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2008 Budget Summary

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Introduction

On 13 May 2008, the federal government delivered its budget for 2008-09 and in the process, outlined its plans for the future of Australia and its people. Significantly, this was the first budget to be delivered by a Labor government since 1995.

In the lead up to this budget, there was considerable talk about whether the Rudd government would use the opportunity to stamp its mark on the future. The Prime Minister is on record as saying this budget would not just be about the next year, or even the three years of their current term, but would lay the foundations for addressing the challenges faced by Australia over the next 20 years. Only time will tell how successful they have been.

Labor's first budget in 13 years has promised to assist working families, boost infrastructure spending and increase investment in education and healthcare. Wayne Swan's first budget has also maintained its pre-election promises including the introduction of personal tax cuts from 1 July 2008.

The 2008 Federal Budget contained no major surprises, with many of the measures re-iterating previous announcements (including personal tax cuts). Importantly, the budget included a number of changes to taxation, superannuation and family benefits.

These announcements include changes to the baby bonus, definition of income in relation to the Government co-contribution and small business CGT concessions.

This Budget Briefing provides a summary of the relevant Budget announcements and their potential impact to our subscribers.

For a quick reference to the key changes, a summary has been provided at the back of this document.

Taxation

Personal income tax – from 1 July 2008

Personal income tax cuts
he 2008 Budget announcements regarding tax cuts were simply a restatement of the *Tax Laws Amendment (Personal Income Tax Reduction) Bill 2008* which proposes cuts to personal income tax rates and increases to the low income tax offset. The Bill has been passed by the House of

Representatives and the Senate Standing Committee on Economics has recommended the Bill be passed by the Senate without amendment.

Current – 2007/08		**Proposed – 2008/09**		**Proposed – 2009/2010**	
Tax Rate	Threshold ($)	Tax Rate	Threshold ($)	Tax Rate	Threshold ($)
0%	$0 - $6,000	0%	$0 – $6,000	0%	$0 – $6,000
15%	$6,001 – $30,000	15%	$6,001 – **$34,000**	15%	$6,001 – **$35,000**
30%	$30,001 - $75,000	30%	**$34,001** - **$80,000**	30%	**$35,001** - $80,000
40%	$75,001 - $150,000	40%	**$80,001 - $180,000**	40%	$80,001 - $180,000
45%	$150,001 +	45%	**$180,001 +**	45%	$180,001 +

Extension of Low Income Tax Offset (LITO)

From 1 July 2008 the low income tax offset is to increase to $1,200 from $750, reducing once taxable income reaches $30,000 and cutting out once it reaches $60,000. It will further increase to $1,350 from 1 July 2009 and $1,500 from 1 July 2010.

Impact on Senior Australians Tax Offset (SATO)

For senior Australians who qualify (based on age, income and other eligibility criteria) for SATO, changes to the personal income tax thresholds from 1 July 2008 will mean that a single senior Australian will not have an income tax liability unless their taxable income exceeds the following levels:

The amount of income a senior Australian eligible for SATO can earn before incurring a tax liability will increase to –

- $28,867 for singles (up from $25,867)
- $24,680 for each member of a couple (up from $21,680).

	Current – 2007/08	**Proposed – 2008/09**	**Proposed – 2009/2010**	**Proposed – 2010/2011**
Single person	$25,867	$28,867	$29,867	$30,685
Couple combined	$43,360	$49,360	$51,360	$53,360

Changes will also be made to Medicare levy thresholds for SATO recipients to ensure they do not pay the Medicare levy until their taxable income surpasses these new 'tax-free thresholds'.

Tips / Strategy

Retirees who are eligible for both SATO (ie. are over age or service pension age) and LITO will be able to earn taxable income of $28,867 p.a. if they are single and $49,360 p.a. as a couple (combined income) before paying income tax.

