

Welcome to the June issue of Pearce Norris Tax News. This issue focuses on:

- Federal Budget bonanza!
- Your Super post Budget
- Preparing for your 2005-06 tax return

We would be pleased to discuss the tax issues set out in this issue of Tax News. Please contact Michelle Pearce or Kathryn Norris on (02) 9555 1309 to discuss how Pearce Norris can assist you.

FEDERAL BUDGET BONANZA!

Here is a brief run down of some of the personal tax and benefit changes coming out of the May 2006 Federal Budget.

If you are also in business, we will have a look at the impact of this Budget on your business in our upcoming business newsletter in August.

Bear in mind that much of what follows is still only at the proposal stage.

You should always check to make sure you know the exact outcome of a Budget proposal before you change the way you currently manage and organise your personal and business dealings.

Personal tax rates

The big headline items for individuals are more personal tax cuts. Although the Government has already implemented changes to the personal tax rate scales, further significant changes were announced in the Budget.

From 1 July 2006, the new personal tax rates should be:

Income range (\$)	Tax Rate (%)
0 - 6,000	0
6,001 - 25,000	15
25,001 - 75,000	30
75,001 - 150,000	40
150,001 and above	45

Generally, rates of tax used elsewhere in the tax laws that reflect the top marginal rate will also be reduced to 45%, .e.g., fringe benefits tax will be reduced from 48.5% to 46.5%.

More for low income earners

From 1 July 2006, more taxpayers are likely to have access to the low income tax offset (LITO) because:

- LITO will begin to phase out when your taxable income exceeds \$25,000 (instead of the current \$21,600 threshold); and
- the maximum amount of offset will increase from \$235 to \$600.

MORE TAX FREE INCOME!

In the upcoming 2006/07 tax year, an effect of these proposed changes is that you may not have to pay tax until your taxable income exceeds \$10,000. If your taxable income is more than \$10,000, a reduced offset may be claimed up to a taxable income of \$40,000.

Tax relief for seniors

If you are a Senior Australian, you will also benefit from the Budget changes. From 1 July 2006, if you receive the Senior Australians Tax Offset (SATO), you will be able to earn more income without paying tax:

- singles will be able to have taxable income up to \$24,867 (up from \$21,968); and
- couples can have a taxable income up to \$41,360 (up from \$36,494).

The Medicare levy thresholds for senior Australians will also be increased, so seniors do not pay the Medicare levy until they begin to incur an income tax liability.

Students take note

If you are a full time student, from 1 July 2006, you will no longer have to apportion your tax-free threshold entitlement when you enter the work force for the first time during the tax year.

More family benefits

Your family may be entitled to more family benefits after 1 July 2006.

Family Tax Benefit

The eligibility for the maximum rate of Family Tax Benefit Part A (FTB A) will be extended to families with an annual income of up to \$40,000 (currently \$33,361) from 1 July 2006.

Large family supplement

If you are entitled to FTB A, from 1 July 2006, if you have 3 or more children you may now be entitled to the \$248 Large Family Supplement.

Other bits and pieces

- **Utilities Allowances** - a one-off payment of \$102.80 will be provided by 30 June 2006 to each household eligible for the Utilities Allowance and to each self-funded retiree eligible for the Seniors Concession Allowance.
- **Carer Payment** - a \$1,000 one-off payment will be made to recipients of the Carer Payment and a \$600 one-off payment will be made to recipients of the Carer Allowance by 30 June 2006.
- **Drought affected farmers** - if you are a drought affected farmer in receipt of Government financial assistance, the beneficiary tax offset will be extended to cover Interim Income Support Payments (effective for the 2005-06 and later income years).

DID YOU KNOW?

If you receive certain Centrelink payments or allowances, or eligible Commonwealth education or training payments, you may be entitled to the **beneficiary tax offset**. This offset ensures you pay no tax for the income year if you receive these qualifying payments and allowances and you have no other assessable income. If you do receive other assessable income, you may be entitled to a partial offset. Your entitlement to this offset is automatically calculated by the ATO when you lodge your tax return each year.

