

A Clear Direction Financial Planning

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2008 Personal Finance Budget Summary

The Federal Budget presented last night by Wayne Swan provided few financial planning surprises. The really significant development might possibly come from the taxation system review that has been funded in this budget. One other important point to note from the outset is that there have been no changes made to the Simpler Superannuation system that has been introduced over recent years.

Some readers will not be interested in all of the details so we start with a brief summary of the major changes introduced yesterday:

- Confirmation of the income tax cuts and increases in low income tax offset
- Increases in the Senior Australian Tax Offset levels of income before tax is payable to \$28,867 for singles and \$24,680 for each member of a couple in 2008/09 and increasing in future years
- Increases in the Medicare levy low income threshold to \$17,309 and surcharge threshold to \$150,000
- Introduction of the First Home Saver Accounts with a government co-contribution of up to \$850 per year and taxed at 15%
- Confirmation of the Carer's Bonus at \$1,000 and Carer's Allowance at \$600 for each eligible person in their care
- Confirmation of Senior's Bonus at \$500 and Senior Concession, Telephone and Utilities Allowances
- Increases in the level of Child Tax Rebates from 30% to 50% with The maximum out-of-pocket expenses claimable increasing from \$4,354 to \$7,500 (indexed) per child per year
- Introduction of the Education Tax Refunds of up to \$750 per primary student and \$1,500 per secondary students
- Increase in the baby bonus to \$5,000 but no longer eligible for families earning more than \$150,000
- Introduction of means testing to Family Tax Benefit – Part B limiting payments to where the primary earner has an adjusted taxable income of \$150,000 a year or less
- Expanded definitions of income in terms of income tests to include certain superannuation sacrificed contributions, net financial investment losses and net rental property losses and reportable fringe benefits for certain income support payments
- Dependency Tax Offsets limited to those earning less than \$150,000
- Senior's Health Card Income Test amended to include gross income from superannuation income streams from a taxed source and income which has been salary sacrificed to superannuation
- Tightening of Fringe Benefit Tax exemptions specifically around laptop computer purchases and meal cards
- Increase in the luxury car tax from 25% to 33%

All of these items have been addressed in a little more detail in the following sections.

Income Tax - Cuts Confirmed

As promised during the federal election campaign in November, the government has confirmed the income tax changes for the next three financial years including increases in the Low Income Tax Offset

| Current | | From 1 July 2008 | | From 1 July 2009 | | From 1 July 2010 | |
|---|----------|-----------------------|----------|------------------------|-----------|-----------------------|-----------|
| Taxable income | Rate | Taxable income | Rate | Taxable income | Rate | Taxable income | Rate |
| (\$) | (%) | (\$) | (%) | (\$) | (%) | (\$) | (%) |
| 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 |
| Low Income Tax Offset (LITO) | \$750 | | \$1,200 | | 1350 | | 1500 |
| LITO Maximum Threshold | \$48,750 | | \$60,000 | | \$63,750 | | \$67,500 |
| Effective tax free threshold (incomes less than \$30,000) | \$11,000 | | \$14,000 | | \$15,000 | | \$16,000 |

To break this down, the following table sets out the tax payable on a range of assessable income levels:

| Income Tax on: | Current Year | 2008/09 | 2009/10 | 2010/11 |
|----------------|--------------|----------|----------|----------|
| \$30,000 | \$2,850 | \$2,400 | \$2,250 | \$2,100 |
| \$40,000 | \$6,250 | \$5,200 | \$4,900 | \$4,450 |
| \$50,000 | \$9,600 | \$8,600 | \$8,300 | \$7,850 |
| \$60,000 | \$12,600 | \$12,000 | \$11,700 | \$11,250 |
| \$70,000 | \$15,600 | \$15,000 | \$14,850 | \$14,550 |
| \$80,000 | \$19,100 | \$18,000 | \$17,850 | \$17,550 |
| \$90,000 | \$23,100 | \$22,000 | \$21,650 | \$21,250 |
| \$100,000 | \$27,100 | \$26,000 | \$25,450 | \$24,950 |
| \$110,000 | \$31,100 | \$30,000 | \$29,250 | \$28,650 |
| \$120,000 | \$35,100 | \$34,000 | \$33,050 | \$32,350 |
| \$130,000 | \$39,100 | \$38,000 | \$36,850 | \$36,050 |
| \$140,000 | \$43,100 | \$42,000 | \$40,650 | \$39,750 |
| \$150,000 | \$47,100 | \$46,000 | \$44,450 | \$43,450 |
| \$160,000 | \$51,600 | \$50,000 | \$48,250 | \$47,150 |
| \$170,000 | \$56,100 | \$54,000 | \$52,050 | \$50,850 |
| \$180,000 | \$60,600 | \$58,000 | \$55,850 | \$54,550 |