Retirees who are eligible for LITO and the pension tax offset (PTO) (ie. are under age 60 and receiving superannuation retirement income) will be able to earn taxable income of $44,210 p.a. if they are single and $88,420 p.a. as a couple (combined income) before paying income tax. This is in addition to the tax-free component of any such superannuation retirement income.

Retirees and others who are eligible for LITO only (ie. are not yet age or service pension age and receive non-superannuation retirement income) will be able to earn taxable income of $14,000 p.a. if they are single and $28,000 p.a. as a couple (combined income) before paying income tax.

Medicare levy surcharge threshold

From 1 July 2008 the 1% Medicare threshold for singles will increase from $50,000 to $100,000. The family threshold will increase from $100,000 to $150,000.

Medicare levy low income threshold

These thresholds will increase for the 2007/08 financial year for singles to $17,309 (up from $16,740) and for members of a family this rate will increase to $29,207 (up from $28,247). Each dependant child or student's rate will increase from $2,594 up to $2,682. The rate for pensioners below age pension age will increase from to $22,922 (up from ($21,637).

Family Trusts

The Government will reduce the scope for family trusts to be used to lower income tax by utilising losses. The Government will change the definition of family in the family trust election rules to limit lineal descendants to children or grandchildren of the test individual or of the test individual's spouse. This will have effect from 1 July 2008.

This measure will also preclude family trusts making a once-off variation to the test individual specified in a family trust election (other than in relation to a marriage breakdown). This will have effect from the 2007-08 tax year.

Amendments to the definition of income for various taxation concessions and measures – from 1 July 2009

As part of a range of measures designed to 'means test' government support in various areas, the definition of income will be amended to include:

- certain salary sacrifice super contributions. The taxation measures this will apply to include family assistance, child support, superannuation co-contributions and financial and retirement savings assistance delivered through the tax system.

- net losses from investments. This includes both net financial investment losses and net rental property losses. This measure will expand the definition of adjusted taxable income to include net financial investment losses. The measure will also expand the definition of income used for particular tax programs to include net rental property losses and net financial investment losses. Affected tax programs include the Senior Australians Tax Offset, Medicare levy surcharge and dependency tax offsets.

- reportable fringe benefits. The Government will expand the definitions of income used to determine eligibility for certain tax offsets to include reportable fringe benefits. This measure will expand the income definitions used for the dependant tax offsets, senior Australians tax offset and pensioner tax offset to include reportable fringe benefits.

Tightening eligibility for dependant tax offsets – from 1 July 2008

The Government will introduce an income threshold of $150,000 (indexed from 1 July 2009) for the claimant to determine eligibility for the Dependent Spouse, Housekeeper, Child Housekeeper, Invalid Relative and Parent/Parent-in-law tax offsets. From 1 July 2009, the Government will align the definition of income for these offsets with that applying to family assistance payments.

Capital gains tax — cancellation of interests in widely held entities – from 1 July 2006

The Government announced it will allow taxpayers to calculate their capital gains or losses using the actual proceeds received where shares or units in widely held entities are cancelled or surrendered, with effect from the 2006-07 income year.

The current tax law provides that when shares or units in widely held entities are cancelled, surrendered or similarly brought to an end, a taxpayer is required to calculate any capital gains tax liability using the asset's market value rather than the proceeds they actually receive.

This measure ensures that for shares or units in widely held entities, any capital gains tax liability will be calculated according to the proceeds that the taxpayer receives, rather than the share or unit's market value at the time of cancellation.

Review of Australia's tax system

The Government will conduct a comprehensive review of Australia's tax system. There has not been a comprehensive review of the Australian taxation system, including state taxes, for at least the last 50 years.

The review will encompass Australian Government and State taxes, except the GST, and interactions with the transfer system, and will consider:

- The balance of taxes on work, investment and consumption and the role for environmental taxes;
- Further enhancements to the tax and transfer system facing individuals, families and retirees;
- The taxation of savings, assets and investments, including the role and structure of company taxation;
- The taxation of consumption and property and other state taxes;
- Simplifying the tax system, including the interactions between federal, state and local government taxes; and
- Interrelationships between the elements of the tax system, as well as the proposed emission trading system.

