

June 2008 Client Newsletter

2008/2009 FEDERAL BUDGET

Against a backdrop of economic uncertainty, rising interest rates, inflationary pressures and a volatile share market the Federal Treasurer Wayne Swan delivered a larger than expected \$21.7 billion budget surplus for 2008-09.

For the sixth consecutive year significant tax cuts were announced and the savings are summarized in the tables below. An individual taxpayer will need to earn over \$121,739 to pay an effective average rate of tax of more than 30% (including Medicare) in 2008/09. The Government also reaffirmed its commitment to reduce tax rates to three levels (15%, 30% and 40%) by 2013/14.

The Budget is not all handouts. The Government will claw back some revenue from higher income earners by 'means testing' a number of Government benefits including Family Tax Benefit and the Baby Bonus.

Budget Highlights

- **Tax Cuts worth \$46.7 billion over the next four years.** The tax cuts are aimed at low and middle-income families. Workers on \$50,000 per annum will get a tax cut of \$1,000 while workers earning less than \$14,000 per annum will pay no tax from 1 July 2008. The threshold for the 30% tax rate will rise from \$30,001 to \$34,001 and from 1 July 2008 the 40% tax threshold will increase from \$75,001 to \$80,001 with the 45% threshold rising from \$150,001 to \$180,001.

INCOME TAX THRESHOLDS						INCOME TAX SAVINGS		
2007/08 Tax Thresholds	Tax Rate (%)	New Tax Thresholds from 1st July 2008	Tax Rate (%)	New Tax Thresholds from 1st July 2009	Tax Rate (%)	Taxable Income	2008/2009 Annual Saving	2009/2010 Annual Saving
\$0 - \$6,000	0	\$0 - \$6,000	0	\$0 - \$6,000	0	\$35,000 - \$45,000	\$1,050	\$1,350
\$6,001 - \$30,000	15	\$6,001 - \$34,000	15	\$6,001 - \$35,000	15	\$50,000	\$1,000	\$1,300
\$30,001 - \$75,000	30	\$34,001 - \$80,000	30	\$35,001 - \$80,000	30	\$80,000	\$1,100	\$1,250
\$75,001 - \$150,000	40	\$80,001 - \$180,000	40	\$80,001 - \$180,000	38	\$100,000	\$1,100	\$1,650
\$150,001 +	45	\$180,001 +	45	\$180,001 +	45	\$120,000	\$1,100	\$2,050
						\$180,000	\$2,600	\$4,750

- **Baby Bonus:** This payment will be increased to \$5,000 from 1 July 2008 and indexed annually. It will now be paid in 13 fortnightly installments of around \$385, rather than a lump sum. Eligibility will be limited to families with 'adjusted taxable incomes' of \$75,000 or less in the six months after the birth of a baby (equivalent to an annual income of \$150,000) from 1 January 2009.

2008/2009 FEDERAL BUDGET - Continued

- **Child Care Rebate:** This will be increased from 30% to 50% which means that half of a family's total out-of-pocket child care costs will be met every year. The cap on the amount that can be paid each year will also be lifted from the current amount of \$4,354 to \$7,500 per child per year, paid quarterly. From 1 July 2008 this will now be means tested.

- **Education:** From 1 July 2008, families that are eligible to receive Family Tax Benefit Part A will be entitled to a refund of up to half of the cost of their children's education expenses. This will help the families of around 2.3 million school-age children meet education costs including computers, printers, text books, software and internet connections (but excluding school fees, uniforms and excursions). The maximum refund is \$375 per primary school student and \$750 for every secondary school student. All four year olds will now have access to pre-school for 15 hours per week by 2013. In addition, the Government will provide \$1 Billion over 4 years to ensure all year 9-12 students have access to their own computer and provide an additional \$5.7 Billion over 5 years to fund a National Broadband Network.

- **Superannuation:** The Government re-iterated its policy to preserve the tax-free nature of superannuation payments to those over 60. It will now also include non-wage remuneration such as salary sacrifice superannuation, in income tests for a range of Government financial assistance programs.

