

## Income Tax Reform

The Government has recently introduced into Parliament a Bill proposing income tax rates cuts.

For the 2008/09 income year, the proposed personal tax rates and tax payable for resident taxpayers are set out in the table below:

Taxable income (\$)	Tax payable (\$)
0 – 6,000	Nil
6,001 – 34,000	15% of excess over 6,000
34,001 – 80,000	4,200 + 30% of excess over 34,000
80,001 – 180,000	18,000 + 40% of excess over 80,000
180,001 +	58,000 + 45% of excess over 180,000

The low income tax offset (LITO) for the 2008/09 income year will increase from \$750 to \$1,200.

Therefore, taxpayers will be entitled to the LITO if their taxable income is less than \$60,000.

As a consequence of the increase in the LITO, senior Australians who are eligible for the senior Australian tax offset (SATO) will have no tax liability until their income reaches \$28,867 for singles and \$24,680 for each member of a couple for the 2008/09 income year.

The Medicare levy threshold amount for senior Australians who are eligible for the SATO will also increase in line with the LITO for the 2008/09 income year. The threshold amount will increase from \$25,867 to \$28,867. The Medicare levy phase-in limit for senior Australians who are eligible for the SATO will increase from \$30,431 to \$33,961. The Medicare levy phase-in limit that applies to couples eligible for the SATO will increase from \$44,647 to \$49,412.

## Personal Services Income (PSI) Case

The Tax Office has released a Decision Impact Statement (DIS) regarding an Administrative Appeals Tribunal (AAT) case concerning whether a taxpayer generating PSI satisfied the business premises test and, as a result, was entitled to a personal services business (PSB) determination from the Commissioner.

In this case, the AAT decided the private use of a garage which was part of a building used in the generating of PSI was not so slight that it should be ignored. The garage was used to store personal items and a motor vehicle which was not exclusively used for business. Consequently, the

AAT was satisfied that the taxpayer did not use the premises exclusively for a business purpose, and did not meet the requirements of the business premises test.

PSI is ordinary or statutory income which is mainly derived, directly or indirectly through an interposed entity (company, trust or partnership) from an individual's personal exertion.

However, the PSI regime does not apply when an individual is carrying on a PSB.

If a taxpayer passes the business premises test, they will be considered as carrying on a PSB and be excluded from the PSI regime. A taxpayer may seek a PSB determination from the Commissioner to be excluded from the PSI regime.

- **TIP:** Taxpayers who are deriving PSI and working from home should ensure that the business part be physically separate from their residence to satisfy the business premises test.

## FBT and Minor Benefits

In a recent Taxation Ruling, the Commissioner expressed that a fringe benefit provided by an employer to their employees (or associate) will only attract the minor benefits exemption where:

- the notional taxable value of each benefit is less than \$300; and
- having regard to the circumstances, including a consideration of the infrequency and irregularity, it would be unreasonable to treat the benefit as a fringe benefit.

Further, the Ruling states that even if the notional taxable value of a benefit is less than \$300, the benefit is not necessarily an exempt benefit.

There are certain fringe benefits that are specifically excluded from the operation of the minor benefits exemption.

If the minor benefits exemption applies to a benefit, no FBT liability arises from the provision of that benefit.

### **Entrepreneurs' Tax Offset**

#### **Partners in a partnership**

In a recent Interpretative Decision, the Tax Office states its view that a taxpayer whose assessable income includes personal services income (PSI), which is attributed to being a partner in a partnership that is not conducting a personal services business (PSB), is entitled to the entrepreneurs' tax offset (ETO).

### **ETO and PSI**

The ETO is available to eligible taxpayers. The offset is equal to 25% of the income tax liability that is attributed to a small business entity income. If the annual turnover is more than \$50,000, the offset is phased out until it equals zero at turnover of \$75,000.

PSI is income that is mainly derived from an individual's personal exertion. The income can be derived either directly by the individual or indirectly through an interposed entity (company, trust or partnership).

However, the PSI regime does not apply when an individual is carrying on a PSB.

### **First Home Savers Account**

The Government has formally approved the establishment of the First Home Savers (FHS) Accounts scheme. It is anticipated that eligible first home buyers will benefit from the scheme. The scheme will be offered through banks, building societies, credit unions and life insurers.

Although the detailed features of the scheme have not been finalised, key features will include:

- co-contribution from the Government of a minimum of 15% on after-tax contributions of up to \$5,000;
- individuals aged between 18 to 65 will be able to open an account with an initial contribution of at least \$1,000, so long as they comply with the eligibility criteria for the First Home Owners Grant;
- the minimum savings period for the scheme is four years;
- interest earned will be taxed at a rate of 15%; and
- withdrawals will only be permitted for the purchase of an eligible first home and will be tax-free. Alternatively, individuals can roll over the full amount of the account to their superannuation fund at any time.

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