In doing so the review will reflect the government's policy not to increase the rate or broaden the base of the goods and services tax (GST); preserve tax-free superannuation payments for the over 60s; and the Government's announced aspirational goals for personal income tax.

The review panel will consult the public to allow for community and business input and will also, where necessary, draw on external expertise and shall have the co-operation of State Governments and their Treasuries as well as relevant COAG working groups.

The review will be conducted in several stages. An initial discussion paper will be released by the end of July 2008. The review panel will provide a final report to the Treasurer by the end of 2009.

Extension of small business CGT concessions

With effect from 1 July 2007, access to the small business CGT concessions will be increased for:

- Taxpayers owning a CGT asset used in a business by a related entity, and
- Partners owning a CGT asset used in the partnership business.

The current small business entity test does not cover business structures where the CGT asset is owned by an entity but is used in a related entity which carries on the business. In addition, for partnerships, there is currently a requirement that the taxpayer making the capital gain is a partner in the partnership and for the asset to be an asset of the partnership.

Tips / Strategy

Review small business CGT assets sold in the 2007/08 financial year as they may now qualify for the CGT small business concessions resulting in a reduction in CGT and the ability to make CGT contributions to super up to the $1million CGT cap. Ensure that the appropriate election is made in the client's tax return by the due date and the CGT cap election form is lodged if a CGT exempt amount is to be contributed to super.

Foreign residents and distributions from managed investment funds

New withholding tax rules will be introduced for payments of Australian sourced net income (other than dividends, interest and royalties) made from Australian managed funds to non-resident investors.

The nature of the new withholding tax regime will vary depending on whether the foreign investor is a resident in a country with which Australia has effective exchange of information arrangements on tax matters. These countries will be specified in regulations.

Such payments to residents of these countries will be subject to a:

- First income year (after legislation is enacted): 22.5% non-final withholding tax for fund payments of the first income year
- Second year income subject to 15% final withholding tax
- Third and further years are subject to a final withholding tax of 7.5%

An interim measure will apply in the first income year allowing investors resident in these countries to claim deductions for expenditure relating to fund payments with the net amount being subject to tax at 22.5%.

Payments to residents of countries with which Australia does not have an effective exchange of information arrangement will be subject to a 30% final withholding tax.

The above measures are to apply from the first income year commencing after the enabling legislation receives Royal Assent (expected to be 2008/09) and covers distributions made directly and through other intermediaries (including custodians) to non-resident investors.

Fringe Benefit Tax (FBT) and work related items

Prior to the budget, it was possible for employees to salary sacrifice certain work-related items, such as laptops, electronic diaries, personal digital assistants and briefcases. To ensure consistency with current rules applying to mobile phones, software and protective clothing, the exemption will now only be available where these items are used primarily for work purposes. For FBT-exempt items already purchased, employees will no longer be able to claim depreciation on the work-related percentage of these items from the 2008/09 income year.

Also the law will be amended to disallow employees from claiming depreciation for the work related percentage of FBT exempt items. This will prevent taxpayers from gaining a double benefit. Other FBT changes have been proposed to apply to meal cards and jointly held assets.

These proposed changes to the FBT exemption for work related items will apply to items purchased after 13 May 2008.

Tip

Ensure work related items purchased in the future are used primarily for work related purposes.

Employee share schemes

Based on perceived integrity issues with employee share schemes, the Government has announced it will introduce measures to ensure that, where an election to be taxed on shares up-front is made, the amount above the $1,000 exemption must be included in the client’s tax return. Additionally, an anomaly that may cause double taxation in certain employee share schemes using employee share trusts is to be removed.

