

A SECURE BUDGET ...

The budget announced increased spending on security and lays a foundation for the future through measures such as superannuation, a baby bonus and aged care measures.

TAXATION HIGHLIGHTS

- Superannuation refinements
 - Reduction in superannuation surcharge
 - Parents and relatives able to contribute superannuation on behalf of children
 - Replacement of rebate on personal superannuation contributions with government co-contribution of up to \$1,000
 - Higher superannuation deductions for self employed
 - Quarterly superannuation payments
 - Superannuation contributions to age 75
 - Splitting of superannuation contributions between spouses
 - Fund choice
 - Reduction in the tax rate on excessive ETPs
- Medical expenses threshold increased to \$1,500
- Increased ATO compliance funding
- Increase in Medicare levy low income thresholds
- Taxing point removed on conversion or exchange of traditional securities
- Companies will no longer be required to "waste" current year losses against franked dividends
- Statutory effective life caps for certain long life assets
- Business tax reforms deferred

OVERVIEW

The Government is budgeting for a \$2.1 billion surplus in 2002-03

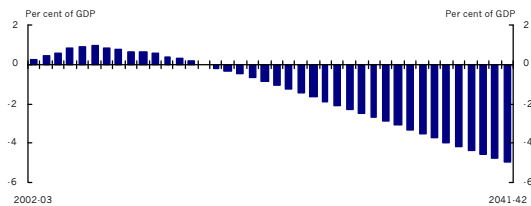
The Budget provides for greater spending on defence and protecting the integrity of

Australia's borders. The budget also includes funding for the Baby Bonus, superannuation and aged care.

The Intergenerational Report presented with this Budget considers how the ageing of the population and other cost pressures could impact on the economy in the future.

A widening gap between spending and revenue is predicted which could jeopardise Australia's future economic prospects.

AN EMERGING GAP BETWEEN REVENUE AND SPENDING OVER THE NEXT 40 YEARS



SUPERANNUATION

The only previously unannounced measure is the funding of a four year campaign lead by the ATO which is intended to increase awareness and support of fund choice and portability of benefits between funds.

Superannuation Surcharge Rates Reduced

From 1 July this year, the Government will reduce superannuation surcharge rates by a tenth of their current level each year for the next three years. As a consequence, the current maximum surcharge rate of 15% will be reduced to 13.5% for the 2002-03 financial year, 12% for 2003-04, and 10.5% for 2004-05. At the conclusion of the three year period, the Government will review the surcharge arrangements to determine if further changes are required.

Under current legislation, the surcharge begins to apply for taxpayers with adjustable taxable incomes of \$85,241 (indexed to Average Weekly Ordinary Time Earnings) and is phased in until the full 15% surcharge applies to incomes of \$103,507.

Contributions for Children

From 1 July this year, the Government will allow parents, grandparents, other relatives and friends to make superannuation contributions up to \$3,000 per annum on behalf of a child who would not otherwise

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have any superannuation. The Government had previously intended to limit the contributions a child could receive to \$1,000 per annum. While the increase in the limit to \$3,000 is significant benefit, the contributions will not be deductible, nor will they be eligible for the Government co-contribution scheme.

Co-contribution Matching for Low Income Earners

From the beginning of the 2002-03 financial year, the Government will introduce a co-contribution scheme for low-income earners. Under the scheme, the Government will match an individual's undeducted personal contributions up to a limit of \$1,000 for individuals earning \$20,000 or less (including fringe benefits), and tapering off at a rate of 8 cents for each dollar of assessable income and reportable fringe benefits above \$20,000 (up to \$32,500).

The contribution will be treated as an undeducted contribution for tax purposes. To be eligible, an individual must be under the age of 71 years and be ineligible to claim a tax deduction for their personal contributions. This new scheme will replace the 10% rebate that currently applies to contributions up to \$1,000 for individuals on incomes below \$27,000, and tapering off for incomes up to \$31,000.

