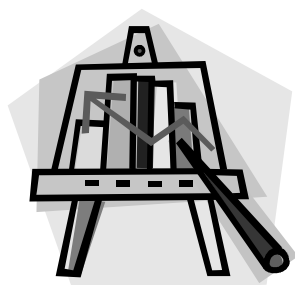


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**Special points of interest:**

- Increase in 30% tax threshold
- Introduction of pre-filling of personal income tax returns
- Changes to the way the Child Care Rebate is to be claimed
- One off doubling of the Government Co-contribution for 2006
- Additional rural funding allocation
- Increase to the dependant spouse rebate threshold



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## Budget Overview

On 8 May 2007, the Treasurer delivered his twelfth Federal Budget containing modest, some would say fiscally responsible, personal tax cuts.

The budget will remain in surplus for another year with an anticipated \$10.6 billion surplus for 2007/08.

Real GDP is expected to rise by 3.75% in 2008 whilst inflation is expected to fall to 2.5% in 2008.

### Personal Income Tax Cuts

From 1 July 2007 the 30% tax threshold is increased with further threshold increases from 1 July 2008. The budget estimates that the 2008/09 increase in the top tax rate threshold will mean just 2% of taxpayers will fall into the top tax bracket.

The low income rebate has also been increased from

\$600 to \$750 per year, effectively increasing the base tax-free threshold from \$6,000 to \$11,000 (increased from \$10,000 in 2007).

### Pre-filled Tax Returns

The ATO has indicated for the 2008 year that they will pre-populate personal income tax returns with details of interest income, dividends received and managed fund distributions, as well as out of pocket Medicare expenses and health fund memberships. If your employer lodges PAYG Payment Summary (i.e. 'group certificate') information electronically, this will also be available. Seen as a good starting point when preparing personal returns, the move is likely to ensure taxpayers do not accidentally omit small interest received details. It is also likely to mean more people may be entitled to the medical

**There  
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for  
2008**

expenses rebate, due to better capture of expense information. Note however that the ATO system still requires taxpayers to submit information on a variety of other income and expense items, including work related expenses, capital gains, rental property information, foreign income etc.

Current Brackets		01/07/2007		01/07/2008	
\$	%	\$	%	\$	%
0 - 6,000	0	0 - 6,000	0	0 - 6,000	0
6,001 - 25,000	15	6,001 - 30,000	15	6,001 - 30,000	15
25,001 - 75,000	30	25,001 - 75,000	30	30,001 - 80,000	30
75,001 - 150,000	40	75,001 - 150,000	40	80,001 - 180,000	40
150,001 +	45	150,001 +	45	180,001 +	45

## Thought for the Day

'...The universe is transformation; our life is what our thoughts make it...' Marcus Aurelius Antonius in Meditations IV. 3

**HELPING  
ACHIEVERS IN  
THE COUNTRY.**

Liability limited by a scheme approved under Professional Standards Legislation.

## Budget Overview

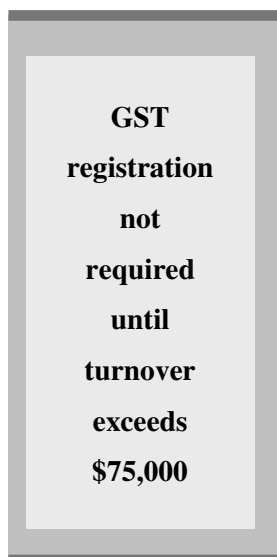
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### Child Care Rebate

From 1 July 2007, the government will accelerate payment of the 30% child care tax offset. Families with children in childcare in both 2006 and 2007 financial years will receive two amounts: one paid through the tax system in accordance with current rules; the other will be received as a direct payment from the Family Assistance Office. The maximum payment will be \$4,096 per child for 2005/06 and \$4,211 per child for 2006/07.

### Additional Superannuation Co-contribution Amount

The government announced a one-off doubling of the superannuation co-contributions scheme. The one-off payment applies to eligible contributions made by individuals during the 2005/06 income year. Whilst welcomed, the failure to extend the bonus to the current financial year is unfortunate.



### Senior Australian Tax Offset

The income levels at which Senior Australians will pay zero tax have been increased, being \$25,867 for singles and \$43,360 for couples.

### Large Businesses

#### *(a) Same Business Test Reinstated*

A company can utilise certain tax

attributes (including revenue losses, capital losses and bad debts) if the company passes the continuity of ownership test ("COT"), or, in cases where the COT might be failed, the company passes the same business test ("SBT").

