

Federal Budget 2008

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TapIn Flash

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Last night's Federal Budget contained a number of proposals which, when passed, will to varying degrees impact the financial planning industry.

Topics covered

1. Personal income tax cuts
2. Expanded income definition for superannuation co-contribution and other government benefits
3. Superannuation
4. First Home Saver Accounts
5. Other taxation changes
6. Social Security
7. Education support
8. Other / Miscellaneous

1. Personal Income Tax

Personal income tax cuts phased in over 3 years

From 1 July 2008, the 30 per cent threshold will increase from \$30,000 to \$34,000, the 40 per cent threshold will increase from \$75,000 to \$80,000 and the 45 per cent threshold will increase from \$150,000 to \$180,000.

New personal tax rates (Australian residents)

Current tax thresholds 07/08 \$	Tax rate %	New tax threshold from 1 July 2008 \$	Tax rate %
0 – 6,000	0	0 – 6,000	0
6,001 – 30,000	15	6,001 – 34,000	15
30,001 – 75,000	30	34,001 – 80,000	30
75,001 – 150,000	40	80,001 – 180,000	40
150,001 +	45	180,001 +	45

There will be further tax cuts from 1 July 2009 and 1 July 2010 as outlined below.

New tax threshold from 1 July 2009 \$	Tax rate %	New tax threshold from 1 July 2010 \$	Tax rate %
0 – 6,000	0	0 – 6,000	0
6,001 – 35,000	15	6,001 – 37,000	15
35,001 – 80,000	30	37,001 – 80,000	30
80,001 – 180,000	38	80,001 – 180,000	37
180,001 +	45	180,001 +	45

Low income earner tax offset (LITO)

From 1 July 2008, the LITO will increase from \$750 to \$1,200 and there will be further increases from 1 July 2009 and 1 July 2010. However, the LITO will continue to phase out from \$30,000.

As a result of this increase, in the 2008/09 financial year, an individual with no other offset entitlements will not pay tax until their income exceeds \$14,000 (up from \$11,000), while a child under 18 years old will be able to receive “unearned” income of \$2,667 and not pay any tax.

Tax Year	Maximum LITO Amount \$	Phased out from \$	No tax paid until income exceeds \$	Under 18 earnings before tax is paid \$
2008/09	1,200	30,000	14,000	2,667
2009/10	1,350	30,000	15,000	3,000
2010/11 onwards	1,500	30,000	16,000	3,333

Lower income earners will receive half the benefit of this offset through their regular pay rather than receiving the total as a lump sum when their income tax return is assessed.

Senior Australian Tax Offset (SATO)

From 1 July 2008, senior Australians eligible for the SATO and the LITO will not pay tax until they reach an annual income of \$28,867 for singles and up to \$49,360 for couples as outlined in the table below.

	Proposed income level before tax is payable (2008/09) \$	Proposed income level before tax is payable (2009/10) \$	Proposed income level before tax is payable (2010/11) \$
Single	\$28,867	\$29,867	\$30,685
Couples (combined*)	\$49,360	\$51,360	\$53,360

* Applies where income is received equally between both members of the couple.

Increasing the Medicare levy low-income thresholds

The Medicare levy low-income thresholds will increase to \$17,309 for individuals and \$29,207 for families, with effect from 1 July 2007.

The additional amount of threshold for each dependent child or student will also increase to \$2,682.

For pensioners below Age Pension age the Medicare levy threshold will increase to \$22,922, with effect from 1 July 2007. This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

Increasing the Medicare levy surcharge thresholds

The Medicare levy surcharge thresholds will increase from \$50,000 to \$100,000 (for singles) and from \$100,000 to \$150,000 (for families), with effect from 1 July 2008.

2. Expanded income definition for superannuation co-contribution and other government benefits

From 1 July 2009, there will be a broadening of the various definitions of income that are used when determining eligibility for certain types of government support.