Superannuation

Salary sacrifice and co-contributions

From 1 July 2009 the definition of income used to determine eligibility to the superannuation co-contribution will be expanded to include income that's salary sacrificed to superannuation.

Therefore, investors that have implemented a salary sacrifice strategy and who make non-concessional contributions to attract the co-contribution can continue to do so for both the 2007/08 and 2008/09 financial years. However, from 1 July 2009 investors who salary sacrifice will need to review their eligibility to the co-contribution taking as their income for the purpose of co-contribution calculation will now include the salary sacrificed and potentially reducing the co-contribution received.

Tips / Strategy

From 1 July 2009 investors who salary sacrifice to super and who make non-concessional contributions may wish to consider increasing their pre-tax salary sacrifice contributions to make up for the loss/reduced co-contribution.

For example, an investor on the 30% tax rate who would have otherwise made a $1,000 non-concessional contribution to attract the co-contribution, but who would cease to be eligible from 1 July 2009, could consider increasing the amount they salary sacrifice by $1,460. This would leave them with the same amount of after-tax salary and wages as if they had paid tax on this amount and then contributed the balance ($1,000) as a non-concessional contribution. However, this salary sacrifice contribution will only partially compensate for the reduced co-contribution entitlement.

Superannuation clearing house

The Government has announced it will provide funding over three years to establish an optional superannuation clearing house for employer superannuation contributions.

The clearing house will allow businesses to pay their superannuation guarantee payments direct to one location which will then redirect the payments to the relevant super fund chosen by their employees. The service is proposed to be available from 1 July 2009 and will be free of charge to businesses with less than 20 employees and on a fee for service basis to larger businesses.

Importantly, the Government has confirmed that businesses that use the clearing house facility will have their legal obligation to make superannuation contributions discharged when the payment of the correct amount is made to the clearing house. This ensures that employers that make contributions to the clearing house before the quarterly Super Guarantee (SG) deadline will not have an SG charge where the amount is not remitted to the relevant super fund until after the SG deadline. However, this treatment does not appear to be extended to other private sector clearing house facilities.

Tax free lump sums for persons with a terminal medical condition

The Government has announced it will back date to 1 July 2007 the commencement of the previously announced measures to allow tax free superannuation lump sums for people suffering terminal a medical condition.

This measure had a previous start date of 12 September 2007.

Family Benefits

50% Education Tax Refund

As previously announced, from 1 July 2008, eligible parents will be able to claim a 50% refund every year for up to:

- $750 of education expenses for each child attending primary school (ie a maximum refund of $375 per child, per year).
- $1,500 of education expenses for each child attending secondary school (ie a maximum refund of $750 per child, per year).

These amounts will be indexed annually from 1 July 2009.

All families who receive Family Tax Benefit – Part A will be eligible and can apply through their tax return. The first payment (in respect of the 2008/09 financial year) will be payable from 1 July 2009.

Baby Bonus

From 1 July 2008 the Baby Bonus will increase to $5,000 (indexed by CPI on each 1 July).

- An income test will be introduced, which will mean that to receive the bonus, the family's adjusted taxable income must be no greater than $75,000 in the 6 months after the birth of the child (or $150,000 annualised).

- The bonus will be paid in 13 fortnightly instalments and will also be available to parents who adopt a child under 16 years of age.

Families with newly adopted children aged from 2 to 16 years will also be eligible for the Baby Bonus from 1 January 2009.

Family Tax Benefit - Part B

The Government has announced that it will limit eligibility for Family Tax Benefit Part B to families where the primary earner has an annual adjusted taxable income of $150,000 or less. Adjusted taxable income includes taxable income, plus other amounts that reflect a person's financial means, such as net rental property losses and tax free pensions or benefits. The proposed income test will be indexed annually by the consumer price index (CPI).

Currently for two parent families, the income of the main earner is not taken into account. It is the income of the lower earner that affects how much Family Tax Benefit Part B the family will receive. For the current quarter ending 30 June 2008, the lower earner can earn up to $4,380 each financial year before it affects their FTB part B. Payments are reduced by 20 cents for each dollar of income earned over $4,380.

