

The Zurich Report – 13 May 2008

2008/09 Federal Budget ... at a glance

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Earlier this evening, the Treasurer, Mr Wayne Swan, delivered his 1st Budget. The 2008/09 Budget provides for an underlying cash surplus of \$21.7 billion. The focus on the Budget has been to provide savings on Government expenditure, reduce inflationary pressures and provide assistance to families.

Executive Summary

Taxation

- All taxpayers will benefit from a further \$47 billion in tax cuts over the next three years.
- From 1 July 2008, the 30 per cent threshold will rise to \$34,000, 40 per cent threshold will increase to \$80,000 and 45 per cent threshold will increase to \$180,000.
- From 1 July 2009, the 30 per cent threshold will increase to \$35,000 and the 40 per cent tax rate will reduce to 38 per cent.
- From 1 July 2010, the 30 per cent threshold will increase to \$37,000 and the 38 per cent tax rate will reduce to 37 per cent.
- The Government aims to reduce marginal tax rates to three over six years.
- The Low Income Tax Offset will increase to \$1,200 from 1 July 2008, \$1,350 from 1 July 2009 and \$1,500 from 1 July 2010.
- The Senior Australian Tax Offset income thresholds will be increased together with the Medicare levy low income thresholds.
- The Medicare Levy and Medicare Levy surcharge thresholds will be increased.
- Changes to eligibility for certain tax offsets including dependency tax offsets and entrepreneurs' tax offset.
- First Home Saver Account will be introduced.
- Education Tax Refund will be introduced.
- Changes to the definition of income for eligibility for certain tax concessions.

Social Security

- Carer Bonus for recipient of Carer Payment and Carer Allowance.
- Increases to the Utilities, Senior and Telephone allowance.
- Means testing and an increase to the Baby Bonus.
- Changes to definition of income for Commonwealth Seniors Health Care Card.

Superannuation

- Members with a terminal illness will be allowed to receive superannuation benefits tax-free from 1 July 2007.
- A Superannuation Clearing House facility will be introduced.
- Payment of superannuation for temporary residents to the ATO.

Taxation

Reduction in Personal Tax Rates

Effective: 1 July 2008, 1 July 2009 and 1 July 2010

The Government will provide tax cuts worth \$47 billion over three years as originally announced as part of the Federal election campaign.

Changes to the thresholds are as follows:

- From 1 July 2008, the income threshold at which the 30 per cent tax bracket increases to \$34,001, 42 per cent increases to \$80,001 and 45 per cent to \$180,001.

- From 1 July 2009, the income threshold at which the 30 per cent tax bracket increases to \$35,001. The marginal tax rate of 40 per cent reduces to 38 per cent.
- From 1 July 2010, the income threshold at which the 30 per cent tax bracket increases to \$37,001.
- The low income tax offset is increased each year from \$750 in 2007/08 and growing to \$1,500 in 2010/11.
- The number of marginal tax rates will be reduced from four to three – 15 per cent, 30 per cent and 40 per cent - over the next six years.

2007/08 (current tax rates)

Taxable Income	Tax rate
\$0 - \$6,000	Nil
\$6,001 - \$30,000	Nil + 15% on balance >\$6,000
\$30,001 - \$75,000	\$3,600 + 30% on balance > \$30,000
\$75,001 - \$150,000	\$17,100 + 40% on balance > \$75,000
\$150,001 +	\$47,100 + 45% on balance > \$150,000

2008/09 (new tax thresholds)

Taxable Income	Tax rate
\$0 - \$6,000	Nil
\$6,001 - \$34,000	Nil + 15% on balance >\$6,000
\$34,001 - \$80,000	\$4,200 + 30% on balance > \$34,000
\$80,001 - \$180,000	\$18,000 + 40% on balance > \$80,000
\$180,001 +	\$58,000 + 45% on balance > \$180,000

2009/10 (new tax thresholds)

Taxable Income	Tax rate
\$0 - \$6,000	Nil
\$6,001 - \$35,000	Nil + 15% on balance >\$6,000
\$35,001 - \$80,000	\$4,350 + 30% on balance > \$35,000
\$80,001 - \$180,000	\$17,850 + 38% on balance > \$80,000
\$180,001 +	\$55,850 + 45% on balance > \$180,000

2010/11 (new tax thresholds)

Taxable Income	Tax rate
\$0 - \$6,000	Nil
\$6,001 - \$37,000	Nil + 15% on balance >\$6,000
\$37,001 - \$80,000	\$4,650 + 30% on balance > \$37,000
\$80,001 - \$180,000	\$17,550 + 37% on balance > \$80,000
\$180,001 +	\$54,550 + 45% on balance > \$180,000

