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TAXtalk

The Newsletter that helps you Minimise Tax & Maximise Wealth

2006 Federal Budget – at a glance

Treasurer Peter Costello delivered his 11th budget on 9 May 2006 and made some significant announcements potentially affecting most people including many workers, families, pre-retirees, and social security recipients.

Major announcements included:

- Personal tax cuts (proposed from July this year);
- Effective removal of end benefits tax and tax on most super pensions for those aged 60 and over (proposed from July next year);
- Significant reduction in Assets Test taper rate for social security assessment (proposed from September next year).

Personal taxation changes

The Government has proposed changes to the personal tax rates and income thresholds that will come into effect on **1 July** 2006, as summarised in the following table:

Proposed thresholds (2006/07)#	**Tax rate**
$0 - $6,000	0%
$6,001 - **$25,000**	15%
$25,001 - $75,000	30%
$75,001 - $150,000	**40%**
$150,001+	**45%**

Note:
These changes override the changes announced in the 2005 Federal Budget.

Other taxation changes

- From 1 July 2006, the low income tax offset will increase from $235 to $600 and will begin to phase-out from $25,000.
- The Medicare levy low income phase-in rate will be reduced from 20% to 10%.
- The fringe benefits tax will also be reduced from 48.5% to 46.5% from 1 April 2006.
- The removal of the part-year tax-free threshold for resident taxpayers ceasing full-time education for the first time. This will allow immediate access to the full $6,000 tax-free threshold.
- From 1 July 2006, senior Australians who receive the Senior Australians Tax Offset (SATO) will be able to earn more income without paying tax.
  Singles will be able to have taxable income $24,867 and couples $41,360. The Medicare levy thresholds that apply to senior Australians will also be increased.

Superannution

Australians aged 60 and over who have already paid tax on their superannuation contributions and earnings will no longer pay superannuation benefits tax from 1 July 2007.

As part of the superannuation reform there will also be reform of the pension assets test taper rate which will reduce from $3 to $1.50 per fortnight for every $1,000 of assets above the free area with effect from 20 September 2007.

Contents

2006 Federal Budget – at a glance (cont)

Small Business

The Government will make changes to taxation rules affecting small business.

The measures include:

- Increasing the STS average annual turnover threshold from $1 million to $2 million and removing the $3 million depreciating assets test from the STS eligibility requirements.
- Increasing the in-house fringe benefits tax-free threshold from $500 to $1,000.
- Raising the diminishing value rate under the uniform capital allowance (UCA) regime for determining depreciation from 150% to 200% for all eligible assets. (effective 10 May 2006)

Family Tax Benefit

The Government unveiled changes to Family Tax Benefit Part A, lifting the amount families can earn and still receive the maximum amount.

Last year the Government announced that it will increase the amount from $33,361 to $37,500 from 1 July 2006.

Instead this will now be increased to $40,000.

The Government will also expand eligibility for the Large Family Supplement to include families with three children with effect from 1 July this year.

From 1 July parents will be eligible the new Childcare Rebate. This will be 30% of out of pocket childcare expenses up to $4,000 per child per annum.

Strategies to save tax this financial year

While this year's Budget included new measures to assist families, there are four existing strategies Australians can make to save tax this financial year.

Manage Capital Gains Tax (CGT)

When disposing an asset keep the following in mind. When you sell an investment and make a capital gain, you are liable for CGT in that year. Deferring the sale puts off the tax liability for another 12 months. However, if you sell an investment and make a capital loss, this can offset capital gains made on other assets. So, review your investments with tax in mind before the end of the financial year to determine the time to sell.
Note: CGT is calculated based on date of exchange and not settlement for real estate CGT events.

Consider Spouse Contributions

If your spouse does not work or earns a low income, you may be able to make a contribution to their superannuation fund and receive a tax offset.
The maximum possible offset is $540 ($3,000 x 18%).
Note: your spouse must receive $10,800 or less of assessable income and reportable fringe benefits per annum to be eligible for the offset.

