



Budget 2008 Highlights

KEY MEASURES

- No major surprises
- Proposed comprehensive review of the tax system
- Confirmation of previously announced personal tax cuts
- Only few changes to superannuation
- Goal to achieve over six years to three levels of personal income tax rates – 15%, 30% and 40%.

PERSONAL TAX CUTS

The pre-election announced tax cuts delivered. From 1 July 2008, the 30 per cent threshold will be raised from \$30,001 to \$34,001, the 40 per cent threshold will increase from \$75,001 to \$80,001, and the 45 per cent threshold jumping from \$150,001 to \$180,000.

From 1 July 2009, there will be further increases in the threshold. However, the previously budgeted reductions in the top marginal rate for taxpayers with incomes over \$180,000 will be deferred until after 2010-11.

LOW INCOME TAX OFFSET

For 2008-09 the low income tax offset will be increased to \$1,200 from the current \$750. The low income tax offset will begin to phase out from \$30,000. The offset will be further

ECONOMIC FORECAST

Australia's real growth is forecast to slow to 2.75% in 2008-09. Inflation is forecast to ease from 4% to 3.25%.

increased. For 2009-10 the offset will increase to \$1,350 and for 2010-11 the offset will increase again to \$1,500. For 2008-09, taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$14,000.

SENIOR AUSTRALIAN TAX OFFSET

From 1 July 2008, senior Australians eligible for the senior Australians tax offset will pay no tax on their annual income up to \$28,867 for singles and \$24,680 for each member of a couple. By 1 July 2010, these thresholds will rise to \$30,685 for singles and \$26,680 for each member of a couple.

MEDICARE LEVY

From 1 July 2007, the Medicare levy low-income threshold will be increased to \$17,309 for individuals and \$29,207 for families, with the additional amount of \$2,682 of threshold for each dependent child or student.



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Current threshold \$	Tax rate	From 1 July 2008 \$	Tax rate	From 1 July 2009 \$	Tax rate	From 1 July 2010 \$	Tax rate
0 – 6,000	Nil	0 – 6,000	Nil	0 – 6,000	Nil	0 – 6,000	Nil
6,001 – 30,000	15	6,001 – 34,000	15	6,001 – 35,000	15	6,001 – 37,000	15
30,001 – 75,000	30	34,001 – 80,000	30	35,001 – 80,000	30	37,001 – 80,000	30
75,001 – 150,000	40	80,001 – 180,000	40	80,001 – 180,000	38	80,001 – 180,000	37
> 150,000	45	> 180,000	45	> 180,000	45	> 180,000	45

MEDICARE LEVY SURCHARGE

The Medicare levy surcharged threshold will be doubled to \$100,000 for singles and increased to \$150,000 for families. Before opting out of private health cover, policy holders should consider the impact of potential difficulties in re-obtaining cover later in life.

OTHER MEASURES

- Baby Bonus payment increased to \$5,000 from 1 July 2008. From 1 July 2009, eligibility will be limited to families with adjusted taxable income of \$75,000 or less in the six months after the birth of a baby.
- Child care tax rebate increased from 30% to 50%, increasing the cap on the amount that can be paid from \$4,354 to \$7,500 per child.
- From 1 July 2008, Family Tax Benefit Part B will be limited to families whose primary income earner earns less than \$150,000.

Tax system review

The Treasurer announced that a comprehensive review of Australia's taxation system will be undertaken to review both State and Federal taxes and will include taxation of savings and investments – which could have far reaching effects. Favourably, tax free superannuation payments for people over 60 will not be part of the review.

QUESTIONS ?

If you have any questions you can contact us on 1300 735 254.

Superannuation

Contrary to expectation, only few changes were announced in the budget which directly impact on superannuation. Key changes include the tightening of the eligibility for a range of government financial incentive programs and amendment to the way the interest expenses are calculated on capital protected borrowing.

The budget also confirmed the continuation of tax free superannuation payments for people over 60. This was part of the *Better Super* introduced by the previous government and took effect from 1 July 2007.

SALARY SACRIFICE SUPERANNUATION

From 1 July 2009, salary sacrifice superannuation contribution will be assessed as income in determine eligibility for a range of government financial incentive programs, including superannuation co-contribution, government support payments for those below the age pension age, child support and family assistance.

This means that employees will no longer be able to make salary sacrifice superannuation contributions to qualify, or increase their entitlement to co-contribution.

CAPITAL PROTECTED BORROWING

Superannuation laws have recently been amended to permit superannuation funds to gear its investments through the use of capital protected borrowing. A typical capital protected borrowing is a limited recourse loan facility to fund the purchase of listed shares. The investor is protected from a fall in the price of the shares by a capital protection feature. This feature gives the investor the right to transfer the shares back to the lender for the amount outstanding on the loan if the value of the shares falls below that amount.

- Salary sacrifice superannuation will be assessed as income for co-contribution purposes
- Capital protected borrowing
- Confirmation of tax free superannuation payments for people over 60

Currently, only interest exceeding the Reserve Bank of Australia's personal unsecured rate (currently 14.55%) is attributable to the cost of capital protection. The new benchmark interest rate will be the Reserve Bank of Australia's indicator variable rate for standard housing loans (currently 9.35%).

The change is effective from 7.30pm AEST on 13 May 2008.

The amendment changes the benchmark used to provide the basis for apportioning the expense in capital protected borrowing between interest cost (deductible) and cost of capital protection (non-deductible).

Although the government has specifically referred to the purchase of listed shares, it can be expected the change will not be limited to listed shares but also include facilities relating to the acquisition other assets.

Existing capital protected borrowings, existed at 7.30pm AEST on 13 May 2008, will continue to apply Reserve Bank of Australia's personal unsecured rate for a period of five years or the life of the product, whichever is the shorter.

Budget paper available from www.budget.gov.au

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