Other changes to Family Tax Benefit

From 1 July 2009, the Family Tax Benefit will only be paid and claimed through Centrelink and Medicare, and not through the tax system. This should simplify the claiming arrangements for families. Families will still be able to choose between lump sum claims made at the end of the year and fortnightly instalments.

From 1 July 2009, a continuous adjustment measure will be installed to avoid over payments of FTB and the need for families to pay back FTB benefits, when families advise during the year that their income estimates has increased.

From 1 July 2009, the government will prohibit people from receiving FTB by instalment where the individual has an FTB non-lodger debt. The prohibition will remain in place until all outstanding non-lodger debt for an individual is resolved. Recipients will still remain eligible for FTB, however the only payment method available will be a lump sum paid through Centrelink once the customer's actual annual income has been verified.

Child Care Tax Benefit

The Government confirmed that, from 1 July 2008, they will:

- Increase the child care tax rebate from 30% to 50% of eligible expenses.
- Lift the rebate limit from $4,354 to $7,500 per child.
- Pay the rebate quarterly, rather than annually.

This payment is not subject to any asset or income test. Currently, the payment will be made by the Family Assistance Office at the end of the financial year in which the child care costs were incurred, following the lodgement of the claimant's tax return and once the child care service(s) has reported the usage and claimant's out-of-pocket expenses.

Social Security

Income test to include salary sacrifice super contributions

From 1 July 2009 the definition of income that is used to determine eligibility for government support programs will include certain salary sacrificed superannuation contribution. The measure affects government support programs such as income support payments for people below Age Pension age, family assistance, child support and financial and retirement savings assistance delivered through the tax system.

Seniors Concession Allowance — increase

The annual rate of the Seniors Concession Allowance has been increased from $218 to $500. This increase is available to those who qualify for the Seniors Concession Allowance as of 20 March 2008. The allowance will be paid to Commonwealth Seniors Health Card holders and certain Department of Veterans' Affairs Gold Card holders. The allowance will be paid quarterly, rather than twice a year, to better align payments with incoming bills.

Commonwealth Seniors Health Card

The Government has proposed to change the Commonwealth Seniors Health Card income test to include gross income from superannuation income streams from a taxed source and include income that is salary sacrificed to superannuation in the income assessment.

The Commonwealth Seniors Health Card provides a range of benefits to self funded retirees who do not qualify for the Aged Pension but have an adjusted taxable income of less than $50,000 (for singles) or $80,000 (for couples combined income). Currently, incomes from superannuation income streams from a taxed source are disregarded when assessing entitlement to a CSHC.

This measure is proposed to be implemented from 1 July 2009 and is aimed at having a more equitable treatment of people in similar circumstances with similar levels of income.

Concession Cards
Commencing 1 July 2008, concession cards issued by the Australian Government will no longer be cancelled when the cardholder travels overseas for short periods (generally up to 13 weeks).

Department of Veteran Affairs - Income Support Supplement

From July 1 eligibility for the Income Support Supplement will be extended to all War Widow and War Widower pension recipients without children, regardless of age. Previously Income Support Supplement was only paid to the War widowers who had reached age pension age.

Other announcements

First Home Saver Accounts – from 1 October 2008

The Government provided confirmed it will introduce legislation from 1st October 2008 to allow the implementation of First Home Savers Accounts. The main features as outlined in its consultation paper in February this year are -

- A proposed start date of 1 October 2008 (instead of 1 July 2008).
- Individuals must be between 18-65 years of age and never have previously bought or built a home in which to live.
- Eligible individuals will be able to make post-tax contributions into a First Home Saver Account. Personal contributions can continue to be added until the account balance reaches $75,000 (indexed), this contrasts with the initial proposal that capped contributions at $50,000.
- Earnings on the account will be concessionally taxed at 15%.
- Individuals must make personal after-tax contributions of at least $1,000 in each of four separate financial years. Tax free withdrawals from the account to purchase or build a first home in which to live can only be made after contributions of at least $1,000 have been made in at least four separate financial years.
- A Government contribution of a flat 17% will be paid on the first $5,000 (indexed) contributed. This replaces the initially proposed Government contribution of at least 15% and up to 30%. The Government contribution is made in arrears after the ATO receives tax reports from FHSA providers and the income tax returns of FHSA clients.