Low Income Tax Offset

	2007/08	2008/09	2009/10	2010/11
LITO	\$750	\$1,200	\$1,350	\$1,500
Cut out threshold	\$48,750	\$60,000	\$63,750	\$67,500
Effective tax-free threshold	\$11,000	\$14,000	\$15,000	\$16,000

Personal tax cuts (excluding Medicare Levy)

Taxable income	Current rates 2007/08	New rates 2008/09	New rates 2009/10	New Rates 2010/11
\$20,000	\$1,500*	\$900*	\$750*	\$600*
\$50,000	\$9,600	\$9,000*	\$8,300*	\$7,850*
\$90,000	\$22,600	\$22,000	\$21,650	\$21,250
\$200,000	\$67,600	\$67,000	\$61,850	\$63,550

* Includes low income tax offset

Senior Australians Tax Offset

Effective: 1 July 2008

Senior Australians eligible for the Senior Australians Tax Offset and the low income tax offset currently pay no tax up to an annual income of \$25,867 for singles and \$43,360 for couples (depending on the income earned by each member of the couple). The effect of the changes in the tax thresholds is to lift these income levels up to \$28,867 for singles and \$24,680 each for couples.

These thresholds will increase from 1 July 2009 and 1 July 2010 as follows:

	1 July 2009	1 July 2010
Single	\$29,867	\$30,685
Couple (each)	\$25,680	\$26,680

The Medicare levy threshold that applies to senior Australians will also be increased to ensure that senior Australians do not pay the Medicare levy until they begin to incur an income tax liability.

Medicare Levy Thresholds

Effective: 1 July 2007

The Government will increase the Medicare low-income thresholds to \$17,309 for individuals and \$29,207 for families, with effect from 1 July 2007. The additional amount of threshold for each dependent child or student will also be increased to \$2,682. The increase in these thresholds takes into account movements in the Consumer Price Index and ensures that low-income families and individuals are exempt from paying the levy.

The Medicare levy low-income threshold for pensioners below age pension age will also be increased. From 1 July 2007, the threshold will rise to \$22,922. This will ensure that pensioners below age pension age do not pay the Medicare levy while they do not have an income tax liability.

Medicare Levy Surcharge

Effective: 1 July 2008

The Medicare Levy surcharge income thresholds will increase as follows:

	Current	Proposed
Single	\$50,000	\$100,000
Couple	\$100,000	\$150,000

The threshold have not been indexed since the introduce of the surcharge in 1997.

Dependency tax offset

Effective: 1 July 2008

The Government will introduce an income threshold of \$150,000 for a taxpayer claiming any of the following tax offsets:

- dependent spouse
- housekeeper
- child housekeeper
- invalid relative
- parent/parents-in-law

The definition of income for eligibility for these tax offsets will be changed to match that applying for family assistance (ie. adopting an adjusted taxable income definition).

Family trusts

Effective: 2007/08 financial year

The Government will reduce the scope for family trusts to be used to lower income tax by utilising losses.

The Government will change, effective from 1 July 2008, the definition of family in the family trust election rules to limit lineal descendants to children or grandchildren of the test individual or of the test individual's spouse.

Effective from the 2007/08 income year, family trusts will be precluded, other than in relation to a marriage breakdown, from making a once-off variation to the test individual specified in a family trust election.

Cancellation of interests in widely held entities

Effective: 1 July 2006

The Government will allow taxpayers whose shares or units in widely held entities are cancelled or surrendered to calculate the capital gains or losses from that CGT event using the actual proceeds received.

Currently, the market value of the shares or units at the time of the cancellation, surrender or similar ending must be used in determining the capital gain or loss.

This measure is effective from the 2006/07 financial year.

Employee share schemes – election requirements

Effective: 1 July 2008

The Government will close a tax loophole for employees who receive company shares which allow the person to nominate the lowest share price on which to based any tax implications. Currently an employee can elect to be assessed on discounts provided on shares or rights in the year of income the share or rights are acquired. If an election is not made, taxation of the discount (including gains on shares or rights) is deferred until a later time.

This measure will apply to shares and rights acquired from 1 July 2008.

Employee share schemes – double taxation

Effective: 13 May 2008

The Government will remove the double taxation on certain employee share schemes which use employee share trusts.

This measure will apply to CGT events occurring from 7.30 pm 13 May 2008.

