

Personal income tax cuts

Further cuts to personal income tax are proposed to take effect in three stages: from 1 July 2008 to 1 July 2010.

From 1 July 2008:

- » the 30% threshold will increase from \$30,001,001 to \$34,001
- » the low income tax offset will increase from \$750 to \$1,200 and will begin to phase out from \$34,000. Adult taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$14,000. Minors in receipt of unearned income can receive up to \$2,666 without having to pay tax
- » the Medicare Levy Surcharge threshold increases to \$100,000 for individuals and \$150,000 for families

From 1 July 2009:

- » the 30% threshold will increase from \$34,001 to 35,001
- » the 40% rate will drop to 38%
- » the low income tax offset will increase from \$1,200 to \$1,350 and will begin to phase out from \$35,000. Adult taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$15,000. Minors in receipt of unearned income can receive up to \$3,000 without having to pay tax

From 1 July 2010:

- » the 30% threshold will increase from \$35,001 to 37,001
- » the 38% rate will drop to 37%. The low income tax offset will increase from \$1,350 to \$1,500 and will begin to phase out from \$37,000. Adult taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$16,000. Minors in receipt of unearned income can receive up to \$3,333 without having to pay tax

Income Range from 1 July 2008	Tax rate (%)	Income Range from 1 July 2009	Tax rate (%)	Income Range from 1 July 2010	Tax rate (%)
\$0 - \$6,000	0	\$0 - \$6,000	0	\$0 - \$6,000	0
\$6,001 - \$34,000	15	\$6,001 - \$35,000	5	\$6,001 - \$37,000	15
\$34,001 - \$80,000	30	\$35,001 - \$80,000	30	\$37,001 - \$80,000	30
\$80,001 - \$180,000	40	\$80,001 - \$180,000	38	\$80,001 - \$180,000	37
\$180,001+	45	\$180,001+	45	\$180,001+	45

Senior Australians

The effect of the tax cuts is that senior Australians eligible for the senior Australians tax offset will be able to earn more income without paying tax.

From 1 July 2008:

Singles will be able to have taxable income up to \$28,867 (up from \$25,867) and couples up to \$49,360

(up from \$43,360).

From 1 July 2009:

Singles will be able to have taxable income up to \$29,867 (up from \$28,867) and couples up to \$51,360

(up from \$49,360).

From 1 July 2010:

Singles will be able to have taxable income up to \$30,685 (up from \$29,867) and couples up to \$53,360

(up from \$51,360).

Devine & McKenzie

391 Canterbury Road Surrey Hills Victoria 3127 T +61 3 9836 1800 F +61 3 9836 1400 E admin@devinemckenzie.com.au W devinemckenzie.com.au

This fact sheet/checklist has been prepared for your information and is intended as a guide only. This fact sheet should not be construed as giving legal, accounting, professional or other advice, and the reader is advised to obtain specific advice on this topic.

Aspirational Tax Goal

The Government has also set an aspirational tax goal over six years for a personal income tax system which reduces the rates to 15, 30 and 40 percent. The Government also has a goal for an effective tax free threshold (via the low income offset) of \$20,000 by 2012-13.

Tax Topics

Tax Office looking outside its four walls!

The Tax Office is making it known that it is collecting data from many different external sources to assist in their audit and review activities. Recent statements refer to information collected from the following sources:

- property title transfer data
- share registry information for ASX listed entities
- owner builder licence registrations
- luxury vehicle purchases as recorded by State road and transport authorities
- overseas pension data from countries such as the United Kingdom.

Net Medical Expense Offset

An income tax offset is available if you have out of pocket medical expenses (after rebates from Medicare and private health funds) exceeding \$1,500. The offset amount is 20c per dollar over \$1,500. This includes doctors, dentists, hospitals, optical, physiotherapy, prescriptions, and a number of other medical items. Medical expenses for a family can be aggregated and claimed by one family member. Cosmetic procedures do not qualify. If you are not sure, please ask us.

Education tax offset

From 1 July 2008, families receiving Family Tax Benefit Part A will be able to claim a refundable tax offset in respect of eligible education expenses (eg laptops, education software, school text books and stationery) for their children in primary or secondary school. A 50% offset is available each year for up to \$750 of education expenses for each child attending primary school and \$1,500 for each child attending secondary school. So the maximum offsets are \$375 for primary school children and \$750 for secondary.

Luxury Vehicles

The luxury car threshold for 2007-2008 has increased to a GST inclusive figure of \$57,123 (2007: \$57,009). Depreciation claims for business vehicles are restricted to these limits. The luxury car tax rate will also increase from 25% to 33% from 1 July 2008.

ATO gets tougher on debt collection!

