

2008 – The Year Ahead

Below is a summary of the key changes and dates relevant in 2008. Each of these items is outlined in more detail throughout this article.

JANUARY <ul style="list-style-type: none">• TFNs required for stand-alone superannuation insurance policies• Funeral bond Assets Test exemption threshold increases• Pension Bonus Scheme enhancements
MARCH <ul style="list-style-type: none">• More generous allowance payments• Salary packaging deadline
MAY <ul style="list-style-type: none">• Federal Budget
JUNE <ul style="list-style-type: none">• Maximise super contributions• No-TFN tax and assessable super contributions
JULY <ul style="list-style-type: none">• Personal tax rate threshold changes• Contribution splitting changes• SG contribution changes• Child care tax rebate to increase to 50%• 50% Education tax refund for eligible expenses
OTHER ISSUES <ul style="list-style-type: none">• First Home Saver Account

JANUARY

TFNs required for stand-alone superannuation insurance policies

If your sole interest in an APRA regulated fund is risk insurance you should ensure you have supplied your Tax File Number (TFN) to your fund. Commencing **1 January 2008**, the Trustee must return your contribution if a valid TFN is not supplied within 30 days of the contribution being received.

Funeral bond Assets Test exemption threshold increases

The funeral bond (exempt funeral investment) Assets Test exemption threshold was increased from \$5,000 to \$10,000 per person (including for each member of a couple) and will be indexed to CPI in the future. This measure applies to bonds purchased from **1 January 2008** and from that date, to existing bonds with a purchase value between \$5,000 and \$10,000. You will now be able to have up to two funeral bonds exempted, provided the total value of the bonds does not exceed the new \$10,000 limit. If a couple holds the investment jointly, the bond value is limited to \$10,000.

Pension Bonus Scheme enhancements

On **1 January 2008**, the following changes were introduced to enhance the Pension Bonus Scheme (PBS).

- The surviving partner of a deceased PBS member will be allowed to receive the deceased partner's unclaimed bonus accrued up to the time of death, provided the claim is made within 26 weeks of death.
- A claim can be made for a top-up to the pension bonus amount if the participant's Age Pension increases within 13 weeks of the original claim and in certain specified circumstances.
- Centrelink and Department of Veterans' Affairs decision makers will have more discretion to accept late bonus claims in special circumstances.
- The PBS member will be able to take periods of up to 26 weeks leave from work (such as annual leave, sick leave, long service leave) and still remain a member of the scheme.

MARCH

More generous allowance payments

During the Federal election campaign, Labor announced they will implement the Liberal's proposal to pay enhanced allowances from **20 March 2008**.

- The **Utilities Allowance** for older Australians in receipt of income support payments (such as the Age Pension and Veterans Service Pension) will be paid in quarterly instalments of \$125. The total annual payment will be \$500 for singles or couples (combined). This payment will also be available to Carer Payment and Disability Support Pension recipients for the first time.
- The **Seniors Concession Allowance** for eligible self-funded retirees will be paid in quarterly instalments of \$125. The total annual payment will be \$500 for each eligible person.
- The **Telephone Allowance** will increase to \$132 per year.

Note: At the time of issuing this article, these proposals were not legislated.

Salary packaging deadline

If you want to package benefits you should ensure you make appropriate arrangements before the end of the Fringe Benefits Tax year on **31 March 2008**.

MAY

Federal Budget

The Federal Budget is due to be handed down by the Government on **13 May 2008**.

JUNE

Maximise super contributions

You should consider taking advantage of the relevant caps this financial year by making super contributions before **30 June 2008**. This could involve making:

- Non-concessional contributions of up to \$150,000 (or \$450,000 if you are under age 65 this financial year and don't make further contributions in the following two years), and /or
- Concessional contributions of up to \$50,000 (or \$100,000 if aged 50 or over).

Note: If you are aged 50 or over you should consider making larger concessional contributions as soon as possible. If you wait until after 30 June 2012 (when the concessional contribution cap of \$100,000 expires) you will only be able to contribute \$50,000 a year.

Making personal deductible super contributions could also help you if you are self-employed to reduce your taxable income this financial year (including capital gains made on the sale of investments).

No-TFN tax and assessable super contributions

If you have not supplied your TFN by **30 June 2008**, the fund will generally be required to deduct 'no-TFN tax' from all assessable super contributions received in the 2007/08 financial year. The tax rate will be 31.5% (in addition to the 15% contributions tax). Contributions that are assessable to the fund include, for example, employer contributions and the taxable component of a directed termination payment.

The no-TFN tax will continue to be deducted at the end of each financial year until you supply your TFN. The fund will, however, be able to claim a refund of the no-TFN tax if you supply your TFN within three years from the year in which the tax was applied to a contribution.

Note: Contributions will not be subject to no-TFN tax if the super account existed prior to 1 July 2007 and the total assessable contributions received for the year are less than \$1,000.

JULY

Personal tax rate threshold changes

As announced in the May 2007 Federal Budget (and legislated on 21 June 2007), the personal tax rate thresholds for resident taxpayers will change on **1 July 2008**. The changes, which are highlighted in bold in the following table, will impact you if your taxable income is over \$75,000 pa.

Tax rates and thresholds

Current tax thresholds (2007/2008)	New tax thresholds (from 1/7/08)	Tax Rate*
\$0 - \$6,000	\$0 - \$6,000	0%
\$6,001 - \$30,000	\$6,001 - \$30,000 ▲	15%
\$30,001 - \$75,000	\$30,001 ▲ - \$80,000	30%
\$75,001 - \$150,000	\$80,001 - \$180,000	40%
\$150,001 +	\$180,001 +	45%

To illustrate the impact of these changes, the following table shows the tax payable in 2007/08 and 2008/09 and the potential tax savings for higher income earners.