Currently, there is no CGT relief for the trustee or beneficiary of a employee share trust on the transfer to an employee. The double taxation exists as the trustee is liable for tax on any capital gain made while held in the trust which is also assessable to the employee either under the employee share scheme provisions or later as a capital gain.

Entrepreneurs' tax offset - income test

Effective: 1 July 2008

The Government will introduce an income test for eligibility for the entrepreneurs' tax offset (ETO).

The ETO provides a tax offset of 25 per cent for small businesses with annual turnover of less than \$75,000. The income test will restrict eligibility to singles with \$75,000 and families with \$120,000 taxable income per year.

Small business CGT concessions

Effective: 1 July 2007

The Government will increase access to the small business capital gains tax (CGT) concessions.

Currently, the alternative to the maximum net asset value test, the small business entity test, does not cover business structures where the taxpayer does not meet certain requirement in relation to its carrying on a business. It appears that this test will be extended to cover cases where the requirements in relation to carrying on a business are met by a related party of the entity that owns the CGT asset and the CGT asset is used in the business of the related party.

In addition, for partnerships, the small business entity test requires the taxpayer making a capital gain to be a partner in the partnership and for the asset to be an asset of the partnership. The small business entity test will be extended to cover cases where a CGT asset used in a partnership business is owned by a partner in the partnership.

This measure is effective from the 2007/08 financial year.

Capital protected borrowings

Effective: 7.30 pm (AEST) on 13 May 2008

The Government will adjust the benchmark interest rate that applies to capital protected borrowing arrangements to increase the capital component of the borrowing costs. The amount up to the benchmark is an allowable interest deduction.

The benchmark interest rate is used to determine the part of the borrowing expenses that is attributable to the cost of capital protection. The amount by which borrowing costs exceed the benchmark interest rate is attributable to capital protection and is not tax deductible.

The Reserve Bank of Australia's indicator variable rate for standard housing loans will be the new benchmark interest rate.

The current law will continue to apply to existing arrangement for five years or the life of the product, whichever is the shorter.

Fringe benefit tax – work related expenses

Effective: 13 May 2008

The Government will tighten the fringe benefit tax (FBT) exemption for certain work-related items such as laptops, PDAs and tools of trade. The exemption will only apply where these items are primarily used for work purposes. The exemption will generally be limited to one item of each type per employee per year.

Fringe benefits tax – jointly held assets

Effective: 7.30 pm (AEST) on 13 May 2008

The Government will amend the fringe benefits tax (FBT) law to ensure that the full value of a benefit that has been provided to both an employee and an associate in relation to a jointly held asset will be subject to FBT.

Where an employee has already entered into such a salary sacrifice arrangement with their employer, existing arrangements will be able to be used until 31 March 2009, which is the end of the current FBT year.

First Home Saver Account

Effective: 1 October 2008

As part of the Government's election promise the First Home Saver Account (FSHA) will be introduced from 1 October 2008. A consultation paper was issued on 8 February 2008 and discussions were held with the industry.

Under the scheme, eligible individuals would be able to open an account and make post-tax contributions. A Government contribution of 17 per cent will be paid on the first \$5,000. Personal contributions can be made to the account until the balance reaches \$75,000.

The contribution and account balance thresholds will be indexed in future years.

Earnings in the account will be taxed at 15 per cent.

Tax-free withdrawals can be made from the account to purchase or build a first home in which to live. Withdrawals can only be made after contributions of at least \$1,000 have been made in at least four separate financial years.

Withholding tax on distributions from managed funds for non-residents

Effective: Royal Assent

It is proposed to make the current 30 per cent non-final withholding tax on distributions from Australian managed funds to non-residents a final withholding tax regime.

This was originally announced in May 2007. The focus is to improve Australia's tax system.

This withholding tax would be a final tax and apply to Australian-sourced net taxable income of the trusts (excluding dividend, interest and royalties).

The rate of tax in the first year, proposed to be 2008/09, is 22.5 per cent. This rate will reduce to 15 per cent in the second year and to 7.5 per cent in the third and future years.

The treatment under the final withholding tax regime will vary depending on whether the foreign investor is a resident in a jurisdiction with which Australia has effective exchange of information arrangements on tax matters. The favourable treatment proposed will apply only to those jurisdictions. Residents of jurisdictions without exchange of information arrangements on tax matters will be subject to a 30 per cent final withholding tax regime.

