FederalBudget 2007/08 Bulletin

Chartered Accountants
& Business Advisers

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A Relaxed and Comfortable Budget

The main revenue focus of this budget is on tax cuts for low income earners, easing restrictions for large loss makers and easing the compliance costs of small and medium businesses. On the spending side there are more benefits being provided to the elderly and an increased focus on environment and education issues.

Generally, it is not the big tax cut pre-election budget that was expected with middle and higher income earners having to wait until after the election before getting any additional income tax relief. It appears the Government is relying on the good economic conditions and possibly some relief from drought conditions to assist in the upcoming election campaign rather than huge tax cuts.

For Business it appears to be a 'business as usual' budget with some clarifying and expected changes to assist in compliance and tax technical issues.

Tax Cuts

What's in it for Individuals?

Personal Income Tax Cuts will be of most interest for Individual taxpayers. Examples of the amounts of the tax cuts for varying income levels are shown below:

Taxable Income	Annual Tax Saving 2007-08	Weekly Tax Saving 2007-08	Annual Tax Saving 2008-09	Weekly Tax Saving 2008-09
$50,000	$750	$14	$ -	$ -
$100,000	$750	$14	$500	$10
$180,000	$750	$14	$2,000	$39

For more details on tax cuts see page 2

Other Main Issues

→ Concessions for Retirement Benefits

→ Company Losses - $100 million Turnover Cap Removed

→ CGT Rollovers

→ Screen Media Incentives

→ Forest and Forestry Concessions

→ R&D Concession for Foreign Owned Companies

→ Thin Capitalisation Changes

→ GST Threshold Increases and Compliance Concessions

Personal Income Tax

Personal Income Tax Cuts

The Budget has provided personal income tax cuts. These are in addition to those previously announced in the 2006-07 Budget.

From 1 July 2007:

→ 30% threshold will increase from $25,001 to $30,001

From 1 July 2008:

→ 40% threshold will increase from $75,001 to $80,001

→ 45% threshold will increase from $150,001 to $180,001

Current tax thresholds ($)	Tax rates (%)	New tax thresholds from 1 July 2007 ($)	Tax rates (%)	New tax thresholds from 1 July 2008($)	Tax rates (%)
0 – 6,000	0	0 – 6,000	0	0 – 6,000	0
6,001 – 25,000	15	6001 – 30,000	15	6001 – 30,000	15
25,001 – 75,000	30	30,001-75,000	30	30,001-80,000	30
75,001 – 150,000	40	75,001-150,000	40	80,001-180,000	40
150,001+	45	150,0001+	45	180,001+	45

Low Income Tax Offset (LITO)

From 1 July 2007, the low income tax offset (LITO) will increase from $600 to $750 and will begin to phase-out from $30,000. Taxpayers eligible for the full LITO will not pay tax until their annual income exceeds $11,000 (up from $10,000 currently). In addition, the income threshold at which the offset begins to reduce will increase from $25,000 to $30,000.
As a result of both of these changes, the income limit up to which some offset can be claimed will increase from $40,000 to $48,750. Taxpayers with annual incomes between $25,000 and $48,750 will benefit from both the increase in the 30% threshold to $30,001 and the increase in the LITO.

Senior Australians

The effect of the tax cuts is that from 1 July 2007, senior Australians who receive the Senior Australians Tax Offset (SATO) will be able to earn more income without paying tax. Singles will be able to have taxable income up to $25,867 (up from $24,867) and couples up to $43,360 (up from $41,360) depending on the income earned by each member of the couple.
The Medicare levy thresholds that apply to senior Australians will also be increased to ensure that they do not pay the Medicare levy until they begin to incur an income tax liability.

Increasing Medicare Levy Low Income Thresholds

Effective from 1 July 2006 (2006/07 income year) the Medicare levy low-income thresholds will be increased to $16,740 for individuals and $28,247 for families. The additional amount of threshold for each dependent child or student will also be increased to $2,594. The increase in the thresholds ensures that low-income families and individuals are exempt from paying the levy.
Effective from 1 July 2006, the levy low-income threshold for pensioners below age pension age will also be increased to $21,637. This will ensure that pensioners below age pension age do not pay the Medicare levy while they do not have an income tax liability.

