Daniel Beydoun & Co.
accountants & business consultants

TAXWISE® INDIVIDUAL NEWS

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MORE ON "BETTER SUPER"

In previous newsletters, we have been giving you some idea about how the new super reforms will impact on you.

Until recently called "Simpler Super", the Government has just re-branded it as "Better Super" and it starts on 1 July 2007.

In this newsletter, we will be focusing on the question, "***How much can I now contribute to my super?***" for people in the workforce.

Because the results of the application of the new contribution rules may vary depending on your own circumstances, we're only going to look at some of the main high level principles.

A WORD TO THE WISE…
It's best to get advice from appropriately qualified professionals about the contributions you should make, how much to contribute and how this will impact on your overall super strategy.

No more age-based limitations

From 1 July 2007, the age-based limits on the amount of contributions you could make to your super will no longer operate.

Basic contribution rules from 1 July 07

There are a number of contribution options depending on your age and the type of contribution you make.

Before-tax (concessional) contributions

- You (if substantially self-employed) or your employer can make before-tax contributions of up to $50,000 a year (indexed) into your super account.
- If you are 50 or over, your before-tax contribution limit is $100,000 a year between 2007–08 and 2011–12.

After-tax (non-concessional) contributions

- If you are under 65, there is an annual cap of $150,000 (indexed) on your after-tax contributions. You can also 'bring forward' these contributions and pay $450,000 in one year provided nothing is paid in the following two financial years.
- You can make an after-tax contribution to your super fund of up to $1 million between 10 May 2006 and 30 June 2007. This is only a temporary opportunity and from 1 July 2007 the new after-tax cap of $150,000 will apply.

TIP
You can make contributions (both before and after-tax) to your super until you turn 75. If you are over 65, you will need to work 40 hrs in 30 consecutive days (called the "work test") in a financial year to make contributions.

What if I exceed the contribution caps?

Exceeding the contribution caps is costly:

- If you exceed the before-tax contribution cap, ***you*** will be taxed on your excess contribution at a rate of 31.5%.This is on top of the 15% tax paid by your fund on your contributions.
- If you exceed the after-tax contribution cap, ***you*** will be taxed on your excess at the top marginal rate of tax, including the Medicare Levy, of 46.5%.

Tax file numbers

Make sure your super fund has your tax file number before 1 July 2007. If it doesn't, not only could you be charged a higher tax on your contributions - your fund also will not be able to accept some types of contributions from you.

MONEY IN YOUR POCKET

It's that time of year again to let you know about some of the tax related windfalls for individuals coming out of the 2007-08 Federal Budget handed down last month. This Budget had a strong focus on a number of aspects of personal taxation and superannuation.

More personal tax cuts

Personal tax cuts were once again centre stage in the latest Budget:

- ***From 1 July 2007***, the current 30% threshold will rise from $25,001 to $30,001.
- ***From 1 July 2008***, the current 40% threshold will rise from $75,001 to $80,001 and the 45% threshold will rise from $150,001 to $180,001

More for low income earners

From 1 July 2007, two things are happening to the Low Income Tax Offset (LITO):

- the maximum amount of offset increases from $600 to $750.
- the offset will begin to phase out when your taxable income exceeds $30,000 (instead of the current $25,000 threshold).

DOLLARS IN THE HAND…
In the upcoming 2007/08 tax year, if you're eligible for the full LITO you will not pay tax until your annual taxable income exceeds $11,000 (currently $10,000). You may still be entitled to some LITO offset up to a taxable income of $48,750 (currently $40,000).

More for seniors

From 1 July 2007, if you receive the Senior Australians Tax Offset (SATO) you will be able to earn more income without paying tax:

- *singles* can have a taxable income up to $25,867 (up from $24,867).
- *couples* can have a taxable income up to $43,360 (up from $41,350).

The Medicare levy threshold for seniors will also be increased to make sure you don't pay this levy until you begin to incur a tax liability.

More spouse rebate

From 1 July 2007, the dependent spouse rebate will increase from $1,655 to $2,100. This means a dependent spouse will be able to earn $8,681 in net income before the rebate cuts out completely.

More for child care

From 1 July 2007, there are a couple of important changes impacting on child care costs:

- the rate of Child Care Benefit (CCB) will be increased by 10% (for example, a family on the maximum rate of CCB with one child in Long Day Care to 40 hrs per week will receive an extra $16.40 per week).
- the existing Child Care Tax Rebate (CCTR) will be converted to a direct payment administered through Centrelink (the CCTR covers 30% of out of pocket expenses, up to a maximum of $4,000 plus indexation).

More capital gains tax relief

From 1 July 2007, the Government plans to allow one spouse in a marriage breakdown to transfer their entire *in specie* interest in a small superannuation fund to another complying superannuation fund without there being an immediate CGT taxing point.

More super co-contribution

If you made an eligible contribution to your super fund in ***the 2005-06 income year*** that attracted the Government's superannuation co-contribution payment, the Government plans to make a one-off additional co-contribution into your super account. This will effectively double the amount of co-contribution paid to you in 2005-06.

Medicare Levy low income thresholds

From 1 July 2006, the Medicare Levy low income thresholds increase for individuals to $16,740 and for families to $28,247. The additional amount of threshold for each dependent child will increase to $2,594. The Medicare levy low income threshold to pensioners below Age Pension age will be increased to $21,637.