YOUR SUPER AFTER THE BUDGET

The Treasurer has announced a proposed plan to simplify the taxation of superannuation benefits, with some unexpected surprises.

Tax free benefits

Under the Government's plan, if you are aged 60 and over and have already paid tax on your superannuation contributions and earnings, you will not pay tax on your superannuation pensions and other benefits from 1 July 2007.

TREASURER SEES A BENEFIT

As superannuation benefits would no longer be assessable income, the Treasurer believes that there will be an incentive for you to continue to work while drawing down on your super as you may pay less tax on your work income!

Simpler opportunities for saving

The Government is proposing reforms to the current rules that regulate the way you can contribute to your superannuation and how it is taxed.

These changes may open up new avenues for you to save for your retirement and include:

- abolishing the current reasonable benefit limits (RBLs), which are limits on the amount of benefits you can accumulate in your super over your lifetime. Doing away with RBLs has the potential to enhance your tax effective savings through superannuation;
- introducing new streamlined rules for deductible contributions, doing away with the current multiple age-based limits and replacing them with a single annual contribution limit of \$50,000. If this proposal goes ahead, it is best to get advice how the new contribution rules will impact on your own superannuation; and
- giving you greater flexibility as to how and when you wish to draw on your superannuation in your retirement.

BONUS!

- You will now be able to make deductible super contributions until you reach 75.
- If you are self-employed you will be able to claim a full deduction for your super contributions, as well as being eligible for the Government co-contribution for your personal post-tax contributions.

Pension assets test made better

If you are a pensioner (or about to become one!), you may benefit from a proposed reform of the pension assets test.

The assets test taper rate will be reduced from \$3 to \$1.50 per fortnight with effect from 20 September 2007. Your home will remain outside the assets test.

Where is the benefit for me?

This will allow a single retiree homeowner to have around an additional \$165,000 of assets before losing the age pension. A couple could have around \$275,000 of additional assets before losing the age pension.

YOUR 2005-2006 TAX RETURN

It is not long until June 30 – the end of another tax year! To help you get ready to do your 2005-2006 tax return, here are some simple steps you can follow.

Step 1: Assemble all your tax records

To help us prepare your tax return so we can be confident that it accurately reflects your optimum tax position, the starting point is assembling all your tax records.

You will need to put together all the relevant records, which will include things like evidence of:

- your income (e.g., Payment Summaries for your salary and wages, dividend and interest income statements, rental property income, and any information on the sale of any of your assets during the year like the sale of an investment property or shares); and
- your allowable deductions (e.g., invoices, receipts of expenditure).

DID YOU KNOW?

The Commissioner of Taxation can hit you with an administrative penalty (up to \$2,200) if you have not kept or retained your tax records as required by a tax law. Although this penalty is only likely to be used as a last resort, it is best not to give the ATO an excuse to think about it!

What about work related deductions?

If you are going to claim more than a total of \$300 worth of work-related deductions, you will need to be able to substantiate how you worked out the full amount.

If the total amount of your work related expenses is \$300 or less, you do not need written evidence to prove your claim – but the ATO can still ask you how you worked it out!

Step 2: Know your assessable income

Keep in mind that your total assessable income could well be more than just your salary. If you have investment income (e.g., interest or dividends) or cash income (e.g., tips and gratuities), make sure you keep a record of them and let us know about them. If you are not sure whether some income you have received is taxable, it is best to tell us about it so we can work out the correct tax treatment for you.

ATO DATA MATCHING UPDATE

You are probably already aware that the ATO regularly checks your interest and dividend income with banks and companies. But did you know that the ATO is now going further afield in checking up on your transactions? If you have been dabbling in antiques, art and gold bullion, it is recently been reported that the ATO is comparing tax files with records from auction houses, insurers, and art galleries.

Here is a checklist of some of the more common types of assessable income, including some tips about things the ATO is on the look out for this year.