Increasing the Dependant Spouse Rebate

From 1 July 2007 (2007-08 year onwards), the Government will increase the dependent spouse rebate to $2,100 (up from $1,655). The full dependant spouse rebate is available to a resident taxpayer who contributes to the maintenance of a resident spouse whose separate net income does not exceed $282. The rebate is reduced by $1 for every $4 by which the dependent spouse's separate net income exceeds $282. The dependant spouse rebate will be completely phased out when the spouse has a separate net income of $8,681(up from $6,901 currently).

Tax Compliance — Making It Easier to Complete Tax Returns

Additional funding of $20 million in 2007-08 will be provided to enable the ATO to pre-fill electronic individual income tax returns for the 2007-08 and following income years.

The pre-filling of tax returns will make completing income tax returns easier for individual taxpayers who use e-tax or lodge their returns through tax agents (about 80% of all individual taxpayers).

The ATO will automatically include the following information in returns:

- salary, wages and allowances, where the employer has electronically lodged the employee's payment summary with the ATO;
- dividend and interest income and distributions from managed funds;
- payments from Centrelink, the Department of Education, Science and Training and the Department of Veterans' Affairs;
- Medicare out-of-pocket expenses and private health insurance information; and
- Higher Education Contribution Scheme and Higher Education Loan Programme details.

For taxpayers who made a small total deduction claim in the previous year, the ATO will enter the deduction amounts from the previous year.

If taxpayers are satisfied that the pre-filled information is correct and they do not need to make changes or provide additional information, they can lodge their pre-filled return. Taxpayers with other sources of income, such as rental income, capital gains or foreign-source income, will need to add this information to their pre-filled return, as will taxpayers whose employer has not lodged their payment summary electronically with the ATO. Similarly, if taxpayers have additional information to provide, or offsets or deductions they wish to claim, these can be added to their return.

Increase in Child Care Benefit Rates

From 1 July 2007 the rate of Child Care Benefit (CCB) will be increased by 10%, on top of normal annual indexation. CCB is a subsidy paid to families to assist with the cost of care. Families who are currently receiving CCB and those who are eligible for CCB in the future will benefit from the CCB rate changes and will receive a total CCB increase of more than 13%. Families will also benefit from the bringing forward of the payment of the Child Care Tax Rebate (see below).

The measures mean that a low income family with one child in full-time Long Day Care (5 days a week) will be up to $20.50 better off a week. A family on maximum rate CCB with one child in Long Day Care for 40 hours per week will receive an extra $16.40 per week.

Child Care Benefit Rebate Changes

From 1 July 2007 the existing Child Care Tax Rebate (CCTR) will be converted to a direct payment administered though Centrelink. The payment of the CCTR will be brought forward and paid through the Family Assistance Office (FAO) at the end of each financial year.

The CCTR covers 30% of out-of-pocket costs, up to a maximum of $4,000, plus indexation. The change will benefit all working families who receive CCB for approved child care. These families will now be able to receive a payment equivalent to 30% of their out of pocket expenses up to $4,000 indexed per child per year for approved child care at an earlier time. As a result, families will receive the CCTR as a direct payment, soon after the financial year in which they incur child care costs.

The payments will begin from September 2007 for the child care expenses incurred in the 2006-07 year. Families will still receive a rebate for out-of-pocket costs incurred in 2005-06 under the existing tax system arrangements. This means families with out-of-pocket costs for both 2005-06 and 2006-07 will receive two rebates in 2007-08 potentially totalling up to $8,000 (indexed) per child, i.e. one through the tax system, and one as a direct payment. They will receive the first rebate as part of their tax assessment, while the second will be received as a direct payment from the FAO. The Government will also look at introducing regular payments throughout the year once the Child Care Management System is in place.