Education tax refund

Effective: 1 July 2008

The Government will introduce a 50 per cent Education Tax Refund to assist families with the cost of education for school aged children. Eligible parents would be able to claim:

- 50 per cent refund every year up to \$750 for education expenses for each child attending primary school (maximum of \$375 per child per year)
- 50 per cent refund every year up to \$1,500 for education expenses of each child attending secondary school (maximum of \$750 per child per year).

The amounts will be indexed annually from 1 July 2009.

The refund will apply to expenses incurred from 1 July 2008 and claimed through lodging a 2008/09 tax return. Eligibility will not be subject to an income test.

Expanded definition of income - salary sacrifice

Effective: 1 July 2009

The definition of income will be expanded to determine eligibility for certain government benefits. The expanded definition will include certain salary sacrificed contributions to superannuation

The measure will impact assessment for:

- income support payments under age pension age
- family assistance
- child support
- superannuation co-contributions
- financial and retirement savings assistance.

Expanded definition of income – net investment losses

Effective: 1 July 2009

The definition of income will be expanded to determine eligibility for certain government benefits. The expanded definition will include net financial investment losses and net rental property losses.

Net rental property losses are already included when calculating income for certain government benefits such as family assistance.

Net financial investment losses are not included in any definition and will include net passive business losses.

The measure will impact assessment for:

- Senior Australians Tax Offset
- Medicare Levy Surcharge
- Dependency tax offsets

Expanded definition income – reportable fringe benefits

Effective: 1 July 2009

The definition of income will be expanded to include reportable fringe benefits. Currently taxable income is used to determine eligibility for Senior Australian Tax Offset, pensioner tax offset and dependency tax offsets. The income definition for these tax offsets will be expanded to include reportable fringe benefits.

Social Security

One-off Carer Bonus - Carers Payment and Carers Allowance

Paid by 30 June 2008

The Government has agreed to provide a one-off tax-free bonus to recipients of the Carer Payment and the Carer Allowance as it has done in the last three financial years. Similar to previous payments, a lump sum payment of \$1,000 will be received by those on Carer Payment and those receiving Carer Allowance will receive \$600 tax free for each eligible care receiver. Those eligible for both payments on Budget night will receive both lump sum payments.

If a claim for Carers Allowance is made after 1 July 2008 and the person was eligible to receive qualifying payments as at 13 May 2008, the person will also receive the bonus.

Seniors' bonus

Paid by 30 June 2008

A tax-free lump sum payment of \$500 will be payable to individuals in receipt of:

- age pension
- veterans' pensions
- Widow B Pension
- Wife Pension
- Seniors Concession Allowance
- Mature Age Allowance
- Widows Allowance
- Partner Allowance

as at 13 May 2008.

If a claim is made for an eligible benefit after 1 July 2008 and it is determined the person was eligible to receive that payment as at 13 May 2008, the person will also be entitled to the bonus.

Increase in certain allowances

Effective: 20 March 2008

The Government has already passed legislation which increases the Utilities, Senior concession and Telephone allowance effective from 20 March 2008.

The Utilities and Senior Concession allowances increase to \$500 pa. The new rate applies per cardholder for the Senior Concession allowance. Clients receiving the Utilities allowance receive \$500 per couple or \$250 for a single. Eligibility is determined on a quarterly basis.

The Utilities Allowance is extended to individuals under Age Pension age receiving certain Government income support including disability support pension, carer payment and wife pension.

The Telephone Allowance increases from \$88 pa to \$132 pa for certain income recipients with internet connection at home.

Child care rebate

Effective: 1 July 2008

The child care rebate will increase from 30 per cent to 50 per cent of out-of-pocket expenses. The maximum that can be claim will increase from \$4,354 to \$7,500 per child per year.

From 1 July 2008, the rebate will be payable on a quarterly basis to assist cashflow for families.

Baby Bonus

Effective: 1 January 2009

The Baby Bonus will subject to a means test from 1 January 2009. The bonus will only be paid to families with adjusted taxable income of less than \$75,000 in the six months after the birth of the baby (equivalent to \$150,000 pa). Eligibility will be extended to families of newly adopted children aged two years to 16 years from 1 January 2009.

The Bonus will be paid in 13 fortnightly instalments, instead of a lump sum, for eligible births from 1 January 2009.

From 1 July 2008, the Bonus will increase from \$4,258 to \$5,000. This amount will be indexed on 1 July in future years to the Consumer Price Index.

Family Tax Benefit (Part B)

Effective: 1 July 2008

Currently, Family Tax Benefit (Part B) (FTBB) is means-tested based on the income of the non-primary income earner. Eligibility for FTBB will be limited to families where the primary income earner's adjusted taxable income is less than \$150,000 pa (regardless of the income of the non-primary income earner). Single parents with adjusted taxable income of more than \$150,000 will also be ineligible to receive FTBB.

