



May 2007

Budget Brief

“Highlights”

“Use this flyer to explore measures announced in the 2007-08 budget and find out what it may mean for you”

On 8 May 2007, the federal government delivered its budget for 2007-08 and its plans for the future of Australia and its people. This was the 12th (and possibly last) budget to be delivered by the Treasurer, Peter Costello.

In this Budget Brief brought to you by Asgard Technical Services, we briefly analyse the major changes and what they may mean for you.

It's important to note however, that the information contained within this Budget Brief is only general and doesn't take into consideration your personal circumstances. To discuss how the budget might affect you personally, you should speak to your financial adviser who can tailor their advice to suit your needs.

Personal tax reform

For the fifth year in a row, the government has provided personal tax relief through changes to the thresholds at which individual marginal tax rates change. Although not as significant as in past years, the changes will be phased in over two years as detailed in the table below.

In addition to these income tax rate changes, the low income tax offset has been extended for the second year in a row. From 1 July, the amount of the offset will increase from \$600 to \$750. You will get the full offset if you taxable income is below \$30,000 (currently \$25,000) and some benefit up to \$48,750.

Tax rate	Income ranges		
	Current for 2006-07	Proposed for 2007-08	Proposed from 2008-09
0%	\$0 - \$6,000	\$0 - \$6,000	\$0 - \$6,000
15%	\$6,001 - \$25,000	\$6,001 - \$30,000	\$6,001 - \$30,000
30%	\$25,001 - \$75,000	\$30,001 - \$75,000	\$30,001 - \$80,000
40%	\$75,001 - \$150,000	\$75,001 - \$150,000	\$80,001 - \$180,000
45%	\$150,001 +	\$150,001 +	\$180,001 +

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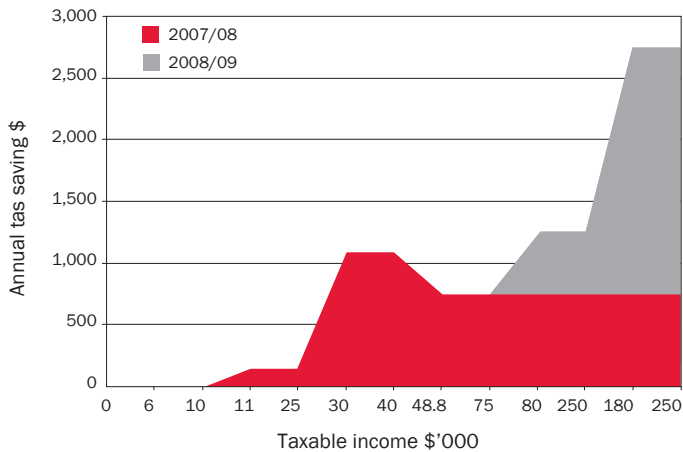
Income tax payable at selected taxable income levels (ignoring Medicare levy and tax offsets)

Taxable income	Current tax (2006-07)	Proposed tax (2007-08)	Proposed tax (2008-09)
\$25,000	\$2,850	\$2,850	\$2,850
\$30,000	\$4,350	\$3,600	\$3,600
\$75,000	\$17,850	\$17,100	\$17,100
\$80,000	\$19,850	\$19,100	\$18,600
\$150,000	\$47,850	\$47,100	\$46,600
\$180,000	\$61,350	\$60,600	\$58,600

The impact of the increased low income tax offset is that the effective tax free threshold will increase as of 1 July 2007 from \$10,000 to \$11,000.

These changes will benefit most Australians on different income levels, as shown in the following tables (excluding Medicare levy and any tax offset entitlements – for tax offset changes see later comments), although for 2007-08 the benefits will be enjoyed mostly by people earning less than \$30,000.

Tax savings per annum at selected taxable income levels (after allowing for Medicare levy and low income tax offset entitlements)



For qualifying senior Australians (generally over age 65), the changes to the personal income tax thresholds from 1 July 2007 will mean that a single senior Australian will not have an income tax liability unless their taxable income exceeds \$25,867 (currently \$24,867). For couples, this limit is \$43,360 of combined taxable income (currently \$41,360).

Changes will also be made to Medicare levy thresholds to ensure you do not pay the Medicare levy until your taxable income exceeds these new 'tax-free thresholds'.

Other taxation reform

The government has also announced other taxation changes which, depending upon your circumstances, may be of some benefit to you. These include:

- Increasing the level of the dependent spouse rebate from \$1,655 to \$2,100. The rebate will continue to reduce by \$1 for every \$4 by which the dependent spouse's separate net income exceeds \$282. As a result, the level of separate net income a spouse may earn before the dependent spouse rebate cuts out entirely will rise from \$6,901 to \$8,681.
- Allowing the trading of interests in forestry managed investment schemes. If you invest into one of these schemes, you may be entitled to a deduction for some (or all) of your initial investment. From 1 July, 2007, this deduction will be allowed provided at least 70% of the expenditure is directly related to developing forestry.

However, there has always been a concern in selling these investments before the forests have been harvested as it may have resulted in the loss of the initial deduction. In the future, this trading will be allowed (with no impact on the up-front deduction) provided the initial investor has held the investment for a minimum of four years.

