



2007 Federal Budget

This special YOUR SUPER ADMIN Budget Night Report outlines the tax and superannuation changes announced in the Budget.

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Tax highlights

- Further personal income tax cuts will apply from 1 July 2007.
- From 1 July 2007, families will receive the child care tax offset as a direct payment shortly after the income year in which the costs have been incurred.
- Individuals who made eligible superannuation contributions in the 2005/06 year will receive double the amount of co-contributions from the government.

- From 1 July 2007, the GST registration turnover threshold will be increased to \$75,000.
- Spouses will be able to transfer their entire in specie interest in a small superannuation fund without triggering an immediate CGT event.
- Investors in forestry managed investment schemes will be allowed to trade their interests from 1 July 2007.
- Increased Medicare levy low-income thresholds will apply from 1 July 2006.
- The dependent spouse rebate will be increased from 1 July 2007.
- A package of improvements to the tax laws affecting consolidated groups and multiple entry consolidated groups has been announced.
- From 1 July 2007, the costs of establishing carbon sink forests will be deductible.
- The transitional period during which thin capitalisation reporting entities may elect to use pre-1 January 2005 accounting or prudential standards has been extended by one year.
- The government will not proceed with the proposed reforms to the taxation treatment of finance leases between taxable entities.
- A range of measures to boost support for the Australian film and television industries has been announced.
- The \$100m cap on the same business test will be removed, and other improvements will be made to the company loss recoupment rules.
- Public offer funds will be unable to force employers to become “participating employers” in order to make contributions to their fund.
- The requirements for accessing venture capital concessions will be further relaxed.
- Changes to the petroleum resource rent tax provisions will be made with effect from 1 July 2008.
- Recognition of amounts misappropriated by agents will be extended to calculations made under the uniform capital allowance and CGT regimes.
- Additional funding of \$20m will be provided for the Tax Office project to pre-fill electronic individual income tax returns.
- The tax treatment of the Defence Force Income Support Allowance will be clarified and defence force personnel who served in Lebanon will be eligible for the overseas forces tax offset.

Personal income tax cuts

Further cuts to personal income tax are proposed to take effect in two stages: from 1 July 2007 and from 1 July 2008.

From 1 July 2007:

- the 30% threshold will increase from \$25,001 to \$30,001, and
- the low income tax offset will increase from \$600 to \$750 and will begin to phase out from \$30,000. Taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$11,000.

From 1 July 2008:

- the 40% threshold will increase from \$75,001 to \$80,001, and
- the 45% threshold will increase from \$150,001 to \$180,001.

Current tax thresholds Income range (\$)	Tax rate %	New tax thresholds from 1 July 2007 Income range (\$)	Tax rate %	New tax thresholds from 1 July 2008 Income range (\$)	Tax rate %
0 – 6,000	0	0 – 6,000	0	0 – 6,000	0
6,001 – 25,000	15	6,001 – 30,000	15	6,001 – 30,000	15
25,001 – 75,000	30	30,001 – 75,000	30	30,001 – 80,000	30
75,001 – 150,000	40	75,001 – 150,000	40	80,001 – 180,000	40
150,001 +	45	150,000 +	45	180,001 +	45

Senior Australians

The effect of the tax cuts is that, from 1 July 2007, senior Australians eligible for the senior Australians tax offset will be able to earn more income without paying tax. Singles will be able to have taxable income up to \$25,867 (up from \$24,867) and couples up to \$43,360 (up from \$41,360).

Source: Budget Paper No 2, p 18; Treasurer's Press Release, 8 May 2007.

Child care tax offset now a direct payment

From 1 July 2007, the government will bring forward the payment of the 30% child care tax offset so that families will receive the offset as a direct payment shortly after the year in which the child care costs have been incurred. Families with out-of-pocket expenses in both 2005/06 and 2006/07 will receive two offsets in 2007/08: one offset will be paid through the tax system in accordance with current rules; the other will be received as a direct payment from the Family Assistance Office. The maximum payment will be \$4,096 per child for 2005/06 and \$4,211 per child for 2006/07. The payments will begin from September 2007 for child care expenses incurred in 2006/07.

Source: Budget Paper No 2, p 183; Minister for Families, Community Services and Indigenous Affairs' Press Release, 8 May 2007.

