

# Federal Budget 2008-09: what does it mean for you and your money?



Federal Treasurer Wayne Swan handed down the Labor Government's first budget in 13 years on Tuesday 13 May 2008. Here is a brief summary of some of the key impacts on financial strategies.

## at a glance

- ~ cuts in personal income tax rates confirmed
- ~ baby bonus wound back for high income earners
- ~ salary sacrifice superannuation contributions taken into account in determining government support
- ~ Commonwealth Seniors Health Card income test will include gross income from superannuation income streams and income that has been salary sacrificed to super
- ~ proposed first home saver accounts scheme modified
- ~ employee share scheme rules improved
- ~ underlying cash surplus forecast to be \$21.7 billion underpinned by large tax dividends flowing from the resources boom. New budget savings decisions have broadly offset new spending decisions. The surplus is being set aside for three new funds, the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund.
- ~ economic growth is forecast to slow from 3.5% to 2.75% in 2008-09. Inflation is forecast to be 3.5%, above the Reserve Bank's 2-3% medium-term target but expected to move back within the target range by the end of 2009.

## tax rates confirmed

In fulfilment of pre-election promises, on 14 February 2008 the Government introduced a Bill to reduce personal income tax rates and these were confirmed in the Budget.

### tax thresholds for 2008 – 2009

income range pa	tax
\$0 - \$6,000	0%
\$6,001 - \$34,000	\$0 + 15%
\$34,001 - \$80,000	\$4,200 + 30%
\$80,001 - \$180,000	\$18,000 + 40%
\$180,000 +	\$58,000 + 45%

## means testing of government support expanded

From 1 July 2009, the 'income' used to determine eligibility for government support will be expanded to include:

- ~ **Salary sacrifice superannuation contributions.** These will be taken into account in determining super co-contributions, government income support payments for people below Age Pension age, child support and family assistance.

Employees will no longer be able to make salary sacrifice superannuation contributions to qualify for, or increase their entitlement to the co-contribution. This measure creates a level playing field with self-employed persons who are currently unable to increase the co-contribution by making a personal deductible contribution.

People aged 60 or over who work full-time and who implement a transition to retirement strategy to reduce tax (living off their allocated pension payments and salary sacrificing wages to superannuation) may no longer qualify for, or increase their entitlement to, the co-contribution.

In addition, employees will no longer be able to reduce their child support obligations by making salary sacrifice superannuation contributions.

- ~ **Net financial investment losses and net rental property losses.** These will be taken into account in determining the Senior Australians Tax Offset (SATO), Medicare levy surcharge and dependency tax offsets. Currently, net rental property losses are included in the definition of adjusted taxable income for the purposes of the Commonwealth Seniors Health Card, child support, family assistance programs, some parental income tests and loan repayment obligations under the Higher Education Loan Program. Adjusted taxable income will be expanded to include net financial investment losses.

- ~ **Reportable fringe benefits** will be taken into account in determining SATO, dependency tax offsets and pensioner tax offset.

## family tax benefits and child care

The baby bonus will increase to \$5,000 from 1 July 2008. From 1 January 2009 the baby bonus will only be paid to those families earning less than \$75,000 in the six months following the birth, and the baby bonus will be paid in fortnightly instalments instead of as a lump sum.

The child care rebate has been increased from 30% to 50%, however additional means testing has been introduced on Family Tax Benefit Part B and the Child Care Benefit which means that some families may now miss out on those benefits from 1 July 2008.

## Commonwealth Seniors Health Card income test amended

From 1 July 2009, the Commonwealth Seniors Health Card income test will now include gross income from superannuation income streams from a taxed source (eg public offer super funds such as ipac iAccess Allocated Pension) and income which has been salary sacrificed to superannuation. This measure is designed to increase fairness by ensuring that all income received by seniors is treated in the same way regardless of whether from superannuation, managed funds, or interest from bank accounts.

## proposed first home saver accounts scheme modified

The first home saver account scheme proposed in a consultation paper released in February 2008 has been amended. The proposed first home saver account will allow individuals to contribute up to \$75,000 (indexed annually) towards the purchase of their first home. Earnings in the account will be taxed at 15%. Individuals will be able to withdraw amounts from the account without tax consequences provided that they contribute at least \$1,000 in four separate financial years and are using the funds for their first home purchase (or construction).

Individuals who open an account will receive a government contribution of 17% on the first \$5,000 contributed annually.

Major changes to the proposed scheme include:

- ~ replacing the previously announced \$10,000 annual contribution cap with an overall contribution cap of \$75,000 (indexed annually)
- ~ removing the requirement for individuals to contribute \$1,000 to commence the account
- ~ clarifying that the four-year rule for tax-free withdrawals applies from the start of the financial year rather than the date that the account was established, and
- ~ allowing individuals a 14-day cooling off period in which to change their mind about their account.

While the start date of the scheme has been delayed until 1 October 2008 to enable account providers more time

to develop products, individuals will still be entitled to a government contribution on the first \$5,000 of personal contributions in 2008/09.

## employee share schemes — election requirements

The employee share scheme rules will be improved to ensure that income from these schemes is correctly reported.

- ~ The changes will apply to shares and rights acquired from 1 July 2008.
- ~ The election procedures will be changed so that the value of the discount where it exceeds \$1,000 is included in assessable income if a taxpayer elects to be assessed up-front.
- ~ Where the amount is not included in the taxpayer's tax return, the taxpayer will be taxed under the deferral option.
- ~ The Commissioner retains the power to allow a taxpayer an extension of time to make the election.

Unless this measure improves reporting and monitoring obligations, we cannot see any change to the way in which the employee share scheme rules currently operate.

## Fringe Benefits Tax changes

Effective from the Budget night, rules have been tightened for the following FBT concessions:

- ~ The FBT exemption for work-related items (eg laptops and personal digital assistants) will only be available where the items are used primarily for work purposes and will be limited to one item of each type per employee per year.
- ~ Meal card arrangements will no longer be exempt from FBT. Balances on existing meal cards will remain exempt from FBT provided they are used by 31 March 2009.

### what do the changes mean for you?

To learn how the changes impact you, how you may benefit from new opportunities and plan your finances to achieve your lifestyle goals, please call us on 08 8981 5900.



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