Carer Bonus

One-off lump sum bonuses will be paid to eligible carers who were in receipt of Carer Payment and/or Carer Allowance on the respective Budget nights as follows:

- A payment of $1,000 will be provided to carers who receive Carer Payment. This is an income support payment for people who are unable to participate in the workforce full-time as a result of their caring responsibilities;
- Recipients of Carer Allowance will receive a payment of $600 for each eligible care receiver. This is an income supplement, which provides assistance to people who provide daily care and attention at home to a person who has a disability or severe medical condition;
- Recipients receiving both the Carer Payment and Carer Allowance on 8 May 2007 will receive both lump sum payments, i.e. a total of $1,600; and
- In addition to the $600 Carer Allowance bonus, recipients of Carer Allowance who also receive Wife Pension or the Department of Veteran's Affairs (DVA) Partner Service Pension on 8 May 2007 will receive a payment of $1,000.

Subject to the passage of legislation, the payment will be automatically made to the majority of eligible carers by 30 June 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 receive the bonus.

Senior Australians - $500 One-Off Seniors Bonus Payment

A one-off non-taxable bonus payment of $500 will be paid to each person qualified for Utilities Allowance or Seniors Concessions Allowance on budget night. The person must have been eligible for the benefit because of a claim made on or before 8 May 2007. Payments will automatically be made by 30 June 2007.

Utilities Allowance is paid to income support customers who are of Age or Veteran Pension age. It is also paid to people receiving Mature Age Allowance, Widow Allowance or Partner Allowance. The person must be in Australia or temporarily absent from Australia for no more than 13 weeks.

Senior Concessions Allowance is paid to Commonwealth Seniors Health Card holders and to Veterans' Affairs Gold Card holders of pension age. The person must have been qualified for the card or would have been qualified had they not been temporarily absent from Australia for a period not exceeding 13 weeks.

Concessions for Retirement Benefits

Superannuation – Additional Government Co-Contribution

The Government will pay a one-off additional co-contribution into the superannuation accounts of those persons who made eligible contributions in the 2005-06 income year. In the majority of cases the additional co-contribution will be paid to superannuation funds before 30 June 2007. Remaining amounts will be paid in 2007-08.

This payment will double the co-contribution paid in respect of the 2005-06 income year. For example, if a person was eligible for a co-contribution of $1,500 in respect of the 2005-06 year they will now receive an extra co-contribution of $1,500, so that the total co-contribution payments in respect of that year would be $3,000. If the person was eligible for a $500 co-contribution in respect of the 2005-06 year they would receive an extra co-contribution of $500, so that the total co-contribution payments in respect of that year would be $1,000.

Changes to the Company Loss Rules

Under the company loss rules, companies with a turnover greater than $100 million cannot access the same business test where they fail to satisfy the continuity of ownership test. This resulted in companies being unable to apply carried forward losses against income derived in years in which the company failed the continuity of ownership test and had a turnover in excess of $100 million.

The Government has decided to reinstate the availability of the same business test to these companies, applying to losses incurred on or after 1 July 2005.

In addition, the Treasurer announced a series of technical amendments to the company loss rules to remove uncertainty in and to improve the operation of the loss rules.

The first amendment addresses the application of the continuity of ownership test to companies which have multiple classes of shares, or which have special dividend and/or capital distribution arrangements. The details of this amendment have not yet been released (they will be open for discussion with the government), although the Government intends the amendments will assist affected companies in satisfying the continuity of ownership test. The amendments will apply from 1 July 2002.

The second amendment, which takes effect from 1 July 2007, will clarify the meaning of the term “voting power” as it applies in the continuity of ownership test. For the purposes of the test, voting power will include “the power to vote on a poll for the election of a director to a company”.

The third amendment will also take effect from 1 July 2002, and it will apply to members of a consolidated group. For the purposes of satisfying the same business test, the entry history rule (which attributes the business history of the consolidated subsidiaries to the head company) will be ignored.

Consolidated Groups

There have been numerous changes to the consolidation rules. Some are just clarifying the law but most make substantive changes many of which are retrospective back to the introduction of the consolidation regime on 1 July 2002. The more important changes are summarised below.

