

2008 Federal Budget Highlights

The following are announcements from the Budget that will impact NCS-Nicholls Clients:

1. Cuts to Rates of Personal Taxation

From 1 July 2008, previously announced cuts will go ahead in full. The tables below show existing rates of personal taxation and rates effective 1st July, 2008.

Current Tax Thresholds (\$)	Tax rate %
0 – 6,000	0
6,001-30,000	15
30,001-75,000	30
75,001- 150,000	40
150,001 +	45

New Tax Thresholds From 1 July 2008 (\$)	Tax rate %
0 – 6,000	0
6,001-34,000	15
34,001-80,000	30
80,001- 180,000	40
180,001 +	45

2. Medicare Levy

The Medicare levy surcharge threshold for singles from \$50,000 to \$100,000 and for those who are members of a family from \$100,000 to \$150,000, with effect from 1 July 2008.

From the 2007/08 income year, the government will also increase the Medicare levy low-income thresholds to \$17,309 (from \$16,740) for single people, and to \$29,207 (from \$28,247) for those who are members of a family.

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

The Medicare levy low-income threshold for pensioners below Age Pension age will also increase to \$22,922 (from \$21,637), with effect from 1 July 2007.

3. Child Care Tax Rebate

The child care tax rebate for out-of-pocket child care expenses will increase from 30% to 50%. The maximum out-of-pocket expenses claimable will increase from \$4,354 to \$7,500 (indexed) per child per year. This will now be paid quarterly (instead of annually) from October, 2008.

4. Government Welfare

- Taxpayers earning more than \$150,000 will not be entitled to the Dependent Spouse, Housekeeper, Child Housekeeper, Invalid Relative and Parent/Parent-in-law tax offsets.
- The Government will limit eligibility for Family Tax Benefit Part B 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.
- Carer Adjustment Payments (CAP), will be income tax exempt with effect from 1 July 2008. The CAP provides financial assistance to families who have a child under seven years, who has suffered a catastrophic event at some point after 1 January 2007.
- The Commonwealth Seniors Health Card income test will be amended to include gross income from superannuation income streams from a taxed source and income that is salary sacrificed to superannuation.
- The Government will provide 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. Bonus payments will be made automatically to those eligible before the end of June 2008.
- The Baby Bonus will increase to \$5,000 on 1 July 2008, and will be indexed annually from 1 July each year. A family means test will be introduced such that families earning over \$150,000 from 1 July 2009 will not be entitled for the Baby Bonus. The means test will be based on the family's income in the six months following birth on a pro rata annual basis equivalent to \$75,000 per six month period. For all eligible births after 1 January 2009, the Baby Bonus will be paid in 13 fortnightly instalments of around \$385.

5. Education Tax Refund

Families receiving Family Tax Benefit (Part A) with children undertaking primary or secondary studies or whose school children receive Youth Allowance or another relevant payment will be eligible for an education tax refund. The refundable tax

offset will apply to expenses incurred from 1 July 2008 and will be claimed upon lodgement of a 2008/09 income tax return.

Eligible families will be able to claim a 50 per cent refund every year for key education expenses up to:

- \$750 for each child undertaking primary studies (maximum refundable tax offset of \$375 per child, per year)
- \$1500 for each child undertaking secondary studies (maximum refundable tax offset of \$750 per child, per year).

Eligible families will be able to recoup the cost of purchases including:

- laptops
- home computers and associated costs
- home internet connection
- printers
- education software
- trade tools for use at school
- school text books, and
- stationery.

Parents will then be able to claim 50 per cent of these expenses through their tax return at the end of the financial year.

6. First Home Saver Account Scheme

The first home saver account allows individuals to contribute up to \$75,000 (indexed annually) towards the purchase of their first home. Earnings in the account will be taxed at 15%. Individuals will be able to withdraw amounts from the account without tax consequences provided that they contribute at least \$1,000 in 4 separate financial years.

Individuals who open an account will receive a government contribution of 17% on the first \$5,000 contributed annually.

The commencement date of the scheme has been delayed until 1 October 2008 to enable account providers more time to develop products. The delay does not affect individuals as they are still entitled to a government contribution on the first \$5,000 of personal contributions in 2008/09.

7. Entrepreneurs' Tax Offset Income Test

From 1 July 2008, eligibility for the entrepreneurs' tax offset will be subject to an income test. Currently, small businesses with an annual turnover of less than \$75,000 are entitled to a 25 per cent tax offset, which begins to phase out for turnover greater

than \$50,000. It may be claimed by taxpayers for whom business is not a primary source of income.

The income test will restrict access to the offset for businesses with high alternative sources of household income. It will restrict eligibility for singles from \$75,000 and families from \$120,000 adjusted taxable income per year.

8. Fringe Benefits Tax – Changes

The government has tightened the rules for the following FBT concessions.

- The FBT exemption for work-related items (eg laptops, personal digital assistants and tools of trade) purchased after 7.30pm on 13 May 2008 will only be available where the items are used primarily for work purposes and will be limited to one item of each type per employee per year. The terms of the exemption will be updated to reflect changes in technology.
- For new arrangements from 7.30pm on 13 May 2008, the full value of a benefit that has been provided to both an employee and an associate in relation to a jointly-owned asset (for example, a low interest loan or reimbursement of expenses related to a rental property or shares) will be subject to FBT. Employees who have already entered into salary sacrifice arrangements will be able to rely on such arrangements until 31 March 2009. This measure is intended to overcome the Federal Court's decision in National Australia Bank Ltd v Federal Commissioner of Taxation 93 ATC 4919.
- From 7.30pm on 13 May 2008, the FBT exemption for private use of business property on an employer's premises will not apply to meals under salary sacrifice arrangements. Existing balances on meal cards on 13 May 2008 will remain eligible for the FBT exemption, provided they are used by 31 March 2009.

Employees will be denied depreciation deductions for the work-related percentage of FBT exempt items. For items purchased after 7.30 pm on 13 May 2008, this measure will take effect from that time. For items purchased before 7.30 pm on 13 May 2008, employees will be denied depreciation for the 2008/09 and later income years.

9. Depreciation on Computer Software

Taxpayers will now be required to write off the cost of software over 4 years on a straight line basis, instead of 2.5 years. This brings the depreciation rate for software into line with that for computer hardware.

This measure applies to in-house software, which is essentially software that is acquired, developed, or developed by someone else, where that software is used by taxpayers in their business activities. It also applies to off-the-shelf software.

10. Employee share schemes — election requirements

The employee share scheme rules will be improved to ensure that income from these schemes is correctly reported. The changes will apply to shares and rights acquired from 1 July 2008.

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

The election procedures will be changed so that the value of the discount (where it exceeds \$1,000) is included in assessable income if a taxpayer elects to be assessed up-front. Where the amount is not included in the taxpayer's tax return, the taxpayer will be taxed under the deferral option. The Commissioner retains the power to allow a taxpayer an extension of time to make the election.

11. Luxury Car Tax Rate Increase

Rate will increase from 25% to 33% from 1st July, 2008. The Luxury Car Tax threshold remains at \$56,123.

12. Australia's Future Tax System

The Government announced the terms of reference for its comprehensive review of the Australian tax system. This review will consider Federal & State taxes – except GST, as well as interactions with the transfer system.

The Government also indicated that the review will reflect its policy not to increase the rate of, or to broaden the base of, the GST. It will also reflect its policy to preserve the tax free status of superannuation payments for the over 60s, and the aspirational goals for personal income tax rates.

An initial discussion paper will be released by the end of July 2008, with the final report to be provided by the end of December 2009.