Money in your pocket

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More personal tax cuts

The Government has confirmed it will deliver in full the tax cuts it announced during the 2007 election campaign. We are expecting the following changes to individual tax rates:

From 1 July 2008:

Taxable Income ($)	Rate (%)
0—6000	0
6,000—34,000	15
34,001—80,000	30
80,001—180,000	40
180,001+	45

From 1 July 2009:

Taxable Income ($)	Rate (%)
0—6000	0
6,000—35,000	15
35,001—80,000	30
80,001—180,000	38
180,001+	45

From 1 July 2010:

Taxable Income ($)	Rate (%)
0—6000	0
6,000—37,000	15
37,001—80,000	30
80,001—180,000	37
180,001+	45

The Government also set an aspirational tax goal over six years for a personal income tax system which reduces the number of rates from four to three with a personal income tax scale of 15%, 30% and 40%.

More for low income earners

From 1 July 2008: the low income tax offset (LITO) is expected to increase from $750 to $1,200. If you're eligible for the full LITO, you will not pay tax until your taxable income exceeds $14,000.

From 1 July 2009: LITO is expected to increase from $1,200 to $1,350. If you're eligible for the full LITO, you will not pay tax until your taxable income exceeds $15,000.

From 1 July 2010: LITO is expected to increase from $1,350 to $1,500. If you're eligible for the full LITO, you will not pay tax until your taxable income exceeds $16,000.

Medicare levy thresholds

Low income thresholds

With effect from ***1 July 2007***, the Medicare levy low income thresholds will be increased to:

- $17,309 for individuals;
- $29,207 for individuals who are in families; and
- $22,922 for pensioners below Age Pension Age.

Surch*arge thresholds*

With effect from ***1 July 2008***, the Medicare levy surcharge thresholds will increase:

- for singles from $50,000 to $100,000; and
- for those who are members of a family from $100,000 to $150,000.

Directors: Darren Brealey, Steven Quill, Zane Kenny, Martin Williams
Senior Accountants: Erica Grant, Mark Murphy, Jane Wan, Trish Murrell, Brenden Edwards
Accountants: Craig Green, Lauren Garbutt, Matthew Gooden, Fay Chai, Jamie Battigelli, Michelle Moe, Joanne Snow
Bookkeepers: Christine Stewart, Sandra Daff-Gibson
Personal Assistants: Alex Anderson, Ashlee Morter
Adminstration Team: June Griffiths, Donna Brealey, Karen Gismondi, Sue Fee, Jessica Gilbert, Catherine Daff

Federal Budget 2008-09

In addition to tax cuts, key changes announced in the Budget impacting on individuals include:

New education tax refund

We are expecting a new refundable tax offset, the Education Tax Refund (ETR), to help you with education costs.

Who can claim it?

Families receiving Family Tax Benefit (Part A) with children undertaking primary or secondary school studies, including eligible families of registered home-schooled students.

It's also proposed to extend eligibility to situations where children are undertaking primary or secondary school studies and they:

- would otherwise be eligible to be a Family Tax Benefit (Part A) child but for the fact they are living independently of their parents; or
- are in receipt of an eligible allowance (including the Youth Allowance, ABSTUDY, the Student Financial Supplement Scheme).

How much can you claim?

An eligible family may be able to claim a 50% refund every year for eligible education expenses up to:

- $750 for each child undertaking primary studies (a maximum refundable tax offset of $375 per child, per year); and
- $1,500 for each child undertaking secondary studies (a maximum refundable tax offset of $750 per child, per year).

Tip – what you can claim

If you're eligible, you will be able to recoup the cost of purchases for things like laptops, home computers and associated costs, home internet connection, printers, education software, trade tools for use at school, school text books and stationery.

When can you claim it?

The ETR will apply to expenses incurred from 1 July 2008 and can be first claimed on the lodgement of your 2008–09 income tax return.

Increase in childcare tax rebate

From ***1 July 2008***, we are expecting an increase in the current level of childcare tax rebate from 30% to 50%.

This could result in an annual rebate of up to $7,500 of eligible out of pocket costs per child. The rebate will be paid to you quarterly rather than annually.

Tightening Family Tax Benefit access

From 1 July 2008, Part B of the Family Tax Benefit will only be available to families whose principal earner has a taxable income of up to $150,000.

Tighter access to dependency offsets

From ***1 July 2008***, an indexed income threshold of $150,000 will apply to determine your eligibility for the following dependency tax offsets:

- Dependent Spouse
- Housekeeper
- Child Housekeeper
- Invalid Relative
- Parent/Parent.

From ***1 July 2009***, the Government also plans to align the definition of income for these offsets with the definition of income applying to family assistance payments.

Employee share schemes

Currently, if you participate in an employee share scheme (ESS), or are considering it, the tax laws allow you to choose between two tax concessions in respect of shares or rights you acquire under a qualifying ESS:

- *an upfront tax concession* where you are only assessed on any discount (where it exceeds $1,000) provided by your employer on the shares or rights in the income year the shares or rights are acquired; or
- *a tax-deferred concession* where you can defer taxation, which generally is the earlier of 10 years or when any restrictions or conditions placed on your shares or rights are lifted.

