

Federal Budget 2008/09

Huge surplus, more tax cuts and a focus on nation building

A huge \$21.7 billion surplus, tax cuts for most taxpayers and the creation of three major funds to support nation building were just some of the highlights of the first Federal Labor Government budget in more than a decade.

\$40 billion for infrastructure, education and health

New Federal Treasurer Wayne Swan delivered his first budget featuring a commitment to more than \$40 billion worth of nation building via the:

- \$20 billion Building Australia Fund for national transport and communications infrastructure
- \$11 billion Education Investment Fund for capital expenditure on higher education institutions
- \$10 billion Health and Hospitals Fund to finance renewal and refurbishment of hospitals and health facilities and fund major medical research projects.

Tax cuts for most – more to save, invest or spend

Most taxpayers are set to benefit from tax cuts flowing from proposed changes to income tax thresholds due to take effect from 1 July 2008. The threshold at which the 30 per cent marginal rate begins to apply is to be increased from:

- \$30,001 to \$34,001 on 1 July 2008
- \$34,001 to \$35,001 on 1 July 2009 and
- \$35,001 to \$37,001 on 1 July 2010.

In addition, the 40 per cent marginal tax rate will decrease to 38 per cent on 1 July 2009 and to 37 per cent on 1 July 2010.

Proposed rates and thresholds for resident taxpayers are set out below:

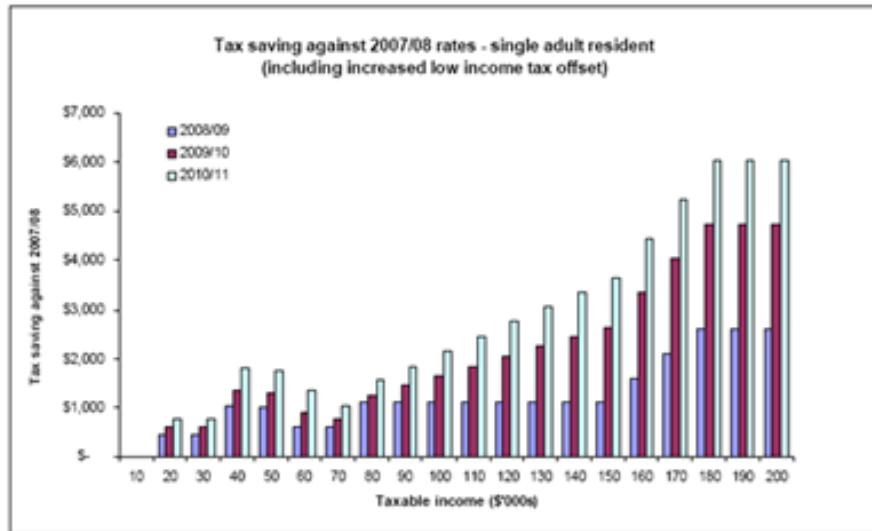
2008/09 financial year		2009/10 financial year		2010/11 financial year	
Taxable income \$	Tax rate %	Taxable income \$	Tax rate %	Taxable income \$	Tax rate %
0 - 6,000	0	0 - 6,000	0	0 - 6,000	0
6,001 - 34,000	15	6,001 - 35,000	15	6,001 - 37,000	15
34,001 - 80,000	30	35,001 - 80,000	30	37,001 - 80,000	30
80,001 - 180,000	40	80,001 - 180,000	38	80,001 - 180,000	37
Over 180,000	45	Over 180,000	45	Over 180,000	45

The low income tax offset is also set to increase. Combined with the changes in tax rates and thresholds, this means people with a taxable income of less than \$14,000 per year will pay no tax in 2008/09.

You will also pay no tax in 2008/09 if you are under age 60 and receiving an allocated pension of up to \$44,210 and no other income, or if you are over 60 and receiving only an allocated pension of any amount.

How much tax will you save?

Overall tax savings for taxable incomes up to \$200,000 are shown below:



Increase in Medicare levy surcharge thresholds

The Medicare levy surcharge applies to certain people who are not covered by private health insurance. Currently, a surcharge of one per cent is payable on top of the 1.5 per cent Medicare levy if your taxable income and reportable fringe benefits exceed \$50,000 for singles or \$100,000 for families.

However, for the first time since the surcharge was introduced on 1 July 1997, the thresholds are set to increase on 1 July 2008 to:

- \$100,000 for singles
- \$150,000 for families.

Impacts on certain social security payments

On 1 July 2009 salary sacrifice super contributions will be included in an expanded definition of 'income' to determine eligibility for government support including:

- income support for people below age pension age
- family assistance
- child support
- super co-contributions
- financial and retirement savings assistance delivered through the tax system.

Further, on this date the definitions of adjusted taxable income will be expanded to include net financial investment losses for a number of programmes including family assistance, some parental income tests and the Commonwealth Seniors Health Card.

And definitions of taxable income for the senior Australians and pensioner tax offsets will include reportable fringe benefits.

As a result of these definition changes, certain financial planning strategies may become less effective. So you may wish to speak to your financial adviser about reviewing your existing strategies. However, the good news is you have two opportunities to take advantage of the current tax system – the remaining period to 30 June 2008 plus another chance in 2008/09.

Commonwealth Senior Health Card – income test changes

The income test for this card is set to be changed on 1 July 2009 to include gross income from super income streams from a taxed source, as well as income that is salary sacrificed to super.

Education tax refund will benefit parents

This scheme will allow parents to claim a 50 per cent tax refund on eligible education expenses (but not school fees) for their children from 1 July 2008. The refund will be a maximum of \$375 for a primary school child and \$750 for a secondary school child. So make sure you keep your education expense receipts.

First-home saver accounts to help first home buyers

In a boost for people saving for their first home, the Federal Government plans to establish a first-home saver account scheme for eligible people, due to commence on 1 October 2008. The Government will add a contribution of 17 per cent to the first \$5,000 deposited, personal contributions can be added until the account reaches \$75,000 and earnings will be concessional taxed at 15 per cent.

More information?

For more information about the implications of the Federal Budget for your own personal circumstances, please call Ace Ilievski on 02 9406 0150.