Senior Australians Tax Offset – Increase in income levels before tax is payable

Changes in the amount of income a senior Australian eligible for the senior Australians tax offset can earn before they incur an income tax liability have been increased as follows:

| | Current | 2008/09 | 2009/10 | 2010/11 |
|--------------------------------|----------------|----------------|----------------|----------------|
| Single | \$24,867 | \$28,867 | \$29,867 | \$30,685 |
| Each member of a couple | \$20,680 | \$24,680 | \$25,680 | \$26,680 |

The relevant Medicare levy low-income threshold will be increased to ensure that senior Australians do not pay the Medicare levy until they begin to pay income tax.

Medicare Levy Low-Income Thresholds – Increased

The Medicare levy low-income thresholds will be increased to \$17,309 for individuals and \$29,207 for individuals who are in families, with effect from 1 July 2007. The additional amount of threshold for each dependent child or student will also increase to \$2,682. The increase in these thresholds takes into account movements in the Consumer Price Index and ensures that low-income families and individuals are not liable to pay the Medicare levy.

The Government will also increase the Medicare levy threshold for pensioners below Age Pension age to \$22,922, with effect from 1 July 2007. This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

Medicare Levy Surcharge Thresholds – Increased

The Medicare levy surcharge threshold for singles will be increased 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.

The major impact of this change is that private health insurance now becomes more of a personal decision and less of a financial decision for many more Australians.

First Home Savers Accounts - Introduced

The Government will provide people saving for a first home with direct contributions into First Home Saver Accounts. The first \$5,000 of individual contributions to these accounts each year will now attract a 17 per cent Government contribution, i.e. a maximum of \$850 per person per year. Individuals will be able to contribute up to \$75,000 over the life of the account (indexed annually) Earnings will be taxed at a low rate of 15 per cent. Individuals will be able to withdraw from the fund without tax consequences provided that they contribute at least \$1,000 in 4 separate financial years. Withdrawals from the account will be tax free when used to buy or build a first home.

There has been no mention of the tax implications if the funds are not used to buy or build a first home or whether they will be able to be rolled over into superannuation.

Carer's Bonus - Confirmed

Carer Payment recipients will receive \$1,000 and recipients of Carer Allowance will receive \$600 for each eligible person in their care. The payments will be exempt from income tax.

Senior's Bonus - Confirmed

Tax-exempt one-off bonus payments of \$500 to seniors in receipt of the Age Pension, veterans' pensions, Widow B Pension, Wife Pension, Seniors Concession Allowance, Mature Age Allowance, Widows Allowance or Partner Allowance as at 13 May 2008. The person must be in Australia or temporarily absent from Australia for not more than 13 weeks. Bonus payments will be made automatically before the end of June 2008.

Senior's Concession, Telephone & Utilities Allowances - Confirmed

From March 2008

- the annual rate of the Concession Allowance increased from \$218 to \$500
- the annual rate of the Telephone Allowance increased from \$88 to \$132 for all income support recipients of Age Pension age, Carer Payment recipients, Disability Support Pensioners and holders of a Commonwealth Seniors Health Card who have a home internet service.
- the Utilities Allowance annual rate increased from \$107.20 to \$500 for singles (or couples combined)

All three will be continued at those levels.

Childcare Tax Rebate - increased

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.

Education Tax Refund - Introduced

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.

Baby Bonus – Increased, Paid Fortnightly and Means Tested

Eligibility to the Baby Bonus will be limited 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. For all eligible births after 1 January 2009, the Baby Bonus will be paid in 13 fortnightly installments 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.

Family Tax Benefit Part B – Introduction of Means Testing

Eligibility for Family Tax Benefit Part B will be limited 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.

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 installment or annual lump sum will remain through Centrelink and Medicare.

