



FEDERAL BUDGET 2008-09

Changes in the Budget that impact Individuals

More personal tax cuts

The Government has confirmed it will deliver in full the tax cuts it announced during the 2007 election campaign. We are expecting the following changes to individual tax rates:

From 1 July 2008:

Taxable income (\$)	Rate (%)
0 – 6,000	0
6,001 – 34,000	15
34,001 – 80,000	30
80,001 – 180,000	40
180,000+	45

From 1 July 2009:

Taxable income (\$)	Rate (%)
0 – 6,000	0
6,001 – 35,000	15
35,001 – 80,000	30
80,001 – 180,000	38
180,000+	45

From 1 July 2010:

Taxable income (\$)	Rate (%)
0 – 6,000	0
6,001 – 37,000	15
37,001 – 80,000	30
80,001 – 180,000	37
180,000+	45

The Government also set an aspirational tax goal over six years for a personal income tax system which reduces the number of rates from four to three with a personal income tax scale of 15%, 30% and 40%.

More for low income earners

From 1 July 2008: the low income tax offset (LITO) is expected to increase from \$750 to \$1,200. If you're eligible for the full LITO, you will not pay tax until your taxable income exceeds \$14,000.

From 1 July 2009: LITO is expected to increase from \$1,200 to \$1,350. If you're eligible for the full LITO, you will not pay tax until your taxable income exceeds \$15,000.

From 1 July 2010: LITO is expected to increase from \$1,350 to \$1,500. If you're eligible for the full LITO, you will not pay tax until your taxable income exceeds \$16,000.



Medicare levy thresholds

Low income thresholds

With effect from **1 July 2007**, the Medicare levy low income thresholds will be increased to:

- \$17,309 for individuals;
- \$29,207 for individuals who are in families; and
- \$22,922 for pensioners below Age Pension Age.

Surcharge thresholds

With effect from **1 July 2008**, the Medicare levy surcharge thresholds will increase:

- for singles from \$50,000 to \$100,000; and
 - for those who are members of a family from \$100,000 to \$150,000.
- In addition to tax cuts, key changes announced in the Budget impacting on individuals include:

New education tax refund

We are expecting a new refundable tax offset, the Education Tax Refund (ETR), to help you with education costs.

Who can claim it?

Families receiving Family Tax Benefit (Part A) with children undertaking primary or secondary school studies, including eligible families of registered home-schooled students.

It's also proposed to extend eligibility to situations where children are undertaking primary or secondary school studies and they:

- would otherwise be eligible to be a Family Tax Benefit (Part A) child but for the fact they are living independently of their parents; or
- are in receipt of an eligible allowance (including the Youth Allowance, ABSTUDY, the Student Financial Supplement Scheme).

How much can you claim?

An eligible family may be able to claim a 50% refund every year for eligible education expenses up to:

- \$750 for each child undertaking primary studies (a maximum refundable tax offset of \$375 per child, per year); and
- \$1,500 for each child undertaking secondary studies (a maximum refundable tax offset of \$750 per child, per year).

TIP – WHAT YOU CAN CLAIM

If you're eligible, you will be able to recoup the cost of purchases for things like laptops, home computers and associated costs, home internet connection, printers, education software, trade tools for use at school, school text books and stationery.



When can you claim it?

The ETR will apply to expenses incurred from 1 July 2008 and can be first claimed on the lodgement of your 2008–09 income tax return.

Increase in childcare tax rebate

From **1 July 2008**, we are expecting an increase in the current level of childcare tax rebate from 30% to 50%.

This could result in an annual rebate of up to \$7,500 of eligible out of pocket costs per child. The rebate will be paid to you quarterly rather than annually.

Tightening Family Tax Benefit access

From **1 July 2008**, Part B of the Family Tax Benefit will only be available to families whose principal earner has a taxable income of up to \$150,000.

Tighter access to dependency offsets

From **1 July 2008**, an indexed income threshold of \$150,000 will apply to determine your eligibility for the following dependency tax offsets:

- Dependent Spouse
- Housekeeper
- Child Housekeeper
- Invalid Relative
- Parent/Parent.

From **1 July 2009**, the Government also plans to align the definition of income for these offsets with the definition of income applying to family assistance payments.

Employee share schemes

Currently, if you participate in an employee share scheme (ESS), or are considering it, the tax laws allow you to choose between two tax concessions in respect of shares or rights you acquire under a qualifying EES:

- *an upfront tax concession* where you are only assessed on any discount (where it exceeds \$1,000) provided by your employer on the shares or rights in the income year the shares or rights are acquired; or
- *a tax-deferred concession* where you can defer taxation, which generally is the earlier of 10 years or when any restrictions or conditions placed on your shares or rights are lifted. You should be aware that from **1 July 2008** there will be some changes to the election requirements for ESSs. If you want to make an election to be taxed under the upfront tax concession, then you:
 - must include the value of the discount (where it exceeds \$1,000) in your tax return for the year of income your shares or rights were acquired; otherwise
 - if you don't include this amount in your tax return as required you will be taken to have chosen to be taxed under the tax-deferred option.



Other bits and pieces

Rent assistance

With effect from **1 July 2007**, the Government plans to provide a tax exemption for rent assistance paid to *Austudy* recipients.

Apprentices

With effect from **1 July 2008**, we are expecting an income tax exemption of up to \$1,000 to apprentices who receive early completion bonuses in skill shortage occupations from the Queensland Government.

Carers

From **1 July 2007**, the Government plans to provide an income tax exemption for the Carer Adjustment Payment (CAP).

The CAP provides financial assistance to families who have a child, aged up to six years, who has suffered a catastrophic event at some point after 1 January 2007.

Baby bonus

From **1 January 2009**, we are expecting the introduction of means testing for the lump sum baby bonus.

