

## Federal Budget 2006/07

### Budget in brief

The 2006/07 Federal Budget delivered much anticipated personal income tax cuts as well as some changes to business taxation. Enhancements to benefits for low and middle income families and investment in infrastructure were also announced. One major surprise was the extensive changes proposed in relation to the superannuation system.

### Change in income tax thresholds and marginal tax rates

The tax cuts offer something for most taxpayers. The changes in rates of tax and the thresholds at which these rates apply are:

- the 30 per cent threshold will rise from \$21,601 to \$25,001
- the 42 per cent marginal tax rate will reduce to 40 per cent and the threshold will rise from \$63,001 to \$75,001, and
- the top marginal rate will reduce from 47 per cent to 45 per cent and the threshold will rise from \$95,001 to \$150,001.

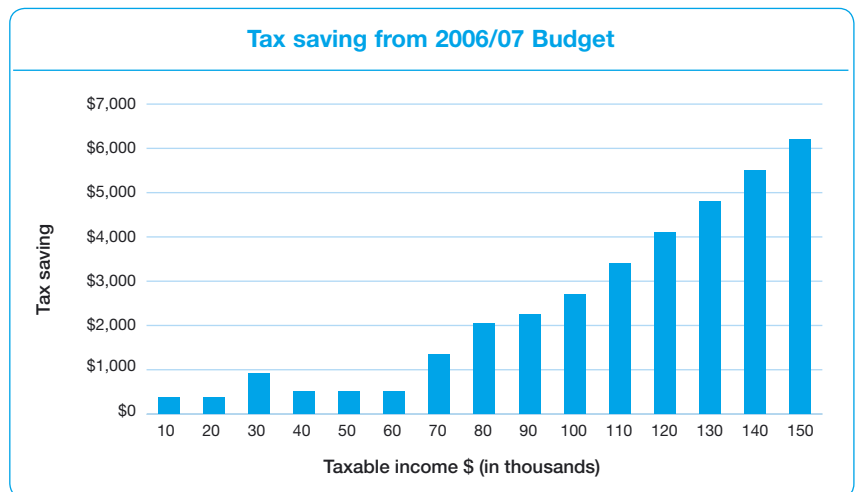
If your taxable income is less than \$40,000 per annum, you will now be able to take advantage of the low income tax offset. To deliver tax cuts to middle and low income individuals, the Budget increases the low income tax offset from \$235 to \$600.

### What does this mean for you?

The proposed new tax thresholds and marginal tax rates are as follows:

Current rates and thresholds (2005/06)		New proposed rates and thresholds (from 2006/07)	
Tax rate %	Tax thresholds income range \$	Tax rate %	Tax thresholds income range \$
0	0 – 6,000	0	0 – 6,000
15	6,001 – 21,600	15	6,001 – 25,000
30	21,601 – 63,000	30	25,001 – 75,000
42	63,001 – 95,000	40	75,001 – 150,000
47	over 95,000	45	over 150,000

The following chart shows the tax savings (including low income tax offset) flowing from the 2006/07 Budget for taxpayers at a range of income levels.



### Changes to family assistance

There are a number of measures that are expected to impact upon families. About 500,000 families are expected to benefit from changes to Family Tax Benefits (FTB). There will be an increase in the amount that a family can earn each year before their FTB (Part A) starts to reduce. This threshold will be increased from the current limit of \$33,361 per annum to \$40,000 from 1 July 2006, resulting in increased assistance of up to \$9.62 per week.

If you have three children and qualify to receive FTB (Part A), you may become eligible to receive the Large Family Supplement of \$248 per year from 1 July 2006. Currently, the supplement is only available to families with four or more children who are entitled to FTB (Part A).

#### How are the proposed changes likely to impact you?

If you are a:	Likely impacts
Pensioner with little/no other income or assets	Assuming that you do not pay any tax at present, the main benefit for your household is a one-off payment of Utilities Allowance of \$102.80 by 30 June 2006.
Pensioner currently affected by the assets test	In the longer term, you may benefit from changes to the assets test. After 20 September 2007, it is proposed that pensioners would lose only \$1.50 per fortnight, rather than \$3 per fortnight for every \$1,000 of assets above the relevant threshold. Your household may also receive a one-off payment of Utilities Allowance of \$102.80 by 30 June 2006.
Individual who receives both an age pension and a superannuation pension	As well as benefiting from changes to the assets test (outlined above), any superannuation pension that you receive from a taxed superannuation fund will be tax-free from 1 July 2007. Your household may also receive a one-off payment of Utilities Allowance of \$102.80 by 30 June 2006.
Self-funded retiree over age 60	If you are currently receiving a superannuation pension from a taxed superannuation fund, the income will be tax-free from 1 July 2007. Where your main source of income is from investments, you may benefit from the changes to the marginal tax rates and tax thresholds. Individuals who qualify for the Seniors Concession Allowance (this includes holders of a Commonwealth Seniors Health Card) will receive a one-off payment of \$102.80 by 30 June 2006.
Low income employee	All taxpayers with taxable income in between \$7,567* and \$40,000 per annum will benefit as a result of the increase in the low income tax offset. The change in the tax threshold at which the marginal tax rate of 30 per cent applies (up from \$21,601 to \$25,001) will also benefit many people in this group. Some families will also benefit from changes to FTB (Part A) or the Large Family Supplement.
Middle income employee	There is little good news for middle-income earners, with the main benefits from the tax changes flowing to individuals with income of more than \$63,000. Individuals with income between \$40,000 and \$60,000 will receive a \$510 reduction in their annual tax liability. Some families will also benefit from changes to the Large Family Supplement.
High income employee	Individuals earning in excess of \$95,000 will benefit from increases in the income tax thresholds, as well as from the reductions in the marginal tax rates from 42 per cent to 40 per cent, and from 47 per cent to 45 per cent. For example, a taxpayer with an income of \$150,000 will pay \$6,200 per annum less in tax.

\* Taxpayers currently eligible for the full low income tax offset do not pay tax until their annual income exceeds \$7,567

### Changes to the superannuation system

The Government is proposing to radically reform the superannuation system, with wide-ranging changes to the current complex arrangements. An extensive plan to simplify and streamline the superannuation system has been released and is open for public comment until 9 August 2006. Most of the initiatives are proposed to commence from 1 July 2007. These include:

- removal of tax on superannuation lump sums and pensions for individuals aged 60 and over
- relaxation of the age pension assets test
- limiting deductible contributions to super to \$50,000 per annum for most people (replacing current age-based limits)
- capping undeducted contributions at \$150,000 per annum with effect from 9 May 2006
- changes to the deductibility of superannuation contributions for the self-employed
- extension of the Government co-contribution to self-employed individuals
- removal of the requirement to cash superannuation benefits after age 65 or upon retiring at a later age, and
- abolition of the reasonable benefit limit (RBL) system which limits the amount of superannuation benefits that can be accessed on a concessional-tax basis.

If legislation to give effect to these initiatives is passed, many individuals and families will be affected by the changes outlined above. For more information about the implications of the Federal Budget, speak with your financial adviser.

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