

JRnews



The Budget & Taxation

Focusing on the new Labor Government's first budget

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The Federal Budget & Taxation

This edition of JR News focuses mainly on the new Labor Government's first budget.

In summary the budget provided for the tax cuts promised during the 2007 election campaign that will have some benefit to all individual taxpayers. Outside of the tax cuts there was nothing of great benefit for business or higher income earners. In the fine print there were some tightening of business related taxation measures which you will find summarised in this newsletter.

Payroll Tax

On a state taxation front, the Payroll Tax (Harmonisation) Amendment Bill 2008 received Royal Assent on 23 April. The Act amends the existing Queensland Pay Roll Tax Act to improve alignment with the other states. This edition provides a summary of these changes.

The Economy and Borrowings

The economy continues to be turbulent and many clients have noticed a tightening of lending practices from financiers. It is a good time to review the lending covenants that are currently in place. We have found that

over the last five or so years, financiers have been fairly relaxed about minor breaches in covenant, to the extent that clients are unaware of such breaches, or even if the covenants exist.

It appears that financiers are working their way through their own lending portfolios and reviewing borrowers financial standing. A pre-emptive review of finance covenants to ensure no breach is imminent may prevent a difficult negotiation with your financier.

At street level, the Australian consumer is faced with the prospect of possible further interest rate increases and fuel prices that are likely to begin influencing peoples spending habits. These indicators infer a clear softening of consumer demand that will in some way influence most sectors of our middle market client base. Businesses that will navigate well through these times will have the following attributes:

- Maintaining a strong balance sheet;
- Efficiency in operation and delivery of products and services;
- A strong focus on controlling overhead;
- Reducing discretionary spend or owners' draw.
- Preserving cash flow – monitoring level of tax payments relative to interim profits;



Enjoy this autumn edition of JR News!
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Budget Highlights Review of the Australian tax system

As a general comment the Government confirmed the establishment of a wide ranging review of the Australian tax system, with terms of reference to include Federal and State taxes (excluding GST).

Whilst an initial discussion paper will issue by the end of July 2008, the final report is not due until the end of 2009.

The Government has reiterated that its policy is:

1. not to increase the rate or broaden the base of GST;
2. to preserve superannuation concessions for taxpayers over 60; and
3. to reduce tax rates to 15 percent, 30 percent and 40 percent within six years; with an effective tax-free threshold for those eligible for the low-income tax offset of \$20,000 by 2012-13.

All of the specific Budget changes are outside the scope of this newsletter, however, find below a summary of the changes we feel are most relevant to JR's clients (For comprehensive details of the budget refer www.aph.gov.au/budget/.)

Individuals

Reducing personal income tax

The Government will deliver in full the tax cuts it announced during the 2007 election campaign. These are:

Income tax rates

The amendments raise the 30 percent threshold for residents and non-residents:

- from \$30,001 to \$34,001 from 1 July 2008;
- to \$35,001 from 1 July 2009; and
- to \$37,001 from 1 July 2010.

The amendments also reduce the second highest marginal tax rate for residents and non-residents:

- from 40 percent to 38 percent from 1 July 2009; and
- to 37 percent from 1 July 2010.

New tax thresholds from 1 July 2008 (Income range)	Tax rate (%)	New tax thresholds from 1 July 2009 (Income range)	Tax rate (%)
\$0 - \$6,000	0	\$0 - \$6,000	0
\$6,001 - \$34,000	15	\$6,001 - \$35,000	15
\$34,001 - \$80,000	30	\$35,001 - \$80,000	30
\$80,001 - \$180,000	40	\$80,001 - \$180,000	38
-\$180,001+	45	-\$180,001+	45
New tax thresholds from 1 July 2010 (Income range)	Tax rate (%)		
\$0 - \$6,000	0		
\$6,001 - \$37,000	15		
\$37,001 - \$80,000	30		
\$80,001 - \$180,000	37		
-\$180,001+	45		

Increase in the low income tax offset

An increase in the low income tax offset means the effective tax free threshold increases. This increases the effectiveness of family trust distributions to adult dependents.

Low Income Offset	Effective Tax Free Threshold
■ from \$750 to \$1,200 for the 2009 income tax year	\$14,000
■ to \$1,350 for the 2010 income tax year	\$15,000
■ to \$1,500 for the 2011 and later income tax years	\$16,000

New PAYG schedules will be introduced so that low and average income earners will receive 50 percent of the cuts through lower PAYG withholding, rather than the full off-set as a lump-sum on assessment of their income tax return.

Date of effect:

1 July 2008

Medicare levy

Increased Medicare levy surcharge threshold

The Medicare levy surcharge thresholds for singles will be increased from \$50,000 to \$100,000 and for those who are members of a family from \$100,000 to \$150,000, with effect from 1 July 2008.

