, following the Government's recent consultation process are:

- ◇ FHSA initiative deferred to 1 October 2008

- ◇ once the account reaches \$75,000 (indexed), additional personal contributions cannot be made
- ◇ a \$1,000 contribution when opening an account is no longer required, and
- ◇ the Government will contribute 17% of up to \$5,000 of personal contributions into an FHSA each year
- ◇ withdrawals will be tax free if used to buy or build a first home.



### Education Tax Refund

From 1 July 2008, families receiving family tax benefit (FTB) Part 'A' with children undertaking primary or secondary studies will be eligible to claim a refundable tax offset in respect of eligible education expenses incurred from this date (eg, laptops, education software, school text books and stationery). The tax offset is claimed through the individual tax return for the relevant year as follows:

- ◇ 50% tax offset each year up to \$750 of education expenses for each child attending **primary** school (ie a maximum tax offset of \$375 per child, per year)
- ◇ 50% tax offset each year for up to \$1,500 of education expenses for each child attending **secondary** school (ie a maximum tax offset of \$750 per child, per year)

### Fringe Benefits Tax (FBT) Initiatives

The Government said tax planning arrangements and changes in technology had eroded the fairness and integrity of the FBT system:

- ◇ **work-related items** – for items purchased after 13 May 2008 the FBT exemption for certain work-related items (eg laptop computers, personal digital assistants, tools of trade, etc) will **only** apply where the item is used **primarily** for work purposes. Employees will be denied the double benefit of depreciation on these items. For items purchased before 13 May 2008, depreciation will be denied for the 2009 and later income years.
- ◇ **jointly held assets** – for new arrangements entered into after 13 May 2008, the FBT rules will be amended to ensure the full value of a benefit provided jointly to an employee and their associate (eg reimbursement of a jointly incurred rental property expense) is subject to FBT. Employees who have already entered into



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salary sacrifice arrangements will be able to utilise existing arrangements until 31 March 2009.

- ◇ **meal cards** – from 13 May 2008, where an employer paid for meals provided to an employee for consumption at the employer's premises, as part of a salary package arrangement, FBT will apply. Existing balances on meal cards will remain eligible for the exemption as long as they are used by 31 March 2009. This measure will **not** affect subsidised canteens that are provided to all staff and that are not part of a salary sacrifice arrangement.

### Capital Gains Tax (CGT) Initiatives

Three of the announced CGT initiatives are:

- ◇ **small business concessions (SBCs) extended** – from 1 July 2007, an asset owned by a non-small business entity (SBE) will be eligible for the SBCs if the asset is used by a related entity. The same will apply for a partner owning an asset used by the partnership
- ◇ **scrip-for-scrip roll-over modification** – the CGT scrip-for-scrip roll-over will be amended from 13 May 2008 to ensure that, for corporate restructures, the acquiring entity's cost base of shares in the target entity reflects the tax costs of the target entity's net assets rather than the current position of reflecting the market value for the acquired shares
- ◇ **cancellation of shares or units in widely held entities** – from 1 July 2007, taxpayers will be able to calculate their capital gains or losses using the actual proceeds received (rather than market value).



### Depreciation - Computer Software

The period over which capital expenditure on in-house computer software (eg MYOB and Quickbooks) is depreciated will be increased from 2.5 years to 4 years for expenditure incurred after 13 May 2008. Depreciation claims will continue to be made on a straight line basis.

### Employee Share Scheme Initiatives

Currently an employee can elect to be taxed on a discount in relation to qualifying shares or rights in the year of acquisition. Where an election is not made, the tax liability on the discount is deferred until a later time (eg when restrictions on the shares or rights are lifted). For qualifying shares and rights

acquired on or after 1 July 2008, if an employee elects to be assessed up-front (on their discount) but the taxable discount is **not** included in the employee's tax return, the employee will be taxed under the deferral option (ie as if an election has **not** been made).

### Family Trusts - Utilising Losses

From 1 July 2008:

- ◇ the definition of family (in the family trust election rules) will be changed in order to limit lineal descendants to **children** or **grandchildren** of the test individual or of the test individual's spouse
- ◇ family trusts will be precluded from making a one-off variation to the test individual specified in a family trust election (other than in relation to a marriage breakdown).

### Capital Protected Borrowings - Benchmark Rate

For capital protected borrowing arrangements entered into after 13 May 2008, the benchmark interest rate will be adjusted to increase the capital component of the overall expense.

Under a typical capital protected borrowing arrangement, the investor uses borrowed funds to

buy listed shares but is protected from a fall in their price by a capital protection feature. The benchmark interest rate is used to determine how much of the interest on the borrowing is attributable to the cost of this capital protection (ie the **non-tax** deductible portion).

The current rules will continue to apply to existing arrangements for five years or the life of the product, whichever is the shorter.

### Means Testing of Government Support - Expanding the Definition of 'Income'

From 1 July 2009, the definition of income will be expanded in the following three areas:

- ◇ **salary sacrificed superannuation contributions** will be included in determining eligibility for:
  - ⇒ superannuation co-contributions
  - ⇒ income support payments for people below age pension age
  - ⇒ family assistance and child support, and
  - ⇒ financial and retirement savings assistance delivered through the tax system

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- ◇ **net investment losses** – 'net financial investment losses' and 'net rental property losses', will be included in income when determining eligibility for:
  - ⇒ senior Australians tax offset
  - ⇒ Medicare levy surcharge, and
  - ⇒ dependant tax offsets (eg spouse tax offset)
- ◇ **Reportable fringe benefits amounts** will be included in determining eligibility for:
  - ⇒ senior Australians tax offset
  - ⇒ pensioner tax offset, and
  - ⇒ dependant tax offsets (eg spouse tax offset)



### OTHER BUDGET ANNOUNCEMENTS

- ◇ From 1 July 2008 all deductions for **donations** to **political parties** will be removed
- ◇ From 1 July 2008 the **luxury car tax** rate will increase from 25% to 33%
- ◇ From 1 July 2008, the **baby bonus** will increase from \$4,258 to \$5,000
- ◇ From 1 January 2009, eligibility for the **baby bonus** will be limited to families with income to \$75,000 in the six months after the birth of the child (effectively \$150,000 per annum)
- ◇ **Family tax benefit (FTB) part 'B'** will be limited to those families where the primary income earner has an adjusted taxable income of no more than \$150,000 per annum
- ◇ From 1 July 2009, FTB will **only** be delivered through Centrelink and Medicare and not through the Tax office
- ◇ Where the **GST margin scheme** is used after a GST-free or non-taxable supply, the value added by the registered entity which made that supply is included in determining the GST subsequently payable under the margin scheme
- ◇ The Government is to progressively reduce withholding tax on some foreign investments from 30% down to 7.5% by 2010-11
- ◇ Foreign investors in countries without effective exchange of information arrangements will remain subject to a 30% final withholding tax
- ◇ New rules for the taxation of managed funds, especially property trusts, which will allow them to be taxed as trusts rather than as companies.



### Holidays

Our office will be closed for public holidays from Friday 27 June – Monday 7 July 2008 inclusive.

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