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Grant Thornton periodical
reporting on taxation issues
for business owners.

Grant Thornton 

A change of Government means two things - **new policies and uncertainty** regarding the previous Government's announcements...

Promises, promises, promises

Personal tax cuts

There are to be income tax cuts for all from 1 July 2008. Additionally the Government aims to further cut personal tax rates from 1 July 2010 and again from 1 July 2013:

Current tax rates		From 1 July 2008		From 1 July 2010		From 1 July 2013	
0 - 60,000	0%	0 - 60,000	0%	0 - 60,000	0%	0 - 60,000	0%
6,001 - 30,000	15%	6,001 - 34,000	15%	6,001 - 37,000	15%	6,001 - 37,000	0%
30,001 - 75,000	30%	34,001 - 80,000	30%	37,001 - 80,000	30%	37,001 - 180,000	30%
75,001 - 150,000	40%	80,001 - 180,000	40%	80,001 - 180,000	40%	180,001 +	40%
150,001 +	45%	180,001 +	45%	180,001 +	45%		

In addition to the change in tax rates and brackets, the low income earners tax offset will be increased from the current \$750 to \$1,200 from 1 July 2008, \$1,500 from 2010 and \$2,100 from 2013.

Education tax refund

Families that are eligible to receive Family Tax Benefit Part A will soon be entitled to a refund of up to half of the cost of their children's education expenses. The maximum refund is \$375 per primary school student and \$750 per high school student. Whilst education-related computers, internet connections, printers, software and textbooks are eligible for the refund, school fees, uniforms and excursions are not.

Child care tax rebate

The maximum child care tax rebate will rise from \$4,354 to \$7,500 while the rebate will be at the rate of 50% of out of pocket child care expenses, up from 30%. In addition to this, the rebate will be paid quarterly.

First home owners

People saving for their first home will soon be able to establish a First Home Owner Savings Account (FHOSA), which bears some similarities to a superannuation account. Under the policy, first home savers can contribute up to \$5,000 of pre-tax dollars and \$5,000 of post-tax dollars into the FHOSA.

Contributions made out of pre-tax dollars will not be taxable to the individual, but their account will bear a 15% contributions tax. Earnings generated by the FHOSA will be taxed at the rate of 15% and withdrawals will be tax-free if the proceeds are used to acquire a first home. There is no word yet if a self-managed FHOSA can be established.

Managed fund withholding tax reduction

Distributions received by non-residents from Australian managed funds will now only be subject to withholding tax of 15% and this tax will be final, removing the need for foreign investors to lodge an Australian tax return.

Super guarantee

Super guarantee will soon be based upon pre-salary-sacrifice-income.

Super clearing house

In an attempt to reduce the administrative burdens placed on business, a Government endorsed clearing house will be created allowing employers to make only one quarterly payment to meet their obligations. Businesses employing less than 20 staff will be able to utilise the clearing house for free, while all other employers will be charged a "small" administrative fee. Note that the clearing house will be optional.

Unfortunately there is no news yet as to whether the payment date of an employer's super contributions will be taken to be the date of payment to the clearing house or the date the clearing house ultimately makes the payment to the super fund.

GST made easy

All business entities turning over less than \$2m will soon be eligible to take advantage of simplified methods for accounting for GST. Presently, only small businesses operating in certain industries, such as convenience stores and bakeries, are eligible for the simplified GST accounting methods.

Public trading trust rules

The new Government has a commitment to re-write the public trading trust rules. In brief, the public trading trust rules effectively tax widely-held trusts that undertake business operations as if they are companies, with a requirement for such trusts to pay 30% tax on taxable income while giving unitholders the ability to receive franked distributions. Unfortunately we cannot shed anymore light on how these provisions will be rewritten, except that the new Government recognises the complexity surrounding the current rules.

On top of this however, and perhaps of more interest, is the new Government's commitment to introduce a specific tax regime for managed funds and property trusts in what is described as a measure to reduce compliance costs. Once again, little information is available about this commitment.

Research & development review

The Government will set about a review of the 169 State and Commonwealth R&D programs in order to determine regulatory barriers to innovation, gaps and weaknesses in the current programs and ways to simplify the programs. The review will include the adequacy of the 125% tax concession, the eligibility thresholds for the refundable tax offset and the complexity surrounding the 175% concession.

What's the catch?

"Wealthy family welfare"

Income limits will be imposed on Family Tax Benefit Part B to restrict the benefit to families with income below \$250,000.

Family trust elections

The recent family trust election measures passed by Parliament are set to be reversed. Just to recap, the measures broadened the definition of "family" to include all lineal descendants of the test individual, meanwhile the exemption from family trust distribution tax was introduced for former spouses, former widows/widowers and former step children.

No deduction for political donations

All donations to political organisations will soon become non-deductible.

Announcements on hold

The former Government made many announcements, including some that gave rise to "legislation by press release", of which some may never actually see the light of day, let alone the light of Parliament. Some important announcements that the new Government have remained silent on include:

- taxation of rights issues - shareholders would not incur a tax liability upon receipt of rights to acquire new shares;
- CGT rollovers and tax consolidations - companies would no longer be entitled to an uplift in the value of assets under the tax consolidation regime for assets acquired via a CGT rollover;

- superannuation guarantee - employers who are late in making superannuation contributions would no longer be required to double-up on the contribution by making a similar payment to the ATO;
- small business CGT - access to the small business CGT concessions via the small business entity test would be extended to entities that own assets which are used by other associated small business entities;
- market substitution rule - the market value substitution rule would no longer apply to holders of interests in widely-held entities where the interests are cancelled.

It will be interesting to see what action, if any, the new Government will take in relation to the above issues.

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