Date of effect:

1 July 2008

Superannuation

Access to funds for persons with a terminal medical condition

The commencement of the previously announced measure to make superannuation lump sum benefits tax free for people with a terminal medical condition will be back-dated to 1 July 2007.

Capital protected borrowings

For capital protected borrowings entered into after 7:30pm on 13 May 2008, the benchmark interest rate in the capital protected borrowing rules will be the Reserve Bank's indicator variable rate for standard home loans. Interest expense on a capital protected borrowing in excess of this level will be treated as the cost of the capital protection and not deductible if on capital account.

The current law applies the Reserve Bank's indicator variable rate for personal unsecured loans to determine the cost of capital protection. These rules will continue to apply to existing arrangements for a period of five years or the life of the product, whichever is the shorter.



Trusts

Family trusts

The previous Government introduced the following changes in relation to family trusts during the 2007 income tax year to:

1. extend the definition of 'family' to include lineal descendants of a range of members of the family group;
2. provide a one-off opportunity to change the test individual; and
3. permit, in limited circumstances, Family Trust elections and Interposed Entity elections to be revoked.

Announced action:

- Lineal descendants will be limited to children or grandchildren of the test individual or the test individual's spouse.
- The opportunity to change the test individual will be removed (other than in a marriage breakdown situation).

Date of effect:

1 July 2008

Prescribed Private Funds (PPF)

A PPF is a trust, typically established by a business or family, to which deductible donations may be made with the intention of the PPF disbursing funds to deductible gift recipients.

The Government will legislate guidelines to improve the integrity of PPF's, including issues to do with asset valuation, increased size of compulsory distributions and extending the regulatory powers of the ATO.

Date of effect:

From 1 July 2009

Small business concessions

Entrepreneurs Tax Offset (ETO)

Small businesses with an annual turnover of \$75,000 might qualify for the ETO, which provides a 25 percent offset, thereby reducing the tax liability of the business.

The Government intends to limit access to the ETO by means of income testing. Eligibility will be restricted for individuals from \$75,000 and families from \$120,000 of adjusted taxable income.

Date of effect:

From 1 July 2008

Extend small business concessions

The small business entity rules will be amended to ensure that access to the small business CGT concessions will be available for taxpayers owning a CGT asset which is used in an active business by a 'related entity'.

Date of effect:
1 July 2007

Depreciation

Depreciation – In-house computer software

Capital expenditure on in-house computer software will be depreciated over 4 years (rather than the present 2.5 years).

This would include expenditure on acquisition, development or having someone else develop software which is for use by the taxpayer (rather than resale).

Date of effect:
Expenditure incurred on or after 7:30pm on 13 May 2008

Employee share schemes

Election requirements

The Government will make legislative changes to the election requirements to access the tax-upfront concession available in relation to qualifying shares or rights acquired under an employee share scheme (ESS).

Currently, if a taxpayer makes a written election before the lodgment of the taxpayer's income tax return for the year in which the shares or rights are acquired, the discount will be taxed in the income tax year the shares or rights were acquired. The written election does not need to be provided to the Commissioner of Taxation. If no election is made, the taxation of the discount is deferred until a later time.

However, the Government contends that further integrity measures are required, as taxpayers who did not make an election to be assessed upfront, have sought to change their choice in a later income tax year by claiming that they had in fact made such an election.

With respect to shares and rights acquired from 1 July 2008, if a taxpayer does not include an amount in their income tax return in the year the shares or rights are acquired, they will be taxed under the tax-deferred option (except where the discount did not exceed \$1,000).

Date of effect:
1 July 2008

Employee share schemes – removal of double taxation

Currently, a capital gain or loss is recognised by a trustee of an employee share trust (EST) when an employee becomes absolutely entitled to a share that was originally acquired through exercising a right acquired under an ESS.

The Government has announced there will be CGT relief when an employee becomes absolutely entitled to a share under these circumstances. This means that double taxation will be removed since the discount will only be assessable under the ESS provisions and not the CGT provisions under these circumstances.

Date of effect:
From 7:30pm, 13 May 2008

Fringe Benefits Tax (FBT)

Exemption for work-related benefits

The Government will tighten the rules governing exemption for certain work-related items, including laptop computers, PDAs and tools of trade. The exemption will only be available where the items are used primarily for work purposes.

No depreciation deductions will be available to an employee for FBT exempt items (i.e. items primarily for work purposes) purchased after 7:30pm on 13 May 2008. For items purchased before that time, employees will be denied depreciation deductions for the 2009 income tax year, and later years.