Additional superannuation co-contribution amount

The government announced a one-off doubling of the superannuation co-contributions scheme. The one-off payment applies to eligible contributions made by individuals during the 2005/06 income year.

The payment means that individuals who are currently eligible for a co-contribution of \$500 will now receive an additional \$500, meaning that they will receive \$1,000 in total co-contributions from the government. The majority of the additional co-contributions will be made to superannuation funds in the 2006/07 income year.

Source: Budget Paper No 2, p 308; Assistant Treasurer's Press Release, 8 May 2007.

Small business changes

GST and PAYG changes will apply to small business, including an increase to the GST registration turnover threshold.

From 1 July 2007, businesses with annual turnover of less than \$75,000 will no longer be required to register for GST. Also, the GST registration threshold for non-profit bodies will be increased to \$150,000. However, if businesses and non-profit bodies which fall below the threshold choose to register for GST, they will have the option of remitting GST only once a year.

Further, effective from 1 July 2008, these taxpayers will be able to pay their PAYG instalments on an annual basis. The other existing eligibility tests for paying annual PAYG instalments will be maintained.

Small businesses will have the option of using a simplified method to calculate their GST obligations if it suits their requirements. The Commissioner will be given the power to develop simplified accounting methods for all entities with an annual turnover of less than \$2m that make mixed (taxable and tax-free) supplies or mixed purchases, with effect from 1 July 2007.

Finally, from 1 July 2007, purchases by businesses valued at \$75 or less (not including GST) will no longer require an approved tax invoice to claim an input tax credit. The current threshold is \$50. For purchases of \$75 or less, businesses will be able to rely on the same record keeping for GST and income tax purposes.

The government will need to obtain the unanimous agreement of the States and Territories to implement the GST changes.

Source: Budget Paper No 2, pp 16-17 and p 22; Treasurer's Press Release, 8 May 2007.

Extension of CGT roll-over on marriage breakdown

From 1 July 2007 spouses in a marriage breakdown will be able to transfer their entire in specie interest in a small superannuation fund to their former spouse without instant capital gains consequences. The amendments to the current roll-over in s 126-140 ITAA97 will exempt existing personal contributions made in a fund by the departing spouse from giving rise to an immediate CGT event when transferred to another small superannuation fund.

The amendments will also allow greater choice of fund options for the departing spouse.

Source: Budget Paper No 2, p 9; Assistant Treasurer's Press Release, 8 May 2007.

Forestry managed investment schemes

Investors will be allowed to trade both existing and future interests in forestry managed investment schemes (MISs), subject to a minimum 4-year holding period for initial investors. The amendment period for income tax returns will be extended to allow the Tax Office to enforce the holding period rules. A market value pricing rule at the time of first sale from an initial to a secondary investor will apply.

Secondary investors (other than those holding interests as trading stock) will be treated on capital account in relation to the acquisition and disposal of their interests (e.g. harvest proceeds). Secondary investors will be allowed a deduction for on-going costs to limit the incentive to front-load fees, with a matching provision to recoup on revenue account these deductions from the sale or harvest proceeds.

The deduction will apply to pre-existing forestry MISs as well as future investment in newly established schemes. Thus, taxpayers who invested in a forestry MIS before 1 July 2003 will be able to trade their interest from 1 July 2007.

Promoters will be required to:

- notify the Tax Office when they first receive income from a forestry MIS
- document the basis on which the scheme satisfies the 70% direct forestry expenditure rule (see below)
- notify the Tax Office should the trees not be established within 18 months.

As previously announced, from 1 July 2007, investors in MISs will be able to claim immediate upfront deductions for their expenditure on such schemes, provided at least 70% of the expenditure is directly related to developing forestry.

Source: Budget Paper No 2, pp 14-15; Assistant Treasurer's Press Release, 8 May 2007.

Medicare low income thresholds

From 1 July 2006, the Medicare levy low-income threshold will increase to \$16,740 (from \$16,284) for individuals and \$28,247 (from \$27,478) for families. The additional amount of threshold for each dependent child or student will increase to \$2,594 (from \$2,523).

The Medicare levy low-income threshold for pensioners below age pension age will also be increased. From 1 July 2006, the threshold will rise to \$21,637 (from \$19,583).

