

# battalion legal

*keepin' it simple*

## 2006/07 Federal Budget Highlights

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The 2006/07 Federal Budget was handed down on 9 May 2006 by the Treasurer. Below are the main tax highlights of the Budget:

### Personal income tax cuts

Measures	Current	Proposed	Start date
30% threshold	\$21,601	\$25,001	1 July 2006
42% marginal rate and threshold	Marginal rate: 42% Threshold: \$63,001	Marginal rate: 40% Threshold: \$75,001	1 July 2006
47% marginal rate and threshold	Marginal rate: 47% Threshold: \$95,001	Marginal rate: 45% Threshold: \$150,001	1 July 2006
Low income tax offset	<ul style="list-style-type: none"> <li>▪ Offset: \$235</li> <li>▪ Offset phase out from \$21,600</li> <li>▪ May claim offset to income up to \$27,475</li> <li>▪ Full offset taxpayer - tax threshold: \$7,567</li> </ul>	<ul style="list-style-type: none"> <li>▪ Offset: \$600</li> <li>▪ Offset phase out from \$25,000</li> <li>▪ May claim offset to income up to \$40,000</li> <li>▪ Full offset taxpayer - tax threshold: \$10,000</li> </ul>	1 July 2006
Senior Australians tax offset	<ul style="list-style-type: none"> <li>▪ Income tax threshold for:                             <ul style="list-style-type: none"> <li>○ Single Senior Australians with tax offset: \$21,968</li> <li>○ Couples with tax offset: \$36,494</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Income tax threshold for:                             <ul style="list-style-type: none"> <li>○ Single Senior Australians with tax offset: \$24,867</li> <li>○ Couples with tax offset: \$41,360</li> </ul> </li> </ul>	1 July 2006
Students ceasing full time study	Tax-free threshold of \$6,000 must be apportioned	Full tax-free threshold to apply	1 July 2006

## FBT changes

Measures	Current	Proposed	Start date
FBT rate	48.5%	46.5%	1 April 2006
In-house FBT tax-free threshold	\$500	\$1,000	1 April 2007
Remote areas FBT concession	Travel over water not covered in the shortest practicable route	Shortest practicable route will extend to cover travel over water	1 April 2007
Threshold for minor benefits exemption	\$100	\$300	1 April 2007
Threshold for reportable fringe benefits	\$1,000	\$2,000	1 April 2007

## CGT small business concessions and exemptions

Measures	Current	Proposed	Start date
Controlling individual 50% test	Controlling individual 50% test	Replaced with significant individual 20% test. Also, new test can be met either directly or indirectly through one or more interposed entities.	For CGT events that happen in 2006/07 and later income years
Active asset test	No provision allows asset to cease to be used in a business and be later sold.	A 12-month period will be allowed in which to dispose an asset after its cessation of use in a business, provided the asset is active for the lesser of half of the period of ownership or 7.5 yrs.	
15-year exemption	No requirement for a company or trust to have a controlling individual for 15 years.	A company or trust will need a significant individual for a period of 15 years.	

Deceased estates	No provision concerning sale of assets by a deceased's legal personal representative or beneficiary.	A deceased's legal personal representative or beneficiary will be entitled to a CGT concession if: <ul style="list-style-type: none"> <li>the asset is disposed of within 2 years of death (or such longer period as the Commissioner allows); and</li> <li>the asset would have satisfied the small business concessions if the deceased had disposed of the asset immediately before death.</li> </ul>	
Maximum net asset value test	\$5 million generally	\$6 million and exemption for STS taxpayers	1 July 2007

### Taxation of trusts

Measures	Current	Proposed	Start date
Family trust elections	<ul style="list-style-type: none"> <li>Elections cannot be revoked or varied</li> <li>Family group does not include lineal descendants</li> <li>Trust distribution to former spouses, widows or widowers of family group members with new spouses is subject to FTDT</li> </ul>	<ul style="list-style-type: none"> <li>Elections will now be revokable or variable in certain circumstances</li> <li>Family group will include lineal descendants</li> <li>Trust distributions to former spouses, widows or widowers of family group members with new spouses will not be subject to FTDT</li> </ul>	Income year in which legislation receives royal assent
Ultimate beneficiary rules	Reporting requirements extend beyond first-tier trustee beneficiaries in receipt of trust distributions.	Trustees of closely held trusts need only identify and report first-tier trustee beneficiaries in receipt of trust distributions.	Income year in which legislation receives royal assent
Distributions to non-resident	Resident trustees are only required to pay tax on	Resident trustees will be required to pay tax on	1 July 2006

trustees	distributions to non-resident individuals and companies (but not non-resident trustee beneficiaries).	distributions to non-resident trustee beneficiaries.	
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### New deductions

Measures	Current	Proposed	Start date
Gifts of publicly listed shares	No deduction is available for gifts of publicly listed shares.	A deduction will be available for a donation to a DGR of publicly listed shares that have been held for at least 12 months and are valued at \$5,000 or less. However, CGT will apply.	Income year in which legislation receives royal assent
Taxpayers who cannot prove use of boat in business	Cannot deduct expenditure relating to boating activities against taxable income derived from hiring boat.	A deduction will be available for expenditure relating to boating activities against income derived from hiring boat.	Income year in which legislation receives royal assent

### Depreciation and STS measures

Measures	Current	Proposed	Start date
Uniform capital allowances	Diminishing value rate: 150%	Diminishing value rate: 200%	Assets acquired on or after 10 May 2006
STS	No optional roll-over relief is available where a marriage breakdown occurs.	Optional roll-over relief will be available if: <ul style="list-style-type: none"> <li>a taxpayer in STS disposes of all assets in an STS pool to a wholly-owned company; and</li> <li>a STS pool is transferred due to a court order following a marriage breakdown</li> </ul>	Income year in which legislation receives royal assent
STS annual turnover threshold	\$1 million	\$2 million	1 July 2007
\$3m	Current test	Test to be abolished.	1 July 2007

depreciating assets test			
Cash accounting turnover threshold for GST small business concessions	\$1 million	\$2 million	1 July 2007
PAYG instalments	STS taxpayers cannot pay PAYG instalments quarterly based on GDP-adjusted notional tax	STS taxpayers will be able to pay PAYG instalments quarterly based on GDP-adjusted notional tax	1 July 2007

#### Other tax measures briefly

- From 1 July 2006, a new investment vehicle will be introduced called an early stage venture capital limited partnership. The new vehicle will be designed to increase activity in the venture capital sector.
- From around February 2008, a new national legislative framework for tax practitioners will be implemented.
- From 1 July 2006, the employee share scheme provisions will cover stapled securities.