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# Practice Update

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

JUNE 2006

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## CPI for March quarter 2006

The CPI indexation factor for the March quarter 2006 was 151.9 (up from 150.6 for the December 2005 quarter).

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## FBT car parking threshold

The car parking threshold for the fringe benefits tax (FBT) year commencing on 1 April 2006 is \$6.62 (up from the amount of \$6.43 that applied in the previous FBT year).

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## Taxi earning rate for 2005

*Editor: The Tax Office is moving more and more to calculating averages and applying them to certain businesses to determine what their income, gross profit and expenses should be. One of those is the average earning rate for taxis based on the number of kilometres they travel. Unfortunately, this will be an ongoing trend for other businesses.*

The Tax Office has announced that the national taxi earning rate for the year ended 30 June 2005 will remain at \$1.01 per km.

A spokesman for the ATO said that "The figure is based on average taxi earnings around the country and is seen by the Tax Office as the most reliable guide to what operators can expect to earn each year.

"Drivers and operators with an earning rate which is less than the national average should review their records to ensure all income has been included."

## Individual tax returns here to stay

*Editor: Clients concerned about being able to continue to claim deductions and receive healthy refunds often ask if salary and wage returns are likely to be abolished. This report of a radio interview with the Prime Minister will be a welcome relief to many.*

In an interview on 19 April with Alan Jones on Radio 2GB, the PM threw his weight behind keeping individual tax returns.

In that interview the Prime Minister stated that:

"I . . . made some inquiries about this issue of not having tax returns and I have been informed that there was quite a lot of research carried out on this and it indicated that a surprisingly large number of people like the idea of putting in their own returns.

"People like getting a cheque from the Government. They like that cheque, that Reserve Bank cheque made out in their favour giving them a tax refund and a lot of people I talk to say, 'I get my tax return done by a tax agent, it doesn't cost an enormous amount and he makes sure that I get all of the deductions that I am entitled to and if I didn't have it done by him then I wouldn't get as much back.'"

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## Luxury car data matching project

The Tax Office has decided to request details of individuals or entities who have acquired a motor vehicle valued at \$70,000 or higher from each of the relevant State/Territory authorities.

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These will be electronically matched with certain sections of Tax Office data holdings to identify non compliance with taxation law. Records relating to approximately 600,000 persons or entities will be matched.

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### **Tax Office warns about individuals offering advice**

The ATO has warned people in the Townsville\* area to beware of individuals offering investment or retirement income advice who claim they are working on behalf of the Tax Office. It said it doesn't employ third parties to provide advice to taxpayers.

These individuals may be approaching people to offer advice for home owners about investing in their retirement and saving on income tax if people invest in their company.

The ATO says that a legitimate tax officer will provide identification and give their own and their manager's contact details.

*Editor(\*): Any client who receives a call from someone claiming to be from the Tax Office, and who is concerned about questions being asked, should ask for the person's name, what office they are from and that office's phone number. If still concerned call us or call the ATO on 13 28 61.*

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### **ATO "comfortable" with genuine service trust arrangements**

The ATO has released its long-awaited ruling on Service Trusts. It is allowing a period of 12 months for people to review their service arrangements, ending on 30 April 2007. *Editor: Speak to us if you want to discuss the ruling.*

If, at the end of this period, a taxpayer's service arrangement is generally in line with the information provided in the ruling, the ATO states there is little risk that it will audit the arrangements.

#### **What will the Tax Office accept?**

The Tax Office advises that it will accept conventional service arrangements where payments are correctly calculated and the services are reasonably connected to the conduct of the business.

Where this is the case, the presumption will be that the service fees and charges are a real and genuine cost of the business and deductible in full.

#### **What will the Tax Office question?**

If the payments are grossly excessive or the services are not reasonably connected to the conduct of the business, then the purpose, and the deductibility, of some or all of the service fees is open to question.

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### **ATO warns about year end schemes**

The ATO has advised taxpayers not to get caught up in dodgy, end-of-year tax schemes.

"At the end of the financial year people often try to reduce their tax bill through investments that promise large refunds, but it can be hard to tell a good investment from a bad one as they can all come with convincing sales pitches."

The ATO says if you hear sales pitches similar to these, beware . . .

- ◆ 'There's no risk – we guarantee the returns'.
- ◆ 'The investment is legal but the tax man doesn't like it – that's why it's done offshore'.
- ◆ 'There's no need to ask the Tax Office if it's okay – we already have a ruling'.
- ◆ 'A top lawyer has looked at the investment and they think it's great' – In many cases the 'top lawyer' may have seen a different investment to the one you are being sold.

#### **Investigate before you invest**

- Is this a licensed business?
  - Is there a product disclosure statement or a prospectus?
  - Did you get an independent second opinion? *Editor: Have you spoken to us?*
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### **Salary sacrificing opportunity!**

The FBT rate has been reduced to 46.5% from 1 April 2006, even though the reduction in the top marginal rate, from 48.5% to 46.5%, will not occur until 1 July 2006.

This means that there is a (limited – i.e., 2%) salary sacrificing opportunity for taxpayers on the top rate between April and June 2006.

As any fringe benefits will only be taxed at 46.5% from 1 April 2006, taxpayers can effectively "bring forward" the tax rate reduction by salary sacrificing fringe benefits.

