



## **2008 Federal Budget - Highlights**

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### **Personal income tax cuts**

The Rudd Government has confirmed it's earlier intention to deliver personal income tax cuts over the next three years.

From 1 July 2008, the 30 per cent threshold will increase from \$30,001 to \$34,001, the 40 per cent threshold will increase from \$75,001 to \$80,001, and the 45 per cent threshold will increase from \$150,001 to \$180,001.

These changes are outlined below.

<b>Current</b>		<b>From 1 July 2008</b>		<b>From 1 July 2009</b>		<b>From 1 July 2010</b>	
<u>Taxable income (\$)</u>	<u>Rate (%)</u>						
0 - 6000	0	0 - 6000	0	0 - 6000	0	0 - 6000	0
6,001 - 30,000	15	6,001 - 34,000	15	6,001 - 35,000	15	6,001 - 37,000	15
30,001 - 75,000	30	34,001 - 80,000	30	35,001 - 80,000	30	37,001 - 80,000	30
75,001 - 150,000	40	80,001 - 180,000	40	80,001 - 180,000	38	80,001 - 180,000	37
150,001 +	45	180,001 +	45	180,001 +	45	180,001 +	45

	<b>Current</b>	<b>From 1 July 2008</b>	<b>From 1 July 2009</b>	<b>From 1 July 2010</b>
<u>Low Income Tax Offset</u>	\$750	\$1,200	\$1,350	\$1,500
<u>Effective tax free threshold</u>	\$11,000	\$14,000	\$15,000	\$16,000



Low and middle income earners will be further assisted through an increase in the low income tax offset (LITO). From 1 July 2008, the LITO will increase from \$750 to \$1,200. It will continue to be withdrawn from an income level of \$30,000. Those eligible for the full LITO will not pay tax after assessment until their annual income exceeds at least \$14,000 (up from the current level of \$11,000). Further increases in the LITO, to \$1,350 from 1 July 2009 and to \$1,500 from 1 July 2010, will mean that the effective tax free threshold will increase further to at least \$15,000 in 2009-10 and \$16,000 in 2010-11.

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### **Proposed first home saver accounts scheme modified**

The proposed first home saver accounts scheme has been amended after its consultation process. The first home saver account allows individuals to contribute up to \$75,000 (indexed annually) towards the purchase of their first home. Earnings in the account will be taxed at 15%. Individuals will be able to withdraw amounts from the account without tax consequences provided that they contribute at least \$1,000 in 4 separate financial years. Individuals who open an account will receive a government contribution of 17% on the first \$5,000 contributed annually.

The major changes to the scheme include:

- replacing the previously announced \$10,000 annual contribution cap with an overall contribution cap of \$75,000 (indexed annually)
- removing the requirement for individuals to contribute \$1,000 to commence the account
- clarifying that the four-year rule for tax-free withdrawals applies from the start of the financial year rather than the date that the account was established, and
- allowing individuals a 14-day cooling off period in which to change their mind about their account.

The commencement date of the scheme has been delayed until 1 October 2008 to enable account providers more time to develop products. The delay does not affect individuals as they are still entitled to a government contribution on the first \$5,000 of personal contributions in 2008/09.

*Budget Paper No 2, pp 288-289; Treasurer's Press Release No 9, 13 May 2008.*

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### **Family trusts**

Two measures were announced to reduce the scope for family trusts to utilise tax losses to lower income tax. These reverse two of the family trust changes introduced by the previous government in the *Tax Laws Amendment (2007 Measures No 4) Act 2007*.

The first is to change the definition of "family" in the family trust election rules (ITAA 1936 Sch 2F s 272-95) to limit lineal descendants to children or grandchildren of the test individual or of the test individual's spouse. This change will have effect from 1 July 2008.



The second is to prevent family trusts from making a once off variation to the test individual specified in a family trust election (other than in relation to a marriage breakdown). This change will have effect from the 2007/08 income year.

Other amendments introduced in *Tax Laws Amendment (2007 Measures No 4) Act 2007* that were technical improvements to the family trust election system will be retained.

Source: *Budget Paper No 2, p 12; Assistant Treasurer's Press Release No 4, 13 May 2008.*

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### **Education tax refund**

Families receiving Family Tax Benefit (Part A) with children undertaking primary or secondary studies or whose school children receive Youth Allowance or another relevant payment will be eligible for an education tax refund. The refundable tax offset will apply to expenses incurred from 1 July 2008 and will be claimed upon lodgement of a 2008/09 income tax return.

Eligible families will be able to claim a 50 per cent refund every year for key education expenses up to:

- • \$750 for each child undertaking primary studies (maximum refundable tax offset of \$375 per child, per year)
- • \$1500 for each child undertaking secondary studies (maximum refundable tax offset of \$750 per child, per year).

Eligible families will be able to recoup the cost of purchases including:

- • laptops
- • home computers and associated costs
- • home internet connection
- • printers
- • education software
- • trade tools for use at school
- • school text books, and
- • stationery.

Parents will then be able to claim 50 per cent of these expenses through their tax return at the end of the financial year.

Source: *Budget Paper No 2, p 138; Joint Media Release of Treasurer and Deputy Prime Minister No 8, 13 May 2008.*

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### **Child care tax rebate**

From 1 July 2008, the child care tax rebate for out-of-pocket child care expenses will increase from 30% to 50%. The maximum out-of-pocket expenses claimable will increase from \$4,354 to \$7,500 (indexed) per child per year.