Budget Highlights (Cont'd)

- **Senior Australians:** From 1 July 2008, senior Australians eligible for the senior Australians tax offset will pay no tax on their annual income up to \$28,867 for singles and \$24,680 for each member of a couple. By 1 July 2010, these thresholds will rise to \$30,685 for singles and \$26,680 for each member of a couple.

- **Medicare Levy:** More than one million Australians will save up to \$1,500 as the Government plans to change the threshold where a one per cent Medicare levy kicks in. Singles would be able to earn up to \$100,000 while couples would be able to earn up to \$150,000 before the one per cent surcharge applies. The low income thresholds for Medicare have also been increased to \$17,309 for individuals and \$29,207 for individuals in families.

Small Business

- **Luxury Car Tax:** The rate has increased from 25% to 33% with effect from July 1 2008 and the threshold increases from \$57,123 to \$57,180 which represents an increase of \$2,000-\$2,600 on popular luxury vehicles.

- **Fringe Benefits Tax:** The broad based FBT exemption for laptops and similar items is being restricted. Such items provided by employers will now be required to be used 'primarily for work purposes' for the FBT exemption to apply. Meals consumed on premises by an employee under a salary sacrifice arrangement will now be subject to FBT.

- **Depreciation On In-House Software:** The write off period will increase from 2.5 years to 4 years (on a straight line basis) for expenditures incurred after 7.30pm on 13 May 2008 (reduces the depreciation rate from 40% to 25%).

- **GST Concessions:** Access to the small business CGT concessions via the small business entity rules (i.e. \$2m turnover) will be extended from 1 July 2007 to cover associated entities. The extension applies to entities that hold assets which are used by a small business entity, e.g. will cover a trust that owns property which is rented to an associated company for use in its business.

Bought a 'Luxury' Car Lately?

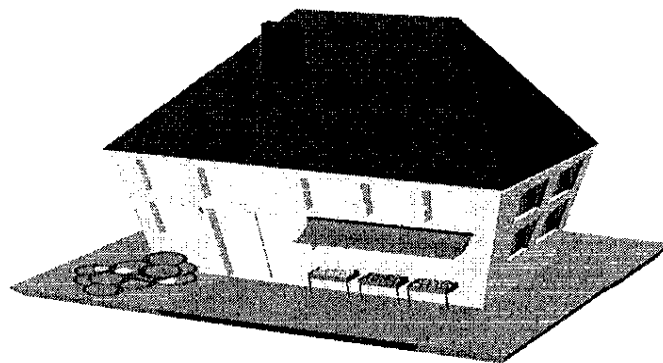
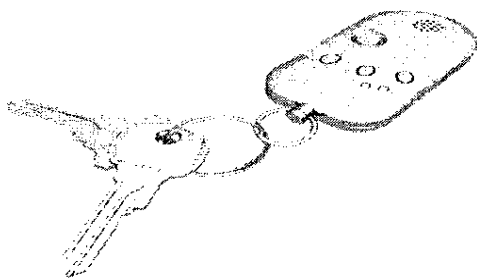
Tax investigators are about to pounce on drivers of luxury cars who declare little or no income in their tax returns. The investigation will focus on luxury vehicle purchases in the last two financial years and details of 290,000 separate vehicle transactions will be reviewed. In a major operation the Tax Office said it would collect data on the sales of new and second-hand vehicles costing more than \$57,009 between 1 July 2005 and 30 June 2007.

The Tax Office will use data collected from state and territory motor vehicle registries and cross match it against taxpayer records. The project would involve about 600,000 people nationally as it will also target people who have purchased other luxury items such as planes, race horses and boats.

The investigation will target people who declare little income, but whose acquisition of assets would indicate "conspicuous wealth". A Tax Office statement said, "In this instance, the indication of conspicuous wealth is the purchase or acquisition of a motor vehicle with a sale price or valuation in excess of the luxury car tax limit".