- A. The definition of income for the superannuation co-contribution, income support payments for people below Age Pension age, family assistance, child support, and financial and retirement savings assistance delivered through the tax system will include certain 'salary sacrificed' contributions to superannuation.
- B. The adjusted taxable income definitions used for the purposes of family assistance programs, some parental income tests, the Commonwealth Seniors Health Card, child support and loan repayment obligations under the Higher Education Loan Program will be expanded to include net financial investment losses and net rental property losses.

The definition of income used for the Senior Australians Tax Offset, Medicare levy surcharge and dependency tax offsets will also be expanded to include net financial investment losses and net rental property losses.

- C. The income definitions used for the Senior Australians tax offset, pensioner tax offset, and dependency tax offsets will be expanded to include reportable fringe benefits.
- D. The Commonwealth Seniors Health Card income test will be expanded to include in the income assessment the gross income from superannuation income streams from a taxed source as well as income that is salary sacrificed to superannuation.

3. Superannuation

Deferral of start date for payment of temporary residents' superannuation to the ATO

The government has decided to proceed with a proposal, first announced by the previous government, to have superannuation benefits for temporary residents paid directly to the ATO.

However, the start date is now to be deferred to the date of Royal Assent (expected before the end of 2008). The deferral will allow consultation on administrative and legislative design features of this policy.

Superannuation Clearing House Facility

The Australian Taxation Office will fund a Superannuation Clearing House Facility from 2009/10, to assist in managing employers' obligations to provide superannuation choice to employees.

This facility will be offered free of charge to small businesses with fewer than 20 employees and on a fee-for-service basis to larger businesses.

Businesses that use the clearing house facility will have their legal obligation to make superannuation contributions discharged when payment of the correct amount is made to the clearing house.

4. First Home Saver Accounts

First Home Saver Accounts (FHSAs) will now commence from 1 October 2008. Eligible individuals will be able to make post-tax contributions into a FHSA which will include the following amended features:

- A Government contribution of 17 per cent paid on the first \$5,000 personally contributed each year (indexed).
- Personal contributions will be allowed until the balance reaches \$75,000 (indexed).
- Earnings on the account will be concessional tax at 15 per cent.
- Tax free withdrawals from the account to purchase or build a first home in which to live can only be made after contributions of at least \$1,000 have been made in at least four separate financial years.

5. Other taxation changes

Personal income tax

Effective from 1 July 2008, an income threshold is to be introduced of \$150,000 (indexed) when seeking to claim the Dependent Spouse, Housekeeper, Child Housekeeper, Invalid Relative and Parent/Parent-in-law tax offsets.

From 1 July 2009 the definition of income for these offsets will be aligned with that applying to family assistance payments (see above).

Small business – Capital gains tax concessions

To use the under \$2m turnover test for the purposes of the small business capital gains tax (CGT) concessions the disposer of the asset must be carrying on a business.

From 1 July 2007, the ability to use the under \$2m turnover test is to be extended in certain limited circumstances to where the disposer is not carrying on a business but:

- The disposer's asset is being used in a business carried on by a related entity; or
- The disposer personally owns the asset and it is being used in a business carried on by a partnership in which the disposer is a partner.

Small business – Entrepreneurs' tax offset

An income test for the entrepreneurs' tax offset (ETO) is to be introduced with effect from 1 July 2008.

The ETO provides a 25 per cent tax offset for small businesses with annual turnover of less than \$75,000, which begins to phase out for turnover greater than \$50,000.

The income test will focus the benefit of the ETO towards genuine small businesses, by restricting eligibility for singles from \$75,000 and families from \$120,000 adjusted taxable income per year.

Fringe benefits tax – Exemption for eligible work-related items

The current fringe benefit tax (FBT) exemption for certain work-related items (including laptop computers, personal digital assistants and tools of trade) is to be tightened by ensuring the exemption only applies where these items are used primarily for work purposes. The FBT exemption will generally be limited to one item of each type per employee per year.

The measure will apply to items purchased after 7.30 pm on 13 May 2008.

The measure reduces the FBT concession and tax expenditure for work-related items and ensures consistency with the rules applying to mobile phones, computer software, and protective clothing.

