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2007/08 Federal Budget Highlights

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The 2006/07 Federal Budget was handed down on 9 May 2007 by the Treasurer. Below are the main tax highlights of the Budget.

Personal income tax cuts

Measures	Current	Proposed	Start date
30% threshold	$25,001	$30,001	1 July 2007
40% threshold	$75,001	$80,001	1 July 2008
45% threshold	$150,001	$180,001	1 July 2008
Low income tax offset	Amount: $600 Phase out from: $25,000 Phase out ends: $40,000 Full offset income tax threshold: $10,000	Amount: $750 Phase out from: $30,000 Phase out ends: $48,750 Full offset income tax threshold: $11,000	1 July 2007
Senior tax offset	Single income threshold: $24,867 Couple income threshold: $41,360	Single income threshold: $25,867 Couple income threshold: $43,360	1 July 2007

Superannuation

Measures	Current	Proposed	Start date
Government Co-	$1.50 for every $1.00 of	$3.00 for every $1.00 of	1 July 2005

contribution	eligible contribution	eligible contribution (for the 2005/06 income year only)	

Small business

Measures	Current	Proposed	Start date
GST non-registration thresholds	Businesses with annual turnover under $50,000. Non-profit bodies with annual turnover under $100,000.	Businesses with annual turnover under $75,000. Non-profit bodies with annual turnover under $150,000.	1 July 2007
GST remittances	Quarterly.	Annually.	1 July 2007
GST Formula	Only retailers that sell food and charities that make GST-free supplies can use a simplified GST-estimation formula.	Small businesses with annual turnover under $2 million with a mix of taxable and GST-free purchases or supplies may use a simplified GST-estimation formula.	1 July 2007
Tax invoices	Not required for purchases of $50 or less (ex-GST).	Not required for purchases of $75 or less (ex-GST).	1 July 2007
PAYG	Only entities not registered for GST may pay their PAYG annually.	Entities that have voluntarily registered for GST may pay their PAYG annually.	1 July 2008

CGT

Measures	Current	Proposed	Start date
Marital breakdown - transfer to ex-spouse	The recipient can roll over their interests (the subject of a payment split) to a small super fund without CGT.	An individual can transfer their entire in-specie interest in a small fund to an ex-spouse's complying super fund without CGT.	1 July 2007
Marital breakdown - transfer to another fund	Transfer of an individual's personal contributions in a small superannuation fund to another small superannuation fund causes a CGT liability.	Transfer of an individual's personal contributions in a small superannuation fund to another small superannuation fund will not cause a CGT liability.	1 July 2007

Consolidated groups – tax cost setting rules

Measures	Current	Proposed	Start date
Accounting principles	The accounting principles used in an entity's financial statements may differ from those used to compute the allocable cost amount (ACA).	The accounting principles used in an entity's financial statements must be identical to those used to compute the ACA.	1 July 2002
Future income tax deduction	If a liability is reduced by a future income tax deduction, the reduction may be added back.	If a liability is reduced by a future income tax deduction, the reduction cannot be added back.	1 July 2002
Clarifications about liabilities		Liabilities when the entity leaves consolidated group or MEC group are those held	1 July 2002

		just before leaving time. Only those accounting liabilities owed by other members to a leaving entity are added to the ACA.	
Disregarded CGT events	When determining liabilities on exit, disregarded CGT events may increase the ACA.	When determining liabilities on exit, disregarded CGT events will not affect the ACA.	1 July 2005
General insurers		The value of liabilities for general insurers that exit or join a consolidated group or MEC group will be modified.	1 July 2002
Inherited deductions	Inherited deductions due to pre-13 May 1997 assets may reduce a joining entity's allocable cost amount (ACA) or increase an exiting entity's ACA.	Inherited deductions due to pre-13 May 1997 assets will neither reduce a joining entity's ACA nor increase an exiting entity's ACA.	1 July 2002
Over depreciation adjustment	An entity (that joins a consolidated group or MEC group) must trace all past distributions to determine whether any distribution paid to a company shareholder failed to qualify for the inter-corporate dividend rebate.	An entity (that joins a consolidated group or MEC group) need consider only the previous 5 years' dividend history to determine whether an adjustment must apply. This will be phased out so it ceases to apply from 1 July 2009.	8 May 2007

Consolidated groups – interactions with other provisions

Measures	Current	Proposed	Start date

Units in a cash management trust	Units in cash management trusts have their cost base reset on entry and daily withdrawals trigger capital gains and losses.	A joining entity's units (whose face value equals market value) are treated as retained cost base assets. The tax cost setting amount is the face value of the units at joining time.	1 July 2002
Doubtful debts	Capital gains arise when an entity that joins a consolidated group or MEC group has doubtful debts.	Capital gains will not arise due to a joining entity's doubtful debts.	8 May 2007
Sale of CGT assets	When a joining or leaving entity sells an asset before joining or leaving a consolidated group or MEC group, the capital gain or loss is realized at the date of joining or leaving.	When a joining or leaving entity sells an asset before joining or leaving a consolidated group or MEC group, the capital gain or loss is realized at settlement (unless it is intra-group).	8 May 2007
CGT Event L7	CGT event L7 occurs when a liability is discharged for an amount different to that used for tax cost setting purposes.	CGT event L7 is repealed.	8 May 2007
Adjustments to liabilities	When an entity leaves a consolidated group or MEC group, the tax cost setting rules cause adjustments to liabilities for unrealised capital losses and gains.	These adjustments will no longer be made.	8 May 2007
CGT Event K6	CGT event K6 arises on disposal of pre-CGT interests in an entity that predominantly owns post-	To ensure CGT integrity without reconstruction of intra-group transactions, the single entity and entry history	8 May 2007