From 1 July 2008, the child care tax rebate will be paid quarterly, instead of annually, with families receiving the first quarterly payments from October 2008.



Source: Budget Paper No 2, p 144; Minister for Education, Employment and Workplace Relations Press Release No 16, 13 May 2008.

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### **Increase to Medicare levy surcharge and low-income thresholds**

The government will increase the Medicare levy surcharge threshold for singles from \$50,000 to \$100,000 and for those who are members of a family from \$100,000 to \$150,000, with effect from 1 July 2008.

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### **FBT changes**

The government has tightened the rules for the following FBT concessions.

- The FBT exemption for work-related items (eg laptops, personal digital assistants and tools of trade) purchased after 7.30pm on 13 May 2008 will only be available where the items are used primarily for work purposes and will be limited to one item of each type per employee per year. The terms of the exemption will be updated to reflect changes in technology.
- For new arrangements from 7.30pm on 13 May 2008, the full value of a benefit that has been provided to both an employee and an associate in relation to a jointly-owned asset (for example, a low interest loan or reimbursement of expenses related to a rental property or shares) will be subject to FBT. Employees who have already entered into salary sacrifice arrangements will be able to rely on such arrangements until 31 March 2009. This measure is intended to overcome the Federal Court's decision in *National Australia Bank Ltd v Federal Commissioner of Taxation* 93 ATC 4919.
- From 7.30pm on 13 May 2008, the FBT exemption for private use of business property on an employer's premises will not apply to meals under salary sacrifice arrangements. Existing balances on meal cards on 13 May 2008 will remain eligible for the FBT exemption, provided they are used by 31 March 2009.

Employees will be denied depreciation deductions for the work-related percentage of FBT exempt items. For items purchased after 7.30 pm on 13 May 2008, this measure will take effect from that time. For items purchased before 7.30 pm on 13 May 2008, employees will be denied depreciation for the 2008/09 and later income years.

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### **Baby Bonus increased and means tested**

The government will limit eligibility to the Baby Bonus to families with an adjusted taxable income of \$75,000 or less in the six months after the birth of a baby (equivalent to an annual income of \$150,000) from 1 January 2009. Around 16,000 high income parents are expected to no longer receive the Baby Bonus each year due to the new means test. For all eligible births after 1 January 2009, the Baby Bonus will be paid in 13 fortnightly instalments of around \$385, rather than as a lump sum.



The Baby Bonus will increase from \$4,258 to \$5,000 on 1 July 2008, and payments will be indexed according to the Consumer Price Index each subsequent year on 1 July. The age restriction on the Baby Bonus for adoptive parents will be lifted, extending to families with newly adopted children aged two years to 16 years, from 1 January 2009. *Source: Budget Paper No 2, p 370; Minister for Families, Housing, Community Services and Indigenous Affairs Press Release No 2, 13 May 2008.*

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### **Changes to Family Tax Benefit Part B payments**

The government will limit eligibility for Family Tax Benefit Part B to families where the primary earner has an adjusted taxable income of \$150,000 a year or less. The income test will be indexed annually by the consumer price index. Related dependency offsets, including the dependent spouse, housekeeper, child housekeeper, parent/parent-in-law and invalid relative tax offsets, delivered through the tax system will also be targeted to those on \$150,000 or less a year.

A 'continuous adjustment' measure will commence from 1 July 2009 to ensure that when families advise during the year that their income estimate has increased, their Family Tax Benefit payments will be adjusted, with the aim of avoiding overpayment.

From 1 July 2009, Family Tax Benefit will only be delivered through Centrelink and Medicare, removing claims from the Tax Office. The choice of payment by fortnightly instalment or annual lump sum will remain through Centrelink and Medicare.

From 1 July 2009, changes will be made to the definitions of income for family assistance purposes to include net financial investment losses and certain salary sacrifice superannuation contributions.

Where Family Tax Benefit recipients in a family have not lodged their tax returns for more than 12 months following the relevant entitlement year and have not responded to Centrelink notices asking them to do so, they will no longer be entitled to receive Family Tax Benefit through fortnightly instalments. Recipients will still be able to receive Family Tax Benefit after lodging their tax return by claiming through Centrelink, Family Assistance Office or Medicare. Lodgement of tax returns is necessary to reconcile a person's Family Tax Benefit entitlement once their final annual income is known. This measure will commence on 1 July 2009.

*Source: Budget Paper No 2, p 370-372 and 390; Minister for Families, Housing, Community Services and Indigenous Affairs Press Release No. 2, 13 May 2008.*

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### **National Rental Affordability Scheme**

In order to achieve its goal of providing 50,000 affordable rental properties for low and middle-income earners, the government will pay \$6,000 per property for up to 10 years by refundable tax offsets to complying institutional investors and grants to not-for-profit housing organisations that are income tax exempt. In addition, State and Territory governments will provide annual support (as cash grants, stamp duty concessions, or the provision of discounted land) of at least \$2,000 per annum per property for up to 10 years.



The concessions will be available to investors constructing and renting properties to eligible tenants at 20% below market rent for equivalent properties in the area.  
*Source: Budget Paper No 2, p 172; Minister for Families, Housing, Community Services and Indigenous Affairs' Press Release, 13 May 2008.*

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