The Government will also deny employees depreciation deductions for FBT exempt items (that is, items purchased primarily for work purposes) purchased from 7.30 pm on 13 May 2008. For items purchased before that time, employees will be denied depreciation deductions for the 2008-09 and later income years.

This measure will ensure that employees are no longer able to gain a double benefit by obtaining an FBT exempt item (such as a laptop computer) from their pre-tax income, and then claim a deduction for depreciation.

Fringe benefits tax – Jointly held assets

The fringe benefits tax (FBT) law is to be amended to ensure that the full value of a benefit that has been provided to both an employee and an associate (eg a spouse) in relation to a jointly held investment asset will be subject to FBT. For example, until now the otherwise deductible rule could be used to eliminate all FBT liability even though the employed person held only a minor interest in an income producing asset held as tenants in common with their spouse.

The amendment will have effect for new arrangements from 7.30 pm on 13 May 2008.

Employees who have already entered into salary sacrifice agreements with their employer will be able to utilise existing arrangements until 31 March 2009 (that is, the end of the current FBT year). This will provide time for employers and employees to renegotiate salary packages to avoid incurring a FBT liability.

Employee share schemes – Election requirements

Currently an employee can elect to be assessed on discounts provided on shares or rights in the year of income the shares or rights are acquired. If an election is not made, taxation of the discount (which includes gains on shares or rights) is deferred until a later time (such as when restrictions on the shares or rights are lifted).

The changes aim to ensure that the value of the discount (where it exceeds \$1,000) is included in assessable income if a taxpayer elects to be assessed upfront. Where the amount is not included in the employee's tax return, then the employee will be taxed under the deferral option. The Commissioner retains the power to allow a taxpayer an extension of time to make the election. This measure will take effect with respect to shares and rights acquired from 1 July 2008.

International tax – A final withholding tax on certain distributions of Australian managed investment trusts to foreign residents

The existing 30 per cent non-final withholding tax applying to distributions of Australian source net income (other than dividends, interest and royalties) of Australian managed investment trusts to foreign residents is to be replaced with a final withholding tax regime. The measure will have effect for fund payments made in relation to the first income year after the date of Royal Assent of the enabling legislation, intended to be the 2008-09 income year.

Residents of jurisdictions with which Australia has effective exchange of information arrangements, will be subject to a non-final withholding tax at the rate of 22.5 per cent for the first income year (intended to be 2008-09); a final withholding tax of 15 per cent for the second income year (intended to be 2009-10); and a final withholding tax of 7.5 per cent for the third (intended to be 2010-11) and later income years.

For the first income year, as an interim measure, these foreign residents will be eligible to claim deductions for expenses relating to their fund payments. They will be taxed at a new rate of 22.5 per cent on an amount net of any deductions. Residents of other jurisdictions will be subject to a 30 per cent final withholding tax.

Review of Australia's tax system

The Government will undertake a comprehensive review of Australia's tax system. It will encompass Australian Government and State taxes, except the GST, but will preserve tax-free superannuation payments for the over 60's.

The review should make coherent recommendations to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for:

- Workforce participation and skill formation;
- Individuals to save and provide for their future, including access to affordable housing;
- Investment and promotion of efficient resource allocation to enhance productivity and international competitiveness; and
- Reducing tax system complexity and compliance costs.

6. Social Security

Carer Bonus

Carer Payment recipients will receive \$1,000 and recipients of Carer Allowance will receive \$600 for each eligible person in their care. These payments will both be exempt from income tax. Those receiving both the Carer Payment and Carer Allowance on 13 May 2008 will receive both lump sum payments.

Seniors Bonus

The Government will make a tax-exempt payment of \$500 to individuals in receipt of Age Pension, Veterans' Pensions, Widow B Pension, Wife Pension, Seniors Concession Allowance, Mature Age Allowance, Widows Allowance or Partner Allowance as at 13 May 2008.