Modifications of the Tax Cost setting Rules

Use of Accounting Principles

Where an element of the allocable cost amount is calculated using accounting standards they must be the same accounting standards that were used to prepare the joining entity’s financial statements. If no financial statements were prepared, the accounting standards used by the accounting group must be used. These changes will apply from 1 July 2002.

Treatment of inherited deductions

The tax cost setting process for assets of a joining entity of a consolidated group includes a reduction of the cost by the amount of deductions that are transferred to the head company as a result of the consolidation. The tax cost settings rules will be modified to ensure that inherited deductions relating to expenditure on certain assets acquired on, or constructed before, 13 May 1997 will not decrease the allocable cost amount of a joining entity or increase the allocable cost amount of a leaving entity. These changes will apply from 1 July 2002.

Phasing out over-depreciation deductions

One of the more complex provisions of the consolidation provisions is the over-depreciation adjustment, which reduces the tax cost setting amount for certain dividends that have been paid out of untaxed profits as a result of tax and accounting depreciation differences. This required an analysis of all prior year distributions by the joining entity.
As from 8 May 2007 this over-depreciation analysis will be limited to the last five years of dividend history before the joining time.
As the over-depreciation adjustment applies to distributions made to entities which qualified for the inter-corporate dividend rebate, which ceased on 30 June 2003, the effect of the over-depreciation adjustment will have limited future application.

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Units held in cash management trusts

Units held by a joining entity in a cash management trust that have a market value equal to their face value will be treated as retained cost base assets, with effect from 1 July 2002. The tax cost setting amount will be the face value of the units just before the joining time.

Doubtful Debts

As from 8 May 2008 there will be no CGT event L3 where it is caused by a joining entity having doubtful debts. A CGT event L3 capital gain arises where an entity joins a consolidated group and the sum of the tax cost setting amounts for its retained cost base assets exceeds its allocable cost amount.

Operation of the CGT rules when an entity joins or leaves a consolidated group

There have been a number of problems in identifying the correct taxpayer to be taxed on CGT events that straddle the entry to or exit from a consolidated group. The CGT rules will be changed to clarify this situation so that, when an entity enters into a contract to sell a CGT asset and that contract settles after the entity joins or leaves a consolidated group, a capital gain or loss is made at the time of settlement instead of at the time of contract.
These changes will apply to CGT events that happen under contracts entered into after 8 May 2007.

Removal of CGT event L7

CGT event L7 will no longer apply from 8 May 2007. CGT event L7 applies if a liability is discharged for an amount that is different to the amount used for tax cost setting purposes.
The budget papers also state that there will also be an adjustment to the exit cost setting rules to remove adjustments to liabilities owed by the leaving entity for unrealised gains and losses. However it is not clear which liabilities this adjustment is referring to.

Changes to depreciation rates

The head company of a consolidated group will be taken to have acquired the depreciating assets of a joining entity at the date acquired by the joining entity, instead of at the joining time as required under the current rules. This applies from 8 May 2007. This will ensure that, for example, the head company is not able to apply the 200 per cent diminishing value uplift to assets of a joining entity that were acquired by the joining entity prior to 10 May 2006.

Operation of the loss of the multiplication rules for widely held entities

The inter-entity loss multiplication rules will be modified so that a widely held entity is required to make adjustments only if:

→ a controlling stakeholder in a loss company has a direct or indirect equity or debt interest in the entity;

→ the loss company's losses are reflected in that interest; and

→ the reflected losses are recognised for Australian tax purposes.

This will ensure that losses of widely held companies are not denied or significant compliance costs imposed in establishing that the loss has not been duplicated elsewhere. This measure will apply in relation to alteration times happening from 1 July 2002.

Application of the transitional provisions to companies with substituted accounting periods

A transitional concession will apply to allow a joining entity to increase its allocable cost amount by the undistributed, untaxed profits that accrued to the group when the head company:

→ has a substituted accounting period;

- consolidated between 1 July 2003 and 30 June 2004; and
- consolidated on a day that was on or before the first day of the income year of the head company, starting after 30 June 2003.

This change will apply from 1 July 2002.