Removal of differential treatment of same sex couples

The Government has announced that it will remove differential treatment of same sex couples and their children from Commonwealth laws in the following areas:

- Australian Government (defined benefit) super schemes
- social security
- veterans' entitlements
- workplace relations
- workers compensation
- taxation
- health
- immigration and citizenship

Most of the changes are expected to have an effective date of 1 July 2009.

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Appendix - 2008 Federal Budget at a glance

	Proposed Budget Measure	Comments, Tips, Traps & Strategy
Superannuation		
Co-contributions and salary sacrifice	The Government will expand the definition of income that is used to determine eligibility for the government co-contribution, to include certain 'salary sacrificed' contributions to superannuation, with effect from 1 July 2009.	Tip – Salary packaging during the 2008/09 year to access, or increase, the Government co-contribution paid on non-concessional contributions remains unaffected. Trap - This measure not only affects the co-contribution scheme from 1 July 2009, but also government support programs such as income support payments for people below Age Pension age, family assistance, child support, and financial and retirement savings assistance delivered through the tax system.
Tax free lump sums for persons with terminal medical condition	The Government has announced it will back date the commencement of the previously announced measures to allow tax free superannuation lump sums for people suffering terminal a medical condition to 1 July 2007.	This measure had a previous start date of 12 September 2007.
Clearing house	The Government will provide $16.1 million over three years to the ATO to fund a Superannuation Clearing House Facility from 2009/10, to assist in managing employers' obligations to provide super choice to employees.	This facility will be offered free of charge by the Australian Government to small businesses with fewer than 20 employees and on a fee-for-service basis to larger businesses. The facility will be contracted to the private sector.

	Proposed Budget Measure	Comments, Tips, Traps & Strategy
Taxation		
Income tax scales	From 1 July 2008, the 30% threshold will increase from $30,001 to $34,001, the 40% threshold will increase from $75,001 to $80,001 and the 45% threshold will increase from $150,001 to $180,001.	Tip – Review salary sacrifice and transition to retirement strategies for low to medium income earners for tax effectiveness across lower income tax thresholds.
Medicare levy – low income thresholds	The Government will increase the Medicare levy low-income thresholds to $17,309 for individuals and $29,207 for individuals who are in families, with effect from 1 July 2008.	The amount of income a senior Australian eligible for Senior Australians Tax Offset (SATO) can earn before they incur an income tax liability will increase to $28,867 for singles and $24,680 for each member of a couple. The additional amount of threshold for each dependent child or student will also increase to $2,682.
Medicare levy surcharge (MLS)	The Government will increase the MLS thresholds for singles from $50,000 to $100,000 and for those who are members of a family from $100,000 to $150,000, with effect from 1 July 2008.	Trap – Taxpayers within the higher MLS threshold who do not have qualifying private health insurance may inadvertently be subject to the additional 1% MLS upon receipt of a taxable element of a lump sum superannuation payment, employment termination payment or super death benefit if they are a non-dependent beneficiary. These amounts are added to assessable income prior to any tax offset that limits tax payable.
Low income tax offset (LITO)	From 1 July 2008, the LITO will increase from $750 to $1,200. It will reduce once taxable income exceeds $30,000 and cuts out once taxable income reaches $60,000. Those eligible for the full LITO will not pay tax after assessment until their annual income exceeds at least $14,000 (up from the current level of $11,000).	Strategy – This measure provides tax planning incentives to distribute income to a low income earning spouse via joint ownership, tenants in common or family trust structures. Trap – The Government proposes to limit the use of the family trust as a tax planning tool by changing the definition of family to limit lineal descendants to children or grandchildren of the test individual or of the test individual's spouse. This measure will have effect from 1 July 2008.

