

# Practice Update

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

JUNE 2008

## Budget 2008

No doubt the biggest news from the past month was Labor's first Budget in 13 years.

The main stand-outs in the Budget appear to be the restriction of various benefits payable to high income earners (and expanding the application of means testing), and the fact that the Government stuck to its election promises and delivered on the tax cuts (as well as increasing various rebates and introducing new ones).

Also, with the Government's commitment to 'root and branch' tax reform, we may see more significant tax reform in future Budgets.

*Editor: We have summarised some of the other important initiatives in this Update, but if you would like to discuss how the Budget directly affects you, please contact our office.*

## Fringe benefits tax (FBT) initiatives

The Budget contained a number of measures to close perceived loopholes in the law – many of them relating to FBT planning opportunities, which are summarised below.

### Eligible work-related items

The provision of some work-related items (e.g., laptop computers, personal digital assistants and tools of trade) to employees can be exempt from FBT.

However, this exemption will now only apply where the item is used **primarily for work purposes** (if purchased after 13 May 2008).

This FBT exemption will be extended to all work-related portable electronic devices (including those with multiple functions) acquired after this date.

However, employees will no longer be able to depreciate laptops or other FBT exempt work related items where they have been reimbursed by the employer (i.e., where the item was acquired through salary sacrifice).

### Meal cards

A planning opportunity has been available for employees to salary sacrifice their meal expenses, with no FBT, where those meals were eaten on the employer's business premises (often through the provision of a 'meal card', accepted by retailers near the employer's premises).

After 13 May 2008, this FBT exemption will no longer apply to such meals. Existing balances on meal cards will remain eligible for the exemption as long as they are used by 31 March 2009.

This measure will not affect subsidised canteens that are provided to all staff and that are not part of a salary sacrifice arrangement.

### Jointly held assets

For new arrangements entered into after 13 May 2008, the FBT rules will be amended to ensure the full value of a benefit provided jointly to an employee and their associate (e.g., reimbursement of a jointly incurred rental property expense) is subject to FBT.

Employees who have already entered into salary sacrifice arrangements will be able to utilise existing arrangements until 31 March 2009.

## Medicare levy surcharge changes

The Government has announced that the thresholds at which the Medicare levy surcharge is imposed will be increased (for the first time since 1997).

### WICKHAM

Cnr Hannell & Downie Streets

PO Box 299, WICKHAM NSW 2293

Tel 02 4962 2199

Fax 02 4962 2196

### EAST MAITLAND

Shp 9 Village Walk Arcade, High Street

PO Box 353, EAST MAITLAND NSW 2323

Tel 02 4936 6659

Fax 02 4962 2196

### MORISSET

Suite 8, 31 Yambo Street

PO Box 300, Morisset NSW 2264

Tel 02 4973 2877

Fax 02 4962 2196

ACUMON PTY LIMITED  
 ABN 78 109 085 672

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From 1 July 2008, the Medicare levy surcharge thresholds will be increased for singles (from \$50,000 to \$100,000) and for those who are members of a family (from \$100,000 to \$150,000).

However, in making decisions about whether to retain private health insurance, taxpayers should remember that:

- ◆ the Government's 30% private health insurance rebate (up to 40% for older individuals) will remain; and
- ◆ the Government's Lifetime Health Cover (LHC) initiative, which encourages individuals to take out and keep private health insurance while they are young, remains unchanged. To avoid paying extra under the LHC, individuals generally need to take out Hospital cover by the 1st of July following their 31st birthday. For each year they delay, they will pay 2% more for their premium, up to a maximum of 70%.

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### Super co-contribution reminder

Super fund members who are eligible to receive the super co-contribution need to make personal contributions before 30 June 2008.

Note that eligibility for the super co-contribution was extended from 1 July 2007 to self-employed people who make after-tax contributions.

*Editor: To be eligible to receive the super co-contribution, a taxpayer's 'total income' (assessable income plus reportable fringe benefits) must be less than \$58,980, and at least 10% of that total income must be from eligible employment (e.g., salary and wages) or business activities.*

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### Amounts mistakenly paid to employees

The ATO has set out the income tax and FBT consequences of an employer mistakenly paying amounts as salary or wages to employees to which they are not beneficially entitled, but which they are obliged to repay:

- These amounts (including income support payments or worker's compensation amounts)

will not be taxable as 'ordinary income' of the taxpayer;

- Where an employer recognises they mistakenly paid such an amount to their employee, and afterwards allows the employee time to repay the amount, there is a 'loan benefit' for FBT purposes; and
- If the employer subsequently waives the employee's obligation to repay the mistakenly paid amount, this constitutes a 'debt waiver benefit' for FBT purposes.

The provision of a fringe benefit to the employee may mean that FBT will apply unless the benefit is exempt, for example, as a 'minor benefit'.

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### ATO data matching programs

The ATO will be undertaking a number of data matching programs to identify taxpayers who may not be meeting their taxation (including CGT, income tax and GST) obligations, and will acquire:

- identity and transaction details relating to securities held in *all* ASX listed entities by approximately 2.8 million individuals;
- owner builder licence registration information from Victorian and NSW authorities, relating to approximately 75,000 entities in the building and construction industry; and
- details of approximately 600,000 individuals or entities that have purchased or acquired a motor vehicle valued at \$57,009 or higher from the road and transport authorities in each of the States and Territories.

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### FBT car parking threshold

The car parking threshold for the FBT year commencing on 1 April 2008 is \$7.07.

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### CGT improvement threshold

For the 2008/09 income year, the improvement threshold, which is used for working out when a capital improvement to a pre-CGT asset is a separate asset, and for capital improvements to CGT assets where a rollover may be available, is \$119,594.

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.