



Winter 2007

Contents

- 1 > 2007-08 Budget highlights
> SMEs and the Budget
- 2 > Upcoming super changes
- 3 > Employment termination payments
- 4 > \$1 million opportunity
> Super co-contributions
> ATO crackdown on super contributions



Chartered Accountants

BDH & CO
Suite 1, Level 3
3 Carlingford Road
Epping NSW 2121
AUSTRALIA

Tel: (02) 9869 3300
Fax: (02) 9869 3200

www.bdhco.com.au

Partners: *Brad Hodge*
Gede Barone
Tas Demos

Client Information Bulletin

2007-08 Budget highlights

The 2007-08 Budget handed down by Treasurer Peter Costello has been widely supported by the business sector.

The Institute of Chartered Accountants welcomes the 2007-08 Budget stating it "delivers significant improvements to both personal and business tax" however they also stress more is required to improve Australia's taxation system.

Highlights from the Budget include:

- Personal income tax reform. From 1 July 2007, the low income tax offset will increase to \$750 per year and the 30 per cent threshold will rise from \$25000 to \$30000. In 1 July 2008 the 40 per cent threshold will increase to \$80000 and the 45 per cent threshold will increase to \$180000.
- Increasing the retirement savings for low-income earners by providing a one-off doubling of superannuation co-contributions for eligible contributions made in 2005-06.
- \$200m over four years to expand access to the research and development (R&D) tax concession, to encourage multinational enterprises to increase the amount of R&D they perform in Australia.
- \$171m over five years for the establishment of Australian Industry Productivity Centres, which will provide a range of diagnostic and advisory services to firms in the

manufacturing and services sectors to enhance their productivity and business performance.

- \$122m over five years for the establishment of the Global Opportunities programme to facilitate Australian firms' participation in global supply chains and major international projects.
- \$49m over four years for the implementation of a streamlined ABN and business names registration system.
- \$32m over four years to enhance the Commercial Ready programme.

For full Budget details go to www.budget.gov.au

SMEs and the Budget

From 1 July 2007, businesses with turnover below \$75,000 need not register for the GST. Those who voluntarily register will have the option of reporting and paying GST annually. In addition, from 1 July 2008, taxpayers who voluntarily register for GST and choose to report and pay GST annually may also pay their pay-as-you-go instalments annually. Such taxpayers would only need to lodge a Business Activity Statement once a year.

Furthermore from 1 July 2007, more small businesses will be able to apply to access a simplified accounting method for calculating their GST.

This will apply to all entities with an annual turnover of less than \$2m that make mixed supplies — taxable and GST-free — or mixed purchases. This will expand the arrangement that has been implemented for food

retailers, small restaurants, cafes and caterers.

For purchases of \$75 or less, businesses will no longer require a tax invoice to claim a GST credit. This will be of particular benefit to smaller businesses, which will need only one set of documents for these purchases for both income tax and GST purposes.

From 2007-08, small businesses with excise obligations will be able to settle these on a monthly, rather than weekly, basis reducing their compliance burden.

To assist new businesses to keep good records and understand their tax requirements, including the GST, the Australian Taxation Office will be provided with \$40m over four years to provide more face to face assistance through visits to start-ups.

The GST changes outlined here will require the unanimous agreement of the States and Territories before they become official legislation.

Upcoming super changes

The superannuation system is changing from 1 July 2007. According to the Government the changes should mean most people would receive more from their super.

One of the most important changes affecting all individuals is ensuring that their chosen fund has their tax file number (TFN). Where this is not provided the individual may be charged a higher tax on contributions and their fund may not accept some types of contributions.

The responsibility falls to both the employer and employee to ensure the super fund has the TFN. Employers that do not pass on the TFN to the employee's

fund may face penalties from the Government.

Employers must give the TFN to their employee's fund by whichever is the later of the following:

- for new employees – when the employer makes the first contribution for them
- for existing employees – when the employer makes the next contribution for them
- within 14 days after receiving the employee's Tax file number declaration (NAT 3092) form.