Senior Australians tax offset (SATO)	Senior Australians eligible for SATO and LITO currently do not pay tax until they reach an annual income of at least $25,867 for singles and $21,680 for each member of a couple. From 1 July 2008, these income levels will be lifted to $28,867 for singles and $24,680 for each member of a couple.	Trap - The Government will expand the definitions of income used to determine eligibility for certain tax offsets to include reportable fringe benefits, with effect from 1 July 2009. This measure will expand the income definitions used for the dependency tax offsets, senior Australians tax offset and pensioner tax offset to include reportable fringe benefits. Currently, the senior Australians tax offset and pensioner tax offset use taxable income in their income definition. Eligibility for the dependency tax offsets is determined on the basis of the dependant's income.
Capital gains tax and interests in widely held entitles	The Government will allow taxpayers to calculate their capital gains or losses using the actual proceeds received where shares or units in widely held entities are cancelled or surrendered, with effect from the 2006/07 income year.	The current tax law provides that when shares or units in widely held entities are cancelled, surrendered or similarly brought to an end, a taxpayer is required to calculate any capital gains tax liability using the asset's market value rather than the proceeds they actually receive.
Capital gains tax for small business	The Government will increase access to the small business capital gains tax (CGT) concessions for taxpayers owning a CGT asset used in a business by a related entity and for partners owning a CGT asset used in the partnership business, with effect from the 2007/08 income year. In addition, for partnerships, the small business entity test requires the taxpayer making a capital gain to be a partner in the partnership and for the asset to be an asset of the partnership. This measure will allow these structures and assets to qualify for the CGT small business concessions.	Currently, the small business entity (ie. $2 million annual turnover) test does not cover business structures where the CGT asset is owned by an entity but is used in a related entity which carries on the business. *Note: The alternative maximum net asset value test of $6 million will continue to apply to these related entities.* Tip - Check eligibility to the concessions for prior CGT events and active assets in the 2007/08 year.
Fringe benefits tax (FBT)	The Government will tighten the current FBT exemption for certain work-related items (including laptop computers, personal digital assistants and tools of trade) by ensuring the exemption only applies where these items are used primarily for work purposes. The FBT exemption will generally be limited to one item of each type per employee per year. The Government has also announced	Trap - The Government will also deny employees depreciation deductions for FBT exempt items (that is, items purchased primarily for work purposes) purchased from 7.30 pm (AEST) on 13 May 2008. For items purchased before that time, employees will be denied depreciation deductions for the 2008-09 and later income years. This measure will ensure that employees are no longer able to gain a double benefit by obtaining an FBT

