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McNeany
Financial Services
Lifestyle and Financial Guidance
Investment, Retirement and Risk Protection

BUDGET UPDATE

May 2008

The 2008 Federal Budget contained no major surprises, with many of the measures re-iterating previous announcements (including personal tax cuts). While there were no substantial changes to superannuation, there were still some items of interest. Examples include:

- A broader definition of 'income' for Government support programs, including co-contributions;
- A change to the eligibility thresholds for certain benefits, such as Family Tax Benefit – Part B and the Baby Bonus; and
- Further clarity regarding the First Home Saver Accounts.
- Changes to interest deductions on protected equity borrowings;

The information in this Update is a limited overview of some of the changes announced. If you would like further advice or information on these issues or other changes not covered here please contact your Vertex adviser.

PERSONAL TAXATION CHANGES

Personal income tax rate and threshold changes
Previously announced changes to the personal income tax rates and thresholds have been confirmed. These changes are highlighted in bold below.

Current tax thresholds (2007/08)	Tax rate	New tax thresholds (2008/09)	Tax rate
$0 - $6,000	0%	$0 - $6,000	0%
$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%
$150,001 +	45%	**$180,001 +**	45%

Low income tax offset enhancements
The Low Income Tax Offset (LITO) is an offset designed to reduce the tax payable by lower income earners.
Between 1 July 2007 and 1 July 2010, the maximum amount of LITO will increase gradually from $750 to $1,500 per year. As a result, the amount of tax-free income low-income earners can receive each year (and the upper limit to which a partial offset can be claimed) will gradually increase.

	2007/08	2008/09
Maximum offset	$750	$1,200
Upper income threshold*	$48,750	$60,000
Maximum tax-free income	$11,000	$14,000

OTHER TAXATION CHANGES

The Government has also announced changes to the tax treatment of the following areas:

- Child care tax rebate enhancements
- 50% Education tax refund for eligible expenses
- Dependency tax offset changes
- Protected Equity Borrowings
- Extension of small business Capital Gains Tax (CGT) concessions
- Employee share schemes

DEFINITION OF INCOME FOR GOVERNMENT SUPPORT PROGRAMS

From 1 July 2009, the definition of income used to determine eligibility for certain Government support programs will be expanded to include:

- Salary sacrifice super contributions.
- Net financial investment losses and net rental property losses.
- Reportable fringe benefits.

SUPERANNUATION CHANGES

Definition of income for co-contributions
From 1 July 2009, the definition of income used to determine eligibility for Government co-contributions will be expanded to include salary sacrifice super contributions.

Superannuation Clearing House Facility
Funding will be provided over three years to the Australian Taxation Office to establish a Superannuation Clearing House Facility to help employers' meet their fund choice obligations. This facility, which will be made available from 1 July 2009, will be contracted out to the private sector. The clearing house will be offered free of charge to small businesses with less than 20 employees and on a fee-for-service basis to larger businesses.

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Temporary resident contributions
Superannuation benefits of temporary residents (excluding New Zealand residents temporarily in Australia) will be paid to the ATO. While the effective date is being deferred to allow for industry consultation, core parts of the policy announced to date include:

- Temporary residents who permanently depart Australia will only be able to claim their superannuation within five years of departure.
- Temporary residents who become permanent residents will have their superannuation transferred back to a superannuation fund with interest.
- Potentially allowing employers to pay temporary residents' superannuation contributions to a super fund or directly to the ATO.

FIRST HOME SAVER ACCOUNTS

The Government has confirmed it will introduce legislation effective 1 October 2008, allowing the establishment of concessionally taxed First Home Saver Accounts (FHSAs). The key features, based on the consultation paper released earlier this year and in the 2008 Federal Budget, are:

- You must be between 18-65 years of age and never have previously bought or built a home in which to live.
- You must make personal after-tax contributions of at least $1,000 in each of four separate financial years. However, it will not be mandatory to establish a FHSA with a single minimum contribution of $1,000.
- A Government contribution at a flat rate of 17% on the first $5,000 (indexed) of personal contributions, up to $850, will apply each year. The Government contribution is made in arrears after the ATO receives tax reports from FHSA providers and the income tax returns of FHSA investors.
- Contributions cannot be made once the account balance reaches $75,000 (indexed).
- Earnings on the account will be concessionally taxed at 15% in the hands of the FHSA provider.
- Withdrawals will be tax free when used to purchase or build a first home in which to live, but may have to be transferred to your superannuation account in other circumstances.
- You can only operate one account at a time and, in general, once closed cannot open another FHSA.
- FHSAs may be offered by Approved Deposit Taking Institutions which include banks, building societies, and credit unions as well as registered trustees of public offer superannuation funds.

The table below compares the end benefits of investing $10,000 pa in a FHSA and an internet savings account.

Taxpayer earning $70,000 pa (ie 31.5% MTR)		
Year	**FHSA**	**Savings Account**
1	$11,175	$10,259
2	$23,020	$21,013
3	$35,575	$32,287
4	$48,882	$44,105

Assumptions: Annual contributions of $10,000. The announced FHSA attracts a Government contribution of 17% of the first $5,000 contributed per year. Interest rate is 7.05% in all products. Rates are assumed to remain constant over the investment period. All figures are after income tax (at 15% for FHSA and 31.5% for the internet account).

A key consideration is whether it may be financially worthwhile investing in a FHSA, as the results may not be sufficiently compelling to justify the reduced flexibility associated with locking into a four year time frame.

FAMILY BENEFITS

Family Tax Benefit
The Family Tax Benefit is made up of two payments. Family Tax Benefit Part A is a payment to help families with the cost of raising children. Family Tax Benefit Part B gives extra assistance to single income families including sole parents, particularly families with children under the age of 5.

Family Tax Benefit – Part B
From 1 July 2008, Family Tax Benefit – Part B will only be available to families where the primary income earner has an adjusted taxable income of less than or equal to $150,000 pa (indexed annually). The taxable income is adjusted to include financial losses and/or tax free pensions or benefits that the primary earner may have had over the year.
From 1 July 2009, the benefit will need to be claimed through Centrelink or Medicare and it will not be able to be claimed through the tax system. It will continue to be paid as either a lump sum at the end of the year, or in fortnightly instalments.

Baby Bonus
From 1 July 2008, the Baby Bonus will be increased to $5,000 (indexed annually). From 1 January 2009:

- An income test will be introduced, which will mean that to receive the bonus, the family's adjusted taxable income must be no greater than $75,000 in the 6 months after the birth of the child (or $150,000 annualised).
- The bonus will be paid in 13 fortnightly instalments and will also be available to parents who adopt a child under 16 years of age.