

# 2006 Federal Budget

The following are the main changes that were announced in the Federal Budget on 9 May 2006.

## Personal Income Tax Rates - Resident Individuals - 2006/07

Taxable Income \$	Tax Payable
0 - 6,000	Nil
6,001 - 25,000	15% of excess over \$6,000
25,001 - 75,000	\$2,850 + 30% of excess over \$25,000
75,001 - 150,000	\$17,850 + 40% of excess over \$75,000
150,001 +	\$47,850 + 45% of excess over \$150,000

## FBT Rate Reduction

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

### Gross-up Rates - 2005/06 & 2006/07\*

Description	Gross-up Rate 2005/06	Anticipated Gross-up Rate* 2006/07
Type 1	2.1292	2.0647
Type 2	1.9417	1.8692

\* With the decrease in the FBT rate announced in the Federal Budget on 9 May 2006, the gross-up for Type 1 and 2 benefits for the 2006/07 year has been calculated as above.

## FBT Amendments - from 1 April 2007

- The in-house fringe benefits tax-free threshold will be increased from \$500 to \$1,000
- 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 Government's proposed changes to Superannuation

The Government is inviting comments on its simpler superannuation proposal.

Under the proposed plan, from 1 July 2007:

- Superannuation benefits paid from a taxed fund either as a lump sum or as an income stream such as a pension, would be tax free for people aged 60 and over.
- Benefits paid from an untaxed scheme (mainly affecting public servants) would still be taxed, although at a lower rate than they are now for people aged 60 and over.
- Reasonable Benefits Limits (RBLs) would be abolished.
- There would be no forced payment of superannuation benefits.
- Age-based restrictions limiting tax deductible superannuation contributions would be replaced with a streamlined set of rules.
- The self-employed would be able to claim a full deduction for their superannuation contributions as well as being eligible for the Government co-contribution for their after-tax contributions.
- The ability to make deductible superannuation contributions would be extended up to age 75.
- People would still be able to access superannuation benefits before the age of 60, although they would continue to be taxed on their benefits under new simplified rules.
- A contribution limit of \$50,000 is to be introduced. However, a transitional deduction of \$100,000 is proposed for those aged 50 and over on 1 July 2007.

## Depreciation — Diminishing Value Rate 200% of Prime Cost

For all eligible assets acquired on or after 10 May 2006, the diminishing value method (DVM) rate for determining depreciation deductions has been increased from 150% to 200%. The new 200% DVM rates apply to new and second-hand assets, including those with statutory caps.

The new rates also apply to both business assets and investment assets (e. g., assets used in a rental property) but not to STS taxpayers and assets classes for which there are special arrangements (e. g., horticultural plants).

In addition, certain specific assets are also excluded, such as In-house software, Intellectual property assets (except copyrights in a film), Spectrum licences, Datacasting transmitter licences, and Telecommunications site access rights.

Example of the new rates: A taxpayer may choose to use an effective life of 10 years for a particular asset. Therefore, the Prime Cost rate of depreciation would effectively be 10% [i. e., 100% divided by 10 (years)]. The equivalent DVM rate of depreciation would be either 15% (at 150% DVM rates) or 20% (at 200% DVM rates) depending on whether it was acquired before 10 May 2006 or on or after 10 May 2006.

## 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.

In addition to these amendments, the Government intends to improve the operation of the small business CGT concessions, and will provide improved access to the concessions by replacing the current 50% controlling individual test with a 20% significant individual test, which can be satisfied either directly or indirectly through one or more interposed entities.

## Low Income Tax Offset

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, the income limit up to which some offset can be claimed will increase from \$27, 475 to \$40, 000.

Adults will then be able to earn \$10, 000 tax-free and minors will be able to earn \$1, 325 of non-excepted income tax-free.

## Part-Year Tax-Free Threshold for Students

From 1 July 2006, the part year tax-free threshold will be removed where a person ceases full-time education, extending the full tax-free threshold of \$6, 000 to all resident taxpayers who cease full-time education for the first time.

## Family Trust Elections

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.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.