Deductible Superannuation Contributions

Those who are self-employed and making personal superannuation contributions currently have the opportunity to receive a tax offset for 100% of the first $5,000 and 75% for any amount exceeding $5,000.
Note: age based deduction limits apply.

Receive Super Co-contribution

Since 1 July 2004, individuals on incomes of up to $58,000 maybe eligible to receive a tax free super co-contribution from the Government.
To be eligible, you must:

- Have assessable income up to $58,000 (i.e. assessable income plus reportable fringe benefits).
- Earn up to 10% of your income as an employee.
- Be under age 71 at 30 June 2006 if making a contribution in 2005/2006.

The Government co-contribution is made directly to your super fund, at a rate of $1.50 for every $1, provided your total income is less than $28,000. For every dollar after $28,000 the co-contribution reduces by 5 cents. It phases out altogether when your total income reaches $58,000.

*Before adopting any of the above strategies consult a professional advisor for more information.

Tax time

It's that time of year again where millions of taxpayers go through drawers and shoeboxes crammed with receipts to complete the 2006 tax return. While many will attempt to complete their own tax return, others will avoid the hassle of ripping their hair out and go to a tax agent.

To have your tax return prepared you will need:

- Your payment summary or summaries for the 2005-2006 year.
- Details of any other income, such as bank interest or share dividends you have received.
- Knowledge of what you are entitled to claim for work-related expenses, investment expenses etc.
- Receipts and records to back up your claims.
- To make sure you are on our ATO client list by October 31 if you wish to lodge after the due lodgement date.

Checklists

At Valsamis & Associates we have prepared a checklist of items you will need to bring with you at tax time when you meet with us. These checklists can be downloaded from our website www.valsamisandassociates.com.au

Note: the lists attempt to cover most of the more common tax return items; however, they are not complete lists and we may require further clarification or additional information.

Five deductions widely available

1. Donations of $2 or more to registered charities..
2. Costs of self education if it relates to your current work (as opposed to finding a new job).
3. Sun protection products (i.e. sunscreen lotion, sunglasses and hats) used by outdoor workers.
4. If you are using the internet for income-producing activities – including share trading – you may be able to claim part of the cost of internet access.
5. Premiums for income protection insurance.

Occupational guides

The Australian Taxation Office has prepared occupational guides covering the following 16 occupations:

- Airline employees
- Australian Defence Force members
- Building workers
- Cleaners
- Factory workers
- Hairdressers
- Hospitality industry employees
- Journalists
- Lawyers
- Nurses
- Performing artists
- Police officers
- Real estate employees
- Shop assistants
- Teachers
- Truck drivers

For a copy of these publications please contact our office or visit the ATO's website www.ato.gov.au

Key dates

JULY

14th	Last day for payers of payments covered by PAYG withholding rules made during 2005-2006 to provide payment summaries to recipients
21st	Monthly BAS and IAS payments for June 2006 due
	PAYG withholdings from payments made in June 2006 by medium payers due
	PAYG withholdings from payments made during June 2006 quarter by small payers due
	Payment of 2nd instalment due for 2005-2006 for PAYG quarterly payers eligible to make 2 instalments annually rather than 4
28th	Payment of 4th instalment for 2005-2006 income year for deferred BAS payers
	PAYG withholdings from payments made in June 2006 by medium payers who are deferred BAS payers due
	PAYG withholdings from payments made during June 2006 quarter by small payers who are deferred BAS payers due
	Super Guarantee Contributions - last day for employer payments
31st	Last day for lodgment of 2005-2006 franking account return and payment of franking deficit tax and over-franking tax

AUGUST

14th	Payment summaries - originals to be forwarded to ATO
	Super Guarantee Charge - due date
21st	Monthly BAS and IAS payments for July 2006 due

SEPTEMBER

21st	Monthly BAS and IAS payments for August 2006 due

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