

## May 9 2006 Budget – the key points:

The key points of Peter Costello's 11<sup>th</sup> Federal Budget included:

- Across the board tax cuts of \$37 billion over a four year period. Average wage earners will reap a \$9.81 per week tax saving. Once introduced 80% of taxpayers will pay a maximum 30% rate of tax and only 2% are expected to be paying the top marginal tax rate by 1 July 2007. The tax cuts extend the range of income subject to the 15% tax rate by \$3,400 to \$25,000; extend the range of taxable income subject to the 30% tax rate by \$12,000 to \$75,000; reduce the 42% tax rate to 40% and extend the range of taxable income subject to the new 40% tax rate by \$55,000 to \$150,000; and reduce the 47% tax rate to 45% and extend the range of taxable income subject to the new 45% tax rate by \$55,000 to \$150,000 for the financial year ended 30 June 2007.
- In other taxation initiatives the low income tax offset will increase from \$235 a year to \$600, phasing out as taxable income exceeds \$25,000, effectively increasing the tax free threshold to \$10,000; an easing of the phasing in thresholds and reduction of the phase in rate from 20% to 10% for the medicare levy for low income earners; an increase in the diminishing rate of depreciation from 150% to 200%; the rate of tax attributable to fringe benefits will reduce to 46.5% from 1 April 2006; minor benefit threshold for FBT to increase from \$100 to \$300; and reportable fringe benefits threshold increased from \$1,000 to \$2,000.
- From 1 July 2007, people over 60 receiving a lump sum, part payments or a pension payment from a *taxed* superannuation fund will be exempted from taxation on those payments. This initiative is expected to cost \$6.2 billion over the first three years of introduction. More precise details to be revealed after consultations with industry groups.
- In other superannuation initiatives recipients of payments from untaxed superannuation funds (mostly public servants) will pay a lower rate of tax on benefits (lump sum payments to over 60's of up to \$700K taxed at 15% with the balance at the top marginal rate and pension taxed at ordinary marginal rate less a 10% offset); the Reasonable Benefits Limit (pension or lump sum) will be abolished; the abolition of the annual age based deductible superannuation contributions with the new annual maximum deductible superannuation contribution amount subject to the 15% contributions tax will increase to \$50,000 (contributions in excess of \$50K to be taxed at 45%); self employed people will be able to claim 100% of the amount contributed to superannuation as a tax deduction; self employed people will be eligible for the superannuation co-contribution payment; all workers (irrespective of the number of hours worked) will now be able to continue to make contributions until they are 75 years of age; and to encourage older workers to continue in some form of employment the pension assets test taper rate will reduce from \$3 to \$1.50 per fortnight for every \$1,000 of assets over the threshold. The above initiatives are subject to discussion with industry groups before implementation.
- Families to get an average \$9.62 per week in extra Family Tax Benefit (FTB). The amount that a family can earn before their benefit starts to reduce will increase to \$40,000, an increase of \$2,500. This measure will benefit some 350,000 families by 1 July 2007. The raising of the minimum threshold together with the creation of an additional 100,000 childcare places by 2009 are designed to encourage parents to return to the workforce. The eligibility for large family supplements will extend to 3 children families.
- A raft of measures will be introduced to assist older citizens re: Australia's 2.6 million carers will receive a one-off payment of up to \$1,000 for fulltime carers and \$600 to other carers by 30 June 2006; all pension and self funded retirees to receive a one-off payment of \$102.80 (equivalent to maximum available for the utilities allowance) by 30 June 2006; extension of eligibility for the utilities allowance to recipients of the mature age, partner and widow allowances; and increased spending to improve access to and the quality of age care facilities and services provided by age care staff.

- Other budget initiatives include committing \$1.1 billion to introduce the health and social services card (smartcard) to replace 17 existing cards; the creation of 400 new medical school places and 1000 new university nursing places (including the creation of a medical school at Deakin University); the cap on loans to students will rise from \$50,950 to \$80,000 for new students with the cap for fulltime medicine, dentistry and veterinary science students to rise to \$100,000; creation of an additional 1485 soldiers in the army by June 2010; the doubling of our foreign aid program to \$4 billion by 2010; an additional \$1.9 billion devoted over a five year period to better deal with mental health issues in the community; the spending of \$800 million to improve the quality of the Hume Highway; enhancement of the rail system between Melbourne-Sydney-Brisbane; and a \$435 million package to reduce business compliance costs including reducing the ASIC fee for new company registrations from \$800 to \$400.
- The budget surplus is estimated to be \$10.8 billion for 2006/07, the Commonwealth is debt free for the first time since 1975, the economy is expected to grow at a rate of 3.25%, inflation is expected to slow to 2.75%, business investment is expected to increase by 8%, the rate of unemployment is expected to remain stable and low at about 5.25% and wages growth estimated at 4% over the next 12 months.

## MARGINAL TAX RATE SCHEDULES

### 2005/06

Resident Tax Rates:

Taxable Income:

\$1-\$6000  
\$6001-\$21600  
\$21601-\$63000  
\$63001-\$95,000  
\$95,000 and over

Tax Liability:

Nil  
15 cents for every dollar over \$6000  
\$2340 + 30 cents for every dollar over \$21600  
\$14,760 + 42 cents for every dollar over \$63000  
\$28200 + 47 cents for every dollar over \$95000

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

### 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.