

Budget update, May 2008

Treasurer Swan delivered his first Budget last night and although there were no major changes or surprises, we thought we'd highlight a few of the main changes that may affect you:

Taxation Changes

- One of the best changes is the confirmation of the increase in the top marginal tax bracket up to \$180k (from \$150k). From 1 July, income earned between \$80k to \$180k will be taxed at 40%, with only income above \$180k being taxed at the highest rate of 45%. There are also increases in the ranges used for the lower tax rates- which will provide a tax saving to all income earners.
- Good news also in that there has been no major changes to superannuation- they have retained the zero tax on superannuation post age 60 which is great!

Investment Changes

- Non residents will benefit over the next 3 years from a phased in reduction in the 30% withholding tax rate on managed fund distributions, which is being gradually reduced down to 7.5%. For our non-resident clients this will mean that 'standard' or 'actively managed' managed funds may again become tax effective.
- There is a change made for the deductibility of interest on capital protected products which is effective immediately for any new funds (note, this does not apply to current funds). Interest deductions will be limited to the standard variable home loan rate (currently 9.35%). This effectively reduces the deductibility of some interest, as many new capital protected funds will be charged a higher interest rate.

Employee Share Schemes

- Tax elections for employees receiving new Employee Share Scheme entitlements will now need to be made earlier than before- please speak to us or your accountant in any year you may receive Share Options to ensure you make the most beneficial election.

First Home Saver Accounts

- There are proposed concessions for first home savers. More details are needed to be released to assess the effectiveness of this. The basic feature is that earnings in this account will be taxed at 15%, rather than at your potentially higher Marginal Tax Rate. Money will however be locked into the account for at least 4 years and must be used to either purchase a house you plan to live in or transferred to super.

Family Benefits

- One feature that impresses working parents is the increase in the childcare tax rebate to 50%. The rebate relates to costs of approved childcare- which from 1 July 2008 are effectively halved. This will also be paid quarterly rather than annually.
- One negative to families earning more than \$150k per annum, is that eligibility for the \$5,000 Baby Bonus will be removed for babies born after 1 January 2009.
- Family Tax Benefit will be stopped where the main family earner's income exceeds \$150k (currently FTB B is paid if one family member earns less than \$10k, regardless of what their partner earns).

This is a brief summary of the main points that may affect our clients. Please let us know if you're interested in any further details or if you have any queries with regards to any of the changes.

Please contact us if you would like to discuss these changes:

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