Improving child care

Child care incentives come in two forms: the child care benefit and the child care rebate. The government has announced that they intend to increase the level of assistance provided by these measures and improve the way they're administered.

- From 1 July 2007, the Child Care Benefit will increase by 10 per cent in addition to normal indexation. This benefit assists with the cost of child care for eligible families using approved child care services or registered carers.

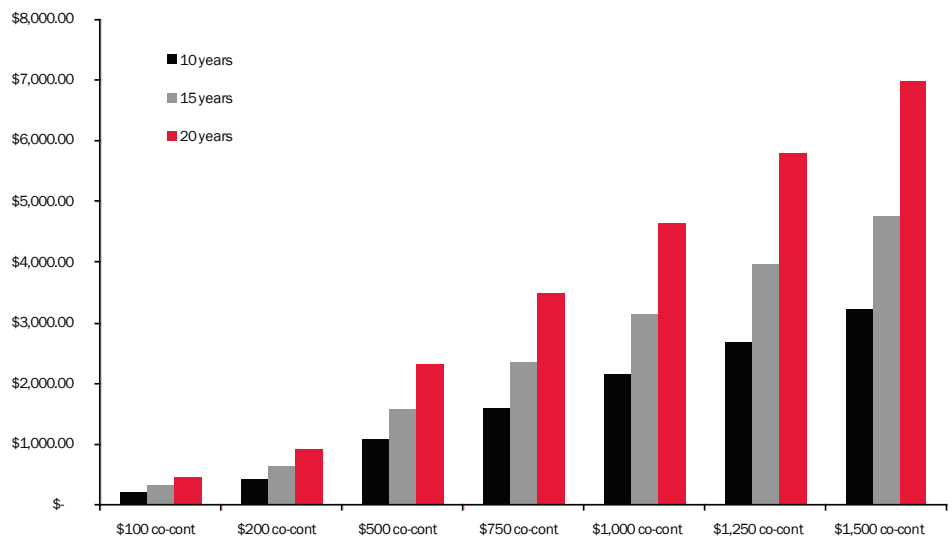
The maximum rate of the benefit will increase from \$2.96 to \$3.37 per hour. This represents a maximum benefit of \$134.80 per week (\$7,009.60 annualised) for one child in approved care for 40 hours.

- From 1 July, the Child Care Tax Rebate, currently paid through the tax system, will be paid as a direct payment through Centrelink after the end of the financial year in which the expenses occur.

This rebate covers 30% of your out-of-pocket child care expenses for approved child care. Out-of-pocket expenses are the total fees paid for child care expenses, less the amount of Child Care Benefit received.

Families who incurred out-of-pocket expenses in both 2005-06 and 2006-07 will receive two rebates in 2007-08 - one for 2005-06 expenses as part of their tax assessment under existing arrangements, and the other, for 2006-07 expenses, as a direct payment. The maximum payment will be \$4,096 per child in respect of 2005-06 and \$4,211 per child for 2006-07.

The effect of co-contributions on final retirement savings



Assumptions: annual return of 8.5% on investments net of fees; CGT and imputation credits ignored

Superannuation reforms

After the major reforms announced in the 2006 Federal Budget to 'simplify' the superannuation system (all of which have now been legislated), no major changes to the superannuation system were expected this year.

However, the following minor changes were announced.

One-off doubling of government co-contributions

The government has announced a one-off doubling of the level of co-contributions for eligible individuals from a 3:2 basis to a 3:1 basis. However, this is for eligible contributions made in the 2005-06 year only. In other words, nothing can be done today to qualify for the increased co-contribution.

If you qualified for the full co-contribution of \$1,500, the government will now make an additional co-contribution of \$1,500, to bring the total co-contribution to \$3,000.

Over a period of 15 years, this additional co-contribution could amount to an extra \$4,751 of retirement savings. Over 20 years, it adds \$6,978 to a superannuation balance.

It is also important to be aware of the following changes that will impact the co-contribution entitlement from 1 July 2007:

- If you are self employed, you will be entitled to the co-contribution.
- The lower threshold to qualify for the maximum co-contribution entitlement (currently \$28,000 for the 2006-07 year) will be indexed for the first time for the 2007-08 year. The new lower threshold is expected to be announced around 30 June 2007. The maximum threshold will remain at \$30,000 above the lower threshold.

Transitional arrangements for personal contributions

Although previously announced through a press released in February, the budget introduced transitional rules for trustees of super funds to accept contributions for people who were aged 64 or 74 at any time between 10 May 2006 and 5 September 2006.

Under this measure, personal super contributions can be made from 10 May 2006 to 30 June 2007 by a person who:

- is aged 64 at any time between 10 May 2006 and 5 September 2006, without satisfying the work test
- is aged 74 at any time between 10 May 2006 and 5 September 2006, who meets the work test in either the 2005-06 or 2006-07 financial year.

If you fall into either of these categories, it will allow you to take advantage of the opportunity available until 30 June 2007 to contribute up to \$1million in after-tax money to super.