However, in 2005 a cap was imposed so that companies were unable to utilise the SBT if the company's "total income" for the income year exceeded \$100m. This has now been withdrawn with effect from 1 July 2005, meaning, in effect, that it never had any application. This may lead some companies to revisit the availability of losses (and other tax attributes) in the intervening income years.

#### *(b) COT & Multiple Classes of Shares*

Broadly, a company will pass the COT if a majority of the rights to voting, dividends and capital are held by the same persons during the tested period.

Applying the COT (i.e. quantifying the percentage of voting, dividends and capital rights held by a particular person) is often difficult if the tested company has more than one class of shares on issue, as rights may vary between share classes. For example, it is difficult to identify where the majority of rights to dividends are held if there are shares carrying preferential rights to dividends.

The proposed amendments are to apply retrospectively from 1 July 2002. Again, this may lead some companies to revisit the availability of losses (and other tax attributes) in the intervening income years, provided they are not out of time to amend.

#### *(c) Tax Consolidation Amendments*

There have been several amendments by way of clarification and enhancement to the taxation of consolidated groups.

#### *(d) Finance Leases*

The Government announced that it will not proceed with the proposed reforms to the taxation treatment of finance leases between taxable entities.

### Small Medium Business

There were a few, minor GST-related amendments announced in the Budget:

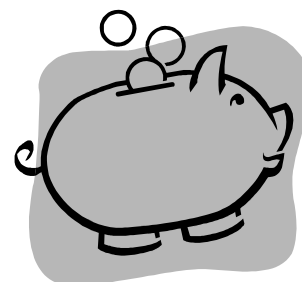
- From 1 July 2007, entities will only be required to register when their annual turnover exceeds \$75,000 (up from \$50,000) or exceeds \$150,000 for non-profit bodies (up from \$100,000).
- If businesses and non-profit bodies which fall below the threshold choose to register for GST, they will have the option of remitting GST only once a year.
- These taxpayers will be able to pay their PAYG instalments on an annual basis. The other existing eligibility tests for paying annual PAYG instalments will be maintained.
- Tax invoices will only be required for purchases over \$75 (excluding GST), up from \$50.

### CGT Rollover on Marital Breakdown

The Government has announced an extension of the CGT rollover relief for small superannuation funds following a marriage breakdown.

Under the current rules, CGT rollover relief is available where benefits are transferred to another fund pursuant to the Family Law Act. The existing rules provide, subject to satisfaction of the relevant conditions, that a capital gain or loss that the transferor trustee makes is disregarded in these circumstances.

The amendments will allow an in specie transfer of all the assets to which the departing spouse is entitled without triggering a capital gain or loss for the fund at the time of transfer.



## Budget Overview

### Continued

Interestingly, the current rules seek to preserve a distinction between pre and post 20 September 1985 assets, a distinction of no practical relevance to complying superannuation funds. Perhaps the opportunity may be taken to address this anomaly in the amendments introduced to effect this extended concession.

### Carbon Sink Forest Cost Deductions

The costs of establishing a qualifying carbon sink forest will be deductible to carbon sink forest operators under the horticultural plant provisions from 1 July 2007.

As an additional incentive, costs incurred in establishing a qualifying carbon sink forest during the five year period commencing 1 July 2007 will be immediately deductible (rather than being deductible under the horticultural plant provisions). The immediate deduction will not apply to forests established through managed investment schemes.

The deduction will only be available to businesses participating in the Greenhouse Challenge Plus program. Projects must comply with environmental and natural resource management guidelines applicable to their geographic location.

### Film Investment Incentives

Australian screen media producers will be eligible for a 40% refundable tax rebate on feature films and a 20% refundable rebate on other media productions, including television series, documentaries and mini-series. This is to be known as the Producer Rebate.

Productions will be required to meet criteria including creative control by Australians and minimum qualifying expenditure thresholds, depending on the type of production. The rebate will apply to expenditure incurred on eligible productions from 1 July 2007.

There will also be a component for international producers incorporating the previous refundable film tax offset.



This Location Rebate will provide a 15% rebate for eligible expenditure, compared to the current rebate of 12%.

Eligibility will be extended to include post digital and visual effects production in Australia where the film itself is not made in Australia and qualifying expenditure exceeds \$5m. This will apply to films for which production commences after 1 July 2007.

The current investor tax incentives under Div 10BA and 10B ITAA 1936 will be phased out, with no new applications accepted after 30 June 2007. The Film Licensed Investment Company scheme will not be renewed beyond 30 June 2007.

### Rural Areas Support Funding

An additional \$314 million has been allocated in Exceptional Circumstances assistance.

There has been \$342 million allocated for improved rural services.

