FEDERAL BUDGET UPDATE *May 2008*

Changes to Personal Tax

Australia's Future Tax System

The Government will undertake a review of Australia's tax system, including Australian and State government taxes, but excluding GST. An initial discussion paper will be available by the end of 2008, with the final report due for the end of 2009.

Personal Tax Cuts

The Government will deliver the tax cuts that were promised in the 2007 election campaign, including deferring previously budgeted reductions in the top marginal tax rate for taxpayers on incomes of more than $180,000 per annum until beyond 2010-11.

Table 1 shows what the personal income tax rates will be:

Current tax thresholds (2007/08)	Tax rate	New tax thresholds (2008/09)	Tax rate	New tax thresholds (2009/10)	Tax rate	New tax thresholds (2010/11)	Tax rate
$0 - $6,000	0%	$0 - $6,000	0%	$0 - $6,000	0%	$0 - $6,000	0%
$6,001 - $30,000	15%	$6,001 - **$34,000**	15%	$6,001 - **$35,000**	15%	$6,001 - **$37,000**	15%
$30,001 - $75,000	30%	**$34,001** - **$80,000**	30%	**$35,001** - $80,000	30%	**$37,001** - $80,000	30%
$75,001 - $150,000	40%	**$80,001** - **$180,000**	40%	$80,001 - $180,000	**38%**	$80,001 - $180,000	**37%**
$150,001 +	45%	**$180,001 +**	45%	$180,001 +	45%	$180,001 +	45%

Low income tax offset enhancements

Between 1 July 2007 and 1 July 2010, the maximum low income tax offset will increase gradually from $750 to $1,500 per year. As a result, the amount of tax-free income low-income earners can receive each year (and the upper limit to which a partial offset can be claimed) will gradually increase.

	2007/08	2008/09	2009/10	2010/11 (and onwards)
Maximum offset	$750	$1,200	$1,350	$1,500
Upper income threshold*	$48,750	$60,000	$63,750	$67,500
Maximum tax-free income	$11,000	$14,000	$15,000	$16,000

* The lower income threshold will remain at $30,000 for all years.

Tax payable and potential tax savings

The following table shows the amount of tax payable and tax saved in future financial years for a range of taxable incomes, when compared to the current (2007/08) financial year.

Taxable income	2007/08	2008/09		2009/10		2010/11	
	Tax Payable′	Tax payable′	Tax saved	Tax payable′	Tax saved	Tax payable′	Tax saved
$20,000	$1,350	$900	$450	$750	$600	$600	$750
$40,000	$6,250	$5,200	$1,050	$4,900	$1,350	$4,450	$1,800
$60,000	$12,600	$12,000	$600	$11,700	$900	$11,250	$1,350
$80,000	$19,100	$18,000	$1,100	$17,850	$1,250	$17,550	$1,550
$100,000	$27,100	$26,000	$1,100	$25,450	$1,650	$24,950	$2,150
$120,000	$35,100	$34,000	$1,100	$33,050	$2,050	$32,350	$2,750
$140,000	$43,100	$42,000	$1,100	$40,650	$2,450	$39,750	$3,350
$160,000	$51,600	$50,000	$1,600	$48,250	$3,350	$47,150	$4,450
$180,000	$60,600	$58,000	$2,600	$55,850	$4,750	$54,550	$6,050
$200,000	$69,600	$67,000	$2,600	$64,850	$4,750	$63,550	$6,050

Tax-free incomes for older Australians
The table below shows the amount of taxable income that can be received tax-free by older Australians. **Clients aged 60 or over will still be able to receive unlimited tax-free income from pension investments commenced from a taxed super fund.**

Taxpayer categories	Tax-free income*			
	2007/08	2008/09	2009/10	2010/11
People aged 55 to 59 using pension investments#				
• Singles	$38,684	$44,211	$45,789	$48,158
• Per member of a couple	$38,684	$44,211	$45,789	$48,158
People eligible for SATO and not using pension investments				
• Singles	$25,867	$28,867	$29,867	$30,685
• Per member of a couple	$21,680	$24,680	$25,680	$26,680

** Does not include the Medicare Levy, but includes the low income tax offset and SATO, where applicable.*
 # Assumes no income from other sources is received.