Tax payable and potential tax savings for higher income earners

Taxable income	Tax payable*		Tax saved †
	2007/08	2008/09	
\$80,000	\$19,100	\$18,600	\$500
\$100,000	\$27,100	\$26,600	\$500
\$120,000	\$35,100	\$34,600	\$500
\$140,000	\$43,100	\$42,600	\$500
\$160,000	\$51,600	\$50,600	\$1,000
\$180,000	\$60,600	\$58,600	\$2,000
\$200,000	\$69,600	\$67,600	\$2,000

* Ignores the Medicare levy.

† During the Federal election campaign, the Liberal Government announced that the income threshold for the 30% marginal tax rate will increase to \$34,000 and the low income tax offset will increase from \$750 to \$1,200. While these changes have not been legislated, the Labor Government has indicated they support them. More information will be provided when it becomes available.

‡ Ignores the personal tax rate threshold and low income tax offset changes supported by the Labor Government (see above).

Contribution splitting changes

From **1 July 2008**, it will only be possible to split concessional contributions. The amount that can be split will be the lesser of:

- For taxed funds, 85% of the concessional contributions, mainly comprising employer contributions (including salary sacrifice) and personal deductible contributions, but excluding any part of a directed termination payment, foreign fund transfer, rollover or amount counting towards the tax free component of an interest, and
- The concessional contribution cap for that financial year.

Note: Prior to 1 July 2008, it will still be possible to split up to 100% of the untaxed splitable contributions received between 1 July 2006 and 5 April 2007. However, it may not be tax-effective to do this as the tax law currently provides that any untaxed splitable contributions split with a spouse from 1 July 2007 must be classified as a Taxable component in the spouse's fund. This would result in tax being payable on the split amount if received before age 60, or if paid to a non-tax dependant beneficiary on death.

SG contribution changes

Commencing **1 July 2008**, all employers will be required to calculate their Superannuation Guarantee (SG) obligations based on an employee's Ordinary Time Earnings (OTE). Currently, some employers are entitled to use a notional earnings base (sometimes called superannuation salary) that is less than OTE. This includes earnings bases defined and in use before 21 August 1991, as well as those specified in an applicable industrial award. Employers will still be able to use an earning base that is higher than OTE, even after 1 July 2008.

Child care tax rebate to increase to 50%

During the Federal election campaign, Labor announced that from **1 July 2008**, they will:

- Increase the child care tax rebate from 30% to 50% of eligible expenses.
- Lift the rebate limit from \$4,354 to \$7,500 per child.
- Pay the rebate quarterly, rather than annually.

Note: At the time of issuing this article, these proposals were not legislated.

50% Education tax refund for eligible expenses

During the Federal election campaign, Labor announced that from **1 July 2008**, eligible parents will be able to claim:

- A 50% refund every year for up to \$750 of education expenses for each child attending primary school (maximum \$375 per child, per year).
- A 50% refund every year for up to \$1,500 of education expenses for each child attending secondary school (maximum \$750 per child, per year).

All families who receive Family Tax Benefit (Part A) will be eligible and can apply through their tax return. The first payment (in respect of the 2008/09 financial year) will be payable on 1 July 2009.

Note: At the time of issuing this article, these proposals were not legislated.

OTHER ISSUES (start date to be specified)

First Home Saver Account

Prior to the Federal election, the Labor Government announced first home buyers would be able to use a superannuation-style low tax savings account, called a First Home Saver Account (FHSA), to save for a home deposit. Below is a summary of the key features of this account, as outlined in a media statement (and supporting Fact Sheet) on 4 November 2007.

- Anyone aged over 18 can open a FHSA, so long as they meet the eligibility criteria for the First Home Owners Grant.
- The account will be held separate from existing superannuation accounts and individuals will not be able to access existing retirement savings for home-buying purposes.
- The minimum contribution is \$1,000 pa.
- Contributions will be capped at \$10,000 pa (indexed). A cap of \$5,000 pa (indexed) will apply to contributions made from pre-tax income (to be known as tax preferred contributions) and the remaining \$5,000 pa (indexed) may only be made with after-tax contributions from the individual or a third party.
- Individuals who do not participate in salary sacrifice arrangements can instead make post-tax contributions that will be eligible for a tax benefit on assessment equal to the amount of tax they would have saved if they did make contributions from pre-tax earnings (subject to the \$5,000 tax preferred cap). This tax benefit may be paid directly into the FHSA.
- Once contributions reach \$50,000, no further contributions will be able to be made into a FHSA.
- Tax preferred contributions will be taxed at 15%, no tax will be payable on after-tax contributions and investment earnings will be taxed at a maximum rate of 15%.
- Savings will have to remain in the FHSA for a minimum of four years after the account is established. Once this minimum qualifying period has been met, withdrawals will be tax-free if used for an eligible first home purchase.
- Withdrawals within four years will only be allowed in exceptional circumstances (defined similarly to those that apply to superannuation, such as severe financial hardship).

- Amounts not used for an eligible first home purchase can be accessed after four years, less the tax concessions received (which will be recovered before the funds are released). Alternatively, the funds can be rolled into an existing super account, where the usual superannuation access conditions and tax rules will apply.

We will attempt to provide more information on the FHSA when it becomes available.

Note: The following information has not been included in this article:

- Quarterly SGC payments and monthly or quarterly activity statements, which can be found on the ATO website (www.ato.gov.au).
- Updates to quarterly social security thresholds and rate increases, which can be found on the Centrelink website (www.centrelink.gov.au).