	CGT assets. Intra-group transactions are reconstructed to ensure CGT integrity.	rules are extended to non-group shareholders when applying the CGT discount rules and CGT event K6.	
Blackhole expenditure	Only consolidated groups can utilize the CGT blackhole expenditure provisions.	The CGT blackhole expenditure provisions are extended to members of a MEC group.	1 July 2005
Depreciation	The head company of a consolidated group acquires a subsidiary's assets at the time the subsidiary joins.	The head company of a consolidated group is deemed to have acquired a subsidiary's assets when the subsidiary did.	8 May 2007
Duplication of loss	Losses of widely held companies are not denied or significant compliance costs imposed in establishing non-duplication of the loss.	The inter-entity loss multiplication rules are modified so that a widely held entity need not make adjustments unless a controlling shareholder in the loss company has an interest in the entity and the loss was claimed.	1 July 2002
Trust beneficiaries		When a trust joins or exits a consolidated group or MEC group, its beneficiaries will be taxed on an appropriate part of trust income.	2007-08 income year
Substituted accounting period		When the head company has a substituted accounting period and certain timing conditions are met, a joining entity may increase its ACA by the group's undistributed, untaxed profits.	1 July 2002

Thin capitalization

Measures	Current	Proposed	Start date
Transitional period	Entities may elect to use pre-1 January 2005 accounting or prudential standards for 3 years (for their first income year on or after 1 January 2005).	The period has been extended from 3 years to 4 years.	1 January 2005

Finance leasing

Measures	Proposal	Stance	Start date
None	Certain finance leases to be treated as a sale and lease-back.	There will be no changes.	N/A

Company loss recoupment

Measures	Current	Proposed	Start date
Cap on deductible losses	There is a $100 million cap on the same business test. This is problematic for large closely held companies.	The cap is removed. All companies will be able to access the same business test to deduct a loss against future income.	1 July 2005
Continuity of ownership test (COT)	Entities cannot claim a deduction for a loss if there are multiple classes of shares or special arrangements for dividends or capital returns.	The COT will be modified to eliminate these problems.	1 July 2002

Voting power	It excludes the power to vote on a poll for a director's election.	It includes the power to vote on a poll for a director's election.	1 July 2007
Entry history rule	The entry history rule applies (for certain purposes) to a subsidiary's pre-consolidation history.	The entry history rule is disregarded when applying the same business test.	1 July 2002

Miscellaneous

Measures	Current	Proposed	Start date
Authorized deposit taking institutions (ADIs)	If a consolidated group headed by an ADI was restructured so that a non-operating holding company became the head company and the ADI became a subsidiary, the ADI would be unable to issue preference shares outside the group.	After restructure, the ADI can issue certain preference shares to non-group shareholders whilst maintaining its tax position. 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.	1 July 2007
Child care tax offset	Families receive it shortly after the income year in which they were incurred.	The timing of the payment will be advanced to the start of the year.	1 July 2007
Forestry management investment scheme	Investors cannot trade their interests. Investors cannot claim deductions for their investment.	Investors can trade current and future interests (subject to a 4-year holding requirement for initial investors). Investors can claim investment deductions.	1 July 2007

Medicare low-levy income threshold	$16,284 for individuals, $27,478 for families, $2,523 for each dependent child or student, and $19,583 for pensioners below pension age.	$16,740 for individuals, $28,247 for families, $2,594 for each dependent child or student, and $21,637 for pensioners below pension age.	1 July 2007
Dependant spouse rebate	$1,655 total phase out when separate income is $6,981.	$2,100 total phase out when separate income is $8,681.	1 July 2007
Carbon sink forests	Establishment costs are non-deductible.	Establishment costs are immediately deductible for 5 years.	1 July 2007
Film investment	Investor rebates under Divisions 10BA and 10B of the ITAA 1936. Location rebate 12% No producer rebate	Divisions 10BA and 10B Investor rebates are phased out. Location rebate 15% New Producer rebate of 40% (feature films) and 20% (other productions)	1 July 2007
Superannuation	Public offer superannuation funds require employers to sign “participating employer” agreements.	Public offer superannuation funds cannot restrict employers in this way.	1 July 2007
Venture capital tax concessions		The eligibility requirements are relaxed for foreign residents investing in venture capital limited partnerships and Australian venture capital funds of funds.	1 July 2007
Petroleum resource rent tax	No functional currency.	Functional currency rule.	1 July 2007

	No look back. Processing fees are non-deductible. Tolling fee is not a recipt.	Look back rule. Processing fees are deductible. Tolling fee is a receipt.	
Misappropriations	Misappropriations by agents during disposal of capital assets or depreciating assets are generally non-deductible.	Misappropriations by agents during disposal of capital assets or depreciating assets are deductible.	1 July 2007
Defence force	Defence Force Income Support Allowance (DFISA) is not tax exempt even if the associated social security payment is.	Defence Force Income Support Allowance (DFISA) is tax exempt when the associated social security payment is. Overseas forces tax offset will be available to Operation Ramp (Lebanon) veterans.	1 July 2007 20 July 2006