Capital Gains Tax Changes

CGT Roll-over – Marriage Breakdown

The Government has announced an extension to the existing CGT roll-over for assets of small superannuation funds (complying superannuation funds with fewer than 5 members) on marriage breakdown. This change is designed to facilitate complete separation of superannuation assets in these situations and to provide greater choice of fund to the spouse whose interest is transferred.

Currently the roll-over only applies where there is a payment split under the Family Law Act 1975 which results in an asset being transferred from a small superannuation fund in which one spouse is a member to another small superannuation fund in which the other spouse is a member.

Under the announced changes effective from 1 July 2007, one spouse in a marriage breakdown will be able to roll-over their entire in specie interest in a small superannuation fund to any other complying fund.

CGT Roll-over – Medical Defence Organisations

Recently, the Government issued a press release announcing that the CGT scrip for scrip roll-over provisions will be extended to membership interests in companies limited by guarantee that are medical defence organisations. The Budget Papers reiterate the amendments announced in that press release.

A taxpayer can currently choose scrip for script roll-over relief where post-CGT shares or trust interests are replaced with other shares or trusts interests, but the roll-over does not apply to membership interests in a company limited by guarantee.

The amendments announced by the Government will allow a CGT scrip for scrip roll-over where a post-CGT membership interest in a medical defence organisation is replaced with a membership interest in another medical defence organisation, and both organisations are companies limited by guarantee. The roll-over will apply to CGT events happening on or after 14 February 2007 (being the date of the press release).

Screen Media Industry Tax incentives

The Government has announced a range of tax incentives to strengthen and reform Australia's screen media industry.

Producer tax rebate

With effect from 1 July 2007, the Government will introduce a 40 per cent refundable tax rebate on domestic feature films and a 20 per cent refundable tax rebate on other eligible domestic screen media productions (including television series, documentaries and mini-series).

To be eligible for the rebate, domestic productions will need to meet certain requirements, including creative control by Australians and minimum qualifying expenditure thresholds. The rebate will apply to expenditure incurred on eligible productions from 1 July 2007.

The rebate will also extend to international film producers and will replace the current refundable film tax offset (RFTO) available to these producers. The rebate for international producers will be 15 per cent of qualifying expenditure (compared to the existing RFTO of 12.5 per cent) and eligibility for the rebate will be extended beyond the current criteria for the RFTO to include qualifying expenditure exceeding $5.0 million on post, digital and visual effects production in Australia for foreign films. These enhancements will apply to films for which production commences after 1 July 2007.

As part of these reforms, the current tax incentives for capital expenditure incurred in acquiring an interest in the copyright relating to an Australian film will be phased out, with no new applications to be accepted after 30 June 2007.

Forests and Forestry

Forestry Managed Investment Schemes – Tax deductions

The Treasurer restated the changes to the deductibility of investments in forestry managed investment schemes (MIS). As part of a review of MIS by the Australian Tax Office, investors may be denied a deduction for their up-front investment in an MIS after 30th of June 2008.

However, the Government will introduce legislation to provide investors with deductions for their up-front investment in forestry MIS, with effect from 1 July 2007.

To qualify, at least 70% of the expenditure incurred by the forestry MIS must be directly related to forestry.

Forestry Managed Investment Schemes – Trading of Interests

Under the present rules, investors in forestry MIS can be restricted from trading in their investments in qualifying MIS. According to the Treasurer, this had adversely impacted investment in forestry MIS.

To improve investment in forestry MIS, the Government will allow investors in forestry MIS to trade in their investments, subject to the investment being held for an initial 4 year holding period. These changes will take effect from 1 July 2007. Investors who currently hold interests in forestry MIS can similarly take advantage of these changes, meaning investors who made an investment prior to 1 July 2003 will be entitled to trade in their investments after 1 July 2007.

The Government recognises there may be tax arbitrage advantages for initial investors to exit their investment immediately after the 4 year holding period expires. Rules will be introduced by the Government to adjust the market value of traded securities, although they have not yet indicated how this will be achieved.

