

Newletter June 2007

Personal income tax cuts

Further cuts to personal income tax are proposed to take effect in two stages: from 1 July 2007 and from 1 July 2008.

From 1 July 2007:

- the 30% threshold will increase from \$25,001 to \$30,001, and
- the low income tax offset will increase from \$600 to \$750 and will begin to phase out from \$30,000. Adult taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$11,000. Minors in receipt of unearned income can receive up to \$1,666 without having to pay tax.

From 1 July 2008:

- the 40% threshold will increase from \$75,001 to \$80,001, and
- the 45% threshold will increase from \$150,001 to \$180,001.

Current tax thresholds 30 June 2007 Income range (\$)	Tax rate %	New tax thresholds from 1 July 2007 Income range (\$)	Tax rate %	New tax thresholds from 1 July 2008 Income range (\$)	Tax rate %
0 – 6,000	0	0 – 6,000	0	0 – 6,000	0
6,001 – 25,000	15	6,001 – 30,000	15	6,001 – 30,000	15
25,001 – 75,000	30	30,001 – 75,000	30	30,001 – 80,000	30
75,001 – 150,000	40	75,001 – 150,000	40	80,001 – 180,000	40
150,001 +	45	150,000 +	45	180,001 +	45

Senior Australians

The effect of the tax cuts is that, from 1 July 2007, senior Australians eligible for the senior Australians tax offset will be able to earn more income without paying tax. Singles will be able to have taxable income up to \$25,867 (up from \$24,867) and couples up to \$43,360 (up from \$41,360).

DEVINE & MCKENZIE COMMENTARY

The changes to the tax rate tables over the last few years are resulting in a rethink about appropriate structures for owning businesses and investments. In the past, there was much more incentive to use companies in order to only pay 30% tax. However, this will now be much less popular, particularly if it is not certain how much profit is likely to be earned. For example, a husband and wife partnership can now have a combined taxable income of \$360,000 (from 1 July 2008), before they pay tax at the top marginal rate. Compare this to the year ended 30 June 2003, where the same partnership started paying tax at the top marginal rate where their combined taxable income exceeded \$120,000. Of course there are other reasons people might want to trade through a company. We urge clients to seek our advice before making this decision.

These changes also mean that salary packaging is much less attractive for people on salary packages under \$180,000 (as from 1 July 2008) because Fringe Benefits Tax is still calculated based on the top marginal tax rate.

Tax Topics

Small business GST changes

From 1 July 2007, businesses with annual turnover of less than \$75,000 will no longer be required to register for GST. Currently, the level is \$50,000. Also, the GST registration threshold for non-profit bodies will be increased to \$150,000 (from \$100,000). If businesses and non-profit bodies which fall below the threshold do choose to register for GST, they have the option of remitting GST only once a year.

Also, from 1 July 2007, purchases by businesses valued at \$75 or less (not including GST) will no longer require an approved tax invoice to claim an input tax credit. The current threshold is \$50. For purchases of \$75 or less, businesses will be able to rely on the same record keeping for GST and income tax purposes.

Dependant spouse rebate increased

The dependant spouse rebate will be increased to \$2,100 (up from \$1,655) for the 2007/08 and later income years. This increase will benefit taxpayers with a dependant spouse, who do not have a dependant child.

This change will also allow the dependant spouse to earn more income before the rebate is completely phased out.

The dependant spouse rebate will be completely phased out when the spouse has separate net income of \$8,681 (up from \$6,901 currently).

DEVINE & McKENZIE COMMENTARY

Taxpayers with children and a dependant spouse should ensure that the dependant spouse claims the Family Tax Benefit Part B, as this is designed to provide a similar benefit to the dependant spouse rebate.

Australian Bureau of Statistics - CPI

The all groups consumer price index rose 0.1% in the March quarter 2007, a slight increase from the fall of 0.1% in the December quarter.

The CPI rose 2.4% through the year from the March quarter 2006 to March quarter 2007.

Direct Payment for Child Care Offset

From 1 July 2007, the government will bring forward the payment of the 30% child care tax offset so that families will receive the offset as a direct payment shortly after the year in which the child care costs have been incurred. Families with out-of-pocket expenses in both 2005/06 and 2006/07 will receive two offsets in 2007/08: one offset will be paid through the tax system in accordance with current rules; the other will be received as a direct payment from the Family Assistance Office. The maximum payment will be \$4,096 per child for 2005/06 and \$4,211 per child for 2006/07. The payments will begin from September 2007 for child care expenses incurred in 2006/07.

DEVINE & McKENZIE COMMENTARY

It seems likely that there will be some teething problems with this change. For example, it is not yet clear what will happen if your out-of-pocket cost for 2006/07 changes after the end of the year as a result of incorrect claims for Child Care Benefit (CCB). Your correct entitlement to CCB can only be calculated once your (and your spouse's) tax returns have been lodged. In the meantime, you may have been paid your child care tax offset.