Funding of \$205 million has been allocated to help primary producers through extending the *Agriculture - Advancing Australia* initiative.

### Dependent Spouse Rebate Increased

The dependent spouse rebate will be increased to \$2,100 (up from \$1,655) for the 2007/08 and later income years. This increase will benefit taxpayers with a dependent spouse, who do not have a dependent child.

This change will also allow the dependent spouse to earn more income

before the rebate is completely phased out. The dependent spouse rebate will be completely phased out when the spouse has separate net income of \$8,681 (an increase from the current threshold of \$6,901).

*Source: Budget Paper No 2, p 19; Treasurer's Press Release, 8 May 2007.*

### Forestry Managed Investment Schemes

Investors will be allowed to trade both existing and future interests in forestry managed investment schemes (MISs), subject to a minimum 4-year holding period for initial investors. The amendment period for income tax returns will be extended to allow the ATO to enforce the holding period rules. A market value pricing rule at the time of first sale from an initial to a secondary investor will apply.

Secondary investors (other than those holding interests as trading stock) will be treated on capital account in relation to the acquisition and disposal of their interests (eg harvest proceeds). Secondary investors will be allowed a deduction for on-going costs to limit the incentive to front-load fees, with a matching provision to recoup on revenue account these deductions from the sale or harvest proceeds.

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additional  
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Rural  
Exceptional  
Circumstance  
assistance**

## Budget Overview

### Continued

The deduction will apply to pre-existing forestry MISs as well as future investment in newly established schemes. Thus, taxpayers who invested in a forestry MIS before 1 July 2003 will be able to trade their interest from 1 July 2007.

Promoters will be required to:

- notify the ATO when they first receive income from a forestry MIS;
- document the basis on which the scheme satisfies the 70% forestry expenditure rule (see below);
- notify the Tax Office should the trees not be established within 18 months.

As previously announced, from 1 July 2007 investors in MISs will be able to claim immediate upfront deductions for their expenditure on such schemes, provided at least 70% of the expenditure is directly related to developing forestry.

*Source: Budget Paper No 2, pp 14-15; Assistant Treasurer's Press Release, 8 May 2007.*

### Venture Capital

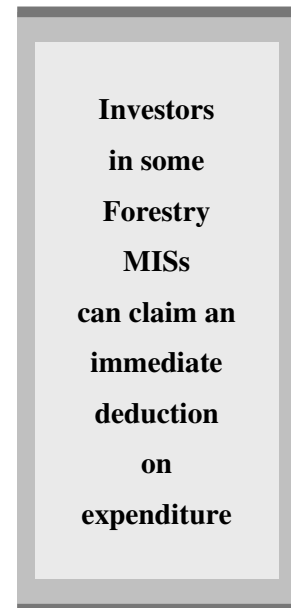
The eligibility requirements for concessional taxation treatment of venture

capital investments will be further relaxed from the 2007/08 income year. This will apply to foreign residents investing in venture capital limited partnerships and Australian venture capital fund of funds.

The concessional tax treatment for foreign resident investors will be extended to allow:

- up to 20% of committed capital in venture capital limited partnerships and Australian venture capital fund of funds to be invested in companies and unit trusts that are not located in Australia, and
- eligible partners in conditionally registered venture capital limited partnerships and Australian venture capital fund of funds that become fully registered to be entitled to a tax exemption on the profits and gains derived from investments made while the partnership was conditionally registered.

To ensure that investments made by an early stage venture capital limited partnership are directed at early stage venture capital activities, a partnership can acquire pre-owned investments in



an entity only if:

- it already owns an investment in the entity, or it will also be making investments that are not pre-owned investments in the entity at the same time, and
- the total value of the partnership's pre-owned investments does not exceed 20% of its committed capital.

*Source: Budget Paper No 2, p 27.*

## Information Technology

### Remote Desktop

Remote desktop software enables a person to control their computer from another computer. This is particularly useful if you travel often as it allows you to use your regular computer's programs and software wherever you are - as long as you have an internet connection. For example using your notebook computer at a hotel. It is also useful when you wish to work from home as you can control your office computer from your PC.

All you need are two computers: one to act as the host and one to act as the client. For example, your office computer would be the host and your home PC would be the client. The host computer must have Windows XP Professional or Windows Vista whilst the client computer can have any version of Windows since Windows 95. Alternatively, Remote Desktop Web Connection allows you to access the host machine over the internet using Internet Explorer.



For optimum performance, a 128k DSL or ISDN connection is recommended, however the system will function using a 56k dial up modem.

Remote desktop is an easy solution for business people who wish to work from home or away and is a cheap alternative to setting up a wireless network.

