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FEDERAL BUDGET

The Treasurer, Mr Costello, presented the Federal Budget last night. The budget includes a number of significant tax announcements which are generally of benefit to clients.

PERSONAL INCOME TAX REDUCTION

In last year's Budget, changes to both tax rates and tax brackets were announced to apply from 1 July 2006. Last night, further changes to both rates and brackets were announced, still to apply from 1 July 2006. A comparison of the current 2005/6 rates and the new proposed 2006/7 rates are:

Current \$	2005/6 %	2006/7 %
0 – 6,000	0	0
6,001 – 21,600	15	15
21,601 – 25,000	30	15
25,001 – 63,000	30	30
63,001 – 75,000	42	30
75,001 – 95,000	42	40
95,001 – 150,000	47	40
150,000 and Above	47	45

These are significant changes which will deliver income tax reductions ranging from about \$10 per week for persons with taxable income between \$25,000 and \$63,000 up to about \$80 per week for persons with taxable income above \$120,000.

In addition, changes to the low income offset will provide additional tax reductions of up to \$10 per week for taxpayers with incomes up to \$40,000.

FRINGE BENEFITS TAX

The fringe benefits tax rate will be reduced to 46.5% from 1 April 2006, reflecting the decrease in the maximum personal income tax rate.

Apart from hospitals, schools and charity employees, fringe benefits have not provided any significant tax benefits for some time apart from motor vehicles and additional superannuation. The changes in income tax rates are likely to result in some clients with employer provided vehicles deciding to take increased salary instead. This will be particularly relevant to those with taxable incomes less than \$150,000 and motor vehicles with less than 25,000 total kilometres travelled per year. Clients who may be affected should contact us for specific advice.

Other fringe benefits tax changes include increasing the tax free amount for in house benefits from \$500 to \$1,000 and an increase in the minor benefits threshold from \$100 to \$300, both from 1 April 2007.

DEPRECIATION

Depreciation rates have been increased for all plant and equipment acquired from today. The new diminishing rates will be one third greater than the current rates, bringing forward the tax write-off for plant and equipment. For example, if the rate for an item of plant was 15%, the new rate will be 20%.

SUPERANNUATION

For many clients, the changes to superannuation will be the most important changes. The changes proposed to take effect from 1 July 2007. They are in a proposal form at present and may change after discussion with the superannuation industry.

DEDUCTIBLE CONTRIBUTIONS

At present, employers are able to claim a tax deduction for contributions for each employee depending on the person's age. The maximum deductions are \$14,603 for persons under 35, \$40,560 for persons 35 to 49 and \$100,587 for persons 50 and over. Self employed persons are restricted to deducting the first \$5,000 and 75% of additional contributions.

The proposal is that deductible contributions be \$50,000 per person regardless of age or whether employed or self employed. Transitional provisions will allow deductions of up to \$100,000 p.a. for the five years from 2007/8 to 2011/12 for persons over 50.

TAXATION OF LUMP SUM BENEFITS

At present, lump sum superannuation benefits on retirement are taxed at 16.5% of amounts over \$129,751. Benefits relating to pre 1983 service are taxed at lower rates. Lump sum benefits in excess of \$648,946 are taxed as normal income.

It is proposed that lump sum benefits taken after age 60 will not be taxable at all and there will not be a limit. Amounts withdrawn before age 60 will still be taxable.

TAXATION OF PENSION BENEFITS

At present, most superannuation pensions are subject to tax at marginal rates less 15%. Amounts representing contributions which were not deductible are not subject to tax. There are restrictions on minimum and maximum amounts to be withdrawn each year.

It is proposed that all amounts withdrawn after age 60 will not be subjected to tax and there will be no restriction on the amounts withdrawn in any year.

Pension benefits received from State and Federal government and similar superannuation funds that have not paid tax on contributions received continue to be taxed as normal income but recipients will be entitled to a tax credit of 10% of the pension.

TAXATION OF SUPERANNUATION FUNDS

Superannuation funds are subject to tax at 15% of deductible contributions and earnings. Franking credits from dividend income can reduce this tax. Since 1 July 2005, there has been no superannuation surcharge tax. Funds which have commenced to pay allocated pensions or similar benefits are not taxable on investment income.

The announced proposals do not affect these rules.

SUMMARY

The superannuation changes are wide ranging and significant. The final details are yet to be announced or negotiated. It is possible that changes will be made and also that changes to Age Pension and other government benefit rules will also be required.

Current taxation and retirement planning for clients will certainly be affected by the changes. Our financial planning and superannuation experts would be happy to advise clients in relation to the impacts on individual retirement plans.