Special Issue

June 2006

Rana Jewell

Public Accountant & Lifestyle Consultant

BENEATH THE SURFACE

BUDGET ALERT!

Source: National Tax & Accountants' Association

SNAPSHOT OF BUDGET 2005-06

Please note that at the time of going to print, many of these proposals were not law, so there may be some changes between now and when they become law.

Personal Tax Cuts

Current Tax Threshold Income Range ($)	Current Tax Rate %	New Tax Threshold from 1 July 2006 ($)	New Tax Rate %
0-6,000	0%	0-6,000	0%
6,001-21,600	15%	6,001-25,000	15%
21,601-63,000	30%	25,001-75,000	30%
63,001-95,000	42%	750,01-150,000	40%
95,001+	47%	150,001+	45%

Uniform Capital Allowance (depreciation) - Diminishing Value Rate

For all eligible assets acquired on or after 10 May 2006, the diminishing value rate for determining depreciation deductions will be increased from 150% to 200% of prime cost. These rates apply to employees, rental property owners, small and large businesses, but exclude simplified tax system (STS) taxpayers as they have their own rates of depreciation.

Superannuation

From 1 July 2007, for taxpayers who are 60 and over and receive payments from a taxed superannuation fund, there will be:

◊ no tax on a lump sum
◊ no tax on a pension (segregated assets and income to support a pension are also tax free)

In addition, from 1 July 2007:

◊ the reasonable benefit limits will be abolished
◊ the age based limits will be abolished
◊ uniform contribution limit of $50,000 will be introduced (transitional rule: if 50 years of age, or over, can contribute $100,000 per year up to 30 June 2012)
◊ the self employed will be entitled to a full deduction
◊ the self employed will be entitled to the co-contribution
◊ deductible contributions allowed up to age 75
◊ no tax on a pension

(Continued on page 2)

(Continued from page 1)

From budget night (10 May 2006), undeducted contributions will be limited to $150,000 per annum or $450,000 maximum, averaged over 3 years.

FBT Rate Reduction

From 1 April 2006, the FBT rate has been reduced to 46.5%.

FBT Amendments - From 1 April 2007

- the minor benefits exemption threshold will be increased from $100 to $300
- the reportable fringe benefits exclusion threshold will be increased from $1,000 to $2,000
- the in-house fringe benefits tax-free threshold will be increased from $500 to $1,000

Small Business Measures

From 1 July 2007, the following measures will be implemented:

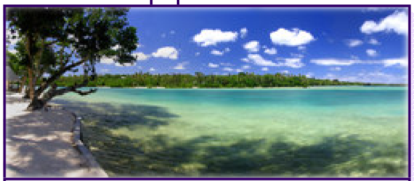
- increasing the STS annual turnover threshold from $1 million to $2 million
- increasing the GST cash accounting threshold from $1 million to $2 million
- removing the $3 million depreciating assets test from the STS eligibility requirements
- increasing the net assets threshold for the CGT small business concessions from $5 million to $6 million, and
- allowing **STS** taxpayers to be eligible for the CGT small business concessions **without** having to satisfy the net assets threshold and to pay quarterly PAYG instalments on the basis of GDP-adjusted notional tax.

Low Income Tax Offset

Note: There may be some changes between now and when these proposals become law.

From 1 July 2006, the low income tax offset will increase from $235 to $600 per year. In addition, the income threshold at which the offset begins to reduce will increase from $21,600 to $25,000. As a result of both of these changes, the income limit up to which some offset can be claimed will increase from $27,475 to $40,000. Adults can now earn $10,000 tax-free and minors can earn $1,325 of non-excepted income tax-free.

Part Year Tax-Free Threshold for Students



What will the proposed tax changes give you more money for?

The part year tax-free threshold will be removed where a person ceases full time education. This will extend the full tax-free threshold of $6,000 to all resident taxpayers who cease full-time education for the first time. This change will apply from 1 July 2006.

Family Trusts

Changes will be made to the family trust election rules to increase the flexibility for family trusts. This measure will have effect from the income year in which the enabling legislation receives royal assent.

This measure will allow family trust elections and interposed entity elections to be revoked or varied in certain limited circumstances. The definition of a family group will be broadened to include lineal descendants of family members. In addition, trust distributions to former spouses, and to widows or widowers of family group members with new spouses, will also be exempted from family trust distribution tax.

Medicare Levy Low-Income Thresholds

The Government increased the Medicare levy low-income thresholds to $16,284 for individuals and $27,478 for families, with effect from 1 July 2005. The additional amount of threshold for each dependent child or student increased to $2,523.

The Medicare levy low-income threshold for pensioners below age pension age will also be increased. From 1 July 2005, the threshold increased to $19,583.

Small Business - CGT Amendments

The Government will increase access to the small business CGT concessions by making changes to:

(Continued on page 3)

(Continued from page 2)

- ◊ the maximum net asset value test
- ◊ the active asset test
- ◊ the 15 year exemption
- ◊ the retirement exemption
- ◊ the small business roll-over, and
- ◊ how the concessions apply to partnerships.

In addition to these amendments, the Government will provide improved access to the concessions by replacing the current 50% controlling individual test with a 20% significant individual test. The significant individual test will be able to be satisfied either directly or indirectly through one or more interposed entities.

These measures will apply to CGT events that happen in the 2006-07 and later income years.

TAXATION OF TRUSTS - DISTRIBUTIONS TO NON-RESIDENTS

A: Non-Resident Beneficiaries That Are Trustees

From 1 July 2006, resident trustees will be required to pay tax on distributions to non-resident **trustee** beneficiaries to ensure these trust distributions are taxed in the same way as distributions to other non-resident **beneficiaries**.

B: Non-Resident Beneficiaries

Where an Australian managed fund distributes to a non-resident beneficiary, the fund is required to deduct tax at the scale rates for non-residents. To simplify this mechanism, the government will introduce a single tax rate of 30% for these distributions. The non-resident beneficiary will still be required to lodge an Australian income tax return to claim a credit for the tax withheld by the Australian managed fund.

HOLIDAYS

Our office will be closed for holidays from 1 – 10 July 2006 inclusive.

Rana Jewell
Public Accountant & Lifestyle Consultant
13 Park Rd
Ferny Hills Q 4055
M 0408 51 0001
P 07 3351 4689 F 07 3851 0132
ranajewell@beneaththesurface.com.au
www.beneaththesurface.com.au