Source: Budget Paper No 2, p 19; Assistant Treasurer's Press Release, 8 May 2007.

Dependent spouse rebate increased

The dependent spouse rebate will be increased to \$2,100 (up from \$1,655) for the 2007/08 and later income years. This increase will benefit taxpayers with a dependent spouse, who do not have a dependent child.

This change will also allow the dependent spouse to earn more income before the rebate is completely phased out. The dependent spouse rebate will be completely phased out when the spouse has separate net income of \$8,681 (up from \$6,901 currently).

Source: Budget Paper No 2, p 19; Treasurer's Press Release, 8 May 2007.

Improvements for consolidated groups

Three areas of improvement to the operation of the income tax law for consolidated groups and multiple entry consolidated (MEC) groups have been announced. The improvements will ensure the law operates effectively and reduce compliance costs.

First, there will be modifications to the consolidation tax cost setting rules, which set the costs of a joining entity's assets for income tax purposes, to ensure that they operate effectively. Second, interactions between the consolidation provisions and other parts of the income tax law, including the CGT regime and the uniform capital allowances system, will be clarified. Third, there are changes to the rules relating to authorised deposit-taking institutions (ADIs).

Tax cost setting rules

The law will be amended so that:

- an entity must use the accounting principles it used to prepare its financial statements when working out elements of the allocable cost amount (ACA). These changes will apply from 1 July 2002
- the treatment of liabilities under the tax cost setting rules will be modified from 1 July 2002
- from 1 July 2005, the amount that is added to the ACA in relation to certain disregarded CGT events when determining liabilities on exit will be nil

- the value of liabilities used under the tax cost setting rules by general insurance companies that join or leave a group will be modified from 1 July 2002
- inherited deductions relating to expenditure on certain assets acquired on, or constructed before, 13 May 1997 will not decrease the ACA of a joining entity or increase the ACA of a leaving entity from 1 July 2002
- the over-depreciation adjustment will be phased out so that it will cease to apply from 1 July 2009.

Interactions with other provisions

The following amendments will be made:

- units held by a joining entity in a cash management trust that have a market value equal to their face value will be treated as retained cost base assets, with effect from 1 July 2002
- for entities that join a group after 8 May 2007, capital gains will not arise solely because the joining entity has doubtful debts at the joining time
- when an entity enters into a contract to sell a CGT asset and that contract settles after the entity joins or leaves a group, a capital gain or loss will be made at the time of settlement. This change will not apply to intra-group transactions and will apply to CGT events that happen under contracts entered into after 8 May 2007
- CGT event L7 (a liability is discharged for an amount different to that used for tax cost setting purposes) will be repealed. Also, the tax cost setting rules that apply when an entity leaves a group will be modified to remove the adjustment to liabilities owed by the leaving entity for unrealised gains and losses. These changes will apply from 8 May 2007
- the single entity and entry history rules will be extended for non-group members when applying the CGT discount and CGT event K6 (the disposal of pre-CGT interests in an entity that predominantly owns post-CGT assets), applicable to CGT events that happen after 8 May 2007
- the CGT provisions relating to black hole expenditure that apply to consolidated groups will also apply to MEC groups, applicable to CGT events that happen on or after 1 July 2005
- the head company will be taken to acquire the assets of a joining entity at the time those assets were acquired by the joining entity (rather than at the joining time) for the purpose of qualifying for changes in depreciation rates, with effect from 8 May 2007
- the inter-entity loss multiplication rules will be modified so that losses of widely held companies are not denied, or significant compliance costs imposed, in establishing that the loss has not been duplicated elsewhere, applicable to alteration times happening from 1 July 2002
- the beneficiaries of a trust that joins or leaves a group part way through the trust's income year will be taxed on an appropriate share of the income of the trust, with effect from the commencement of the 2007/08 income year
- a transitional concession will apply to allow a joining entity to increase its ACA by the undistributed, untaxed profits that accrued to the group when the head company: (i) has a substituted accounting period, and (ii) consolidated between 1 July 2003 and 30 June 2004 on a day that was on or before the first day of the head company's income year, starting after 30 June 2003.

ADIs

The government will remove taxation impediments to the restructuring of conglomerates containing ADIs.