Increases in Medicare levy thresholds
The Medicare levy low-income threshold will increase to $17,309 for individuals and $29,207 for individuals with families from 1 July 2007. The threshold will also increase by $2,682 for each dependent child.

Senior Australians
The Medicare levy low-income thresholds and phase-in limits for those people eligible for the Senior Australians Tax Offset will increase as follows:

Low-income thresholds	2007/08	2008/09	2009/10	2010/11
Individuals	$25,867	$28,867	$29,867	$30,685
Families	$37,950	$42,000	$43,500	$44,500

Phase-in limits	2007/08	2008/09	2009/10	2010/11
Individuals	$30,431	$33,961	$35,137	$36,100
Families	$44,647	$49,412	$51,177	$52,353

Medicare Levy Surcharge changes
The Medicare Levy Surcharge income thresholds will increase from $50,000 to $100,000 a year for single people and from $100,000 to $150,000 for couples. Singles without private health insurance will save up to $1,000 and couples will save up to $1,500 from these changes. All Australians who choose appropriate health insurance will continue to benefit from the private health insurance rebate.

Child care tax rebate enhancements
The Government confirmed that, from 1 July 2008, they will:
- Increase the child care tax rebate from 30% to 50% of eligible expenses.
- Lift the rebate limit from $4,354 to $7,500 per child.
- Pay the rebate quarterly, rather than annually.

50% Education tax refund for eligible expenses
As previously announced, from 1 July 2008, eligible parents will be able to claim a 50% refund every year for up to:
- $750 of education expenses for each child attending primary school (ie a maximum refund of $375 per child, per year).
- $1,500 of education expenses for each child attending secondary school (ie a maximum refund of $750 per child, per year).

These amounts will be indexed annually from 1 July 2009. All families who receive Family Tax Benefit – Part A will be eligible and can apply through their tax return. The first payment (in respect of the 2008/09 financial year) will be payable from 1 July 2009.

Dependency tax offset changes
From 1 July 2008, the dependent spouse, housekeeper, child housekeeper, invalid relative and parent/parent-in-law tax offsets will not be available to claimants who earn more than **$150,000** (indexed annually). From 1 July 2009, the definition of income will be amended to include salary sacrifice super contributions and reportable fringe benefits (see page 7).

Other Tax Changes

Withholding Tax and Managed Investment Trusts
New withholding tax rules will be introduced for payments of Australian sourced net income (other than dividends, interest and royalties) made from Australian managed investment trusts to non-resident investors. The nature of the new withholding tax regime will vary depending on whether foreign investors are resident in countries with which Australia has effective exchange of information arrangements on tax matters. These countries will be specified in Regulations. Such payments to residents of these countries will be subject to a:
- 22.5% non-final withholding tax for the first income year after the enabling legislation receives Royal Assent;

• 15% final withholding tax for fund payments in the second income year; and
• 7.5% final withholding tax for fund payments in the third and later income years.

During the first income year, investors resident in these countries will be able to claim deductions for expenditure relating to fund payments with the net amount being subject to tax at 22.5%. Payments to residents of countries with which Australia does not have an effective exchange of information arrangement will be subject to a 30% final withholding tax. The above measures are to apply from the first income year commencing after the enabling legislation receives Royal Assent (expected to be 2008/09) and covers distributions made directly and through other intermediaries (including custodians) to non-resident investors.

Capital Protected Borrowings

Capital protected borrowing arrangements entered into after 13 May 2008 will see a tax concession amended. 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. This capital protection is generally paid for via a high interest rate on the loan. Under the current laws, the amount of the interest deductible is the Reserve Bank's 'indicator variable rate for personal unsecured loans'. From tonight, the rate to be used is the Reserve Bank's indicator variable rate for standard housing loans which is clearly a lower rate, and therefore a lower deduction. This applies to arrangements entered into from tonight, and any existing arrangements will continue to have the current law apply for five years or the life of the product, whichever is the shorter.