Household climate change initiatives

The Government announced its intentions to provide:

- a means tested rebate up to \$8,000 to households for solar power system installation;
- low-interest 'Green Loans' of up to \$10,000 to home owners for the installation of energy efficient products (energy, water and solar); and
- a rebate (maximum \$500) for landlords for insulation installation.

Changes in the Budget that impact Business

The Federal Budget 2008-09 did not include sweeping changes to business taxation – any reform at this level will be driven by the 'root and branch' tax system review that was announced by the Government in the Budget.

There were, however, some Budget tax-related measures of interest to small and medium businesses.

Small Business Tax Concessions

You may already be aware that access to small business tax concessions was simplified from 1 July 2007.

You can now pick and choose what type of concession suits your business:

- most small businesses with an aggregated annual turnover of less than \$2 million are able to access a range of small business tax concessions, ranging across income tax, capital gains, GST and PAYG; or



- if your business does not satisfy this \$2 million threshold test, but the net value of its CGT assets does not exceed \$6 million, it may still be able to access the CGT small business concessions, subject to satisfying any other eligibility tests.

With effect **from the 2007-08 year**, access to the small business CGT concessions will now be extended to:

- taxpayers owning a CGT asset used in a business by a related entity; and
- partners owning a CGT asset used in a partnership business.

Family trust elections

There are plans afoot to reverse some of the family trust election changes made by the previous Government.

If you have a family trust, you need to be aware that the proposed reversals may impact on the ability of your family trust to utilise its tax losses to lower its income tax:

- **from the 2007-08 income year**, family trusts will be prevented from making a once off variation to the test individual specified in a family trust election (unless it relates to marriage breakdown); and
- **from 1 July 2008**, the definition of family in the family trust election rules will be narrowed to limit lineal descendants to children or grandchildren of the test individual or of the test individual's spouse.

TIP

Other family trust changes introduced by the previous Government will not be affected, including: (i) variations in the family group as a result of death or marriage breakdown are allowed; and (ii) revoking family trust elections in circumstances where the original elections were not actually required.

Entrepreneurs' tax offset

The entrepreneurs' tax offset (ETO) currently provides a 25% tax offset for eligible small businesses with annual turnover of \$75,000 or less (the offset phases out where this turnover is between \$50,000 and \$75,000).

We are now expecting a new family income test that will further restrict access to the ETO.

With effect from **1 July 2008**, the family income test will limit access to the ETO by restricting eligibility for:

- *singles* – from \$70,000 adjusted taxable income per year; and
- *families* – from \$120,000 adjusted taxable income per year.

Luxury cars

If you're going shopping for new cars in the new financial year, you may find them more expensive.

From **1 July 2008** the luxury car tax rate is expected to increase from 25% to 33%, bearing in mind that the luxury car tax currently cuts in at \$57,123.

Before you rush out and go car shopping before 1 July 2008, it's still not clear in what circumstances the 25% rate will continue to apply before 1 July (eg, whether you simply need



to order before 1 July or whether you will also have to take delivery of the vehicle on or before 30 June 2008).

Crack down on fringe benefits

Work related items

In previous newsletters, we have given you some tips about how to position yourself cost effectively as an “employer of choice” by providing employees with work-related items free from fringe benefits tax (FBT) as part of their salary packaging arrangements.

Unfortunately, effective immediately, it will now be harder for you to provide these types of benefits FBT free.

From 7.30 pm (AEST) on 13 May 2008, the FBT exemption for purchases of certain work-related items (including laptop computers, personal digital assistants and tools of trade) only applies where your employees use these items primarily for work purposes.

The FBT exemption will generally be limited to one item of each type per employee per year.

Your employees will also now be denied depreciation deductions for FBT exempt items (that is, items purchased primarily for work purposes) purchased from 7.30 pm (AEST) on 13 May 2008.

This eliminates a double taxation benefit that was available before these Budget changes were announced.

Other FBT changes

We are expecting some other FBT changes that may limit your employees’ ability to access FBT free benefits.

Effective **from 7.30 pm (AEST) on 13 May 2008** FBT will be imposed on:

- meals provided to your employees on your business premises as part of a salary packaging arrangement (known as *meal cards*). Existing balances on meal cards as at 7.30 pm (AEST) on 13 May 2008 will remain eligible for the FBT exemption, provided they are used by 31 March 2009; and
- the reimbursement of an associate’s share of expenses incurred in relation to jointly held investment assets. If any of your employees have entered into this particular arrangement, they will have until 31 March 2009 to renegotiate their salary package to avoid incurring a FBT liability.

In-house computer software

The depreciation period for capital expenditure on in-house computer software is set to increase from 2.5 years to 4 years (calculated on a straight line basis).

The increased rate will apply to expenditure on in-house computer software you incur on or after **7.30 pm (AEST) on 13 May 2008**.



What's in-house computer software?

In house software is computer software (or the right to use computer software) that:

- you acquire, develop or get someone else to develop; and
- is mainly used by you in performing the functions for which the software was developed (that is, not for resale).

TIP

This includes purchasing of off-the-shelf software on or after 7.30 pm (AEST) on 13 May 2008.

GST and property transactions

If you are a property developer, you may have been using the 'margin scheme' to help reduce your GST liability on any ultimate sale of your property development.

In practice, this opportunity usually arises where you purchase property as either a GST-free supply of a going concern or a GST-free supply of farmland. You calculate your GST liability on the 'margin' – the difference between the sale price of the finished development and the GST-free purchase price.

The Government plans to amend the GST laws to ensure that the full amount of 'value added' to the property will now be subject to GST (by including in the margin scheme calculation the value added by the registered entity that made the supply). These changes will apply when the enabling legislation becomes law.

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