Baby Bonus

From 1 January 2009, eligibility to the Baby Bonus will be limited to families with an adjusted taxable income of \$75,000 or less in the six months after the birth of a baby (equivalent to an annual income of \$150,000).

The Baby Bonus will also be paid in 13 fortnightly instalments from the date of claim, rather than as a lump sum, for all eligible births from 1 January 2009.

The Government will increase the Baby Bonus from \$4,258 to \$5,000 on 1 July 2008 and will index the payments by the Consumer Price Index each subsequent year on 1 July.

In addition, the Baby Bonus will be extended to families with newly adopted children aged from two years to 16 years, from 1 January 2009.

Family Tax Benefit – \$150,000 income test on primary earner for FTB-B

Eligibility for Family Tax Benefit Part B will be limited to families where the primary earner has an adjusted taxable income of \$150,000 a year or less.

Adjusted taxable income includes taxable income, plus other amounts that reflect a person's financial means, such as net rental property losses and tax free pensions or benefits. The income test will be indexed annually by the consumer price index.

From 1 July 2009, the Family Tax Benefit will only be paid and claimed through Centrelink and Medicare, and not through the tax system.

Partner Service Pension – Cease payment to married partners who are separated but not divorced

The Service Pension will no longer be provided to partners who are separated from, but still legally married to, a veteran. Commencing on 1 January 2009, access to the Service Pension will cease 12 months after separation or from the beginning of a new marriage-like relationship by either the veteran or the partner, whichever occurs first. Only partners who have separated from a veteran but not divorced within 12 months are affected by this proposal.

Utilities Allowance

The Government will extend the Utilities Allowance to recipients of Disability Support Pension, Carer Payment, Invalidity Service Pension, Partner Service Pension, Income Support Supplement, Bereavement Allowance, Widow B Pension and Wife Pension irrespective of age.

From March 2008, the Utilities Allowance annual rate increased from \$107.20 to \$500 for singles (or couples combined). It will be paid quarterly with payments in March, June, September and December.

7. Education Support

Education Tax Refund – Refundable tax offset

The Government will introduce a 50 per cent Education Tax Refund on eligible educational expenses from 1 July 2008.

Eligible families can claim up to \$750 for each child undertaking primary school studies (that is, a refund of up to \$375 per child, per year) and \$1,500 for each child undertaking secondary school studies (that is, a refund of up to \$750 per child, per year). These amounts will be indexed annually from 1 July 2009.

The Education Tax Refund will apply to expenses incurred from 1 July 2008 and will be claimed upon assessment of a 2008-09 income tax return.

Increase in Child Care Tax Rebate from 30 per cent to 50 per cent

The Child Care Tax Rebate will increase from 30 per cent to 50 per cent. As part of this measure the maximum out-of-pocket expenses claimable will increase from \$4,354 to \$7,500 per child, per year. From 1 July 2008, the Child Care Tax Rebate will be paid quarterly, instead of annually.

8. Other / Miscellaneous

Family trusts – Tax

The scope for family trusts to be used to lower income tax by utilising losses is to be reduced.

Removal of differential treatment of same-sex couples and their children – Law reform

The Government will prospectively remove differential treatment of same-sex couples and their children from Commonwealth laws (except where they rely on the Family Law Act 1975 definitions and presumptions) in the areas of Australian Government (defined benefit) superannuation schemes, social security, veterans' entitlements, workplace relations, workers' compensation, taxation, health (including Medicare, pharmaceutical benefits and hearing services) and immigration and citizenship.

Amendments to the Australian Government (defined benefit) superannuation schemes will commence on a date to be set by proclamation, with amendments related to superannuation and taxation of death benefit payments having effect from 1 July 2008.

Capital protected borrowings

The benchmark interest rate applicable for capital protected borrowings entered into from 7.30 pm (AEST) on 13 May 2008 will be the Reserve Bank of Australia's indicator variable rate for standard housing loans.

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.

Further details will be provided as additional information comes to hand. If any clarification is required, please contact TapIn Technical on 1300 300 651.

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