People who pay their tax on time may be pleased to know that the ATO have started taking a tougher stance on outstanding debts. In some instances they will refer the matter to an external debt collection agency such as Dunn & Bradstreet. If you are in a position where you know you cannot pay all of your tax bill on time, we recommend you try and obtain a payment plan or arrangement with the ATO. Please note however that you will need to provide specific reasons for the request (ie, not just poor cash flow) and if you don't meet all of the due dates under the arrangement or if you are late lodging any future BAS's or other tax obligations, the arrangement will lapse and they will pursue you for the whole amount immediately. We are please to assist in dealing with the ATO in relation to these matters.

When is my 2008 tax return due?

If you lodge your income tax return directly with the ATO, it is usually due by 31 October 2009.

If Devine & McKenzie lodge it on your behalf, then the due date is as specified under our arrangements with the ATO. For most individuals who are up to date with their tax, the due date is 15 May 2009. However some large taxpayers are due by 31 March 2009. Most companies and superannuation funds are due by 15 May 2009. Please contact us if you would like clarification of your specific due dates.

Devine & McKenzie

391 Canterbury Road Surrey Hills Victoria 3127 T +61 3 9836 1800 F +61 3 9836 1400 E admin@devinemckenzie.com.au W devinemckenzie.com.au

This fact sheet/checklist has been prepared for your information and is intended as a guide only. This fact sheet should not be construed as giving legal, accounting, professional or other advice, and the reader is advised to obtain specific advice on this topic.

Work Related Benefits

An exemption from Fringe Benefits Tax existed for certain items such as laptop computers, PDA's and tools of trade regardless of whether the items were actually used for work purposes. This exemption has been removed, and any items provided by an employer for an employee or associate of the employee must now be used specifically for work purposes if it is to be exempt from FBT. Depreciation on these items will no longer be allowed as a deduction for the employee.

1st Home Saver Accounts

Legislation to bring in this Federal Government initiative has been introduced. The main features are:

- eligible individuals can establish a first home saver account and contribute a minimum of \$1,000 per year for at least 4 years
- it is available to individuals aged between 18 and 65 who have not previously owned a home in Australia in which they have lived
- total contributions are capped at \$75,000 (indexed)
- the Government will contribute 17% on all individual contributions up to a maximum of \$850.
- Earnings on these accounts will be taxed at 15%
- Accounts can be accessed to purchase a first home once the account has been held for at least 4 financial years and a minimum of \$1,000 has been contributed each year. Some of the details are not clear yet, in particular whether high income earners are excluded from the scheme.

CGT Relief for Small Business Owners

A reminder that the tax laws provide opportunities for significant savings for business owners who would otherwise face a large capital gains tax bill when selling their business or the property from which they have conducted their business. Relief may be available to anyone who has at least a 20% interest in the business.

There are four different types of relief available:

- » Small business 15-year exemption
 - If your business has owned an asset for 15 years and you are aged 55 years or over and are retiring, or if you are permanently incapacitated, you won't have an assessable capital gain when you sell the asset.
- » Small business 50% active asset reduction.
 - You can reduce the capital gain on a business (active) asset by 50%.
- » Small business retirement exemption
 - A capital gain from the sale of a business asset will be exempt up to a lifetime limit of \$500,000. If you are under 55 years of age, the exempt amount must be paid into a complying superannuation fund or a retirement savings account to obtain the exemption.
- » Small business roll over
 - If you sell a small business asset and you have not retired, you may be able to defer your capital gain until a later year. In broad terms, you do this by acquiring a replacement business asset and deferring paying tax on the first asset until you dispose of the second asset.

If you are contemplating selling your business, please seek advice so that you can be best placed to take advantage of the tax saving opportunities outlined above.

Private Company Payments

There can be tax implications when you make payments from a company bank account or on a company credit card for private expenses. This includes making payments from a company to an associated trust or individual. Generally, money can only come out to company owners in the following forms:

- Wages/salaries - PAYG tax deducted, income included in personal return
- Fringe benefits - Fringe Benefits Tax payable
- Dividends - Included in personal tax return, franking credit may offset tax to 30%
- Complying loans - Complying loan agreement needs to be in place to repay loan over a maximum of 7 years if unsecured or 25 years if property security in place. Interest is calculated at the rate prescribed by the ATO. If funds taken by a company shareholder are not accounted for in one of these ways, they may be deemed a dividend and taxed without franking credits.

Devine & McKenzie

391 Canterbury Road Surrey Hills Victoria 3127 T +61 3 9836 1800 F +61 3 9836 1400 E admin@devinemckenzie.com.au W devinemckenzie.com.au

This fact sheet/checklist has been prepared for your information and is intended as a guide only. This fact sheet should not be construed as giving legal, accounting, professional or other advice, and the reader is advised to obtain specific advice on this topic.