You should be aware that from ***1 July 2008*** there will be some changes to the election requirements for ESS's. If you want to make an election to be taxed under the upfront tax concession, then you:

- must include the value of the discount (where it exceeds $1,000) in your tax return for the year of income your shares or rights were acquired; otherwise
- if you don't include this amount in your tax return as required you will be taken to have chosen to be taxed under the tax-deferred option.

Other bits and pieces

Rent assistance

With effect from ***1 July 2007***, the Government plans to provide a tax exemption for rent assistance paid to Austudy recipients.

Apprentices

With effect from ***1 July 2008***, we are expecting an income tax exemption of up to $1,000 to apprentices who receive early completion bonuses in skill shortage occupations from the Queensland Government.

Carers

From ***1 July 2007***, the Government plans to provide an income tax exemption for the Carer Adjustment Payment (CAP).

The CAP provides financial assistance to families who have a child, aged up to six years, who has suffered a catastrophic event at some point after 1 January 2007.

Baby bonus

From ***1 January 2009***, we are expecting the introduction of means testing for the lump sum baby bonus.

Household climate change initiatives

The Government announced its intentions to provide:

- a means tested rebate up to $8,000 to households for solar power system installation;
- low-interest 'Green Loans' of up to $10,000 to home owners for the installation of energy efficient products (energy, water and solar); and
- a rebate (maximum $500) for landlords for insulation installation.

First home saver accounts

The Government has honoured its 2007 election commitment to introduce a First Home Saver Account (FHSA).

This initiative is designed to encourage tax effective saving for contribution towards the cost of acquiring your first home.

Some of the key features of the FHSA initiative will be:

- concessional taxation at a rate of 15% on the interest on savings accumulated and used to purchase a first home;
- the FHSA will be capped - you will not be able to make further contributions once the balance of your FHSA account reaches $75,000; and
- the Government will also make a 17% co-contribution to your FHSA (up to the first $5,000 of your annual contributions to the account).
- It's proposed that the FHSA initiative will be in place with effect from ***1 October 2008***. We will give you an update on this initiative once it becomes law.

Planning for your tax return

With 30 June 2008 fast approaching, it's time to get serious about looking at what shape your tax affairs are in so you are prepared for this year's tax return.

Four step guide to return preparation

Step 1: Get your records straight

To help prepare your tax return so you can be confident that it accurately reflects your optimum tax position, the starting point is assembling all your tax records. You will need to put together all the relevant records, which will include things like evidence of:

- your income (eg, Payment Summaries for your salary and wages, dividend and interest income statements, rental property income, and any information on the sale of any of your assets during the year like the sale of an investment property or shares); and
- your allowable deductions (eg, invoices, receipts of expenditure).

Step 2: Identify your assessable income

Keep in mind that your total assessable income could well be more than just your salary. If you have investment income (eg, interest or dividends) or cash income (eg, tips and gratuities), make sure you keep a record of them and let us know about them.

If you're not sure whether some income you have received is taxable, it's best to tell us about it so we can work out the correct tax treatment for you.

Here is a checklist of some of the more common types of assessable income:

- salary and wages
- tips, bonuses and gratuities
- interest income
- dividends
- allowances provided by your employer
- pensions or annuities
- lump sum payments
- capital gains on any asset sales during the year.

Work related deductions

If you are going to claim more than a total of $300 worth of work-related deductions, you will need to be able to substantiate how you worked out the full amount. If the total amount of your work related expenses is $300 or less, you don't need written evidence to prove your claim – but the ATO can still ask you how you worked it out!

Step 3: Maximise your tax deductions

As an employee, you may be able to claim a range of work related expenses, as well as some non-work related items like donations of more than $2 to an approved charity.

Here is a checklist of some of the more common work-related deductions:

- special work clothing
- subscriptions and union dues
- self education expenses relevant to your current employment
- work-related travel expenses
- home office expenses.

Step 4: Make the most of tax offsets

As with previous years, the ATO is still finding that taxpayers are not taking advantage of a number of rebates (now called “tax offsets”) and other concessions.

Tax offsets can reduce any tax you may have to pay on your taxable income and can in some instances even result in a refund.

Make sure you get advice to ensure you are not overlooking an offset that may be of benefit to you (such as the *medical expenses offset if your out of pocket medical expenses exceed $1,500*).

ATO targets hot-spots

In preparing the information for your 2007-08 tax return, you should be aware that the ATO continues to have a number of data-matching programs on the boil at present.

Financial information data matching (like interest and dividends) is on the cards again this year.

Also , ***the ATO is targeting owner builders***, starting out with matching NSW Fair Trading and Victoria’s Building Commissioner records on 75,000 builders against data collected from other sources.

Consider some forward planning

This is also the time of year when you should be considering some forward planning in readiness for the next tax year.

Given the expected changes to the personal income tax rate scales over the next couple of years, it would be prudent for you to review your current salary packaging arrangements with your employer now in readiness for the new financial year.

Important: This is not advice. Clients should not act solely on the basis of the material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential.