

2007/08 Federal Budget

On Tuesday, 8 May 2007, the Federal Treasurer, the Hon Peter Costello MP, handed down the 2007/08 Federal Budget, his 12th Budget. From a taxation point of view, this Budget, like the last 2, is a significant one. The pre-Budget speculation, as usual, predicted many things, but the Budget itself delivered a range of taxation and related changes that will be of importance to many.

The taxation centrepiece of the Budget relates to personal taxation measures. Further tax cuts were announced (for the 5th consecutive year) on a not dissimilar scale to last year. In this 2007/08 Budget, the Treasurer announced \$31.5bn in tax cuts over the next 4 years, compared to the \$36.7bn tax cuts provided in the 2006/07 Budget.

PERSONAL TAXATION

Tax Rates

In the 2007 Federal Budget, the Treasurer announced that:

- from 1 July 2007:
 - the 30% personal tax rate threshold will increase from \$25,001 to \$30,001; and
- 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.

The current tax rate scales for residents (excluding Medicare levy) applicable from 1 July 2006 to 30 June 2007, are:

RESIDENTS: TAX RATES - 1 JULY 2006-30 JUNE 2007	
<i>Taxable income (\$)</i>	<i>Tax payable (\$)</i>
0 - 6,000	Nil
6,001 - 25,000	Nil + 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

The resident tax rates as proposed by the 2007-08 Budget are as follows:

PROPOSED RESIDENT RATES: 1 JULY 2007-30 JUNE 2008	
<i>Taxable income (\$)</i>	<i>Tax payable (\$)</i>
0 - 6,000	Nil
6,001 - 30,000	Nil + 15% of excess over 6,000
30,001 - 75,000	3,600 + 30% of excess over 30,000
75,001 - 150,000	17,100 + 40% of excess over 75,000
150,000+	47,100 + 45% of excess over 150,000

PROPOSED RESIDENT RATES: 1 JULY 2008 ONWARDS	
<i>Taxable income (\$)</i>	<i>Tax payable (\$)</i>
0 - 6,000	Nil
6,001 - 30,000	Nil + 15% of excess over 6,000
30,001 - 80,000	3,600 + 30% of excess over 30,000
80,001 - 180,000	18,600 + 40% of excess over 80,000
180,001+	58,600 + 45% of excess over 180,000

From 1 July 2008, more than 80% of individual tax payers will face a top marginal rate of 30% or less. Taxpayers will need to earn \$134,000 pa to pay an average tax rate of 30%.

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Based on the proposed tax rates the following table outlines the annual tax savings over the next two financial years.

Taxable income (\$pa)	Saving (\$pa)		Taxable income (\$pa)	Saving (\$pa)	
	2007/08	2008/09		2007/08	2008/09
15,000	150	150	55,000	750	750
16,000	150	150	60,000	750	750
17,000	150	150	65,000	750	750
18,000	150	150	70,000	750	750
19,000	150	150	75,000	750	750
20,000	150	150	80,000	750	1250
21,000	150	150	85,000	750	1250
22,000	150	150	90,000	750	1250
23,000	150	150	95,000	750	1250
24,000	150	150	100,000	750	1250
25,000	150	150	110,000	750	1250
26,000	340	340	120,000	750	1250
27,000	530	530	130,000	750	1250
28,000	720	720	140,000	750	1250
29,000	910	910	150,000	750	1250
30,000	1100	1100	160,000	750	1750
35,000	1100	1100	170,000	750	2250
40,000	1100	1100	180,000	750	2750
45,000	900	900	190,000	750	2750
50,000	750	750	200,000	750	2750

Source: Budget Papers

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Medicare Low Income Threshold

From 1 July 2006, the Medicare low income thresholds will increase to \$16,740 for individuals (up from \$16,284) and \$28,247 for families (up from \$27,478). The additional amount of threshold for each dependent child or student will also be increased to \$2,594 (up 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 (up from \$19,583). This will ensure that pensioners below Age Pension age do not pay the Medicare levy while they do not have an income tax liability.

Low Income Tax Offset

From 1 July 2007, the low income tax offset will increase from \$600 to \$750 per year. In addition, the income threshold at which the offset begins to reduce will increase from \$25,000 to \$30,000. As a result, some offset can be claimed up to an income of \$48,750 (up from \$40,000).

Those eligible for the full low income tax offset will not pay tax until their annual income exceeds \$11,000 (up from \$10,000).

Senior Australians Tax Offset

From 1 July 2007, senior Australians who receive 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).

Dependent Spouse Rebate

From 1 July 2007, the dependent spouse rebate will be \$2,100 (up from \$1,655).

The rebate is completely phased out when the spouse has separate net income of \$8,681 (up from \$6,901).

SUPERANNUATION

One-off doubling of Government super co-contribution

A one-off additional co-contribution will be paid into the superannuation accounts of those persons who made eligible contributions in the 2005/06 income year. This payment will double the co-contribution paid in respect of that year, ie from a maximum of \$1,500 to \$3,000.

SMALL BUSINESS TAXATION

GST: Increase in registration turnover threshold

From 1 July 2007, the annual turnover thresholds for registration for GST will be increased to \$75,000 (up from \$50,000) for businesses and to \$150,000 (up from \$100,000) for non-profit bodies. Entities under the registration thresholds that voluntarily register for GST will have the option of remitting GST annually, rather than quarterly or monthly.

GST: Increase in threshold for approved tax invoice

Businesses will be allowed to claim input tax credits for purchases with a GST exclusive value of \$75 or less (up from \$50) without the need for an approved tax invoice.

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OTHER BUDGET MEASURES

Increase in Child Care Benefit

From 1 July 2007, the rate of Child Care Benefit will be increased by 10% (on top of annual indexation). This results in a maximum extra benefit of \$16.40 per week.

Child Care Tax rebate converted to a direct payment

From 1 July 2007, the existing Child Care Tax Rebate will be converted to a direct payment administered through Centrelink.

Families with out of pocket costs for both 2005/06 and 2006/07 will receive two rebates in 2007/08 (ie one through the tax system, and one as a direct payment).

Bonuses for older Australians and carers

The Budget contains the following one-off tax-free payments:

- a \$500 bonus to older Australians who receive the Utilities Allowance or Seniors Concession Allowance;
- a \$1,000 bonus to recipients of the Carer Payment;
- a \$600 bonus to recipients of the Carer Allowance for each eligible care receiver. In addition, recipients of the Carer Allowance who also receive the Wife Pension or the Department of Veterans' Affairs Partner Service Pension will receive a \$1,000 payment.

Cutcher & Neale can be contacted on 4928 8500 or email your enquiry to cnmail@cutcher.com.au

Further information?

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

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