

# Practice Update

## tax news | views | clues

Dear Client

We are pleased to supply you with the August 2008 edition of Practice Update which contains information on a number of important developments in taxation.

### Tax Rates Changes

The Bill amending the personal income tax rates for the 2008-09 income year and later income years has become law.

The Bill also increases the low-income tax offset for those income years (\$1,200 for the 2008-09 financial year). In addition, the Bill increases the income threshold at which Medicare levy becomes payable for taxpayers who are eligible for the senior Australian tax offset.

- **TIP:** Taxpayers earning less than \$30,000 for the 2008-09 income year will qualify for the full low-income tax offset. Taxpayers earning between \$30,001 and \$60,000 will qualify for the offset, which will be pro-rated accordingly.

### Tax Law Changes

In June 2008, the Government introduced into Parliament a Bill to:

- provide relief from CGT for private health insurance policy holders when their insurer demutualises to a for-profit insurer; and
- change the definition of "family" and remove the ability for family trusts to make a one-off variation to the test individual specified in a family trust election.

- **TIP:** Taxpayers who hold their private health insurance with NIB should consider the impact of the proposed amendments, which will provide CGT relief when a health fund demutualises.

### Taxpayer Alerts

The Tax Office has issued two Taxpayer Alerts warning taxpayers of arrangements that are currently being examined:

1. land impairment trust arrangements which are associated with forestry managed investment schemes.

The Tax Office is concerned about whether these arrangements give rise to a revenue or capital loss and how distributions from the land trust should be treated for tax purposes; and

2. arrangements that have features which are designed to allow a member of a superannuation fund to circumvent the annual superannuation contributions limits.

The Tax Office is concerned that certain features of these arrangements may give rise to taxation and superannuation regulatory issues.

### Fuel Tax Credits

The eligibility for fuel tax credits has been expanded from 1 July 2008 to include all taxable fuels that a taxpayer uses in his or her business activities, provided the fuel is not used in a vehicle with a gross vehicle mass of 4.5 tonnes or less travelling on a public road.

According to the Tax Office, the changes to the fuel tax credits scheme means that most businesses, including those operating in construction, manufacturing, wholesale/retail, property management and landscaping, will be able to claim credits.

Broadly, fuel tax credits provide a taxpayer with credits for the fuel tax (excise or custom duty) included in the price of the fuel.

### Artworks and Antiques

In a recent decision, the AAT set aside the Commissioner's decision to cancel retrospectively the GST registration of a taxpayer whose sole activity was the acquisition of artworks and antiques. Based on the evidence presented, the Tribunal was satisfied that the taxpayer was carrying on an enterprise despite minimal sales over a number of years

Two basic conditions must be satisfied before a taxpayer can register for GST: the taxpayer must be an entity, and either be carrying on an enterprise or intending to carry on an enterprise.

For GST purposes, the carrying on of an enterprise focuses on the activity or series of activities that a taxpayer engages in, and includes running a business.

## Super Rates and Thresholds

The Tax Office has released the 2008-09 indexed superannuation rates and thresholds, which cover contribution caps, concessional taxed superannuation lump sums, employment termination payments, superannuation guarantee and superannuation co-contributions.

The concessional and non-concessional contributions caps are \$50,000 and \$150,000 respectively, which did not change from the 2007-08 income year.

If the assessable income and reportable fringe benefits (if any) of a taxpayer do not exceed \$30,342 for 2008-09, the taxpayer will qualify for the maximum co-contribution of \$1,500.

## Child Support and Tax

The Government has announced a range of new measures aimed at boosting the collection of child support payments. The measures include:

- requiring both parents (the liable parent and the recipient parent) to lodge a tax return; and

- stopping salary sacrifice being used to minimise child support obligations.

## PAYG Withholding

From 1 July 2008, 50% of the low-income tax offset will be taken into account in determining the PAYG withholding amount for eligible individuals.

The remainder of the offset entitlement will be paid upon assessment of the individual's income tax return.

## PAYG Summary

The Deputy Commissioner has issued a Legislative Instrument that removes the requirement for superannuation funds to issue a payment summary to a recipient for a superannuation lump sum benefit paid, where the recipient is classified as having a terminal medical condition.

The Legislative Instrument applies from the 2007 income year.

## GST and PAYG Instalment Rate

The Tax Office has advised that the Gross Domestic Product (GDP) factor used to calculate taxpayers' GST and PAYG instalment amounts will increase to 8% from 1 July 2008.

Taxpayers who use the GDP-adjusted notional tax method to calculate their PAYG or GST instalments may see an increase in their instalment amounts from the first quarterly instalment for the 2008-09 income year.

## Division 7A Interest Rate

The Tax Office has stated that the benchmark interest rate for

the 2008-09 income year for the purpose of calculating the interest component of a loan from a private company to its shareholders (or their associates) is 9.45%.

The tax laws contain provisions that allow loans by a private company to its shareholders (or their associates) not to be treated as an unfranked dividend if the loan is made under a written agreement. One of the requirements of the agreements is that the interest rate to be used in calculating the interest payable on the loan for a financial year must equal or exceed the benchmark interest rate for that financial year.

## Car Limits

The Tax Office states that the car depreciation limit for the 2008-09 financial year is \$57,180.

The Tax Office also states that the luxury car tax threshold for the 2008-09 financial year is \$57,180.

## GIC and SIC Rates Released

The Tax Office has released the general interest charge and shortfall interest charge rates for the first quarter of the 2008-09 income year:

Rate	Annual (%)	Daily (%)
GIC	14.75	0.04030054
SIC	10.75	0.02937158

The Tax Office has also released the interest rate for overpayments, early payments and delays in refunds for the first quarter of the 2008/09 income year. The applicable interest rate is 7.75%.

### IMPORTANT DISCLAIMER:

*The material contained in this publication is in the nature of general comment only, and neither purports, nor is intended to be advice on any particular matter. Readers should not act or rely upon any matter or information contained in or implied by this publication without taking appropriate professional advice which relate specifically to their particular circumstances. The publishers and authors expressly disclaim all and any liability to any person, whether a client of Daley & Co. or not, who acts or fails to act as a consequence or reliance upon the whole or any part of this publication*