Currently, if a consolidated group headed by an ADI were to restructure and appoint a non-operating holding company as the head company, the ADI would become a subsidiary company and would not be able to issue preference shares outside the group.

The measure will ensure that ADIs, as subsidiary members of a group, can continue to issue certain preference shares to non-group members and maintain their tax position. The measure will also ensure that ordinary shareholders who dispose of their shares in an ADI, in exchange for shares in the non-operating holding company, can obtain a CGT roll-over.

Source: Budget Paper No 2, p 11-12; Minister for Revenue and Assistant Treasurer's Press Release, 8 May 2007.

Deduction for carbon sink forests costs

The costs of establishing a qualifying carbon sink forest will be deductible to carbon sink forest operators under the horticultural plant provisions from 1 July 2007.

As an additional incentive, costs incurred in establishing a qualifying carbon sink forest during the five-year period commencing 1 July 2007 will be immediately deductible (rather than being deductible under the horticultural plant provisions). The immediate deduction will not apply to forests established through managed investment schemes.

The deduction will only be available to businesses participating in the Greenhouse Challenge Plus programme. Projects must comply with environmental and natural resource management guidelines applicable to their geographic location.

Source: Budget Paper No 2, p 10; Treasurer's Press Release, 8 May 2007.

Thin capitalisation changes

The transitional period during which thin capitalisation reporting entities may elect to use pre-1 January 2005 accounting or prudential standards has been extended from three to four years, commencing in the first income year beginning on or after 1 January 2005.

A technical change to the definition of "excluded equity interest" will be made with application to income years beginning on or after 1 July 2002.

Source: Budget Paper No 2, p 25.

Finance leasing rules

The long-standing taxation treatment of finance leases between taxable entities will remain unchanged and such leases will be excluded from the proposed Taxation of Financial Arrangements legislation. The government has decided not to adopt the recommendation of the Review of Business Taxation to apply a sale and loan treatment to certain finance leases.

Source: Budget Paper No 2, p 14; Assistant Treasurer's Press Release, 8 May 2007.

Film investment incentives

The government announced a range of measures to boost support for Australian film and TV.

Australian screen media producers will be eligible for a 40% refundable tax rebate on feature films and a 20% refundable rebate on other media productions, including television series, documentaries and mini-series, to be known as the Producer Rebate.

Productions will be required to meet criteria including creative control by Australians and minimum qualifying expenditure thresholds, depending on the type of production. The rebate will apply to expenditure incurred on eligible productions from 1 July 2007.

There will also be a component for international producers incorporating the previous refundable film tax offset. This Location Rebate will provide a 15% rebate for eligible expenditure, compared to the current rebate of 12%. Eligibility will be extended to include post, digital and visual effects production in Australia where the film itself is not made in Australia and qualifying expenditure exceeds \$5m. This will apply to films for which production commences after 1 July 2007.

The current investor tax incentives under Div 10BA and 10B ITAA 1936 will be phased out, with no new applications accepted after 30 June 2007. The Film Licensed Investment Company scheme will not be renewed beyond 30 June 2007.

Source: Budget Paper No 2, p 101; Minister for Communications, Information Technology and the Arts' Press Release, 8 May 2007.

Company loss recoupment rules

The government announced a number of changes to the company loss recoupment rules.

The \$100m cap on the same business test (SBT) will be removed. This will allow all companies to access the SBT to determine whether a loss can be deducted against future income. This measure will apply to losses incurred on or after 1 July 2005.

The government will also improve the company loss recoupment rules by:

- ensuring that companies do not fail the continuity of ownership test (COT) because of having multiple classes of shares on issue, or because of having special arrangements in place to make distributions of dividends and capital returns. This change has effect from 1 July 2002, coinciding with the measure relaxing the COT tracing rules and introduction of the consolidation regime
- defining the meaning of “voting power” in the context of the COT, with effect from 1 July 2007. Voting power will include the power to vote on a poll for the election of a director to a company
- ensuring that the “entry history” rule in the consolidation regime is disregarded in applying the SBT, with effect from 1 July 2002. The entry history rule applies, for certain purposes, to the pre-consolidation history of a subsidiary member of a consolidated group to the head entity.

Source: Budget Paper No 2, p 10; Assistant Treasurer's Press Release, 8 May 2007.