Tax Office Interest Charges – 'GIC'

The Tax Office will charge interest in most cases where you do not pay on time. Some things to note about the General Interest Charge ('GIC'):

- it is calculated on a daily compounding basis
- the rate is revised each quarter and is approximately 7% above the 90 day Bank Bill rate
- it is tax deductible
- the Tax Commissioner has a discretion to remit GIC and Devine & McKenzie can make a submission for remission on your behalf in appropriate cases. GIC should be distinguished from penalties which can also be imposed by the Tax Office for late lodgement of forms and other offences.

The GIC rate for the quarter ending 30 June 2007 is 13.37%.

Victorian Land Tax - Changes to Rates from January 2008

For a property with a taxable value of \$1.5 million, the annual saving is \$1,240, a property with a taxable value of \$4 million, this represents an annual saving of \$13,620.

Taxable Value of Landholding	Land Tax Payable
Less than \$224,999	Nil
\$225,000 - \$539,999	\$250 plus 0.2% for each dollar over \$225,000
\$540,000 - \$899,999	\$880 plus 0.5% for each dollar over \$540,000
\$900,000 - \$1,619,999	\$2,680 plus 0.8% for each dollar over \$900,000
\$1,620,000 - \$2,699,999	\$8,440 plus 1.3% for each dollar over \$1,620,000
\$2,700,000 and over	\$22,480 plus 2.5% for each dollar over \$2,700,000

No need to provide duplicate payment summaries

The ATO has decided that employers and certain other entities will no longer need to provide their employees and other payees with a duplicate copy of their PAYG withholding payment summary (*Or 'group certificate' in the old language...*).

This exemption basically applies to entities making the following payments:

- payments for work and services (except for payments made under voluntary agreements to withhold, payments under labour hire arrangements, or payments specified under regulations);
- retirement payments (except for eligible termination payments);
- benefit and compensation payments.

Therefore, such entities are only required to provide the recipient with the original payment summary, and the recipient does not need to attach the duplicate to their return (if they lodge a paper return).

This exemption applies to payment summaries given on or after 1 May 2007.

Victorian Payroll Tax Rates

The Payroll Tax rate from 1 January 2007 is 5.05% of payroll in excess of \$550,000.

Payroll includes:

- wages and salaries (including company directors)
- allowances
- commissions
- bonuses
- superannuation, SGC, plus salary sacrifice
- grossed up fringe benefits
- payments to some contractors
- eligible termination payments and accrued leave

Payroll tax is state based with different rates applying. A separate registration is required for each state or territory.

Business operating with more than one entity are required to group the total payroll together for payroll tax purposes.

Prescribed Rates Per Kilometre for Motor Vehicle Expense Claims - 2006-07

Small Car	Up to 1,600 cc engine capacity	58 cents per km
Medium Car	1,601 - 2,600 cc engine capacity	69 cents per km
Large Car	More than 2,600 cc engine capacity	70 cents per km

No more than 5,000 business kilometers can be claimed under this method.

Superannuation Topics

Superannuation Contributions

Year Ending 30th June 2007

Age based limits:	Deduction Available	Self Employed Persons
Under 35 years	15,260	18,680
35 - 49 years	42,385	54,847
50 - 70 years	105,113	138,484

Self-employed and other eligible persons (receiving no salary or wage income) are entitled to a deduction of \$5,000 plus 75% of the excess they contribute over \$5,000. eg for a person under 35 years of age, to obtain a tax deduction of \$15,260, they must contribute \$18,680. The remainder is an undeducted contribution to the fund.

A work test must be satisfied for persons over age 65 to make a deductible contribution (40 hours in a 30 day period).

Undeducted contribution limit: maximum \$1,000,000 to age 75.

If the undeducted contribution limit for 2006/07 of \$1 million was exceeded between 10th May 2006 and 7th December 2006, the member has until 30th June 2007 to withdraw the excess undeducted contributions without penalty. Any excess undeducted contributions that remain in the fund will be subject to tax at the top marginal tax rate.

Year Ending 30th June 2008

	Deduction Available	Self Employed Persons
Under 50 years	50,000	50,000
50 – 75 years	100,000	100,000

Self-employed and other eligible persons (receiving no salary or wage income) will be entitled to a 100% deduction for their contribution up to the age based limits.

The \$100,000 contribution limit is for a 5 year period. Persons being, or turning 50 before 2012 will be able to make a deductible contribution to this limit.

A work test must be satisfied for persons over age 65 to make a deductible contribution (40 hours in a 30 day period).

Undeducted contribution limit: maximum \$150,000 per year or \$450,000 for a 3 year period.

The contribution limits for 2007/08 are “per person, per annum”. Any contributions in excess of these limits will be taxed at the top marginal tax rate.

DEVINE & McKENZIE COMMENTARY

The rules for superannuation are complex. This is a guide to the current and new contribution rules. If any clients wish to obtain more information on contributions, taxation of withdrawals from superannuation funds, or the taxation and administrative requirements for a superannuation fund, please come and see us.