

## May 14 2008 Budget – the key points:

Federal Treasurer Wayne Swan's 1<sup>st</sup> Federal Budget included the delivery of personal tax cuts promised in the 2007 election campaign, extended means testing of a wide range of Government benefits to deny access to higher income earners and the preparation of arrangements to manage future investment in infrastructure, education and housing. The key points of the Budget included:

- Across the board tax cuts of \$46.7 billion over a four year period, predominately aimed at low and middle income earners, but disadvantaging the top 3% of income earners earning \$180,000 or more per year. For the financial year ended 30 June **2009** tax cuts extend the range of income subject to the 15% tax rate by \$4,000 to \$34,000, extend the range of taxable income subject to the 30% tax rate by \$5,000 to \$80,000, extend the range of taxable income subject to the 40% tax rate by \$30,000 to \$180,000, and extend the range of taxable income subject to the 45% tax rate by \$30,000 to \$180,000. A worker on the average wage of \$48,000 will receive a \$20 per week tax benefit from the tax cuts. A low income earner earning \$14,000 or less will now pay no tax at all. For the financial year ended 30 June **2010** tax cuts will extend the range of income subject to the 15% tax rate by \$1,000 to \$35,000, and reduce the level of taxation on incomes between \$80,000 and \$180,000 by 2% to 38%. For the financial year ended 30 June **2011** tax cuts will extend the range of income subject to the 15% tax rate by \$2,000 to \$37,000, and reduce the level of taxation on incomes between \$80,000 and \$180,000 by 1% to 37%.
- The Government confirmed that it will conduct a review of the Australian taxation system, called "Australia's Future Tax System", with the AFTS final report to be delivered by July 2009. The review will focus on all Federal and State taxes, but not involve any changes to the tax free superannuation incomes of those aged over 60 or the 10% GST system, and include as "aspirational goals" to increase of the tax free income threshold to \$20,000 and reduce the current four marginal tax brackets to only three being 15%, 30% and 40% over a five to six year period.
- In other personal taxation initiatives the low income tax offset will increase from \$600 a year to \$1,200 from 1 July 2008, effectively increasing the tax free threshold by \$3,000 to \$14,000 (increasing to \$1,350 / \$15,000 from 1 July 2009 and increasing to \$1,500 / \$16,000 from July 2010), with the offset withdrawn once income exceeds \$30,000; new PAYGWH schedules will be introduced to enable low and average income earners to receive 50% of the benefits of the low income earners offset through their regular pay and the other 50% as a lump sum upon the lodgment of their tax return; the lifting of the 1% Medicare levy surcharge income thresholds from \$50,000 to \$100,000 for singles and from \$100,000 to \$150,000 for families; an increase in the Medicare levy thresholds to \$17,309 for individuals and \$29,207 (plus \$2,594 for each child) for families as from 1 July 2008; employees benefiting from employee share schemes will now be required to declare the value of the discount received on the share acquisition in their tax return in the year they received the benefit under the upfront concession scheme or will be deemed to have elected to account for the benefit under the tax deferred option and will not be eligible for the \$1,000 tax free exemption; and the family income threshold for eligibility for Family Tax Benefit Part B will be lowered to \$150,000.
- In other business taxation initiatives from 1 July 2008 the rate of tax imposed on luxury car purchases (i.e. those cars costing \$57,133 or more) will increase from 25% to 33% of the vehicle cost; employees will no longer be able to salary sacrifice the cost in-house meals consumed at work; only those personal use assets (e.g. laptop computers) provided by employers to employees by salary sacrifice that are used primarily for work will be eligible for exemption from FBT, and will be limited to one item of each type per employee per year commencing 14 May 2008; depreciation can no longer be claimed by an employee on any assets acquired by the employee if the cost of purchase is reimbursed by their employer; the period over which certain capital expenditure on in-house computer software can be depreciated will increase from 2.5 to 4 years on all expenditure after 7.30pm 14<sup>th</sup> May 2008; the concession that allows entities that voluntarily register for GST (i.e. turnover less than \$75K) will be able to report and make PAYG instalment payments on an annual basis will be delayed until 1 July 2009; changes to the definition

of family in family trust election rules to limit lineal descendants to children or grandchildren of the test individual or of the test individual's spouse will reduce the scope for family trusts to be used to lower income by utilizing losses; family trusts will be precluded from making a once off variation to the test individual specified in a family trust election (other than in relation to a marriage breakdown); the withholding tax rate applied to some foreign investments (those countries that Australia has an effective rate of exchange of information) will be progressively reduced from 30% to 22.5% in 2009, 15% in 2010 and 7.5% by the 2011 financial year; from 1 July 2007 access to the GST small business CGT concessions through the \$2 million aggregated turnover test will be extended to owners of the eligible assets used in a business by a related party and for partners not owning an eligible asset used in the business of the partnership; eligibility for the entrepreneurs tax offset in personal tax returns will be means tested at \$75,000 for singles and \$120,000 for families; and managed funds that limit their activities to investing in land primarily for rent will retain trust tax treatment and not be taxed like companies.

