

Federal Budget 2004/05

Budget Overview

The Federal Budget was handed down on the evening of 11 May 2004.

For the 2004/05 financial year, the major estimates by the Government were as follows:

- \$2.4 billion cash surplus;
- GDP growth to moderate slightly to 3.5%;
- unemployment maintained around 5.75%; and
- inflation to decline to 1.75%.

The Budget includes:

- \$19.2 billion package for families (over five years);
- \$14.7 billion worth of income tax cuts (over four years);
- \$2.1 billion superannuation co-contribution scheme enhancement;
- \$5.3 billion boost to science and innovation;
- \$3.1 billion funding for AusLink, the new land transport infrastructure program;
- \$461 million to support carers (over five years);
- \$2.2 billion to the aged care sector (over five years); and
- \$755 million extra towards national security (over five years).

An outline of significant taxation announcements follows.

Personal Income Tax Cuts

Personal income tax rates will be cut from 1 July 2004 and again from 1 July 2005 as shown below.

Tax Rate Commences			Tax Rate
Current \$	2004/05 \$	2005/06 \$	
6,000	6,000	6,000	17%
21,600	21,600	21,600	30%
52,000	58,000	63,000	42%
62,500	70,000	80,000	47%

For a top marginal rate taxpayer, the cuts will result in a tax saving of \$21 per week (from 1 July 2004) plus a further \$21 per week (from 1 July 2005). Medicare levy low-income thresholds will also increase marginally.

Super Surcharge Slashed

To improve the incentive for superannuation contributions, the Government proposes to reduce the surcharge rates to 12.5% for 2004/05, 10.0% for 2005/06 and 7.5% for 2006/07 and later years.

Reductions previously proposed were 13.5% for 2004/05 and 12.5% for 2005/06 and subsequent years.

Private Company Loans

Private companies will avoid the deemed dividend rules where loans to shareholders or associates are repaid, or put on a commercial basis by the due date for lodgment of the company's tax return. Currently, a potential deemed dividend arises unless a complying loan agreement exists before funds are advanced.

At the earliest, the change will apply for the 2004/05 income year.

Loss Recoupment Rules

The Government has proposed changes to the operation of the loss recoupment rules.

The continuity of ownership test will be simplified for certain widely held companies.

Broadly, eligible companies will not be required to trace underlying ownership through interests of less than 10% or through managed funds, non-profit organisations and other widely held entities.

The changes will apply to loss years commencing on or after 1 July 2002.

In addition, companies and consolidated groups with total income exceeding \$100 million will be denied access to the same business test from 1 July 2004.

Consolidation: Greater Flexibility

The consolidation regime contains a number of irrevocable elections, including elections for the cost base of assets and recovery of losses.

To allow more flexibility in the initial years, taxpayers will be able to revoke some of these elections up until 31 December 2004.

The election to form a consolidated group remains irrevocable.

Other changes will also be made to clarify particular areas of the consolidation regime, with effect from 1 July 2002.

Retirement Income System

Initiatives for the Retirement Income System include:

- From 1 July 2005, those at preservation age (currently 55) who have not retired, will be able to access their superannuation as a non-commutable income stream.
- All eligible termination payments (ETPs) rolled into a superannuation fund on or after 1 July 2004 are to be preserved.
- Retirees under 65 will not have to work to make superannuation contributions after 1 July 2004. Those over 65 will only have to satisfy a work test on an annual basis.
- From 1 July 2004, super funds will be required to start paying benefits to members as soon as practicable after they reach 75 years of age.

Capital Gains Tax

Shareholders will now be able to realise a capital loss prior to the cancellation of shares in a company where the shares are declared worthless by any insolvency practitioner.

Currently, a CGT loss is only available when a liquidator is able to declare shares worthless.

After 20 February 2004, all taxpayers must exclude input tax credits from the CGT cost base for an asset where credits have been claimed. Previously this was not always required.

Retrospective Family Trust Elections

Concessional rules apply in relation to tax losses and franking credits for trusts which make a *family trust election* in a tax return for a relevant year.

The Government has now announced that eligible trusts will be allowed to make retrospective family trust elections at any time to access these concessions.

Imputation Changes: New Companies Benefit

The imputation rules will be changed to allow a private company to pay fully franked dividends in the first year of operation before actually paying any tax. The franking credits will be calculated on a reasonable estimate of the company's tax liability.

Increased ATO Audit Activity

The Government will provide the ATO with an additional \$216 million to fund a focus on:

- employers — PAYG, SGC and FBT obligations;
- businesses with turnover below \$100 million — CGT compliance, tax losses and complex financial arrangements;
- individuals — CGT and depreciation in relation to rental properties; and
- self-managed superannuation funds — super surcharge compliance.

FBT

The following will be FBT exempt:

- benefits provided to employees of ambulance services up to a grossed up value of \$17,000 p.a.¹;
- incidental home purchase costs incurred within four years of relocating¹;
- printers for use with portable computers and personal digital assistants (PDAs)²; and
- the cost of relocation consultants².

The FBT free ceiling for long service awards is to increase to \$1,000 plus \$100 per year over 15 years. The requirements to qualify for remote area housing will also be eased².

¹ From 1 April 2004.

² From 1 April 2005.

Family Assistance

A maternity payment will replace existing maternity and baby bonuses from 1 July 2004. The maternity payment will not be income tested. The payment will be \$3,000 per child from July 2004, \$4000 from July 2006 and \$5,000 from July 2008. Family tax benefits will also be increased with easier access.

Indirect Tax Measures

The Government has revised estimated collections of GST up by \$1.1 billion for the 2004 year and by \$560 million for 2005. A number of indirect tax changes were also announced, including:

- Entities that are voluntarily registered (with turnovers of less than \$50,000 or \$100,000 for non-profit entities) will be allowed to report and pay their GST on an annual basis.
- Small businesses (turnover below \$2 million) will now be able to annually apportion the private/business use of assets (e.g. cars, computers etc.).
- There will be changes for barter trade schemes. Supplies will no longer be input taxed financial supplies and will now be taxable.
- The Government will rebate \$290,000 p.a. of wine equalisation tax (WET) to every wine producer.
- Taxpayers who become quarterly PAYG instalment remitters as a result of registering for GST will gain an extra year to commence paying instalments as an annual remitter.