These rules will only apply to the initial investors in forestry MIS who have claimed a deduction for their up front investment in the scheme. Investors who purchase interests in these schemes from the initial investors (referred to by the Treasurer as secondary investors) will not be entitled to claim an up front deduction for the purchase of their investment. However, they will be entitled to a deduction for ongoing costs incurred by the scheme.

The investment held by secondary investors will be subject to capital gains tax (unless it forms part of the investor's trading stock).

Carbon Sink Forests – Tax deductions

As part of the Government's initiatives to reduce greenhouse gases, the Treasurer announced tax concessions for costs incurred in establishing so-called carbon sink forests.

The Treasurer described carbon sink forests as repositories for greenhouse carbon emissions, as trees absorb carbon which is then stored within the tree.

In all, 2 initiatives were announced.

For a period of 5 years from 1 July 2007, costs incurred to establish a carbon sink forest will be immediately deductible. At the end of the 5 year period, costs incurred in establishing a carbon sink forest may be depreciated over a 14 year period (an accelerated deduction).

To qualify for the deductions, the operator of the forest must not be a forestry MIS. In addition, the operators of these forests must participate in a Government sponsored environmental program (the Greenhouse Challenge Plus programme), and demonstrate that the forest will not adversely impact the local environment.

Changes to Accelerated R&D Concessions

The Government has announced changes to the rules which restrict the availability of the 175% concession to multinational companies.

Under the current rules, Australian subsidiaries of foreign owned multinationals cannot claim the 175% R&D concession where the intellectual property is transferred to their offshore parent company.

From 1 July 2007, the Australian subsidiaries will be entitled to claim the 175% concession for what is described as incremental R&D expenditure, even where the intellectual property is held overseas.

There is no change to the rules which govern the 125% concession.

Changes to Thin Capitalisation

Definition of Excluded Interest

The Treasurer announced a technical amendment to the thin capitalisation to address an unintended consequence of the rules as they currently stand.

In the calculation of the safe harbour amount, certain “excluded equity interests” are deducted from the calculation. As discussed by the Treasurer, this measure was designed to prevent equity and asset levels being artificially inflated.

The Treasurer announced in the Budget that the current definition of “excluded equity amount” could inadvertently exclude amounts which should otherwise be included in the safe harbour amount, especially certain long term equity interests which fall within the current definition of “excluded equity interest”.

The definition will be amended to prevent these inadvertent results. This will take effect from 1 July 2002.

Transitional Arrangements

With the introduction of the AIFRS accounting standards, the Government introduced transitional arrangements in the thin capitalisation provisions which allowed taxpayers to apply their pre-AIFRS standards for the purposes of completing their thin capitalisation calculations.

This concession was introduced as a result of the adverse thin capitalisation results which became evident with the application of the AIFRS accounting standards. The transitional period was to run for 3 years.

The Treasurer announced the transitional period will run for an additional year, to allow the Government and industry to continue working towards better addressing the position of thin capitalisation under AIFRS.

Indirect Tax Changes

Continuing the trend of recent Budgets, GST collections are budgeted to increase by more than twice the rate of anticipated inflation over the next 4 years (rising to more than $50B in 2010/11), reaching 3.8% of GDP in 2007/08 (up from 3.6% in 2001/02).

In addition to the projected growth in collections, a number of key indirect tax changes were announced in the Budget, most of which are primarily aimed at reducing the indirect tax compliance burden for small businesses.

GST – Increasing GST Registration Threshold

The Treasurer announced an increase in the GST registration annual turnover threshold effective 1 July 2007. For businesses, the threshold will increase from $50,000 to $75,000. For non-profit bodies, the threshold will increase from $100,000 to $150,000.

Voluntary registration and the option of remitting annually will continue to be available.

GST – Increasing Tax Invoice Threshold

Businesses will be permitted to claim input tax credits for purchase with a GST-exclusive value of $75 or less without the need for a valid tax invoice, effective 1 July 2000. This represents an increase from the current GST-exclusive threshold value of $50.

There will also be a corresponding increase that applies for the purposes of the non-ABN withholding rules.