LOOK BEFORE YOU LEAP!
Bear in mind that some of these Budget changes are still only at the proposal stage. You should always check to make sure you know the exact outcome of a Budget proposal before you change the way you currently manage and organise your personal and business dealings.

YOUR 2007 YEAR-END CHECKLIST

With 30 June 2007 fast approaching, it's time to get serious about looking at what shape your tax affairs are in so you are prepared for this year's tax return.

We will highlight what's new for 2006-07, provide a four step guide for getting ready to do your return, and let you know about current ATO "hot spots" as well as some forward planning tips.

What's new for 2006-07

Set out below is a brief round up of a couple of changes over the past twelve months that may open up new planning opportunities for you in this year's tax return.

Marriage breakdown CGT relief

A number of changes have been made to the capital gains tax (CGT) marriage breakdown roll-over concessions – these changes will apply to relevant CGT events occurring after 12 December 2006. These changes are in the following three areas:

Binding financial agreements and arbitral awards

CGT roll-over relief on marriage breakdown is extended to binding financial agreements and arbitral awards. Prior to this change, roll-over relief was only available where an asset was transferred to a spouse or former spouse because of a maintenance agreement or court order under the Family Law Act or a court order under a state, territory or foreign law relating to de facto marriage breakdowns. It is anticipated that these amendments might encourage separating couples to settle their own affairs without involving the courts by removing potential CGT impediments.

Marriage breakdown settlements

Changes have been made to ensure marriage breakdown settlements do not give rise to CGT liabilities – this will impact on intangible assets such as rights.

Changes to the main residence exemption

The CGT main residence exemption rules will now take into account the way in which *both* the transferor and transferee spouses used the main residence when determining the transferee spouse's eligibility for the main residence exemption.

The following example, based on one set out in the Explanatory Memorandum to the Bill that introduced these changes, gives you an idea of how the main residence exemption will now work on a marriage breakdown:

EXAMPLE
Caroline (the transferor spouse) is the 100 per cent owner of a dwelling that she used only as a rental property for five years before she transferred it to David (the transferee spouse). The transfer happened on 13 December 2006 and CGT roll-over applies. David uses the dwelling only as a main residence for five years before selling it. David will be eligible for a 50 per cent main residence exemption having regard to how both Caroline and David used the dwelling.

Something for students

The part-year tax-free threshold for taxpayers who cease to be engaged in full-time education for the first time has been removed, effective from the 2006-07 tax year.

This is good news for students who ceased full-time education for the first time in the 2006-07 year. If you're in this boat you will be entitled to the standard tax-free threshold of $6,000 that applies to all resident taxpayers.

Four step guide to return preparation

Set out below is a four step guide to getting ready to do your 2006-07 income tax return.

Step 1: Get your records straight

To help prepare your tax return so you can be confident that it accurately reflects your optimum tax position, the starting point is assembling all your tax records. You will need to put together all the relevant records, which will include things like evidence of:

- your income (e.g., Payment Summaries for your salary and wages, dividend and interest income statements, rental property

income, and any information on the sale of any of your assets during the year like the sale of an investment property or shares); and
- your allowable deductions (e.g., invoices, receipts of expenditure).

WORK RELATED DEDUCTIONS
If you are going to claim more than a total of $300 worth of work-related deductions, you will need to be able to substantiate how you worked out the full amount. If the total amount of your work related expenses is $300 or less, you don't need written evidence to prove your claim – but the ATO can still ask you how you worked it out!

Step 2: Identify your assessable income

Keep in mind that your total assessable income could well be more than just your salary. If you have investment income (e.g., interest or dividends) or cash income (e.g., tips and gratuities), make sure you keep a record of them and let us know about them.

If you're not sure whether some income you've received is taxable, it's best to tell us about it so we can work out the correct tax treatment for you.

Here is a checklist of some of the more common types of assessable income:

- salary and wages
- tips, bonuses and gratuities
- interest income
- dividends
- allowances provided by your employer
- pensions or annuities
- lump sum payments
- capital gains on any asset sales during the year

Step 3: Maximise your tax deductions

As an employee, you may be able to claim a range of work related expenses, as well as some non-work related items like donations of more than $2 to an approved charity.

Here is a checklist of some of the more common work-related deductions:

- special work clothing
- subscriptions and union dues
- self education expenses relevant to your current employment
- work related travel expenses
- home office expenses

Step 4: Make the most of tax offsets

As with previous years, the ATO is still finding that taxpayers are not taking advantage of a number of rebates (now called "tax offsets") and other concessions.

Tax offsets reduce any tax you may have to pay on your taxable income and can in some instances even result in a refund.

Get advice to make sure you are not overlooking an offset that may be of benefit to you (such as the *medical expenses offset*).

ATO targets hot-spots

In preparing your information for your 2006-07 tax return, you should be aware that the ATO has a number of data-matching programs on the boil at present.

In addition to financial information details (like interest and dividends), the ATO is collecting details about:

- horse trainers, owners, jockeys, stable-hands and track-riders (through the NSW Thoroughbred Racing Board).
- property title transfers (from all States and Territories)
- property title transfers by non-residents (from the Foreign Investment Review Board)
- residential tenancy agreements (in Qld, NSW and Vic).
- securities held in all Australian ASX listed entities.

Consider some forward planning

This is also the time of year when you should be considering some forward planning in readiness for the next tax year.

Given the considerable changes to personal income tax rate scales over the past two tax years, it would be prudent for you to review your current salary packaging arrangements with your employer now in readiness for the new financial year.