Taxation of lump sum super death benefit payments to non-dependants of defence force personnel and police

Superannuation death benefit lump sum payments made to non-dependants of Australian Defence Force personnel and Australian police force members killed in the line of duty will be tax free after 1 July 2007. Currently, such payments are taxed. As a result of this change, non-dependants (such as children over 18) will receive the same favourable treatment as dependants (such as spouses).

This measure has been back-dated

to 1 January 1999. Where lump sum death benefit payments have been made between 1 January 1999 and 30 June 2007 non-dependants will receive an ex-gratia payment to ensure the benefit was taxed the same as if paid to a dependant at that time. In essence, the ex-gratia payment will equal the additional tax paid.

Social security and welfare reforms

Increasing its focus on the family, the government has announced the following changes:

- A tax-free bonus of \$1,000 or \$600 will be paid to you by 30 June 2007 if you are in receipt of a **Carer Payment** or **Carer Allowance** respectively as at 8 May 2007. In addition there is an ex-gratia payment over 2 years for families who are not eligible for Carer Payment but have significant costs and requirements in relation to a child under 6 years of age. Payments of up to \$10,000 can be made in the 2006-07 financial year.
- Currently, **Funeral Bonds** purchased for no more than \$5,000 to fund one funeral are exempt under the Centrelink and DVA income and assets tests. The bond can increase in value over time but the original purchase price can be no more than \$5,000. From 1 July 2007 the purchase price limit has been increased to \$10,000 and will be indexed thereafter.
- **Multiple Birth Allowance** is paid to Family Tax Benefit Part A recipients where three or more children were born at the same time. Currently this payment ceases when the children turn six. From 1 July 2007 this payment

will continue until the children reach 16 and in the case of full time students, the calendar year in which they reach 18.

- Individuals of **Age Pension** or **Service Pension** age receiving the Utilities Allowance, or Seniors Concession Allowance as at 8 May 2007 will receive a one-off payment of \$500. The same payment will also be made to Mature Age Allowance, Widows Allowance or Partner Allowance recipients at 8 May 2007.

A small number of claimants who, after 1 July 2007, are determined by Centrelink to be eligible for the qualifying payments as at 8 May 2007, will also receive the bonus.

- Enhancements will be made to the **Pension Bonus Scheme** (whereby you continue to work after reaching age pension age and defer claiming the age pension or service age pension for up to 5 years), including:
 - paying the bonus to your spouse if you die before claiming it
 - allowing the bonus paid to be increased if your rate of age pension increases in the 13 weeks after lodging the claim - currently the bonus is paid based on the pension you receive on the first day of eligibility
 - providing Centrelink offices with discretion to accept a claim lodged after the normal 13 week period in exceptional circumstances.

Changes will also be made which will increase the cost of accessing accommodation in an aged care facility, although these changes will not occur until 20 March 2008 and will be phased in through to September 2011.

Final thoughts

Being an election budget, there had been much speculation that there would be considerable incentives or rewards for taxpayers as election 'sweeteners'. While there were some benefits, and these covered the majority of the population (either through tax cuts or one-off bonus payments), their relatively small size should not be overly surprising given the significant reforms to superannuation and the personal income tax regime announced in the 2006-07 budget that have already been legislated.

However, it is the impact of the changes that is important. What you do with any additional savings generated from these budget changes, or changes you make to your investment activities in the future is where the real difference will lie. For example:

- Increased savings through reduced taxation may enable personal mortgages and other debt to be repaid more quickly, or free-up additional capital for investment purposes, particularly in relation to investing for retirement.

- The doubling of co-contributions for eligible contributions made in 2005-06 is a positive move. Whilst it's too late to do anything to qualify for that increased benefit, you should consider whether you will qualify in this or future years. Making the contribution may put you in a position for increased benefits if future budgets have similar announcements.
- The doubling of asset-test exempt investments in Funeral bonds to \$10,000 can help you today if you are eligible for the age pension (or nearing eligibility) and your entitlement is calculated under the assets test. But it can also assist your family by knowing that money has been set aside and arrangements made for a time that will be distressing to them.

With an ageing population, planning for your future becomes even more important. Speak to your financial adviser to determine the best course of action for you to follow today under existing rules, and in the future under the new rules (such as the changed superannuation environment from 1 July 2007). By seeking advice, you'll be better placed to achieve your goals – both financial and lifestyle.

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Sydney

Level 12
400 George Street
Sydney NSW 2000
Telephone 02 9947 1288
Facsimile 02 9511 2366

Melbourne

Level 7
530 Collins Street
Melbourne VIC 3000
Telephone 03 9941 3388
Facsimile 03 9654 5677

Brisbane

Level 16A, Central Plaza One
345 Queen Street
Brisbane QLD 4000
Telephone 07 3229 5888
Facsimile 07 3229 5877

Perth

Level 38, Central Park
152 St George's Terrace
Perth WA 6000
Telephone 08 9415 5688
Facsimile 08 9481 4834

Adelaide

Level 25, Santos House
91 King William Street
Adelaide SA 5000
Telephone 08 8212 3877
Facsimile 08 8212 4228