

federal budget

June 2006

Personal Tax Cuts

The 2006/07 Federal Budget will provide personal tax cuts worth \$36.7 billion over the next four years.

Significantly, the top marginal tax rate will drop from 47% to 45% and will apply to taxable income over \$150,001.

The 42% marginal rate will also be cut to 40% and will apply from \$75,001 and the 30% band will again be widened.

The resident tax rates for the 2005/06 and 2006/07 years are summarised below:

2005/06	
\$ Income	Rate
6,001–21,600	15%
21,601–63,000	30%
63,001–95,000	42%
95,001+	47%

2006/07 as per 2005/06 Budget	
\$ Income	Rate
6,001–21,600	15%
21,601–70,000	30%
70,001–125,000	42%
125,001+	47%

2006/07 as per 2006/07 Budget	
\$ Income	Rate
6,001–25,000	15%
25,001–75,000	30%
75,001–150,000	40%
150,001+	45%

FBT Changes

- FBT rate reduced from 48.5% to 46.5% with effect from 1 April 2006.
- In-house fringe benefits tax-free threshold increased from \$500 to \$1,000, with effect from 1 April 2007.

- Minor benefits threshold increased from \$100 to \$300, with effect from 1 April 2007. Tax Office to review existing guidelines and provide further clarification in relation to what is 'irregular' and 'infrequent'.
- Reportable fringe benefits threshold increased from \$1,000 to \$2,000 (pre gross-up), with effect from 1 April 2007.

Superannuation

The Government proposes dramatic changes to superannuation from 1 July 2007.

Contributions

- Abolition of age-based limits for deductible superannuation contributions.
- Concessional deductible contributions subject to an effective annual ceiling of \$50,000 per person p.a. to age 75 (transitional rules for employees aged over 50).
- Deductible contributions exceeding \$50,000 taxed at the highest marginal rate.
- Undeducted contributions subject to an annual limit of \$150,000.
- Self-employed persons able to claim full deduction for their superannuation contributions.
- Employer ETPs unable to be rolled over.

Benefits

- Abolition of Reasonable Benefit Limits.
- Benefits paid from a taxed fund to retirees from age 60 or above (either as a lump sum or pension) are tax-free.
- Benefits paid to persons aged 55–60 generally taxed under existing arrangements.
- Members who have reached preservation age may establish pension income streams or leave

money within superannuation indefinitely and draw on it at their discretion (abolition of compulsory withdrawal).

- Pensions subject to simplified rules.
- Lump sum death benefit payments to dependants are tax-free.

Untaxed Superannuation Schemes

For members aged over 60, lump sum benefits of up to \$700,000 taxed at 15%, any excess taxed at top marginal rate.

Pensions taxed at recipient's marginal rate less 10% offset.

Depreciation

The diminishing value rate applied for calculating depreciation deductions will increase from 150% to 200% over the prime cost rate.

The new rate will apply to assets acquired on or after 10 May 2006.

Small Business: CGT

The Government has announced the following changes to the small business Capital Gains Tax (CGT) concessions:

- The net asset value test will increase from \$5 million to \$6 million.
- A 'significant individual' test based on 20% ownership will replace the controlling individual test (based on 50% direct ownership).
- Modifications to the operation of the 15-year exemption, the retirement exemption, the small business rollover and the application of the concessions to partnerships.

These changes will apply to CGT events that occur in 2006/07 and subsequent income years.

Venture Capital

The Government has announced a new investment vehicle called an early stage venture capital limited partnership (ESVCLP). The ESVCLP will allow income and capital gains to flow through to venture capital investors on a tax-exempt basis.

The rules will be limited to funds of up to \$100 million investing in companies with total assets of up to \$50 million. These rules will replace the existing PDF concessions.

Small Business Tax

The Government has announced a greater alignment of the various small business tax concessions, including those under the STS, CGT, GST, FBT and PAYG instalment regimes, including:

- Align the STS and GST definitions of 'turnover'.
- Align the period over which STS and GST turnover is calculated.
- Increase the STS annual turnover threshold from \$1 million to \$2 million.
- Increase the GST cash accounting turnover threshold from \$1 million to \$2 million.
- Removal of the requirement that related businesses must have total depreciating assets of less than \$3 million.
- STS taxpayers will be able to pay quarterly PAYG instalments on the basis of GDP-adjusted notional tax.
- The depreciating asset rollover relief has been extended in certain circumstances.

These reforms are effective 1 July 2007.

Elected Family Trusts

Family trust elections and interposed entity elections will be able to be revoked or varied in certain limited circumstances. The definition of family group will be broadened to include lineal descendants. Trust distributions to certain former members (including ex-spouses) will be exempt from family trust distribution tax.

Trusts

The following new integrity measures concerning trusts have been announced:

- Resident trustees will be required to pay the tax on distributions to non-resident trustee beneficiaries from 1 July 2006.
- Trustees of closely held trusts to identify and report first-tier trustee beneficiary receipt of trust distributions only, (rather than the ultimate beneficiary(ies)).

High Wealth Individuals

The Government has provided the Tax Office with additional resources to fund its tax compliance program for high wealth individuals and associated entities.

The High Wealth Individual Taskforce will focus on the timely identification of tax compliance risks and undertake additional audit activity for high-risk cases, including closely held private company groups.

GST

Additional funding of \$46.4 million directed towards increased audit activity to raise an additional \$190 million.

GST integrity changes to the Margin Scheme to ensure anti-avoidance measures apply to GST and property.

Import entry threshold for courier and post will be raised to \$1,000. This will mean that a person can privately import goods to the value of \$1,000 without paying GST or import duty.

Backdating of the GST measure to 1 July 2000 to ensure that GST does not apply to bonus supplies of credits and text messages for phone cards.

GST on vouchers will only need to be remitted on the face value of the vouchers.

Wine Equalisation Tax

There will be an increase in the producer rebate from \$290,000 to \$500,000.

Research and Development

R&D offset claim period will be extended.

The 175% premium deduction can now be allocated to individual companies in a group that has increased R&D expenditure over the last three years.

R&D expenditure by a registered research agency (RRA) is now eligible for the tax offset and may be claimed by all the companies in the R&D group.

Fuel Tax Credit Regime

The Energy Grants (Credits) Scheme will be replaced by the Fuel Tax Credit regime (FTC).

The FTC will have dramatic impact on road users and users of fuel off-road.

The FTC will be claimed through the Business Activity Statement (BAS).

A draft of the BAS has been released. Due to the claiming of credits through the BAS, the Tax Office has indicated that a GST review will also focus on any fuel tax credits claimed.

Abolition of State Taxes

The Government has announced that it has agreed a timetable with the states and territories for the elimination of a range of state taxes.

This agreement is in line with the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations.

It has been agreed that the states will abolish stamp duty on non-quotable marketable securities, leases, mortgages, bonds, debentures and other loan securities, credit arrangements, instalment purchase arrangements, rental arrangements, cheques, bills of exchange and promissory notes, and business conveyances other than real property.

While the timing will differ in each state, all of the above will be abolished by 1 July 2012.

Important: This is not advice. Clients should not act solely on the basis of the material contained in this Bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.