Self Employed Deduction Limit

The Government will allow the self-employed full deductibility of the first \$5,000 of contributions paid plus 75% of the excess over \$5,000 up to the taxpayer's aged-based deduction limit. Under existing arrangements, the self-employed are able to claim an income tax deduction to the lesser of either the first \$3,000 of contributions plus 75% of the excess over \$3,000, or the taxpayer's aged based limit.

Quarterly payments

The Superannuation Guarantee system payments will be required to be made at least quarterly from 1 July 2003.

Continuing Superannuation Contributions to Age 75

From 1 July 2002, the Government will increase the contribution age limit from 70 to 75 for individuals making personal

contributions and working a minimum of 10 hours a week. However, this does not extend the superannuation guarantee arrangements for those who work beyond the age of 70, and does not enable an employer to make contributions beyond the age of 70 unless the contributions are made under an industrial award. These contributions will not give rise to a tax deduction, as the individuals will be able to access their superannuation at any time.

Splitting of Superannuation Contributions between Spouses

From 1 July 2003, members of accumulation superannuation funds will be able to share future superannuation benefits. This reform will allow both the personal and employer contributions of one spouse to be put into a separate account in the name of the other spouse. Each spouse will have an individual reasonable benefit limit and eligible termination tax-free threshold. This will be of particular benefit to a high income family with a low income spouse, as the family will now have access to two reasonable benefit limits. Having the ability to split contributions will not affect an individual's superannuation surcharge liability. Contributions prior to 1 July 2003 will not be eligible for splitting.

Fund Choice

Fund choice legislation is to be re-introduced in conjunction with a \$28.7 million ATO marketing campaign.

Excessive ETPs

From 1 July 2002 an ETP from a superannuation fund above a taxpayer's reasonable benefit limits will be changed to limit the effective tax rate in respect of the ETP.

BABY BONUS

The Government has announced the introduction of new measures to help those starting a family. From 1 July 2002, mothers who have left the workforce to have their first child will be able to claim back tax paid while they were employed in their income tax return. The 'Baby Bonus' will be available to first born children born on or after 1 July 2001 and includes a transitional measure for children born on or after 1 July 2001 into

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families who already have children. Parents adopting or otherwise obtaining legal custody of a first child may also be eligible.

While generally paid to the mother, a father with sole legal responsibility for the care of a child may be eligible to claim the rebate. In addition, if the mother returns to work and the father cares for the child, the father may be entitled to the benefit.

A rebate of up to \$2,500 over five years can be claimed, limited to the amount of tax paid in the year before the birth of the child. Low income earners are included in the benefit and will be able to claim the minimum payment of \$500. The Baby Bonus will be paid in addition to receiving the higher payments of Family Tax Benefits which were introduced in July 2000. Taxpayers will be able to claim the rebate in the year ended 30 June 2002.

PHARMACEUTICAL BENEFITS

General co-payments will rise by \$6.20 to \$28.60 per prescription and concessional co-payments will rise by \$1 to \$4.60. Safety net arrangements will continue to protect people who need a large number of medicines.

Arrangements will be made for the increased use of generic drugs to lower the cost of the pharmaceutical benefits scheme.

VETERANS

The Government will provide funding of \$93.1 million to extend the eligibility for the Repatriation Health Card (Gold Card) to Australian veterans aged 70 and over who have qualifying services from post World War II conflict.

The Gold Card provides access to free treatment and care within Australia for all health conditions, whether war-related or not, along with providing access to pharmaceuticals at concessional rates under the Repatriation Pharmaceutical Benefits Scheme.

WAR WIDOWS

The Government will index the ceiling rate for the War Widows' Income Support Supplement twice yearly. This will cost \$85 million over four years. Indexation will be based on increases in the Consumer Price Index and Male Total Average Weekly

Earnings and will apply from 20 September 2002. This will ensure payments to lower-income war widows keep pace with other pensions.

EMPLOYMENT INCENTIVES

The Government will provide an incentive of \$1,100 to employers taking on a New Apprentice in the Information Technology (IT) field and other highly skilled occupations.

