

May 8 2007 Budget – the key points:

The key points of Peter Costello's 12th Federal Budget included:

- Across the board tax cuts of \$31.5 billion over a four year period. Those people earning up to \$25K will reap a \$150 pa tax saving in 2008 and 2009; people earning between \$30-\$40K will reap tax savings of \$1,100 pa in 2008 and 2009; and those people earning between \$50-\$75K will reap tax savings of \$750 pa in 2008 and 2009. Once introduced 80% of taxpayers will face a top marginal tax rate of 30% or less. The tax cuts extend the range of income subject to the 15% tax rate by \$5,000 to \$30,000 for the financial year ended 30 June 2008. The tax cuts 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 for the financial year ended 30 June 2009 and beyond.
- In other personal taxation initiatives the low income tax offset will increase from \$600 a year to \$750 from 1 July 2007, phasing out as taxable income exceeds \$30,000 (cutting out at \$48,750), effectively increasing the tax free threshold to \$11,000; the Senior Australians Tax Offset income thresholds will increase (singles can earn up to \$25,867 and couples \$43,360); the introduction of capital gains tax rollover relief from 1 July 2007 when one spouse in marriage breakdown transfers their entire in specie interest in a small superannuation fund to another complying fund; an increase in the dependent spouse rebate to \$2,100 (up from \$1,655) from 1 July 2007 which means that the rebate will completely phase out when a spouse has separate net income of \$8,681 (up from \$6,901); an increase in the Medicare levy thresholds to \$16,740 for individuals and \$28,247 (plus \$2,594 for each child) for families as from 1 July 2007; and the Government will provide a once only doubling of the superannuation co-contributions to \$3,000 (up from \$1,500) for \$1,000 of personal contributions made by low income earners in the 2006 financial year.
- In other business taxation initiatives from 1 July 2007 the GST registration thresholds will be increased to \$75,000 (from \$50,000)(\$150,000 for not for profit entities); entities that voluntarily register for GST (i.e. turnover less than \$75K) will be able to report and make PAYG installment payments on an annual basis; the threshold for an approved tax invoice will increase to \$75 (from \$50) so businesses can claim credits on transactions of up to \$75 without holding an approved tax invoice from 1 July 2007; the introduction of new film industry incentives; trading in managed forestry investment schemes will be allowed where the original investment is held for at least 4 years from 1 July 2007; and availability of the simplified accounting system for GST will be extended to any entity that has an annual turnover of less than \$2M that make mixed supplies or mixed purchases from 1 July 2007.
- The rate of child care benefit will be increased by 10% from 1 July 2007 and will be removed from the tax system and be affected by direct payment to parents. Therefore, a family on a maximum rate CCB with one child in long day care for 40 hours per week will receive an extra \$16.40 per week. With the introduced changes it is expected that over 700,000 families will receive assistance, with the average family benefiting an extra \$624 pa.
- Other budget initiatives include committing \$291M extra in rebates for extended GP consultations; the creation of a \$5B Higher Education Endowment Fund for investing in higher education; the introduction of \$700 vouchers for year 3,5,7 students struggling with literacy and numeracy; the introduction of a \$2.1B 10 year plan to improve pay, and conditions and recruit additional defence force personnel; more than 2 million seniors will receive a \$500 one off tax free payment; the payment of up to \$1,600 for aged and disability carers; the spending of \$66 million to improve the quality of the Calder Highway, Geelong and Pakenham by-passes.

- The budget surplus is estimated to be \$10.6 billion for 2007/08, the economy is expected to grow at a rate of 3.75% during 2007/08, inflation is expected to slow to 2.50% for 2007/08, and the rate of unemployment is expected to remain stable and low at about 5%.

MARGINAL TAX RATE SCHEDULES

2006/07

Resident Tax Rates:

Taxable Income:

\$1-\$6000
\$6001-\$25000
\$25001-\$75000
\$75001-\$150000
\$150,000 and over

Tax Liability:

Nil
15 cents for every dollar over \$6000
\$2850 + 30 cents for every dollar over \$25000
\$17850 + 40 cents for every dollar over \$75000
\$47850 + 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.

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-\$30000
\$30001-\$80000
\$80001-\$180000
\$180,000 and over

Tax Liability:

Nil
15 cents for every dollar over \$6000
\$3600 + 30 cents for every dollar over \$30000
\$18600 + 40 cents for every dollar over \$80000
\$58600 + 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.