- In other family tax initiatives the rate of child care benefit will be increased by 20% from 30% to 50% over four years, the cap on the amount that can be paid each year will increase by \$3,146 per child to \$7,500, and 50% of the CCTR amount will be paid quarterly in stead of once a year; Families receiving Family Tax Benefit Part A assistance (family income of less than \$150,000) will be eligible to claim a new 50% education tax refund of up to \$375 for every primary school student and \$750 for every secondary school student when they incur education costs (e.g. books, laptops, home internet connections of up to \$750) of up to \$750 and \$1,500 respectively; The amount of baby bonus increases to \$5,000 from 1 July 2008, and eligibility will be means tested so that only those on family incomes of less than \$150,000 (indexed annually) will be eligible, and benefits will be paid in fortnightly instalments of \$385 over six months to prevent parents from splurging the benefit on consumer goods or gambling; and the income threshold of the principal earner for eligibility for Family Tax Benefit Part B will be lowered to \$150,000.
- Other budget initiatives include the introduction of first home owner savings accounts for personal contributions of up to \$75,000 which will feature 15% tax on income generated, a flat 17% contribution by the Government on the first \$5,000 deposited and tax free withdrawals if funds are used to buy or build a home; the continuation of the Work for the Dole scheme; the introduction of a \$500 rebate rain water tank purchases; the introduction of payments of up to \$8,000 per year for ten years for investors who provide accommodation to low income tenants; the payment of \$2,000 for the conversion of cars to LPG and \$1,000 towards the cost of buying a car with LPG; the creation of a \$10 billion health and hospital fund; the residential solar panel rebate to be means tested; the payment of up to \$1,000 for aged and disability carer payment recipients, and \$600 payments to carer allowance recipients; the spending of 25 million to improve the capacity of the Westgate Bridge and \$5 million each for to improve the quality of the Western Ring Road, Western Highway, and Nagambie by-pass.
- The budget surplus is estimated to be \$21.7 billion for 2008/09 (and \$79 billion over the next four years), the economy is expected to grow an a rate of 2.75% during 2008/09, inflation is expected to slow to 3.50% for 2008/09, and the rate of unemployment is expected to rise to 4.5%.

## MARGINAL TAX RATE SCHEDULES

### 2007/08

Resident Tax Rates:

Taxable Income:

\$1-\$6000  
\$6001-\$30000  
\$30001-\$75000  
\$75001-\$150000  
\$150,000 and over

Tax Liability:

Nil  
15 cents for every dollar over \$6000  
\$3600 + 30 cents for every dollar over \$30000  
\$17100 + 40 cents for every dollar over \$75000  
\$47100 + 45 cents for every dollar over \$150000

In addition the general Medicare levy of 1.5 cents (plus an additional 1 cent if the surcharge applies) for every dollar applies.

### 2008/09\*

Resident Tax Rates:

Taxable Income:

\$1-\$6000  
\$6001-\$34000  
\$34001-\$80000  
\$80001-\$180000  
\$180,000 and over

Tax Liability:

Nil  
15 cents for every dollar over \$6000  
\$4200 + 30 cents for every dollar over \$34000  
\$18000 + 40 cents for every dollar over \$80000  
\$58000 + 45 cents for every dollar over \$180000

In addition the general Medicare levy of 1.5 cents (plus an additional 1 cent if the surcharge applies) for every dollar applies.

### 2009/10\*

Resident Tax Rates:

Taxable Income:

\$1-\$6000  
\$6001-\$35000  
\$35001-\$80000  
\$80001-\$180000  
\$180,000 and over

Tax Liability:

Nil  
15 cents for every dollar over \$6000  
\$4350 + 30 cents for every dollar over \$35000  
\$17850 + 38 cents for every dollar over \$80000  
\$55850 + 45 cents for every dollar over \$180000

In addition the general Medicare levy of 1.5 cents (plus an additional 1 cent if the surcharge applies) for every dollar applies.

### 2010/11\*

Resident Tax Rates:

Taxable Income:

\$1-\$6000  
\$6001-\$37000  
\$37001-\$80000  
\$80001-\$180000  
\$180,000 and over

Tax Liability:

Nil  
15 cents for every dollar over \$6000  
\$4350 + 30 cents for every dollar over \$35000  
\$17850 + 37 cents for every dollar over \$80000  
\$54850 + 45 cents for every dollar over \$180000

In addition the general Medicare levy of 1.5 cents (plus an additional 1 cent if the surcharge applies) for every dollar applies.

\* As announced in the Federal Budget of 14 May 2008.

