

## Budget 2004-05

The Federal Treasurer, Mr Peter Costello, has released his ninth budget – this one squarely aimed at the upcoming election. Personal income tax cuts, family benefits, maternity benefits, extra child-care places, aged care benefits, superannuation benefits and benefits for the wine industry are all included in the package.

The tax cuts alone are expected to cost \$14.7 billion over four years. The 'More Help for Families' package will cost \$19.2 billion over five years. Despite this, the government states that it will have an underlying cash surplus of \$2.4 billion.

Economic growth is expected to reduce slightly from 3.75% in 2003/04 to 3.5% in 2004/05. Employment growth is expected to continue at 1.75% per annum. Unemployment is forecast by the government to remain at the current 25 year lows. Inflation is expected to remain within the target band at 2 to 2.5% per annum. The continuation of healthy levels of growth is partly predicated upon forecast reductions in net imports.

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## Personal Income Tax Reductions

Increases in personal income tax thresholds have been introduced again this year. Over the next four years, Australian taxpayers will share in personal income tax cuts worth \$14.7 billion.

Changes to the personal income tax thresholds are as follows:

Tax Rate (%)	Current thresholds Income Range (\$)	New tax thresholds Income Range 2004/05 (\$)	New tax thresholds Income Range 2005/06 (\$)
0	0 - 6,000	0 - 6000	0 - 6000
17	6,001 - 21,600	6,001 - 21,600	6,001 - 21,600
30	21,601 – <b>52,000</b>	21,601 – <b>58,000</b>	21,601 - <b>63,000</b>
42	<b>52,001 - 62,500</b>	<b>58,001 - 70,000</b>	<b>63,001 – 80,000</b>
47	<b>62,500 +</b>	<b>70,001 +</b>	<b>80,001 +</b>

A taxpayer on \$60,000 per annum would pay \$16,032 in income tax and medicare during the current 2003/04 year. In subsequent years this will reduce to \$15,312 (2004/05) and then \$13,072 (2005/06). There is no benefit to taxpayers who will earn less than \$52,000 per annum during any of the periods.

Taxable Income (\$)	Net 2004 Tax (\$)	Net 2005 Tax (\$)	Saving from 2004 (\$)	Net 2006 Tax (\$)	Saving from 2004 (\$)
30,000	5,622	5,622	-	5,622	-
35,000	7,197	7,197	-	7,197	-
40,000	8,772	8,772	-	8,772	-
45,000	10,347	10,347	-	10,347	-
50,000	11,922	11,922	-	11,922	-
55,000	13,857	13,497	360	13,497	360
58,000	15,162	14,442	720	14,442	720
60,000	16,032	15,312	720	15,072	960
63,000	17,337	16,617	720	16,017	1,320
65,000	18,332	17,487	845	16,887	1,445
70,000	20,757	19,662	1,095	19,062	1,695
75,000	23,182	22,087	1,095	21,237	1,945
80,000	25,607	24,512	1,095	23,412	2,195
85,000	28,032	26,937	1,095	25,837	2,195
90,000	30,457	29,362	1,095	28,262	2,195
95,000	32,882	31,787	1,095	30,687	2,195
100,000	35,307	34,212	1,095	33,112	2,195

These figures assume the medicare levy is payable but that no surcharge is payable.

One relief that will be felt by taxpayers on lower income is the increase in the medicare levy low-income threshold. This will increase from 1 July 2003 to \$15,529 (currently \$15,062) for individuals and \$26,205 (currently \$25,417) for families. This threshold will increase with each additional dependant child by \$2,406.

## Changes to Superannuation

### Increase in Superannuation co-contribution

The incentive for low to middle income earners to make personal contributions to their superannuation will be increased through changes to the superannuation co-contribution scheme. From 1 July 2004, for every \$1 of personal contributions a tax payer makes to their superannuation, the government will contribute an additional \$1.50 towards their superannuation, an increase of 50 cents.

The maximum contribution the government will pay is dependent on the individual's relevant income. Taxpayers earning up to \$28,000 can receive up to \$1,500 of co-contributions. In other words, if you make personal contributions of \$1,000 and have a adjusted income below \$28,000, the government will contribute \$1,500 towards your superannuation. The previous threshold for the maximum benefit was \$27,500.

Above \$28,000, the maximum co-contribution will reduce at a rate of 5 cents for each dollar the taxpayer contributes, phasing out completely at \$58,000 rather than \$40,000 as it did previously.