The move by the ATO is also expected to flush out anyone who has not lodged tax returns and they will also target people who try to conceal their ownership of expensive cars — for example, by registering them in the names of other people. It is unclear how many individuals will be investigated, or how many prosecutions are expected but a previous 'pilot' investigation revealed nearly 25% of taxpayers targeted had at least one outstanding tax return between 1997 and 2005. "Early indications are that the risk of omitted income in identified cases is substantial," it said.

The Federal Chamber of Automotive Industries says about 100,000 luxury vehicles were sold last year. About 70% of these were priced between \$57,000 and \$85,000, a range that includes high-end 'people movers' such as the Volkswagen Multivan and more expensive versions of the Holden Commodore and Ford Falcon.



Own a Rental Property?

The ATO is increasing its audit activity on rental property owners. The focus is on a number of areas including the distinction between a repair and renovation, claiming deductions for a property that is not genuinely available for rent and apportioning costs where the property is only rented for part of a year.

They also have an ongoing 'data matching project' that is systematically checking property sales in every state since 1 July, 1999. The data will be checked against the ATO's Capital Gains, GST and Income Tax Records.

Self Managed Super Funds

Do-it-yourself Superannuation via a Self Managed Superannuation Fund (SMSF) is an increasingly popular choice for investors. Latest research suggests there are now more than 360,000 SMSF's in Australia. The three key reasons for establishing your own SMSF are control, flexibility and investment choice. There are obvious benefits in establishing a SMSF.

A SMSF is basically a superannuation fund with one to four members who are also trustees responsible for the investment strategy and administration of the fund within strict Australian Tax Office guidelines.

In assessing whether an SMSF is suitable for you we prompt the following questions:

- Do you have a substantial amount in personal superannuation? (As a guide, a minimum of \$200,000 would be required due to establishment costs and ongoing management and audit fees.)
- Do you enjoy learning about your investments and have the time to regularly review their performance?
- Would you like increased flexibility in estate planning, more investment options and greater responsibility for your own retirement funds?

If you answered 'yes' to these questions, you may be suited to having your own SMSF. Whilst there are potentially great benefits, having a Self Managed Super Fund requires time, effort and discipline.

Call our office to discuss your superannuation options including establishment of your own SMSF.

SMSF Statistics

- The growth in SMSFs has been phenomenal over the past decade and by July 2007 more than 690,000 Australians were members of a SMSF.
- On average, each SMSF holds around \$800,000.
- 47,000 funds were established in the past year.
- The total assets in SMSF have increased sevenfold in the last ten years.

Last Change to get the super co-contribution for 2007/2008

The deadline for making personal superannuation contributions to obtain the Government's co-contribution for 2007/2008 is 30 June 2008.

How does the co-contribution work?

Where a taxpayer's total income (including reportable fringe benefits) for co-contribution purposes is \$28,980 or less in 2007/2008, the Government will put in \$1.50 for every \$1 they put into their superannuation account, up to a maximum co-contribution of \$1,500 a year (i.e., for personal superannuation contributions of up to \$1,000).

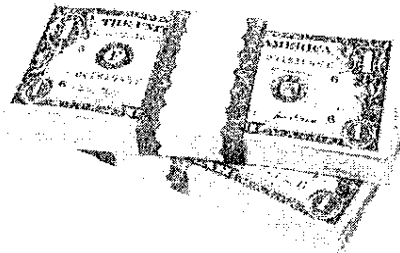
The maximum amount of co-contribution is reduced by 5 cents for each \$1 their total income is over \$28,980, phasing out completely where their total income is \$58,980.

Note that, from 1 July 2007, self-employed taxpayers may also be eligible for the co-contribution, provided they have not claimed a tax deduction for the same personal contributions (and they are otherwise eligible).

Example

An eligible taxpayer with total income of \$42,000 makes personal super contributions of \$1,000 during the relevant year.

They will be entitled to a co-contribution of \$849.



Thank You

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The finest compliment we can receive is a referral from our clients.

Please Note: Many of the comments in the publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.