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.

# 2006 Federal Budget

The following are the main changes that were announced in the Federal Budget on 9 May 2006.

## Personal Income Tax Rates – Resident Individuals – 2006/07

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

## FBT Rate Reduction

From 1 April 2006, the FBT Rate has been reduced to 46.5%.

## Gross-up Rates – 2005/06 & 2006/07\*

Description	Gross-up Rate 2005/06	Anticipated Gross-up Rate* 2006/07
Type 1	2.1292	2.0647
Type 2	1.9417	1.8692

\* With the decrease in the FBT rate announced in the Federal Budget on 9 May 2006, the gross-up for Type 1 and 2 benefits for the 2006/07 year has been calculated as above.

## FBT Amendments – from 1 April 2007

- The in-house fringe benefits tax-free threshold will be increased from \$500 to \$1,000
- The minor benefits exemption threshold will be increased from \$100 to \$300
- The reportable fringe benefits exclusion threshold will be increased from \$1,000 to \$2,000

## The Government's proposed changes to Superannuation

The Government is inviting comments on its simpler superannuation proposal.

Under the proposed plan, from 1 July 2007:

- ◆ Superannuation benefits paid from a taxed fund either as a lump sum or as an income stream such as a pension, would be tax free for people aged 60 and over.
- ◆ Benefits paid from an untaxed scheme (mainly affecting public servants) would still be taxed, although at a lower rate than they are now for people aged 60 and over.
- ◆ Reasonable Benefits Limits (RBLs) would be abolished.
- ◆ There would be no forced payment of superannuation benefits.
- ◆ Age-based restrictions limiting tax deductible superannuation contributions would be replaced with a streamlined set of rules.
- ◆ The self-employed would be able to claim a full deduction for their superannuation contributions as well as being eligible for the Government co-contribution for their after-tax contributions.
- ◆ The ability to make deductible superannuation contributions would be extended up to age 75.
- ◆ People would still be able to access superannuation benefits before the age of 60, although they would continue to be taxed on their benefits under new simplified rules.
- ◆ A contribution limit of \$50,000 is to be introduced. However, a transitional deduction of \$100,000 is proposed for those aged 50 and over on 1 July 2007.

## **Depreciation — Diminishing Value Rate 200% of Prime Cost**

For all eligible assets acquired on or after 10 May 2006, the diminishing value method (DVM) rate for determining depreciation deductions has been increased from 150% to 200%. The new 200% DVM rates apply to new and second-hand assets, including those with statutory caps.

The new rates also apply to both business assets and investment assets (e.g., assets used in a rental property) but not to STS taxpayers and assets classes for which there are special arrangements (e.g., horticultural plants).

In addition, certain specific assets are also excluded, such as In-house software, Intellectual property assets (except copyrights in a film), Spectrum licences, Datacasting transmitter licences, and Telecommunications site access rights.

Example of the new rates: A taxpayer may choose to use an effective life of 10 years for a particular asset. Therefore, the Prime Cost rate of depreciation would effectively be 10% [i.e., 100% divided by 10 (years)]. The equivalent DVM rate of depreciation would be either 15% (at 150% DVM rates) or 20% (at 200% DVM rates) depending on whether it was acquired before 10 May 2006 or on or after 10 May 2006.

## **Small Business Measures**

From 1 July 2007, the following measures will be implemented:

- increasing the STS annual turnover threshold from \$1 million to \$2 million;
- increasing the GST cash accounting threshold from \$1 million to \$2 million;
- removing the \$3 million depreciating assets test from the STS eligibility requirements;
- increasing the net assets threshold for the CGT small business concessions from \$5 million to \$6 million; and
- allowing STS taxpayers to be eligible for the CGT small business concessions without having to satisfy the net assets threshold and to pay quarterly PAYG instalments on the basis of GDP-adjusted notional tax.

In addition to these amendments, the Government intends to improve the operation of the small business CGT concessions, and will provide improved access to the concessions by replacing the current 50% controlling individual test with a 20% significant individual test, which can be satisfied either directly or indirectly through one or more interposed entities.

## **Low Income Tax Offset**

From 1 July 2006, the low income tax offset will increase from \$235 to \$600 per year. In addition, the income threshold at which the offset begins to reduce will increase from \$21,600 to \$25,000. As a result, the income limit up to which some offset can be claimed will increase from \$27,475 to \$40,000.

Adults will then be able to earn \$10,000 tax-free and minors will be able to earn \$1,325 of non-excepted income tax-free.

## **Part-Year Tax-Free Threshold for Students**

From 1 July 2006, the part year tax-free threshold will be removed where a person ceases full-time education, extending the full tax-free threshold of \$6,000 to all resident taxpayers who cease full-time education for the first time.

## **Family Trust Elections**

Changes will be made to the family trust election rules to increase the flexibility for family trusts. This measure will have effect from the income year in which the enabling legislation receives Royal Assent.

This measure will allow family trust elections and interposed entity elections to be revoked or varied in certain limited circumstances. The definition of a family group will be broadened to include lineal descendants of family members. In addition, trust distributions to former spouses, and to widows or widowers of family group members with new spouses, will also be exempted from family trust distribution tax.

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