

CARBONI & CO

CHARTERED ACCOUNTANTS



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REPORTS



2008 Federal Budget

Overview

The Federal Budget handed down on 13 May 2008 contained a package of tax relief measures designed to assist families with education, child care and other living expenses, while means testing a range of benefits. As anticipated, the government's first Budget also initiated a broad review of the tax system.

PERSONAL TAXATION

Previously announced personal income tax cuts will apply from 1 July 2008. The new rates are as follows:

Comparison of tax rates

Current Taxable income	Marginal Rate	From 1 July 2008 Taxable Income	Marginal Rate
\$0 – \$6,000	NIL	\$0 – \$6,000	NIL
\$6,001 – \$30,000	15%	\$6,001 – \$34,000	15%
\$30,001 – \$75,000	30%	\$34,001 – \$80,000	30%
\$75,001 – \$150,000	40%	\$80,001 – \$180,000	40%
Over \$150,001	45%	Over \$180,001	45%

- The above rates do not include the Medicare levy of 1.5%

BUDGET 2008 SUMMARY

Other personal tax changes include:

<p>Medicare Levy Surcharge Threshold Increased</p>	<ul style="list-style-type: none"> The taxable income level to which Medicare Levy surcharge (1.5%) applies will increased on 1 July 2008 from current \$50,000 to \$100,000 for singles and for families from current from \$100,000 to \$150,000.
<p>Low Income Tax Offset increased</p>	<ul style="list-style-type: none"> The low income tax offset will increase from \$750 to \$1,200 per year for persons with taxable income less than \$14,000. This is claimed as an offset in the tax return.
<p>Child Care Rebate increased to 50%</p>	<ul style="list-style-type: none"> The child care tax rebate for out-of-pocket child care expenses will increase from 30% to 50% from 1 July 2008, with the maximum out-of-pocket expenses claimable increasing from \$4,354 to \$7,500 per child per year. From 1 July 2008 the child care rebate will be paid quarterly, instead of annually with first payments commencing Oct 2008.
<p>Education Tax Refund - New</p>	<p>Eligible families will be able to claim a 50 per cent refund every year for key education expenses up to:</p> <ul style="list-style-type: none"> \$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). <p>The refundable tax offset will apply to expenses incurred from 1 July 2008 and will be claimed upon lodgement of the tax return for year end 30 June 2009.</p>
<p>Baby Bonus Changes</p>	<p>The Baby Bonus will increase from \$4,258 to \$5,000 on 1 July 2008 with future payments indexed to CPI.</p> <p>From 1 January 2009</p> <ul style="list-style-type: none"> The government will limit eligibility of the Baby Bonus to families with an equivalent annual income of \$150,000; The Baby Bonus will be paid in 13 fortnightly instalments of around \$385, rather than as a lump sum.



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Dependency Tax Offsets tightened	<ul style="list-style-type: none">• Eligibility for the dependency tax offsets has been tightened so that those earning more than \$150,000 will not be entitled to claim.
Senior Australians	<p>ONE OFF PAYMENT</p> <ul style="list-style-type: none">• A tax exempt one-off payment of \$500 to seniors in receipt of the Age Pension, Veterans pensions, Widow B Pension, Wife Pension, Seniors Concessions Allowance, Mature Age Allowance, Widows Allowance or Partners Allowance held as at 13 May 2008. <p>HEALTH CARD INCOME TEST AMENDED</p> <ul style="list-style-type: none">• The Commonwealth senior's health card income test will now include gross income from superannuation from a taxed source and income which has been salary sacrificed to superannuation.
Employee Share Schemes	<ul style="list-style-type: none">•• The Government has announced changes to the way that benefits received from employee share schemes are taxed so as to ensure that income is correctly reported.• Currently, taxpayers can elect to be assessed on discounts provided on shares or rights in the income year the shares are granted (if more than \$1,000) or deferred until a later date time, such as when restrictions on the shares are lifted. However, this arrangement has been manipulated somewhat by taxpayers who have sought to change their choice in a later income year by claiming that an election to be taxed on grant was made.• From 1 July 2008, the election procedures will be changed so that the election is final. If a taxpayer does not elect to include as assessable income discounts over \$1,000, the taxpayer will be taxed under the deferral method.



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BUSINESS TAXATION:

Entrepreneurs Tax Offset (ETO)	<ul style="list-style-type: none">• The Government has introduced an income test which is to be applied to the ETO. The income test will restrict access to the offset for businesses with high alternative sources of household income.• Eligibility will be restricted for singles with income more than \$75,000 and families from \$120,000 adjusted taxable income per year.• If eligible, the taxpayer is entitled to a full 25% tax offset where turnover is less than \$50,000. The offset phases out between \$50,000 up to \$75,000.•
Family Trusts	<ul style="list-style-type: none">• 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.• From 1 July 2008 the definition of "family" in the family trust election rules will limit lineal descendants to children or grandchildren of the test individual or of the test individual's spouse.• The second is to prevent family trusts from making a once off variation to the test individual specified in a family trust election (except in relation to marriage breakdown).
FBT Changes	<p>From 13 May 2008</p> <ul style="list-style-type: none">• the FBT exemption for work-related items (eg laptops, personal digital assistants and tools of trade) will only be available where items are used primarily for work purposes and will be limited to one item of each type per employee per year.• Also, employees will be denied depreciation deductions for the work-related percentage of FBT exempt items• 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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Superannuation Clearing Facility	<p>The ATO will establish a superannuation clearing house to help employers meet their choice of superannuation requirements for their employees. As employees now have a choice of funds to receive contributions, employers now contribute to a large number of funds chosen by their employees, increasing administrative costs.</p> <ul style="list-style-type: none">• The superannuation clearing house allows an employer to pay their contributions to a single location. The clearing house will then distribute the contributions to the superannuation funds chosen by each employee.• The clearing house facility will be free to small businesses with less 20 employees. Larger businesses will be able to use the clearing house for a fee.
Depreciation - of In-House Computer Software	<ul style="list-style-type: none">• For expenditure incurred after 13 May 2008, the period over which expenditure on in-house computer software (which is capital in nature), can be depreciated will be increased from 2.5 years to 4 years.• Expenditure on in-house computer software will continue to be depreciated only on a straight line basis.