Income Test – Expanded Definitions

From 1 July 2009 certain 'salary sacrificed' contributions to superannuation will be included as income for determining eligibility to support programs such as income support payments for people below Age Pension age, family assistance, child support, superannuation co-contributions and financial and retirement savings assistance delivered through the tax system.

The Government will also expand the definitions of income to include net financial investment losses, and net rental property losses where appropriate, with effect from 1 July 2009. This measure will expand the adjusted taxable income definitions to include net financial investment losses. The measure will also expand the definition of income used for particular tax programs to include net rental property losses and net financial investment losses. Affected tax programs include the Senior Australians Tax Offset, Medicare levy surcharge and dependency tax offsets.

They will also expand the definitions of income used to determine eligibility for certain tax offsets to include reportable fringe benefits, with effect from 1 July 2009. Currently, the senior Australians tax offset and pensioner tax offset use taxable income in their income definition. Eligibility for the dependency tax offsets is determined on the basis of the dependant's income.

Dependency Tax Offsets – Eligibility Tightened

Eligibility for the dependency tax offsets has been targeted so that those earning more than \$150,000 will not be entitled to claim the dependent spouse, housekeeper, child-housekeeper, invalid relative and parent/parent-in-law tax offsets, with effect from 1 July 2008.

From 1 July 2009, the government will align the definition of income for these offsets with that applying to family assistance payments. The new definition of "income" will be used for the claimant and the dependent. The income threshold of \$150,000 will also be indexed from 1 July 2009.

Senior's Health Card - Income Test Amended

The Commonwealth senior's health card income test will now include gross income from superannuation income streams from a taxed source and income which has been salary sacrificed to superannuation.

Fringe Benefit Tax – Tightened

The Government will tighten the current fringe benefit tax (FBT) exemption for certain work-related items (including laptop computers, personal digital assistants and tools of trade) by ensuring the exemption only applies where these items are used primarily for work purposes. The FBT exemption will generally be limited to one item of each type per employee per year. The measure will apply to items purchased after 7.30 pm (AEST) on 13 May 2008.

The Government will also deny employees depreciation deductions for FBT exempt items (that is, items purchased primarily for work purposes) purchased from 7.30 pm (AEST) on 13 May 2008. For items purchased before that time, employees will be denied depreciation deductions for the 2008-09 and later income years.

The fringe benefits tax (FBT) exemption that applies to the private use of business property on an employer's premises by excluding meals under a salary sacrifice arrangement will also be tightened, with effect from 7.30 pm (AEST) on 13 May 2008. The measure reduces the FBT concession and tax expenditure associated with property provided on the employer's business premises.

The existing FBT exemption allows employees with a meal card arrangement to purchase meals out of their pre-tax income. Existing balances on meal cards as at 7.30 pm (AEST) on 13 May 2008 will remain eligible for the FBT exemption, provided they are used by 31 March 2009. Any supplementation of existing balances after 7.30 pm (AEST) on 13 May 2008 will be subject to FBT.

The measure will not affect subsidised canteens that are provided to all staff and that are not part of a salary sacrifice arrangement.

Luxury Car Tax - Increased

The Government will increase the luxury car tax rate from 25% to 33%, with effect from 1 July 2008. There will be no change to the luxury car tax threshold (currently \$57,123) from which the luxury car tax applies.

Withholding Tax for Non-Residents - Reduced

The existing 30% non-final withholding tax applying to distributions of Australian source net income (other than dividends, interest and royalties) of Australian managed investment trusts to foreign residents with a final withholding tax regime. Residents of jurisdictions with which Australia has effective exchange of information arrangements, to be specified by regulation, will be subject to a non-final withholding tax at the rate of 22.5% for the first income year (intended to be 2008-09); a final withholding tax of 15% for the second income year (intended to be 2009-10); and a final withholding tax of 7.5% for the third (intended to be 2010-11) and later income years.

For the first income year, as an interim measure, such residents will be eligible to claim deductions for expenses relating to their fund payments. These residents will be taxed at a new rate of 22.5% on an amount net of any deductions.

Residents of other jurisdictions will be subject to a 30 per cent final withholding tax.

This document has been prepared as a brief summary of the 2008 Federal Budget as it impacts on personal finances. It is a publication of A Clear Direction Financial Planning. It contains general financial information. Readers should check this information with a professional financial adviser before acting on any of the material contained in this document.