The income test will be indexed annually in line with the Consumer Price Index.

Same sex couples

Effective: 1 July 2009

Legislation will be introduced to remove same-sex discrimination from a wide range of Commonwealth laws. The reforms will also ensure children are not disadvantaged on the basis of their family structure.

Areas where discrimination will be removed include:

- tax,
- superannuation,
- social security,
- health,
- aged care,
- veterans' entitlements,
- workers' compensation,
- employment entitlements, and
- other areas of Commonwealth administration.

Most reforms are expected to take effect from 1 July 2009. The exceptions are:

- Medicare and Pharmaceutical Benefits Scheme Safety Net – effective 1 January 2009
- Fringe Benefit Tax – effective 1 April 2009
- Government defined benefit funds – effective from date of proclamation
- Superannuation and taxation of death benefits – 1 July 2008

Commonwealth Seniors Health Care Card

Effective: 1 July 2009

The income test for eligibility for the Commonwealth Seniors Health Care Card will be expanded to include:

- superannuation income streams from a taxed source
- income salary sacrificed to superannuation.

The income thresholds for eligibility of \$50,000 (single) and \$80,000 (couple combined) are unchanged.

The government will also establish a compliance program to ensure that only those individuals who are eligible will receive the Commonwealth Seniors Health Care Card. This will be achieved through data matching between Centrelink and the ATO to ensure correct income information has been provided. Data matching will also be made with Registrars of Births, Deaths and Marriages for death notifications.

Tax file numbers will be collected from existing and future cardholders to allow automatic review of assessable income for cardholders.

Widows' pension - backdating

Effective: 13 May 2008

The Government will backdate to 1 July 2003 the payment of the Widows' Benefits where Defence Force Retirement and Death Benefits pensioners commenced a marital relationship after 60 but died within five years of the relationship commencing.

Bereavement payment for single veterans

Effective: 1 July 2008

The bereavement payment will be expanded to the estates of deceased single totally and permanently incapacitated and extremely disablement adjustment veterans who die without sufficient assets to pay for the cost of a funeral.

The bereavement payment will equate to six times the fortnightly payment the veteran was receiving at the time of his/her death and will be tax-free.

Extension of eligibility to Income Support Supplement

Effective: 1 July 2008

Eligibility for the Income Support Supplement will be extended to all war widow and war widower pension recipients without children, regardless of age. Currently, war widows/widowers are only eligible once they have reached qualifying age for the Income Support Supplement.

War Widows' Pension – automatic grant

Effective: 1 July 2008

War Widows' Pension will automatically be granted to the widows/widowers of veterans who were in receipt of the Temporarily Totally Incapacitated Special Rate and Intermediate Rate of Disability pension at the time of the veteran's death.

Partner Service Pension - cancellation

Effective: 1 January 2009

The Partner Service Pension will no longer be payable to partners who are separated from, but still legally married to, a veteran. From 1 January 2009, the Partner Service Pension will cease 12 months after separation or from the beginning of a new marriage-like relationship by either the veteran or the partner (whichever occurs first).

Superannuation

Terminal illness benefit

Effective: 1 July 2007

It is proposed to allow superannuation fund members with a terminal medical condition to be able to access their benefits tax-free. This measure was originally announced by the previous government, however the commencement date has been backdated to 1 July 2007.

The lump sum received would not be assessable income or exempt income if the person has a terminal medical condition at the time of the payment or within 90 days after receiving the payment.

The superannuation conditions of release have already been amended, however the legislation allowing the taxation treatment to be changed has not yet passed through Parliament.

Superannuation of temporary residents

Effective: Royal Assent

The Government will legislate to require the payment of temporary residents' superannuation to the Australian Government. This includes the option for employers to pay directly to the ATO and requires superannuation funds to remit amounts of non-residents to the ATO.

The effect of this measure is from Royal Assent, which is expected will occur before the end of 2008.

Superannuation clearing house

Effective: 1 July 2009

The Government will provide funding to the Australian Taxation Office to provide a Superannuation Clearing House Facility to assist employers to manage their superannuation choice obligations to employees.

The service will be offered free of charge to businesses with less than 20 employees. Larger businesses will be able to use the facility on a fee-for-service basis.

Further information?

Copies of Mr. Swan's speech together with supporting Budget papers can be found online at <http://www.budget.gov.au>

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