Date of effect:
7:30pm on 13 May 2008



Jointly held assets

The fringe benefits tax law will be amended to ensure that the full value of a benefit that has been provided to both an employee and an associate in relation to a jointly held asset will be subject to FBT. This tax integrity measure will have effect for new arrangements from 7.30 pm (AEST) on 13 May 2008.

The measure will re-establish the principle that income and deductions arising from jointly held assets should be allocated between joint owners according to their legal interests.

Employees who have already entered into salary sacrifice agreements with their employer will be able to utilise existing arrangements until 31 March 2009 (that is, the end of the current FBT year). This will provide time for employers and employees to renegotiate salary packages to avoid incurring a FBT liability.

Meal cards

Meals provided to an employee under a salary sacrifice arrangement will be excluded from the FBT exemption that applies to the private use of business property on an employer's premises.

The existing FBT exemption allows employees with a 'meal card' arrangement to purchase meals out of their pre-tax income. The change will ensure equity with other employees who have to purchase meals out of their after-tax income. Existing balances on meal cards as at 7.30 pm (AEST) on 13 May 2008 will remain eligible for the FBT exemption, provided they are used by 31 March 2009. Any supplementation of existing balances after 7.30 pm (AEST) on 13 May 2008 will be subject to FBT.

The measure will not affect subsidised canteens that are provided to all staff and that are not part of a salary sacrifice arrangement.

Increasing the luxury car tax

The Government has announced it will increase the luxury car tax rate from 25 percent to 33 percent. The luxury car threshold will remain unchanged at \$57,123.

Date of effect:
1 July 2008

GST – refund restrictions and four-year amendment period

With effect from 1 July 2008:

- GST refund provisions will apply even if the transaction for which the tax was paid is found not to be a supply; and
- The intended four year limit on refunds and liabilities for indirect taxes will be restored.





Payroll Tax (Harmonisation) Amendment Act 2008

On 23 April 2008, the *Payroll Tax (Harmonisation) Amendment Bill 2008* received Royal Assent as Act No. 16 of 2008.

Various amendments will be made to the *Payroll Tax Act* effective 1 July 2008, including the following areas:

- in relation to the motor vehicle allowance exemption, the existing allowance rates will be replaced with the Tax Office rate, updated annually;
- employers will be required to only apply the Commonwealth's fringe benefits tax type two gross-up factor;
- new exemptions for wages paid or payable to an employee for maternity, paternity and adoption leave;
- new exemptions for wages paid or payable to an employee in relation to any period during which they are taking part in bushfire fighting activities as a volunteer, or engaging in emergency activities as a volunteer;
- exemption for wages paid or payable to an employee in relation to any period during which they are performing functions of the Queensland Ambulance Service as a volunteer honorary ambulance officer under the *Ambulance Service Act 1991*;
- new Community Development Employee Project exemption;
- introduction of relevant contracts provisions;
- introduction of employee share acquisition scheme provisions;
- inclusion of termination payments to non-employee directors;
- amendment of the exclusion of wages for work performed 'outside Australia' to 'in another country';
- inclusion of 'remuneration' in the general definition of 'wages';
- adoption of specific third party payment provisions;
- changes to the grouping provisions; and
- changes to the employment agent provisions.

In future editions of JR News the pertinent areas of Payroll Tax Harmonisation to JR's clients will be explored in specific detail.

What's Happening at JR

Manager Appointments

Tax Division

Selina Trace joins us from another mid tier firm where she spent 4 years as a manager. Overall, Selina has 12 years experience in professional practice, 7 of those supervising and training other team members.

Bernard Naude joins us from one of the international firms where he spent 2 years as a tax manager. Bernard has more than 8 years senior experience in international firms in both Australia and South Africa.

Pharmacy Division

Stuart Gardner has returned to JR as a manager in the Pharmacy Division after a break travelling and working in London.

Business Services

Majella Burke joins JR after 12 years experience in the industry, most recently as a manager in the International Business Group of one of the larger firms.

Professional Appointments

Pharmacy Division

Daspal Gill is currently studying for his CA; he joins us as a 2nd year professional. He completed his degree at QUT.

Alex Deaconos also joins us from a small firm as a 2nd year professional. He too completed his degree through QUT.

Superannuation Division

Gloria Shek is a Business Administration graduate who has been working in the travel industry for a number of years and is looking forward to embarking on a new super journey with JR.

2008 Graduates – First Intake

JR remains committed to a graduate program. We welcome our first graduates for 2008 to the firm (from left to right): Robert Kennedy, Catherine Hayward and Kim Bui. Absent is our audit grad Tim Kotrlík. Our second intake for 2008 will be in July.



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The information provided in this newsletter is a guide only and should not be relied upon as advice from Johnston Rorke.

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