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2008 Federal Budget Brief

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

INDIVIDUALS

Personal income tax cuts

In the 2008-2009 Federal Budget, the Treasurer confirmed the following personal income tax cuts, which were announced by Labor during the 2007 Federal election.

1. raising the 30% threshold for residents and non-residents from \$30,001 to:
 - \$34,001 from 1 July
 - \$35,001 from 1 July 2009
 - \$37,001 from 1 July 2010
2. reducing the second highest marginal tax rate for residents and non-residents from 40% to
 - 38% from 1 July 2009
 - 37% from 1 July 2010

2009 income tax rates

From 1 July 2008, the income thresholds and tax rates for residents will be:

Income thresholds	Rate	2008-09 tax payable *
\$0 - \$6,000	0%	Nil
\$6,001 - \$34,000	15%	Nil + 15% of excess over \$6,000
\$34,001 - \$80,000	30%	\$4,200 + 30% of excess over \$34,000
\$80,001 - \$180,000	40%	\$18,000 + 40% of excess over \$80,000
\$180,001 +	45%	\$58,000 + 45% of excess over \$180,000

* excludes the 1.5% Medicare levy

Changes to the low income tax offset – Date of effect: 1 July 2008

The low income tax offset will increase over three years as follows:

	Current	2008-09	2009-10	2010-11
Low income tax offset	\$750	\$1,200	\$1,350	\$1,500
Effective tax-free threshold	\$11,000	\$14,000	\$15,000	\$16,000
Max. tax free distribution to a minor	\$1,666	\$2,666	\$3,000	\$3,333

Increase to the Medicare levy low income thresholds – Date of effect: 1 July 2007

The Medicare levy surcharge thresholds will increase as follows:

Taxpayer	Current Threshold	Proposed threshold
Single person with no dependants	\$50,000	\$100,000
Couples	\$100,000	\$150,000

Child care tax rebate – Date of effect: 1 July 2008

The Child Care Tax Rebate for out of pocket child care expenses will increase from 30% to 50%. As part of this measure the maximum out of pocket expenses claimable will increase from \$4,354 to \$7,500 per child per year.

From 1 July 2008, the Child Care Tax Rebate will be paid quarterly, instead of annually.

Lump sum payment to carers - Date of effect – from 2007/2008

Payment recipients will receive \$1,000 and recipients of Carer Allowance will receive \$600 for each eligible person in their care. The payments will be exempt from income tax.

Those receiving both payments on 13 May 2008 will receive both lump sum payments. A small number of claimants who are determined by Centrelink after 1 July 2008 to have been eligible for the qualifying payments as at 13 May 2008 will also receive the bonus.

Eligibility to baby bonus limited - Date of effect – 1 January 2009

Eligibility to the Baby Bonus will be limited to families with an adjusted taxable income of \$75,000 or less in the six months after the birth of a baby (equivalent to an annual income of \$150,000). In addition, the bonus will be paid in 13 fortnightly instalments from the date of claim, rather than as a lump sum, to all eligible births from 1 January 2009.

The Baby Bonus will increase from \$4,258 to \$5,000 on 1 July 2008 and will index the payments by the Consumer Price Index each subsequent year on 1 July. In addition, the Baby Bonus will be extended to families with newly adopted children aged from two years to 16 years, from 1 January 2009.

Tax increased on luxury cars above \$57,123 - Date of effect – 1 July 2008

The luxury car tax rate will increase from 25% to 33%. There will be no change to the luxury car tax threshold (currently \$57,123) from which the luxury car tax applies.

Including salary sacrificed to super in means test - Date of effect – 1 July 2009

The definition of income used to determine eligibility for government support programs will expand to include certain 'salary sacrificed' contributions to superannuation.

The measure targets an inconsistency in the treatment of 'non wage' remuneration in the income tax and transfer system that allows individuals and families to access more government support payments than would be possible if their salary sacrificed contributions were paid as salary or wage income.

The measure affects government support programs such as income support payments for people below Age Pension age, family assistance, child support, superannuation co contributions and financial and retirement savings assistance delivered through the tax system.

SMALL BUSINESS

CGT Concessions

Access to the small business CGT concessions has improved for taxpayers owning a CGT asset used in a business by a related entity and for partners owning a CGT asset used in the partnership business.

Currently, the small business entity test does not cover business structures where the CGT asset is owned by an entity but is used in a related entity which carries on the business. 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.

CGT - Changes to the scrip for scrip roll over provisions for corporate restructures

Date of effect – 7.30 pm (AEST) on 13 May 2008

Scrip for scrip capital gains tax roll over provisions have been modified to ensure that, for corporate restructures, the acquiring entity's cost base of shares in the target entity reflects the tax costs of the target entity's net assets. This cost base will also be used in determining the value of the target entity's assets in consolidation if the target entity subsequently joins the acquiring entity's consolidated group.

Under the current provisions, the acquiring entity obtains a market value cost base for the shares it acquires in the target entity. This can result in significant unintended tax benefits arising if, for example, the target entity subsequently joins the acquiring entity's consolidated group.

FBT - Exemptions for work-related items

The current FBT exemption for certain work related items (including laptop computers, personal digital assistants and tools of trade) will be tightened by ensuring the exemption only applies where these items are used primarily for work purposes. The FBT exemption will generally be limited to one item of each type per employee per year.

The Government will also deny employees depreciation deductions for FBT exempt items

(that is, items purchased primarily for work purposes). For items purchased before the change, employees will be denied depreciation deductions for the 2008/2009 and later income years. This measure will ensure that employees are no longer able to gain a double benefit by obtaining an FBT exempt item (such as a laptop computer) from their pre tax income, and then claim a deduction for depreciation.

Contact us today for to find out more about how the budget announcement will affect you.

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