### Further reduction to superannuation surcharge rates

The government has announced it will accelerate the reduction of the maximum superannuation surcharge rates. The new maximum surcharge rates will be 12.5% for 2004-05, 10% for 2005-06, and 7.5% for 2006-07 and subsequent years. The government had previously announced the maximum rates would be 13.5% in 2004-05, and 12.5% in 2005-06 and subsequent years. The current maximum surcharge rate is 14.5%. The government hopes the reduction in the rates will encourage high income earners to increase their superannuation contributions.

## Wine Industry

### Wine Equalisation Tax

From 1 October 2004 the government will rebate up to \$290,000 of Wine Equalisation Tax (WET) to every wine producer per annum. This equates to exempting the first \$1 million of each producer's domestic wholesale wine sales from WET per year.

Currently producers are entitled to a maximum of a \$42,000 rebate on cellar door sales but now the \$290,000 will be available on all wholesale sales. The original cellar door and state rebates will be abolished.

### Accelerated Depreciation

New grapevine plantings that received accelerated depreciation over four years will now revert to being depreciated over their useful life from 1 October 2004. Capital expenditure is currently written off over an accelerated period of four years.

## FBT Changes and Additional Exemptions

Various changes and additional fringe benefits tax ("FBT") exemptions were announced.

The main additions to FBT exemptions are summarised as follows:

- Work related items that are exempt from FBT will now also include printers designed for use with portable computers and personal digital assistants. This will take effect from the FBT year following the date of Royal Assent of the amending legislation.

The main changes to existing FBT exemptions are as follows:

- An extension to the exemption for incidental purchase costs of relocating employees will be extended to employees who purchase a new dwelling before selling their old dwelling. The current requirement that the purchase of the new dwelling occurs after the sale of the old dwelling will be removed. The current timelines will remain, sales must be made within 2 years and purchase undertaken within 4 years. The changes take effect from 1 April 2004.
- The thresholds relating to FBT exemptions for long service

award benefits will be doubled to \$1,000 from \$500 for 15 years of service, and to \$100 from \$50 for each additional year of service. These will take effect from 1 April 2005.

- In respect of utilising an FBT exemption for remote area housing, there was the requirement that it was "customary" for employers in a particular industry to provide such housing benefits for their employees. This "customary" prerequisite will be removed. The change will take effect from the FBT year following the date of Royal Assent of the amending legislation.

## Small Business Tax Simplification

Various measures were announced in another attempt at reducing small business compliance costs. The measures detailed below, with the exception of the GST measures, will have effect from the income year following the date of Royal Assent of the enabling legislation.

Loans by private companies to related shareholders will be allowed to be repaid or put on a commercial footing up until the due date for lodgement of the applicable tax return, rather than at the end of the income year. Should such situations exist the operation of the non-commercial loan rules and deemed dividend implications may apply. This change makes the treatment of such loans consistent with recent measures announced in relation to unpaid present entitlements from trusts to related companies and loans from companies to related shareholders.

Imputation rules will be modified to facilitate the payment of franked distributions by private companies in their first taxable year. An offset will

be allowed for the full amount of franking deficit tax paid, rather than the reduced credit currently available, for private companies that anticipate franking credits based on a reasonable estimate of the company's expected tax liability for that income year. This should eliminate the possibility of double taxation of company profits.

In an attempt to overcome current inflexibilities, family trust elections and interposed entity elections will be allowed to be made at any time in relation to an earlier income year, subject to certain conditions, rather than being required to be included in the tax return.

The optional roll-over relief currently available for partial partnership changes will be extended to Simplified Tax System depreciating asset pools.

Movement from annual to quarterly PAYG instalments will be attempted to be simplified by allowing taxpayers who become ineligible to pay annual PAYG instalments to

commence paying quarterly instalments from the first quarter of the following income year. Currently the movement occurs from the quarter in which they become ineligible to pay annual instalments.

Three changes have been proposed to try and reduce the GST compliance costs of small business including:

- small businesses and non-profit organisations that voluntarily register for GST will be able to report and pay GST on an annual basis;
- small businesses with an annual turnover of \$2m or less will be allowed to apportion their private and business use of assets (such as motor vehicles) on an annual basis; and
- no annual re-election will be required for eligible entities wishing to continue with the GST instalment option.

