

NO SURPRISES IN COSTELLO'S FIFTH BUDGET

The Federal Treasurer, Mr Peter Costello, has delivered his fifth budget which "lays the foundation to secure the future for Australia".

New measures are greatly overshadowed by the introduction of the goods and services tax ("GST") and corresponding income tax cuts.

The Government estimates that by June 2001 it will have halved the debt it inherited from the Australian Labor Party.

Key economic forecasts are as follows:

	1999-2000	2000-2001
Real GDP increase	4 ¼%	3 ¾%
Employment increase	2 ¾%	2 ¼%
Unemployment rate – June quarter %	6 ¾%	6 ¼%
Average earnings increase	3%	4 ¼%
Ongoing inflation – through the year – excluding GST	3%	2 ½%

The Budget shows a surplus of \$2.8 billion. This has been almost entirely funded by the sale of new generation mobile phone spectrum licences for \$2.6 billion.

As widely expected, the East Timor Levy has been scrapped.

Growth is predicted to be down but will still be relatively strong at 3.75%, with a slowing in domestic demand offset by predicted higher business investment and significantly stronger exports.

Inflation is expected to remain well within the Reserve Bank's target range at 2.5%. The GST will cause a one off inflation increase to 5.75% next year.

Unemployment is predicted to fall to 6.25% by the end of June 2001.

Increased spending has been announced for health, defence, East Timor and rural and regional Australia.

TAX REFORM

The introduction of part of "The New Tax System" on 1 July 2000 will deliver income tax cuts \$12 billion per annum. In excess of 80% of taxpayers are expected to face a top marginal tax rate of 30% or less. Pensions and allowances will be increased by 4 %, and will be indexed by 2% above inflation. Indirect taxes, including the wholesale sales tax and various State taxes and duties will be replaced with the GST.

The reduction in personal income tax rates (ignoring any rebates) will lead to the following savings:

Taxable income	Tax 2000	Tax 2001	Tax Saving	Saving as % of 2000 net
15,000	2,145	1,755	390	3.0%
20,000	3,220	2,680	540	3.2%
25,000	4,897	4,255	642	3.2%
30,000	6,672	5,830	842	3.6%
35,000	8,447	7,405	1,042	3.9%
40,000	10,402	8,980	1,422	4.8%
45,000	12,627	10,555	2,072	6.4%
50,000	14,852	12,130	2,722	7.7%
55,000	17,277	14,305	2,972	7.9%
60,000	19,702	16,480	3,222	8.0%
65,000	22,127	18,655	3,472	8.1%
70,000	24,552	20,830	3,722	8.2%
75,000	26,977	23,005	3,972	8.3%
80,000	29,402	25,180	4,222	8.3%
85,000	31,827	27,355	4,472	8.4%
90,000	34,252	29,530	4,722	8.5%
95,000	36,677	31,705	4,972	8.5%
100,000	39,102	33,880	5,222	8.6%

The Government is also in the process of implementing "The New Business Tax System", in response to the recommendations of the Ralph Committee.

The company tax rate will be reduced to 34 per cent for the 2000-01 income tax year, and will fall to 30 % thereafter. This is being funded, in part, by the replacement (except

for small business) of accelerated depreciation arrangements with an effective life system.

The CGT regime has been overhauled. For individuals, 50 % of net capital gains on assets, owned for at least 12 months, are now taxed, while, for individual small business taxpayers, 75 % on any capital gain on active business assets owned for at least 12 months will be exempt from capital gains tax.

INCREASE IN YOUTH ALLOWANCE ASSET LIMITS FOR FARMS AND BUSINESSES

The Government will increase the family asset threshold governing access to Youth Allowance for dependent young people, by increasing the discount for farm and business assets from 50 % to 75 %. The measure increases the maximum limit for business assets from \$829,000 to \$1.7 million. The family actual means test and parental income test will continue to be applied where appropriate.

Dependent tertiary students who qualified for a Category 2 loan under the Student Financial Supplement Scheme because they were not eligible for Youth Allowance due to their family's business assets, will now be eligible to receive Youth Allowance subject to the family income test.

REVISED MEANS TEST TREATMENT OF PRIVATE TRUSTS AND PRIVATE COMPANIES

The Government will introduce measures to ensure that individuals who hold their assets in private companies or trusts should receive comparable treatment under the means test to those individuals who hold their assets directly.

Currently assets held in discretionary trusts are not assessable and any income derived from the trust is assessed only upon distribution. Assets held in private companies are currently assessed according to the net asset backing of the company. This may bear little relationship to the wealth an individual actually controls within the company.

In order to moderate the impact on farmers, in some circumstances, controllers of smaller farms (to a net value not exceeding \$750,000) will be allowed to remain as trust appointor. This will allow them elementary power with respect to farm property without affecting their entitlement to income support.

The revised treatment will apply to all means tested income support payments made under the Social Security Act 1991 and the Veterans' Entitlements Act 1986 from 1 January 2002.

SUMMARY

For once there are no tax changes to worry about in the Federal Budget. Of course with the extent of tax change already taking place, this is but a small mercy.

PAYG SEMINAR – REGISTER NOW

To help you with the previously announced tax measures, we are holding a seminar (free for clients) to help with the introduction of the new "Pay As You Go" (PAYG) measures.

The seminar will be held at 5:30 pm on Tuesday 23rd May 2000 in our Boardroom.

Please contact Kerrie Kelly at our office to reserve a place.

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