Devine & McKenzie News

Kate Short (Norman) went on maternity leave at the end of May. On 11th June she delivered a bonny bouncing boy, 8lbs 12oz. He is reported to have a head of very dark hair and a good set of lungs. Congratulations to Kate and Laurie.

We are also pleased to welcome a new staff member who commenced with us in May. Chanchal Mandal is originally from Bangladesh and has been in Australia for 9 years. Chanchal is a qualified CPA.

Prescribed Rates Per Kilometre for Motor Vehicle Expense Claims - 2007-2008

Small car	Up to 1,600 cc engine capacity (Rotary engines up to 800cc)	58 cents per km
Medium Cars	1,601 - 2,600 cc engine capacity (Rotary 801cc - 1,300cc)	69 cents per km
Large Car	More than 2,600 cc engine capacity (Rotary 1,301cc and over)	70 cents per km

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

Superannuation Topics

Income Range	Deduction Available	Self Employed Persons
Under 50 Years	\$50,000	\$50,000
50 - 75 years	\$100,000	\$100,000

Superannuation Contributions - Year Ending 30th June 2008

- » Self-employed and other eligible persons (receiving salary or wage income which is less than 10% of business 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. After 2012, this amount will reduce to \$50,000.
- » A work test must be satisfied for persons over age 65 to make a deductible contribution (40 hours in a 30 day period).
- » An undeducted contribution (a contribution for which no tax deduction is claimed) may still be made to a superannuation fund. The limit is a maximum \$150,000 per year or \$450,000 for any 3 year period.
- » The contribution limits for 2007-2008 are "per person, per annum". Any contributions in excess of these limits will be taxed at the top marginal tax rate.

Tax Deductions for Super Contributions

To obtain an income tax deduction for superannuation contributions for the 2008 year, the contribution must be made before 30 June 2008. This applies to all businesses (companies, trusts etc) and eligible individuals, self employed persons etc. It also applies to super contributions made on behalf of business owners and employees. The superannuation requirements for businesses is that contributions for employees must be made within 28 days after the end of each quarter. To obtain the deduction for the June quarter, however, the contributions need to be paid to the fund prior to 30 June.

Super Fund Borrowings

The super fund rules have changed recently to allow a super fund to borrow funds to purchase investments including real estate. Be careful with this as the rules are very specific as to what they will allow. Loans must be 'limited recourse', meaning the financier can only access the particular asset as security on the loan. This means that the loan to value ratios on these loans will be quite low. A third party known as a 'security Trustee' must hold legal title to the asset until the loan is repaid and the mortgage discharged. Residential properties may be purchased but not from a member or a related party. If a residential property is purchased, it can only be leased to an unrelated third party. The borrowing and asset purchase must fit in with the super fund's investment strategy and ideally should be able to be funded without reliance on member contributions.

Devine & McKenzie

391 Canterbury Road Surrey Hills Victoria 3127 T +61 3 9836 1800 F +61 3 9836 1400 E admin@devinemckenzie.com.au W devinemckenzie.com.au

This fact sheet/checklist has been prepared for your information and is intended as a guide only. This fact sheet should not be construed as giving legal, accounting, professional or other advice, and the reader is advised to obtain specific advice on this topic.

Superannuation Strategies

The rules for superannuation can be complex, but there are many tax concessions within the superannuation system which make it worthwhile.

- » The taxation rate for superannuation funds is 15%. This is levied on contributions which have been claimed as tax deductions by the contributor, plus investment earnings net of administration expenses.
- » Many funds derive dividend income which has franking credits at 30% (tax already paid by the company). The franking credits offset taxes levied on the super fund.
- » Once a super fund begins paying a pension to a member, the tax rate on earnings on that member's balance in the fund is zero.
- » A pension paid to a member aged over 60 years is exempt from income tax. If the member is aged 55-59 years, it is taxed at their marginal rate, less a rebate of 15%.
- » Many employees have now arranged a 'transition to retirement' pension from their super fund whilst they are still working. They are taxed at the concessional rates on the pension income, then contribute part of their salary into a second account in the super fund. The 15% super fund tax rate applies to the second member account, but there can still be an advantage in doing this

Financial Planning

Devine & McKenzie are not financial planners and we do not advise on financial planning strategies. We may, however, provide information and advice on various taxation and administrative requirements for super funds. We also work closely with a number of financial planners who advise on financial planning strategies incorporating superannuation and a client's overall financial circumstances. If any clients wish to obtain more information on superannuation, please give us a call.

Devine & McKenzie

391 Canterbury Road Surrey Hills Victoria 3127 T +61 3 9836 1800 F +61 3 9836 1400 E admin@devinemckenzie.com.au W devinemckenzie.com.au

This fact sheet/checklist has been prepared for your information and is intended as a guide only. This fact sheet should not be construed as giving legal, accounting, professional or other advice, and the reader is advised to obtain specific advice on this topic.