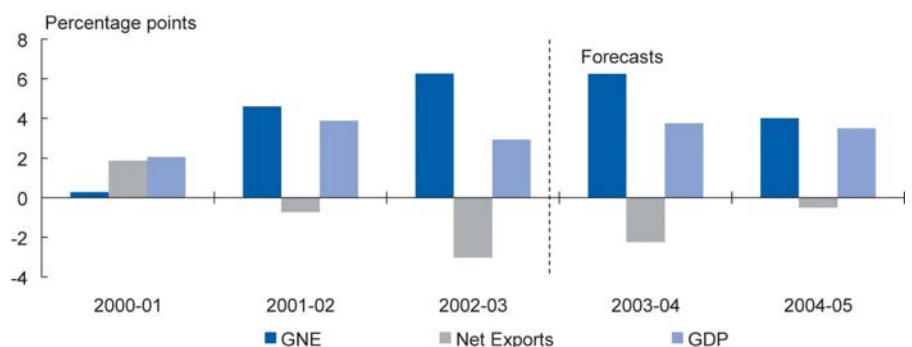
The GST changes are subject to the unanimous agreement of the States and Territories.

## Economic Forecasts

Economic growth, employment and inflation are all predicted to remain at healthy levels:

Growth in the economy is expected to benefit from reductions in net exports:

	Forecasts		Projections		
	2003-04	2004-05	2005-06	2006-07	2007-08
Real GDP	3 3/4	3 1/2	3 1/2	3 1/2	3 1/2
Employment	1 3/4	1 3/4	1 1/2	1 1/2	1 1/2
Wages	3 3/4	3 3/4	3 3/4	3 3/4	3 3/4
CPI	2 1/4	2	2 1/2	2 1/2	2 1/2



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## Family Tax Benefits

The Family Tax Benefit (FTB) is a payment in respect of dependent children. FTB has 2 parts, Part A and Part B. Part A is available to all eligible families. Part B is available to families with one main earner, including single parent families.

The Government has introduced three changes to the Family Tax Benefit payments:

### 1. \$600 Increase in the Part A Payment

All families eligible for the Part A payments will receive an immediate lump sum payment of \$600 per child. Most families will receive \$600 before 30 June 2004, and upon lodgment of their 2003 tax return, will be eligible for a

further \$600 per child. This is an additional \$1,200 per child over the next 12 months.

### 2. Easing of the Income Test for Part A Payments

Presently, when the income of families with dependent children exceeds \$31,755 per annum, their Part A payment reduces from the maximum rate of 30 cents for every extra dollar of income, until the base rate of payment is attained.

The Government has announced that the threshold for Part A will be reduced by 20 cents in the dollar.

### 3. Changing the Income Test for Part B Payments

From 1 July 2004, there will be

a reduction in the part B income test withdrawal rate for the second income earner from 30% to 20%. In addition, the income test threshold will be increased from \$1,825 to \$4,000 per year.

The second earner in a family with a child under 5 will continue to receive some Part B payments until they earn \$18,600 per year, whereas presently the limit is \$11,559. If the youngest child is over five, the income limit will increase from \$8,614 to \$14,184.

Also, any income earned by a mother who has returned to work from maternity leave will be excluded when calculating the Part B Entitlement.

## Maternity Payment

The Government will introduce a new Maternity Payment which will be paid to all mothers on the birth of a child. This new payment will be offset by abolishing the Maternity Allowance from 1 July 2004 and phasing out the Baby Bonus over four years.

From 1 July 2004, the Maternity Payment will provide a lump sum of \$3,000 to families for each new child born after this date. The rate of the Maternity Payment will increase after 1 July 2006 to \$4,000 and from 1 July 2008, the payment will be \$5,000. The Maternity Payment will not be income tested.

Claims for the Baby Bonus can continue to be made in respect of children born prior to 1 July 2004. Claims will be able to be made for the full five year entitlement.

## Carer Bonus

Presently, the Carer Payment is income tested and provided to people who provide constant care for somebody with a disability. The Carer Allowance is not income tested and is provided to people who live with and provide daily care to people with a disability.

The eligibility criteria for the Carer Allowance will be expanded to include carers who provide substantial care but do not currently live with the person who they care. These carers will provide daily

person care in a private home, to people with a disability, or a severe medical condition, or to people who are frail.

In addition, bonuses will be made in June 2004, to recipients of the Carer Payment and Carer Allowance. Carers who receive the Carer Payment will receive a lump sum payment of \$1,000. Carers who receive the Carer Allowance will receive a lump sum payment of \$600.

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