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## Personal Income Tax Cuts Improve Australia's Competitiveness

Australian taxpayers will share in tax cuts worth \$31.5 billion over the next four years.

The 30% threshold will increase from \$25,001 to \$30,001 on 1 July 2007.

From 1 July 2008, the 40% threshold will increase from \$75,001 to \$80,001 and the top marginal rate (45%) threshold will increase from \$150,001 to \$180,001.

The tax rates for the 2007 to 2009 years will now be as follows:

Tax Rate Commences					
2006-07		2007-08		2008-09	
Current		From 1 July 2007		From 1 July 2008	
\$	Rate	\$	Rate	\$	Rate
6,001	15%	6,001	15%	6,001	15%
25,001	30%	30,001	30%	30,001	30%
75,001	40%	75,001	40%	80,001	40%
150,001	45%	150,001	45%	180,001	45%

## Medicare Levy

From 1 July 2006, the Medicare levy low income thresholds have increased to \$16,740 for singles and \$28,247 for families.

## Dependent Spouse Rebate

The dependent spouse rebate will increase from \$1,655 to \$2,100 from 1 July 2007.

## Simpler Tax for Small Business

It will now be easier for small businesses to meet their tax obligations as follows:

- Businesses with turnover of less than \$75,000 will no longer be required to register for GST;
- The GST registration threshold for non profit bodies will be increased to \$150,000;
- Purchases by businesses of less than \$75 will no longer require an approved tax invoice to claim an input tax credit; and
- The eligibility criteria for a variety of small business concessions covering GST, CGT, the Simplified Tax System, FBT and PAYG will be streamlined so they all apply to businesses with a turnover of less than \$2 million.

## Superannuation Reforms

Broader super CGT roll-over relief will apply in the event of marriage breakdowns to encompass asset transfers from a self managed super fund to another complying fund (effective 1 July 2007).

One-off doubling of government super co-contributions will apply for eligible contributions made in 2005-06.

## Tax Consolidation – Further Improvements

The Government has announced that it will improve the income tax laws relating to consolidated groups to ensure that the rules operate as intended and to reduce compliance costs. Whilst no detail was provided, the changes will impact the tax cost setting rules, the CGT provisions and the uniform capital allowance rules.

The measures will generally take effect from the commencement of the consolidation regime (1 July 2002), although some measures will have a more recent commencement date.

The Government also announced specific measures, to take effect from 1 July 2007, to remove taxation impediments to the restructuring of conglomerates containing authorised deposit taking institutions (ADIs). These apply where a non-operating holding company is appointed as the head company of the consolidated group.

## Simplification of Income Tax Returns

Commencing 1 July 2007, the ATO will allow taxpayers to access an on-line pre-filled income tax return.

The prepared returns will automatically include a taxpayer's salary, wages, allowances, dividends, interest, distributions from managed funds, Government payments, Medicare out of pocket expenses, health insurance information and HECS/HELP details.

If the taxpayer is satisfied with the pre-filled return, they will be able to lodge their return immediately online. If taxpayers have additional information to provide, such as income from investments, this can be added to the return.

## Company Loss Recoupment Rules

### *Same Business Test (SBT)*

- Companies whose total income exceeds \$100 million will once again be able to access the SBT in recouping carried forward losses, effective from 1 July 2005.
- The SBT applying to consolidated groups has also been clarified. The entry history rule, which applies the pre-consolidation history of a subsidiary member to the head entity, will be disregarded in applying the SBT with effect from 1 July 2002.

### *Continuity of Ownership Test (COT)*

- Companies will not fail COT simply because they have multiple classes of shares, with effect from 1 July 2002.
- The meaning of 'voting power' has been defined to mean the power to vote on a poll for the election of a director to a company, with effect from 1 July 2007.

## Other Indirect Tax Changes

- The Government has committed an extra \$15 million to GST administration and SGC collection which will result in greater audit activity and increased debt collection.
- From July 2008, some employers will be able to remit PAYG on an annual basis (for persons voluntarily registering for GST).
- For some small taxpayers making mixed supplies, there will be increased discretion by the ATO to allow more simplified accounting methodologies in completing Business Activity Statements.
- R&D – There will be an extension of the 175% premium for R&D to some subsidiaries of overseas corporations where intellectual property is owned overseas (effective 1 July 2007).

## Forestry Managed Investment Schemes

From 1 July 2007, investors in forestry managed investment schemes (MISs) will only be entitled to immediate upfront deductions where at least 70 per cent of the expenditure is directly related to developing forestry.

In addition, existing and future investors will be allowed to trade their interests in forestry MISs provided that the initial investors held their interests for at least four years.

## Film Production Tax Incentives

From 1 July 2007, a rebate will be introduced to provide a refundable tax rebate of up to 40% for domestic feature films and 20% for eligible domestic media productions including TV series and documentaries.

Eligible international films will receive a rebate of up to 15% (currently 12.5%) for certain eligible expenditure. Minimum expenditure levels will apply.

## Thin Capitalisation

The thin capitalisation 3 year transitional period introduced as a result of the adoption of IFRS has now been extended by 1 year. Taxpayers will be able to determine their allowable debt using Australian General Accepted Accounting Principles as they existed pre 1 January 2005. This will be available until 30 June 2009 (or substituted accounting period).

In addition, measures will be introduced to ensure that taxpayers are not disadvantaged by the exclusion of certain equity interests from the thin capitalisation rules.

## Venture Capital

Tax concessions for foreign residents investing in venture capital limited partnerships ('VCLPs') and Australian venture capital funds ('AVCFs') will be relaxed, effective from 2007-08:

- Up to 20 per cent of committed capital in VCLPs and AVCFs can be invested in companies and unit trusts located outside Australia; and
- Eligible partners in conditionally registered VCLPs and AVCFs that become fully registered will be exempt from tax on gains derived from investments made while conditionally registered.

Certain investment restrictions will apply to ensure that investments made by early stage VCLPs are channelled toward early stage capital activities.

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