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**Special Points of Interest:**

- **Increase in 15% tax threshold**
- **Education tax refund**
- **First Home Saver Accounts**
- **Increase in baby bonus—limited to families with income of less than \$150,000**
- **Rental property**



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## Budget Overview

**Review of Australia's Tax System** - The government has announced the terms of reference for the comprehensive review of Australia's tax system.

The review will encompass Federal and State taxes, except the GST and Superannuation, as well as interactions with the transfer system.

**An annual incentive of \$6,000 will be provided to institutional investors constructing affordable rental properties**

**Education Tax Refund** - A 50 per cent education tax refund will be available for eligible education expenses from 1 July 2008. 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).
- Parents will then be able to claim 50 per cent of these expenses through their tax return at the end of the financial year.

**Child Care Rebate** - The child care tax rebate for out-of-pocket child care expenses will increase from 30% to 50% from 1 July 2008, with the maximum out-of-pocket expenses claimable increasing from \$4,354 to \$7,500 per child per year.

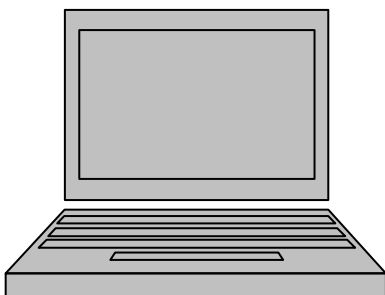
**Dependency offset** - From 1 July 2008, an income threshold of \$150,000 will apply to dependency tax offsets.

New tax thresholds from 1 July 2008 (Income range)	Rate %	New tax thresholds from 1 July 2009 (Income range)	Rate %	New tax thresholds from 1 July 2010 (Income range)	Rate %
0 – 6,000	0	0 – 6,000	0	0 – 6,000	0
6001 – 34,000	15	6,001 – 35,000	15	6,001 – 37,000	15
34,001 – 80,000	30	35,001 – 80,000	30	37,001 – 80,000	30
80,001 – 180,000	40	80,001 – 180,000	38	80,001 – 180,000	37
180,001 +	45	180,000 +	45	180,000 +	45

## Thought for the Day

*'...Our forefathers found the evils of free thinking more to be endured than the evils of inquest or suppression. This is because thoughtful, bold and independent minds are essential to wise and considered self government...' Justice Robert Jackson of US Supreme Court and Nuremberg Trial Prosecutor.*

**Changes to FBT Exemptions** - The Government will tighten the current FBT exemption for certain work related items (including laptop computers, personal digital assistants and tools of trade) 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 (AEST) on 13 May 2008. The measure reduces the FBT concession and tax expenditure for work related items. The measure will ensure consistency with the rules applying to mobile phones, computer software, and protective clothing. The current list of FBT exempt work related items will also be updated to reflect changes in technology.



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.

**Definition of Income for Government Support** -The definition of "income" will be expanded for the purposes of determining eligibility for government support in three areas.

First, income support payments for people below Age Pension age, family assistance, child support, superannuation co-contributions and financial and retirement savings assistance delivered through the tax system. The definition of "income" will be expanded to include certain salary sacrificed contributions to superannuation.

The second will expand definitions of "income" to include net financial investment losses, and net rental property losses where appropriate. This measure will expand the adjusted taxable income definitions to include net financial investment losses and also expand the definition of income used for particular tax programs such as the senior Australians tax offset, Medicare levy surcharge and dependency tax offsets to include net rental property losses and net financial investment losses.

The third measure will expand the income definitions used for the dependency tax offsets, senior Australians tax offset and pensioner tax offset to include reportable fringe benefits.



**First Home Saver Accounts** - The proposed first home saver accounts scheme has been modified to allow individuals to contribute up to \$75,000 into their first home saver account.

The major changes to the scheme include:

- replacing the previously announced \$10,000 annual contribution cap with an overall contribution cap of \$75,000 (indexed annually)
- removing the requirement for individuals to contribute \$1,000 to commence the account
- clarifying that the four-year rule for tax-free withdrawals applies from the start of the financial year rather than the date that the account was established, and
- allowing individuals a 14-day cooling off period in which to change their mind about their account.

The commencement date of the scheme has been delayed until 1 October 2008

**Employee Share Scheme Changes** - Changes will be made to the election requirements of the employee share scheme provisions. Double taxation that arises in relation to certain employee share schemes that use employee share trusts will be removed.

**TOFA Changes to Proceed** - The government will proceed with Taxation of Financial Arrangements (TOFA) Stages 3 and 4.

**Senior Australian Tax Offset (SATO)** From 1 July 2008, the amount of income a senior Australian eligible for the SATO can earn will increase to \$28,867 for a single and \$24,680 for each member of a couple. These levels will further increase from 1 July 2009 to \$29,867 and \$25,680 and from 1 July 2010 to \$30,685 and \$26,680 respectively.

**Family Trust Losses** - The scope for family trusts to utilise tax losses to lower income tax will be reduced.

Two measures were announced to reduce the scope for family trusts to utilise tax losses to lower income tax. These reverse two of the family trust changes introduced by the previous government in the *Tax Laws Amendment (2007 Measures No 4) Act 2007*.