Superannuation — removal of “participating employer” restrictions

Public offer superannuation funds will be restricted from requiring employers to sign participating employer agreements. These agreements require employers to become “participating employers” before they can transfer their employee's superannuation contributions to the fund.

Source: Budget Paper No 2, p 22.

Venture capital

The eligibility requirements for concessional taxation treatment of venture capital investments will be further relaxed from the 2007/08 income year. This will apply to foreign residents investing in venture capital limited partnerships and Australian venture capital funds of funds.

The concessional tax treatment for foreign resident investors will be extended to allow:

- up to 20% of committed capital in venture capital limited partnerships and Australian venture capital funds of funds to be invested in companies and unit trusts that are not located in Australia, and
- eligible partners in conditionally registered venture capital limited partnerships and Australian venture capital funds of funds that become fully registered to be entitled to a tax exemption on the profits and gains derived from investments made while the partnership was conditionally registered.

To ensure that investments made by an early stage venture capital limited partnership are directed at early stage venture capital activities, a partnership can acquire pre-owned investments in an entity only if:

- it already owns an investment in the entity, or it will also be making investments, that are not pre-owned investments in the entity at the same time, and
- the total value of the partnership's pre-owned investments does not exceed 20% of its committed capital.

Source: Budget Paper No 2, p 27.

Petroleum resource rent tax changes

The petroleum resource rent tax (PRRT) rules will be changed with effect from 1 July 2008 to:

- introduce a functional currency rule similar to the rule in the income tax provisions
- introduce a look-back rule for exploration expenditure relating to production licences derived from exploration permits and retention leases. This will ensure that all exploration expenditure is deductible for PRRT purposes where a production licence is derived from an exploration permit or a retention lease on or after 1 July 2008, and
- treat a tolling fee received as a PRRT receipt and the expenses incurred to process the petroleum as a deduction, where a petroleum project processes petroleum sourced from another petroleum project for a tolling fee.

Source: Budget Paper No 2, p 20; Assistant Treasurer's Press Release, 8 May 2007.

Amounts appropriated by agents

The government will ensure a more consistent tax treatment of amounts misappropriated by an agent.

Currently, amounts misappropriated by an agent may reduce tax liabilities only in limited circumstances. There is no offsetting adjustment available where an amount misappropriated by an agent arises from the disposal of a depreciating asset or a CGT asset.

This measure will extend the recognition of misappropriated amounts to calculations made under the uniform capital allowance and CGT regimes. It will take effect from the date of assent of the enabling legislation.

Source: Budget Paper No 2, p 8.

Additional funding for pre-filing returns project

The government will provide additional funding of \$20m in 2007/08 to enable the Tax Office to pre-fill electronic individual income tax returns for the 2007/08 and following income years.

The Tax Office will automatically include the following information in returns:

- salary, wages and allowances, where the employer has electronically lodged the employee's payment summary with the Tax Office
- dividend and interest income and distributions from managed funds
- payments from Centrelink, the Department of Education, Science and Training and the Department of Veterans' Affairs
- Medicare out-of-pocket expenses and private health insurance information
- Higher Education Contribution Scheme and Higher Education Loan Programme details.

Source: Budget Paper No 2, p 306; Treasurer's Press Release, 8 May 2007.

Defence Force tax changes

The taxation status of the Defence Force Income Support Allowance (DFISA) will be aligned with the underlying social security payment. This will mean that the DFISA payment will be exempt from tax where the associated social security payment is also exempt from tax. This measure applies from 1 July 2007.

The overseas forces tax offset will be extended to Australian Defence Force personnel who served in Lebanon in Operation Ramp. This measure will take effect from 20 July 2006.

Source: Budget Paper No 2, p 20.

Other measures

Among other measures in the Budget were:

- increased funding for ASIC to support its information technology infrastructure
- small businesses with deferred settlement permissions will be able to settle their excise and excise-equivalent customs duties on a monthly cycle from the later of 1 January 2008 or the date of royal assent of the enabling legislation
- all excise and excise-equivalent imported goods will be eligible for a refund where they are returned to a place licensed for the good or destroyed with prior approval
- additional funding for the Tax Office to upgrade IT systems for the simplified superannuation reforms and for enhanced debt recovery of taxation debt and outstanding SGC.

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