Employers not making employee contributions, as would be the case where the employer pays their employee less than \$450 in a calendar month, are not affected by these changes.

Below is an outline of other key changes as they affect employers, those currently working and those retiring or planning to retire.

Key super changes for employers

The super changes most relevant to employers include:

- Employers can claim a full tax deduction for all employer contributions, or before-tax contributions, to super for staff who are less than 75 years of age. The self-employed may also be able to claim a full tax deduction for their personal superannuation contributions
- Eligible termination payments will change to employment termination payments.
- The reasonable benefit limits (RBLs) will be abolished. Employers will no longer have to report payments made after 1 July 2007 for RBL purposes. Employers will only have to report eligible termination payments over \$5,000 paid up to 30 June 2007. The

deadline for this reporting is 14 July 2007.

- Pay-as-you-go withholding eligible termination payment summaries, statements and associated schedules will be updated in line with the changes.

There will be no changes to the employer's super guarantee obligations. Employers must continue to make super contributions of at least nine per cent of each employee's earning base to their chosen super fund.

Key super changes for individuals currently working

Super changes relevant to those currently in the workplace include:

- Making before-tax contributions of up to \$50,000 a year (indexed) into super accounts is allowed.
- If 50 years of age or over, the before-tax contribution limit is \$100,000 a year between 2007-08 and 2011-12.
- Making before-tax contributions is allowed up to the age of 75 – this applies to both the employer and employee.
- If under 65 years of age, after-tax contributions of up to \$150,000 a year (indexed) can be made. These contributions can be 'brought forward' paying \$450,000 in one year provided nothing is paid in the following two financial years.
- If aged between 65 and 74, at least 40 hours within 30 consecutive days must be worked in a financial year to make contributions. Tax penalties apply for going over these contribution limits.
- Up to \$1m in after-tax contributions can be made into a super fund between 10 May 2006 and 30 June 2007. This is only a

temporary opportunity, from 1 July 2007 the new contributions caps will apply.

- A request can be made to release money from a super fund if more than \$1m has been contributed between 10 May and 6 December 2006. A request to release funds must be lodged on, or before 30 June 2007.
- If moving super to another fund a standard form, which will be accepted by all super funds, can be used. Funds will have up to 30 days to action requests.
- If eligible for the super co-contribution, all after-tax contributions up to \$1,000 qualify for the super co-contribution. From 1 July 2007, those self-employed may also be eligible for the super co-contribution. The super co-contribution is indexed, means tested, and is not available to higher income earners.

For those retiring

Key super changes relevant to those retiring, or planning to retire, include:

- If 60 years of age or older super benefits are tax-free if they are paid from a taxed source.
- An income tax return for the 2007-08 financial year need not be completed if 60 years of age or older, and the only income received is that of super from a taxed source.
- Savings can be kept in super indefinitely as there are no compulsory cashing out rules.
- If drawing on a fund the super pension must pay a minimum amount based on the recipient's age and account balance.
- Employment termination payments cannot be rolled over into super.
- Transition to retirement income stream payments in

a year must be less than ten per cent of the super account balance (at the beginning of the financial year).

- A lump sum payment, under transition to retirement, cannot be taken.
- The Government pension asset test taper rate has been changed, effective 20 September 2007, meaning more people may be eligible for Government pensions such as the Age Pension.

Employment termination payments

Eligible termination payments will change to new employment termination payments.

Employment termination payments (ETPs) are lump sum payments an employer makes as a consequence of terminating a person's employment. These payments will be taxed differently from 1 July 2007, and can no longer be rolled over into super funds from this date unless they are made under specific transitional arrangements.

An ETP can include:

- Amounts for unused rostered days off
- Amounts in lieu of notice
- A gratuity or 'golden handshake'
- An employee's invalidity payment (for permanent disability, other than compensation for personal injury), and
- Certain payments after the death of an employee.

ETPs do not include:

- A payment for unused annual leave or unused long service leave, or
- The tax-free part of a genuine redundancy

payment or an early retirement scheme payment.

There are no changes to the tax treatment of unused leave, redundancy and early retirement payments.