The first is to change the definition of "family" in the family trust election rules (ITAA 1936 Sch 2F s 272-95) to limit lineal descendants to children or grandchildren of the test individual or of the test individual's spouse. This change will have effect from 1 July 2008.

The second is to prevent family trusts from making a once off variation to the test individual specified in a family trust election (other than in relation to a marriage breakdown). This change will have effect from the 2007/08 income year.

Other amendments introduced in *Tax Laws Amendment (2007 Measures No 4) Act 2007* were that technical improvements to the family trust election system will be retained.

**The entrepreneurs' tax offset** - will be subject to an income test from 1 July 2008.

**Australian Managed Investments** - The level of withholding tax on certain distributions from Australian managed investment trusts to foreign resident investors will be reduced.

**Luxury Cars** - From 1 July 2008, the luxury car tax rate will increase from 25% to 33%.



#### **Baby Bonus** -

From 1 July 2008, the Baby Bonus will increase from \$4,258 to \$5,000 and from 1 January 2009, eligibility for the Baby Bonus will be limited to families with an adjusted taxable income of \$150,000.

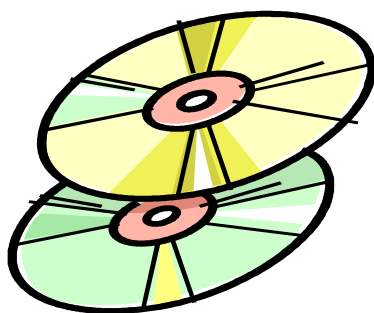


#### **Family Tax Benefit**

- Eligibility for Family Tax Benefit Part B will be limited to families whose primary income earner earns \$150,000 or less a year

#### **In-house computer software**

To be depreciated over 4 years.



#### **Cancellation or surrender of Shares or Units** -

From the 2006/07 income year, capital gains or losses arising from the cancellation or surrender of shares or units in widely held entities are to be calculated using the actual proceeds received.

**CGT scrip for scrip rollover** - provisions will be modified with effect from 7.30pm on 13 May 2008.

**GST Measures** - The government announced its plans in relation to several previously announced GST measures.

A package of GST changes for charities and other not-for-profit organisations announced by the previous government will not proceed.

A measure announced in the 2007/08 Budget that ensures certain telecommunications services would remain GST-free from 1 July 2000 will be amended to apply only to mobile telephone global roaming service



A measure announced in the 2005/06 Budget designed to prevent the interaction of the margin scheme with the GST-free going concern and the GST-free farmland provisions from inappropriately reducing GST revenue will not go ahead. Instead, real property transactions will not be allowed to be structured to reduce GST liability.

The GST provisions dealing with real property are intended to ensure that GST is payable on the value added to land once it enters the GST system. The margin scheme achieves this outcome by applying GST to the "margin".

The GST refund provisions will be amended to ensure that they apply even if the transaction for which the tax was paid is found not to be a supply. This will have effect from 1 July 2008.

The government will also restore the intended four-year time limit on refunds and liabilities for indirect taxes, with effect from 1 July 2008.

**Private ruling applicants to pay ATO for valuations** - The government will allow the ATO to charge for valuations required in the course of issuing private rulings. Valuation services will be based on an "applicant pays" model where the cost of the valuer making or reviewing a valuation is passed on to the private ruling applicant.

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

**Investment business rules for managed fund** - The government will modify the eligible investment business rules for managed funds.

**PAYG and GST Payments** - The government has deferred until 1 July 2009 the measure to align PAYG instalments, GST payment and reporting requirements for taxpayers who are voluntarily registered for GST.

**Private Funds** - New rules will be introduced to regulate the operation of prescribed private funds.

**Carer Payment** - The carer adjustment payment will be tax-exempt from 1 July 2008.

**Seniors Health Card** - The Commonwealth senior's health card income test will now apply to certain superannuation stream income and salary sacrificed amounts.

**Older Australians Bonus** - A tax-exempt one-off bonus payment of \$500 will be provided to older Australians.



Source: The Institute of Chartered Accountants in Australia Budget Night Report and the Taxation Institute of Australia Special Budget Edition of Tax Vine

**Rental Property Incentive** - An annual incentive of \$6,000 will be provided to institutional investors constructing affordable rental properties.



**Rent assistance payable to Austudy recipients** - from 1 January 2008 will be exempt from income tax.

**Superannuation Clearing House** - The Tax Office will establish a superannuation clearing house to assist businesses with meeting choice of superannuation requirements.

**Tax Exemption for Queensland Apprentices** - From 1 July 2008, an income tax exemption of up to \$1,000 will apply to apprentices who receive early completion bonuses in skill shortage occupations from the Queensland government.

#### Medicare Levy Surcharge Threshold

The Government will increase the Medicare levy surcharge threshold for singles from \$50,000 to \$100,000 and for members of a family from \$100,000 to \$150,000 with effect from 1 July 2008.



The Medicare levy low income thresholds will increase to \$17,309 for singles and to \$29,207 for members of a family. The dependant child threshold will also increase to \$2,682 (from \$2,594)

The information in the newsletter is of general news content only. If you have any questions on any point raised here, please contact our office.