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2007 Federal Budget Brief

A review of the Budget's major tax implications for individuals and small business

HIGHLIGHTS

- Further personal income tax cuts will apply from 1 July 2007.
- From 1 July 2007, families will receive the child care tax offset as a direct payment shortly after the income year in which the costs have been incurred.
- Individuals who made eligible superannuation contributions in the 2005/06 year will receive double the amount of co-contributions from the government.
- From 1 July 2007, the GST registration turnover threshold will be increased to \$75,000.
- Spouses will be able to transfer their entire in specie interest in a small superannuation fund without triggering an immediate CGT event.
- Investors in forestry managed investment schemes will be allowed to trade their interests from 1 July 2007.
- Increased Medicare levy low-income thresholds will apply from 1 July 2006.
- The dependent spouse rebate will be increased from 1 July 2007.
- From 1 July 2007, the costs of establishing carbon sink forests will be deductible.

INDIVIDUALS

Personal income tax cuts

Further cuts to personal income tax are proposed to take effect in two stages: from 1 July 2007 and from 1 July 2008.

From 1 July 2007:

- the 30% threshold will increase from \$25,001 to \$30,001, and
- the low income tax offset will increase from \$600 to \$750 and will begin to phase out from \$30,000. Taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$11,000.

From 1 July 2008:

- the 40% threshold will increase from \$75,001 to \$80,001, and
- the 45% threshold will increase from \$150,001 to \$180,001.

Current tax thresholds Income range (\$)	Tax rate %	New tax thresholds from 1 July 2007 Income range (\$)	Tax rate %	New tax thresholds from 1 July 2008 Income range (\$)	Tax rate %
0 – 6,000	0	0 – 6,000	0	0 – 6,000	0
6,001 – 25,000	15	6,001 – 30,000	15	6,001 – 30,000	15
25,001 – 75,000	30	30,001 – 75,000	30	30,001 – 80,000	30
75,001 – 150,000	40	75,001 – 150,000	40	80,001 – 180,000	40
150,001 +	45	150,000 +	45	180,001 +	45

Senior Australians

The effect of the tax cuts is that, from 1 July 2007, senior Australians eligible for the senior Australians tax offset will be able to earn more income without paying tax. Singles will be able to have taxable income up to \$25,867 (up from \$24,867) and couples up to \$43,360 (up from \$41,360).

Child care tax offset now a direct payment

From 1 July 2007, the government will bring forward the payment of the 30% child care tax offset so that families will receive the offset as a direct payment shortly after the year in which the child care costs have been incurred. Families with out-of-pocket expenses in both 2005/06 and 2006/07 will receive two offsets in 2007/08: one offset will be paid through the tax system in accordance with current rules; the other will be received as a direct payment from the Family Assistance Office. The maximum payment will be \$4,096 per child for 2005/06 and \$4,211 per child for 2006/07. The payments will begin from September 2007 for child care expenses incurred in 2006/07.

Additional superannuation co-contribution amount

The government announced a one-off doubling of the superannuation co-contributions scheme. The one-off payment applies to eligible contributions made by individuals during the 2005/06 income year.

The payment means that individuals who are currently eligible for a co-contribution of \$500 will now receive an additional \$500, meaning that they will receive \$1,000 in total co-contributions from the government. The majority of the additional co-contributions will be made to superannuation funds in the 2006/07 income year.

Extension of CGT roll-over on marriage breakdown

From 1 July 2007 spouses in a marriage breakdown will be able to transfer their entire in specie interest in a small superannuation fund to their former spouse without instant capital gains consequences. The amendments to the current roll-over in s 126-140 ITAA97 will exempt existing personal contributions made in a fund by the departing spouse from giving rise to an immediate CGT event when transferred to another small superannuation fund.

The amendments will also allow greater choice of fund options for the departing spouse.

Medicare low income thresholds

From 1 July 2006, the Medicare levy low-income threshold will increase to \$16,740 (from \$16,284) for individuals and \$28,247 (from \$27,478) for families. The additional amount of threshold for each dependent child or student will increase to \$2,594 (from \$2,523).

The Medicare levy low-income threshold for pensioners below age pension age will also be increased. From 1 July 2006, the threshold will rise to \$21,637 (from \$19,583).

Dependent spouse rebate increased

The dependent spouse rebate will be increased to \$2,100 (up from \$1,655) for the 2007/08 and later income years. This increase will benefit taxpayers with a dependent spouse, who do not have a dependent child.

This change will also allow the dependent spouse to earn more income before the rebate is completely phased out. The dependent spouse rebate will be completely phased out when the spouse has separate net income of \$8,681 (up from \$6,901 currently).

SMALL BUSINESS

GST and PAYG

GST and PAYG changes will apply to small business, including an increase to the GST registration turnover threshold.

From 1 July 2007, businesses with annual turnover of less than \$75,000 will no longer be required to register for GST. Also, the GST registration threshold for non-profit bodies will be increased to \$150,000. However, if businesses and non-profit bodies which fall below the threshold choose to register for GST, they will have the option of remitting GST only once a year.

Further, effective from 1 July 2008, these taxpayers will be able to pay their PAYG instalments on an annual basis. The other existing eligibility tests for paying annual PAYG instalments will be maintained.

Small businesses will have the option of using a simplified method to calculate their GST obligations if it suits their requirements. The Commissioner will be given the power to develop simplified accounting methods for all entities with an annual turnover of less than \$2m that make mixed (taxable and tax-free) supplies or mixed purchases, with effect from 1 July 2007.

Finally, from 1 July 2007, purchases by businesses valued at \$75 or less (not including GST) will no longer require an approved tax invoice to claim an input tax credit. The current threshold is \$50. For purchases of \$75 or less, businesses will be able to rely on the same record keeping for GST and income tax purposes.

The government will need to obtain the unanimous agreement of the States and Territories to implement the GST changes.

Deduction for carbon sink forests costs

The costs of establishing a qualifying carbon sink forest will be deductible to carbon sink forest operators under the horticultural plant provisions from 1 July 2007.

As an additional incentive, costs incurred in establishing a qualifying carbon sink forest during the five-year period commencing 1 July 2007 will be immediately deductible (rather than being deductible under the horticultural plant provisions). The immediate deduction will not apply to forests established through managed investment schemes.

The deduction will only be available to businesses participating in the Greenhouse Challenge Plus programme. Projects must comply with environmental and natural resource management guidelines applicable to their geographic location.

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