Transitional arrangements

Transitional arrangements apply if a payment on termination is specified in an existing employment contract as at 9 May 2006 and the payment is made prior to 1 July 2012.

The taxable component of your Employment Termination Payment will be taxed as follows under the transitional arrangements:

Under the preservation age (currently 55)

- 30 per cent up to a maximum of \$1m; and
- The top marginal tax rate plus Medicare levy for any additional amounts.

Over the preservation age

- 15 per cent up to a maximum of \$140,000;
- 30 per cent up to \$1m; and
- The top marginal tax rate plus Medicare levy for any additional amounts.

Transitional Termination Payments may be contributed to superannuation until 1 July 2012. These contributions will be taxed at 15 per cent.

Any amounts contributed above \$1m will be subject to the contributions caps and excess contributions taxes.

Standard ETPs

For those not affected by the transitional arrangements the ETPs will be taxed as follows:

Under the preservation age (currently 55)

- 30 per cent up to a maximum of \$140,000; and

- The top marginal tax rate plus Medicare levy for any additional amounts.

Over the preservation age

- 15 per cent up to a maximum of \$140,000; and
- The top marginal tax rate plus Medicare levy for any additional amounts.

The new pay-as-you-go payment summary should be used when making an employment termination payment to your employees from 1 July 2007.

\$1 million opportunity

As part of the Government's plans to reform Australian superannuation all Australians have the opportunity to put \$1m from after-tax contributions into their superannuation fund before 30 June 2007.

For those that own investment properties, analysts have suggested equity in these properties can be a potential source of funds to augment an individual's super. They do, however stress this opportunity is not just for the very wealthy. Those nearing retirement can use their assets to boost their super.

According to Asgard wealth management expert Bryan Ashenden 'The June 30 concession allows you to put any amount up to \$1m into your fund, so even if you have a relatively small amount to invest, super could still offer a highly tax-effective investment opportunity.'

From 1 July 2007, a proposed cap of \$150,000 will be placed on after-tax contributions. For those younger than 65 it is possible to contribute \$450,000 over a three year period without penalty.

Before making any decisions regarding after-tax super

contributions discuss them with a Chartered Accountant.

Super co-contributions

The Government's superannuation co-contribution scheme was aimed to improve the retirement income of low to middle income earners. Contributions, made by those eligible were matched one-for-one match by the Government.

In the 2004-05 Budget the Government increased the matching rate to \$1.50 and made more people eligible.

As part of the 2007-08 Budget the Government will pay a one-off additional co-contribution into the superannuation accounts of those persons who made eligible contributions in the 2005-06 income year.

This payment will double the co-contribution paid that year.

For example, if a person was eligible for a co-contribution of \$1,500 in the 2005-06 year they will now receive an extra co-contribution of \$1,500, so that the total co-contribution payments that year would be \$3,000.

In general, individuals will be eligible for the co-contribution in a year of income if:

- They make personal superannuation contributions to a complying superannuation fund or a retirement savings account (RSA)
- Their 'total income' (assessable income plus reportable fringe benefits) is less than \$58,000 (This may be different to their taxable income)
- 10 per cent or more of the total income is from eligible employment

- They do not hold an eligible temporary resident visa at any time during the year
- They lodge an income tax return for the year of income, and
- They are less than 71 years old at the end of the year of income.

For more information go to www.ato.gov.au

ATO crackdown on super contributions

Employers have been warned by the Australian Taxation Office Commissioner Michael D'Ascenzo to ensure they make compulsory superannuation contributions on behalf of their workers.

"We are lifting our level of compliance focus," says Mr D'Ascenzo. The ATO reports they receive approximately 10,000 complaints about superannuation per year. When investigating these complaints, the ATO looks at all employees in the organisation, not only the accounts of the person who made the complaint.

Accordingly, the ATO is educating employees to check whether their superannuation entitlements were actually paid into their account before they switched or left a job while also educating employers to check their superannuation contribution statement every year.

DISCLAIMER: The contents of this publication are general in nature and we accept no responsibility for persons acting on information contained herein.