Salary and wages - be careful if you work in what the ATO regards as a cash economy industry because it will be carefully checking your income receipts.

Tips, bonuses and gratuities - if you are employed in some industries (like the hospitality or taxi industry) the ATO is likely to expect you declare some tips or gratuities.

Interest income - e.g., from banks, building societies, credit unions, term deposits.

Dividends - watch out for things like *dividend reinvestment programs* where you get extra shares instead of actually receiving a dividend. The value of the amount of any dividend reinvested is still taxable.

Allowances provided by your employer – e.g., for meals, travel or for your car.

Pensions or annuities - e.g., taxable pensions and annuities paid by your superannuation fund.

Lump sum payments made to you by an employer if you have terminated a job during the year - e.g., payments for your unused annual leave or long service leave.

Personal services income - this is a tricky area and may be relevant if you are a contractor or a consultant operating your business through your company, partnership or a trust because the personal services income rules may apply (sometimes you will hear them referred to as *the contractor's tax*).

WHAT IS THE BIG DEAL?

Even if your clients originally paid you for your services through your company, partnership or trust, if these rules apply you may need to include this income in your personal tax return, and the types of deductions you and your business entity can claim may also be affected.

Capital gains – this has been high on the ATO's audit hit list for the past couple of years and still is, particularly:

- if you have made any gain on the sale of shares; and/or
- you have made a gain on the sale of an investment property.

REDUCE YOUR CAPITAL GAINS TAX

If you have made a capital gain on any asset sold during the year, if you owned it for at least 12 months you can reduce the amount of any capital gain by 50% before it is taxed.

Step 3: Maximise your tax deductions

As an employee, you may be able to claim a range of work related expenses, as well as some non-work related items like donations of more than \$2 to an approved charity.

More about work related deductions

Here is a checklist of some of the more common work-related deductions.

Special work clothing – e.g., the cost of buying and maintaining protective clothing and occupation specific clothing is usually deductible. *A recent Tax Office project has examined a large number of income tax returns where taxpayers incorrectly claimed expenses for everyday clothing.*

Subscriptions and union dues – including things like membership fees for a relevant professional association.

Self education expenses – e.g., tuition and course fees for something relevant to your current employment, as well as the cost of textbooks, stationery and possibly some travel expenses.

Work related travel expenses – you can claim some types of travel expenses directly connected with your job (but not the cost of travelling to and from work).

Home office expenses – if your employer lets you work from home, you may be entitled to claim deductions for a proportion of running expenses like electricity and heating, but not for expenses like your mortgage interest or rent (to claim these your home would also have to be a place of business).

Step 4: Make the most of tax offsets

The Tax Office is finding that many taxpayers are still not taking advantage of a number of rebates (now called “tax offsets”) and other concessions.

Tax offsets reduce any tax you may have to pay on your taxable income and can in some instances even result in a refund. Make sure you are not overlooking an offset that may be of benefit to you, for example:

Medical expenses offset

If medical expenses you have paid for yourself, your spouse and your dependants exceed \$1,500 (net of any rebates to which you are entitled from Medicare or your private health fund), then you can claim a rebate of 20% of the excess over \$1,500.

FACELIFTS & COSMETIC DENTAL WORK

If you have spent money on purely cosmetic procedures like facelifts and cosmetic dental work during the year, these expenses are now excluded from the medical expenses offset.

30% child care tax rebate

If you are eligible for the 30% child care tax rebate, you may be able to claim for the out-of-pocket approved child care expenses you incurred from 1 July 2004 to 30 June 2005 in your 2005/06 tax return. The maximum rebate is \$4,000 per child.

WHAT IS APPROVED CHILD CARE?

This is a controversial area. Even if a child care provider is registered, it does not automatically follow that the child care provided is “approved”. Care that may be approved includes long day care, family day care, and before and after school care. Some occasional care and in-home care may qualify. Always check that you are only making a rebate claim for approved child care expenses.

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