There will be training assistance of up to \$500 to attain basic skills in computers and IT. It will provide accredited training to mature age people in the labour force who are welfare dependent and have no previous post-school qualifications in IT.

Employers willing to take on a new apprentice who is at school will receive a \$750 incentive. A further incentive of \$750 will be provided to the employer as a retention bonus to employers who continue to employ a young person as a new apprentice within six months of them completing their year 12 studies.

MEDICARE LEVY THRESHOLD

For the 2001-02 income year, the Medicare levy low income thresholds will increase to \$14,539 for individuals and \$24,534 for families up from \$13,808 and \$23,299 respectively.

The additional amount of threshold for each dependent child or student will also be increased to \$2,253.

The Medicare levy threshold for pensioners below age pension age will increase for 2001-02 to \$16,570.

MEDICAL EXPENSES TAX OFFSET THRESHOLD INCREASED

From the 2002-03 income year, the medical expenses tax offset threshold will increase from \$1,250 to \$1,500. The medical expenses tax offset will be available at a rate of 20% of any net medical expenses above \$1,500 in an income year.

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INCOME TAX RATES UNCHANGED

Taxable Income (Column 1)	Tax on Column 1	% on excess (marginal rate)
6,000	Nil	17
20,000	2,380	30
50,000	11,380	42
60,000	15,580	47

The company tax rate remains at 30%.

ADDITIONAL RESOURCES FOR ATO

Additional funding for tax administration of around \$170 million has been allocated over the next four years.

TAXING POINT REMOVED

The taxing point will be removed from 14 May 2002 on the conversion or exchange of traditional securities. A capital gain or loss will not be required to be determined until the ultimate disposition of the investment.

CURRENT YEAR LOSSES

The franking rebate will be able to be retained by companies and will not be required to be offset against capital losses from 1 July 2002.

EFFECTIVE LIFE CAPPED

The 2002 Federal Budget has announced caps on the effective life of certain assets principally in the oil, gas and aviation industries.

BUSINESS TAX REFORMS DEFERRED

A number of previously announced measures have been deferred or abandoned. These include consolidated taxation of corporate groups, general value shifting regime, taxation of financial arrangements (hedging, futures etc), taxation of life insurance policy holders (abandoned), tax exempt leasing, effective life depreciation of buildings and structures, tax value method, taxable leasing and the treatment of partnerships and joint activities, general anti-avoidance rules and taxation of friendly society bonds.

ECONOMIC FORECASTS

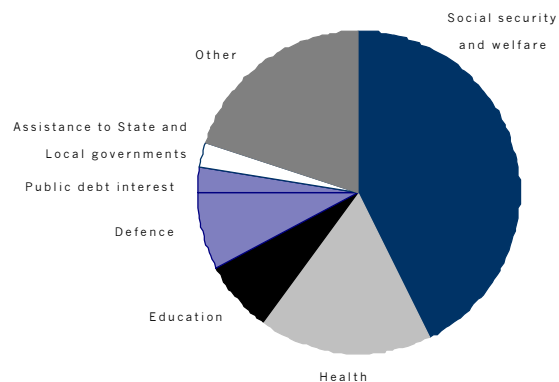
Strong economic growth is set to continue in 2002-03, aided by an improved world

economic outlook. The unemployment rate is expected to fall gradually from an average of around 6¾ per cent in 2001-02 to around 6 per cent by mid 2003.

Strong growth in business investment in 2002-03 should drive overall economic growth. Low interest rates, higher business confidence, solid profitability and an improved world economic outlook underpin these favourable business investment prospects.

Inflationary pressures remain in check, with inflation expected to be within the 2-3 per cent target band.

Stronger business investment will be reflected in higher imports. The current account deficit will rise from recent lows, but remain moderate by historical standards.

GOVERNMENT EXPENSES BY FUNCTION (2002-03)

- spending on social security, health and education represents around two-thirds of total expenses
- spending on defence is increasing in response to the War Against Terrorism and the need for greater border protection
- net annual public debt interest payments continue to fall as a result of reductions in Government net debt

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