



The Square Orange

**MAY 2005 BUDGET
EDITION**

Federal Budget - May 2005

Personal Tax Cuts

The 2005/06 Federal Budget includes the most significant personal tax cuts seen for many years.

Most importantly, the top marginal tax rate of 47% has been pushed back substantially. The top rate currently applies to taxable income over \$70,000. It will only apply to income over \$95,000 during 2005/06, and income over \$125,000 during 2006/07 and subsequent years.

In addition, the current 17% rate will be cut to 15% and the 30% band will be widened.

Overall, these measures will save taxpayers up to \$2,162 for the 2006 year and \$4,502 for the 2007 year.

The tax rates for

2004/05, 2005/06 and 2006/07 are summarised below.

Non-residents — CGT

It is proposed that CGT will no longer apply to a broad range of assets owned by non-residents.

In future (following legislation) CGT will only apply to Australian real property and certain business assets owned by non-residents.

CGT will no longer apply to other Australian assets owned by non-residents, such as shares in Australian companies. This should significantly encourage foreign investment into Australian businesses.

Surcharges Abolished

The superannuation surcharge and termination payments surcharge will

be completely abolished from 1 July 2005. The surcharges currently apply at a rate of 12.5% once adjusted taxable income exceeds \$99,710.

Splitting of Superannuation Contributions

From 1 July 2006 eligible couples will be able to split their employer and personal superannuation contributions with their spouse.

This will provide significant financial and retirement planning opportunities.

Company Loss Recoupment Rules

The Federal Government has deferred its proposal to remove the availability of the same business test (SBT) for companies with annual income of \$100m or more.

The income ceiling will now apply to tax losses incurred in income years commencing on or after 1 July 2005.

The Government has also confirmed amendments which will make it easier for widely held companies to satisfy the continuity of ownership test (COT).

Foreign Loss Quarantining

Overall losses incurred in deriving foreign source income are currently quarantined and cannot be offset against Australian assessable income.

The Government has announced that quarantining will be abolished when proposed new legislation receives Royal Assent.

The change should reduce tax liabilities and compliance costs for taxpayers with international activities.

Business Blackhole Expenditure

The Government has announced tax relief for blackhole capital expenditure including:

a broader range of expenditure to be included in CGT cost bases;

a deduction over five

Current Tax Year

Income Range \$	Tax Rate %
0 – 6,000	0
6,001 – 21,600	17
21,601 – 58,000	30
58,001 – 70,000	42
70,001+	47

2005/2006

Income Range \$	Tax Rate %
0 – 6,000	0
6,001 – 21,600	15
21,601 – 63,000	30
63,001 – 95,000	42
95,001+	47

2006/2007

Income Range \$	Tax Rate %
0 – 6,000	0
6,001 – 21,600	15
21,601 – 70,000	30
70,001 – 125,000	42
125,001+	47

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years for certain pre-commencement business expenditure; and

a deduction over five years for business blackhole amounts (provision of last resort)

GST Changes

In relation to GST, the budget foreshadowed changes including increased audit activity concerning imported goods, anti-avoidance measures covering certain sales of real property and a range of incidental amendments.

Consolidation — Deadline Extended for Making Irrevocable Elections

The Government has confirmed that it will extend the deadline for making or revoking certain elections under the consolidation regime from 31 December 2004 to 31 December 2005. This extension will apply to elections in respect of setting the tax cost of the group's assets and for the utilisation of carried forward losses.

Importantly, the election to form a consolidated group will remain irrevocable despite this announcement.

Consolidation — Available Fraction

Entities that have an available fraction of nil due to rounding, will be able to round up to the nearest significant digit, with effect from 1 July 2002.

Tax Exemption for Temporary Residents

The Government has announced a four-year tax exemption for most foreign source income derived by temporary Australian residents, including capital gains on foreign assets.

Interest withholding tax obligations will also be removed and foreign investment fund rules will cease to apply.

Non-commercial Loans

From 1 July 2004, private companies now have until their tax return lodgment due date for a loan to a shareholder to be repaid or put on commercial footing to avoid the operation of the deemed dividend provisions.

CGT and Marriage Breakdown

Assets transferred between spouses on marriage breakdown will now be subject to broader CGT rollover relief.

Superannuation — Choice of Fund Rules

Following the introduction of the choice of fund rules, employers can continue to contribute to existing superannuation funds until 30 June 2008 if an employee has not chosen a fund and the existing fund does not meet the choice of fund insurance requirements.

Extension — Deduction on Forestry Prepayments

The 12-month prepayment rule for forestry managed investments, which allows immediate deductions for investors, will be extended for an additional two years (up to 30 June 2008).

Cosmetic Procedures Excluded

From the 2005/06 income year, purely cosmetic procedures will be excluded from the medical expenses offset.

Sundry Tax Changes

The tax law will be amended to deny deductions (and CGT cost bases) for expenditure incurred in relation to illegal activities.

To be FBT exempt, contributions to approved worker entitlement funds will no longer need to be

made under an industrial instrument.

The Medicare levy low-income thresholds have been increased for individuals, families and pensioners from 1 July 2004.

Superannuation Guarantee (SG) support will apply to the payment of wages made after employment ceases.

The Government has introduced a number of changes in relation to franking deficits tax (FDT) with effect from 1 July 2002.

The share capital tainting rules will no longer be triggered for certain transfers to share capital accounts as a result of debt/equity swaps.

Effective life depreciation will now apply to film copyright expenditure incurred on or after 1 July 2004.

Business Inputs Tariff Removed

From 11 May 2005, the Government will remove the 3% concessional tariff on business inputs where there are no substitutable goods manufactured in Australia.

Hedging Rules

The scope of the previously announced tax-timing hedging rules will be extended to all taxpayers in all industries.

Important: This is not advice. Clients should not act solely on the basis of the material contained in this Newsletter. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.