	that the FBT law will be amended to ensure it applies appropriately where an employer provides an employee and their associate with a fringe benefit in relation to a jointly held investment asset (for example, a low interest loan or reimbursement of expenses related to a rental property or shares). The above measures will take effect from 7.30pm (AEST), 13 May 2008.	exempt item (such as a laptop computer) from their pre-tax income, and then claim a deduction for depreciation.
Withholding tax on certain distributions of Australian managed investment trusts to foreign residents	The Government will replace the existing 30 per cent non-final withholding tax applying to distributions of Australian source net income (other than dividends, interest and royalties) of Australian managed investment trusts to foreign residents with a final withholding tax regime. The measure will have effect for fund payments made in relation to the first income year after the date of Royal Assent of the enabling legislation, intended to be the 2008/09 income year.	Residents of jurisdictions with which Australia has effective exchange of information arrangements, to be specified by regulation, will be subject to a non-final withholding tax at the rate of 22.5 per cent for the first income year (intended to be 2008-09); a final withholding tax of 15 per cent for the second income year (intended to be 2009-10); and a final withholding tax of 7.5 per cent for the third (intended to be 2010-11) and later income years. Residents of other jurisdictions will be subject to a 30 per cent final withholding tax.
Family Benefits		
Baby Bonus	The Baby Bonus will increase to $5,000 from 1 July 2008 and from 1 January 2009 it will be means tested. Family income must not be greater than $150,000 per year (assessed as not more than $75,000 in the six months after the birth of a child). The bonus will be paid in instalments over six months for all recipients, indexed annually, and eligibility extended to parents who adopt children under 16 years of age.	Adjusted Taxable Income is used for the purpose of assessing benefits under the Family Assistance Act such as Baby Bonus, Family Tax Benefit and Child Care Benefit. An individual's Adjusted Taxable Income for the tax year is the sum of the following amount for that year: • taxable income; • the value of any adjusted fringe benefits • target foreign income • net rental property loss, and • tax free income support payments and compensation payments, less 100% of the individual's child maintenance expenditure. From 1 July 2009 changes will be made to the definitions of adjusted taxable income to include net financial investment losses and certain salary sacrifice superannuation contributions.

Family Tax Benefit – Part B	An additional income test on Family Tax Benefit Part B will apply from 1 July 2008 so that it will only be available to families in which the principal earner has an annual income up to and including $150,000 per year.	From 1 July 2009, the Family Tax Benefit will only be paid and claimed through Centrelink and Medicare, and not through the tax system.
Child care tax offset	From 1 July 2008 the tax offset will be increased from 30% to 50%. In addition, the cap on the amount that can be paid will be lifted from $4,354 to $7,500 per child and the offset will be paid quarterly.	The Government will provide $114.5 million over four years to establish 38 new child care centres across Australia to increase the availability of child care for families in areas of child care shortages. These centres will be operational by 2010 and will include six early intervention centres for children with autism.
Education Tax Refund	From 1 July 2008, the Government will provide eligible parents with an Education Tax Refund. Parents who receive Family Tax Benefit Part A and have children undertaking either primary or secondary school studies or whose school children receive Youth Allowance or a related payment will be able to claim a 50 per cent refund every year on eligible educational expenses. The amount that can be claimed is up to: • $750 for each child undertaking primary school studies, giving a refund of up to $375 per child, per year; and • $1,500 for each child undertaking secondary school studies, giving a refund of up to $750 per child, per year.	The Education Tax Refund will help working families meet the cost of educating their children through primary and secondary school. The Education Tax Refund will be claimed upon assessment of a 2008/09 income tax return. Those eligible will receive the full value of the Education Tax Refund, regardless of their income tax liability.

Other		
First Home Saver Accounts (FHSAs)	The first $5,000 of individual contributions to FHSAs each will attract a flat Government contribution of 17 % (up from 15%). Earnings will be taxed at a low rate of 15 per cent, and withdrawals will be tax-free if used to purchase or build a first home in which to live. First Home Saver Accounts will commence from 1 October 2008.	Personal contributions will be able to be made to the account until the balance reaches $75,000 (indexed) – an increase from $50,000. Tax free withdrawals from the account to purchase or build a first home in which to live can only be made after contributions of at least $1,000 have been made in at least four separate financial years.
Commonwealth Seniors Health Card (CSHC)	The government has proposed to change the CSHC income test to include gross income from superannuation income streams from a taxed source and income that is salary sacrificed to superannuation in the income assessment. This measure is proposed to be implemented from 1 July 2009.	The Commonwealth Seniors Health Card provides a range of benefits to self funded retirees who do not qualify for the Aged Pension but have an adjusted taxable income of less than $50,000 (for singles) or $80,000 (for couples combined). Currently, income from superannuation income streams from a taxed source is disregarded when assessing entitlement to the CSHC.