

Practice Update

Please read this update and contact this office if you have any queries

JULY 2006

Budget tax cuts and depreciation changes passed

The Government's tax cuts and depreciation changes have been passed by Parliament and are now law.

Changes include:

- ◆ lower personal income tax rates;
- ◆ FBT rate of 46.5% from 1 April 2006;
- ◆ an increase in the diminishing value rate to 200% of the prime cost rate for depreciable assets acquired on or after 10 May 2006.

The new personal tax rates for resident individuals from 1 July 2006 are as follows:

Taxable Income \$	Tax Payable
0 – 6,000	Nil
6,001 – 25,000	15% of excess over \$6,000
25,001 – 75,000	\$2,850 + 30% of excess over \$25,000
75,001 – 150,000	\$17,850 + 40% of excess over \$75,000
150,001+	\$47,850 + 45% of excess over \$150,000

Note: Medicare levy is not included in the above rates.

Proposed changes to Super – transitional rules

Editor: Everyone is talking about the Government's proposed changes to Superannuation, as announced in the Treasurer's Budget in May.

The Treasurer has since announced some transitional rules that are to apply immediately, and also made comments on other elements of the proposed superannuation rules.

Annual cap on undeducted contributions

The Government has decided that it will allow the \$150,000 annual cap on undeducted contributions (i.e., contributions from after-tax income) to be averaged over three years, to allow people to accommodate larger one-off payments.

Under these proposed averaging arrangements, it would be possible for a person to contribute \$450,000 between 1 July 2006 and 30 June 2007 (comprising the 2006/07 entitlement, and a bring forward of the 2007/08 and 2008/09 entitlement).

Under this scenario, no further (undeducted) contributions could be made until 1 July 2009.

Importantly, the annual entitlement will operate on a 'use it or lose it' basis, i.e., if a cap is not fully utilised in any year then the unused amount cannot be credited to a future year.

CGT exempt component

The Treasurer confirmed that the cap would exclude the CGT exempt component from the sale of a small business.

Therefore, small business owners who qualify for

this CGT small business concession will be able to contribute up to \$500,000 of capital gains into a superannuation fund *in addition* to contributions allowed under the cap.

Removal of the compulsory payment rules for people aged 65 and over

The Government is also proposing to bring forward the removal of the compulsory payment rules for people aged 65 and over to 10 May 2006.

This would allow people who are over 65 and no longer working and people aged 75 to defer cashing their superannuation benefits to take advantage of the new tax regime applying from 1 July 2007.

Renovating rentals: repairs and improvements

Editor: The ATO has released a document aimed at rental property owners to assist them with claiming deductions for repairs.

The "Rental Properties 2006" guide is available from the ATO website at www.ato.gov.au.

What is a deductible repair?

A repair is usually 'occasional' and 'partial'. Repairs typically replace a part of something or restore something to its original working order.

For example, a repair includes fixing a window that has been broken, or restoring an air conditioning unit to proper functioning where parts have worn out or deteriorated and have to be replaced.

Isn't updating a worn-out kitchen or replacing the threadbare carpet a deductible 'repair' to the property?

If you need to replace something entirely, like a complete set of kitchen cupboards, this suggests that it is not a repair.

Some activities which are often mistaken for deductible repairs include:

- ◆ insulating a property;
- ◆ repainting a house that had defective paint work at the time it was acquired;
- ◆ replacement of an entire structure or unit of property, like a complete fence or shed, a stove, or worn out kitchen cupboards; and
- ◆ extending the size of a house.

Editor: If you need any assistance with your rental property queries, please call our office.

2006/07 Super thresholds and limits

Tax free amounts of a bona fide redundancy payment

The tax free amounts of a bona fide redundancy payment (or of an approved early retirement scheme payment) for 2006/07 are:

- Fixed component: \$6,783 (formerly \$6,491); plus:
- \$3,392 for each year of service (formerly \$3,246).

Age-based deduction limits for superannuation contributions

The age-based deduction limits for superannuation contributions by employers and eligible persons for 2006/07 are:

- ◆ Under 35: \$15,260 (formerly \$14,603);
- ◆ Aged 35 – 49: \$42,385 (formerly \$40,560); and
- ◆ Aged 50 – 70: \$105,113 (formerly \$100,587).

Reasonable benefits limits (RBL)

The RBL limits for 2006/07 are:

- Lump Sum RBL \$678,149 (formerly \$648,946); and
- Pension RBL \$1,356,291 (formerly \$1,297,886).

ETP low rate threshold

The 2006/07 low rate threshold is \$135,590 (formerly \$129,751). (*Editor: Where a person aged 55 or over receives an eligible termination payment (ETP), part of it can be taxed at lower rates, up to the low rate threshold.*)

Superannuation contribution base

The maximum contribution base for a quarter in the 2006/07 year for the purposes of superannuation guarantee contributions is \$35,240 (up from \$33,720 for the previous year).

GIC & SIC for September 2006 quarter

The general interest charge (GIC) for the September 2006 quarter is 12.87% and the shortfall interest charge (SIC) for the September 2006 quarter is 8.87%.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.