Family trusts

The scope for family trusts to be used to lower income tax by utilising losses will be reduced. From 1 July 2008, the definition of family in the family trust election rules will limit lineal descendants to children or grandchildren of the test individual, or of the test individual's spouse. Effective 1 July 2007, the new rules will also preclude 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).

First Home Saver Accounts (FHSA)

The Government has confirmed it will introduce legislation effective 1 October 2008, allowing the establishment of concessionally taxed First Home Saver Accounts (FHSAs). The key features, based on the consultation paper released earlier this year and in the 2008 Federal Budget, are:

- The client must be between 18-65 years of age and never have previously bought or built a home in which to live.
- A client must make personal after-tax contributions of at least $1,000 in each of four separate financial years. However, it will not be mandatory to establish a FHSA with a single minimum contribution of $1,000.
- In a main change from initial proposals, a Government contribution at a flat rate of 17% on the first $5,000 (indexed) of personal contributions will apply each year (see below for a comparison). The Government contribution is made in arrears after the ATO receives tax reports from FHSA providers and the income tax returns of FHSA clients.
- Contributions cannot be made once the account balance reaches $75,000 (indexed). This contrasts with the initial proposal that capped contributions at $50,000.
- Earnings on the account will be concessionally taxed at 15% in the hands of the FHSA provider (not the client).
- Withdrawals will be tax free when used to purchase or build a first home in which to live, but may have to be transferred to a client's superannuation account in other circumstances.
- A client can only operate one account at a time and, in general, once closed cannot open another FHSA.
- FHSAs may be offered by Approved Deposit Taking Institutions which include banks, building societies, credit unions as well as registered trustees of public offer superannuation funds.

Changes to Family Benefits and Social Security

Child Care Tax Rebate

From 1 July 2008 the Child Care Tax Rebate will increase from 30% to 50%. As part of this measure the maximum out of pocket expenses claimable will increase from $4,354 to $7,500 per child per year. This will help families with the cost of living and increase in workforce participation by providing greater assistance with the cost of child care. Families will receive this Child Care Tax Rebate quarterly instead of annually.

Child Care Benefit

Families currently using approved care have the hourly rate of Child Care Benefit reduced over certain income ranges down to a minimum rate of Child Care Benefit. This will have the effect of reducing the minimum rate of Child Care Benefit to zero. This will result in families with incomes over $110,000 per annum no longer receiving any Child Care Benefit.

Baby Bonus

From 1 July 2008 the baby bonus will increase from $4,258 to $5,000. Then each July the amount will be indexed by the Consumer Price Index. However from 1 January 2009 the bonus will be only eligible to families whose adjusted taxable income is less than $150,000.

Family Tax Benefit Part B

From 1 July 2008 the eligibility for this payment will be income tested. The primary income earner must have an adjusted taxable income of $150,000 or less. The 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.

The Government has also ensured that when families advise during the year that their income estimates have increased their Family Tax Benefit payments will be adjusted so that the family should not receive an overpayment. Where Family Tax Benefit recipients have not lodged their tax returns for more than 12 months following the relevant entitlement year and have not responded to Centrelink notices asking them to do so, they will no longer be entitled to receive the benefit through fortnightly instalments. However recipients will still be able to receive the Family Tax Benefit after lodging their tax return by claiming through Centrelink, Family Assistance Office or Medicare.

Commonwealth Seniors Health Card (CSHC)

While seniors are required to notify Centrelink when their income exceeds the CSHC limits, there are currently no compliance or review activities in place. Commencing 1 July 2008, data matching and profile based reviews will be introduced to ensure the CSHC is only available to eligible people. Commencing 1 July 2009, income from superannuation income streams paid from a taxed source and salary sacrifice super contributions will be added back to other taxable income for CSHC assessment purposes.

The information contained in this document has been sourced from the Federal Budget, MLC, Challenger, BT, Advance, Colonial First State, DWS and Nexia.