GST – Additional Power to ATO to Extend Availability of Simplified Accounting Methods

Additional power will be granted to the Commissioner of Taxation to develop Simplified Accounting Methods (SAM's) for all entities with an annual turnover of less than $2 million that make mixed (taxable and GST-free) supplies effective 1 July 2007. Under the current rules, SAM's are only available to retailers that sell food and to charities that make GST-free supplies.

PAYG – Alignment of Payment and Reporting Requirements with GST

The Government proposes to align the Pay as You Go (PAYG) payment and reporting systems with the annual payment and reporting requirements for taxpayers who are voluntarily registered for GST, effective 1 July 2008.

This compares with the current system whereby taxpayers can only remit PAYG annually if they are not registered for GST and meet other eligibility requirements.

GST - Additional ATO GST Audit Budget

The ATO is to be given an additional $15.2 million over the next 4 years to help reduce the existing levels of taxation debt. The additional funding is expected to generate an additional $65 million in GST collections over the next 4 years.

GST – Tourist Refund Scheme Changes

A number of proposed changes to the operation of the Tourist Refund Scheme (TRS) were announced. The TRS is a system which allows eligible travellers to obtain a refund of GST and Wine Equalisation Tax (WET) embedded in the price of goods purchased at the retail level.

The proposed changes include:

→ Enabling private providers to provide tourist refund direct to travellers (effective 1 February 2008);

→ Extending the period during which travellers can purchase goods and be eligible to claim a refund of GST and WET under the TRS from 30 days to 60 days;

- Allowing travellers using the TRS to aggregate multiple invoices from single retailers in order to meet the $300 threshold for TRS claims; and
- Extending the period during which travellers can make tax-free purchases through the sealed bag system from 30 days to 60 days.

GST – Expanding the Range of Goods Available for Purchase in Inwards Duty Free Stores

There will be a relaxation of the current restrictions on the range of goods available for sale in inwards duty free stores up to a value of $900. Although the range of goods available for purchase will increase, the type of goods available will still be limited by size, weight and value of the duty free passenger concession.

GST – CTP Schemes

The Government will not proceed with the 2005/06 Budget Measure to allow CTP insurers to use an alternative methodology to calculate decreasing adjustments when settling claims under CTP insurance schemes.

GST – Offshore Services Acquired in relation to Employee Share Schemes

There will be an extension to the GST exemption for services acquired overseas in relation to employee share schemes to include employee share schemes that provide stapled securities, effective 1 July 2006. This measure ensures consistency of treatment between imported services relating to employee shares schemes that provide stapled securities and imported services that relate to other employee share schemes.

GST – Car Concession for Certain Injured Defence Personnel

There will be an extension of the application of the GST-free motor vehicle concession to include persons eligible to receive the Special Rate Disability Pension under the Military Rehabilitation and Compensation Act 2004, effective 1 July 2004. Prior to this announcement, only those veterans who had lost a leg or both arms and were in receipt of a Totally and Permanently Incapacitated Pension under the Veterans' Entitlement Act 1986 were eligible for the concession.

GST – Concessions to the International Criminal Court

The Treasurer announced an extension of GST concessions to the International Criminal Court (ICC) and certain of its officials, in accordance with the Agreement on the Privileges and Immunities of the International Criminal Court. The concessions will only be available to the ICC and ICC officials who are not Australian nationals or permanent residents.

GST – International Telecommunications Services

There will be measures to ensure certain international telecommunications services, including global roaming services, remain GST-free effective 1 July 2000.

The measure is aimed at confirming the application of GST-free treatment to such supplies and to provide certainty to telecommunications providers. It will also ensure Australia meets its obligations under the Melbourne Agreement.

GST – Pharmaceutical Concession for Certain Defence Personnel

It was announced there will be measures to provide for application of GST-free treatment to certain drugs, medicines and other pharmaceutical items when supplied on prescription as pharmaceutical benefits under the Military Rehabilitation and Compensation Act 2004, effective 1 July 2004.

This measure ensures consistency of treatment with items supplied as pharmaceutical benefits under the Veterans' Entitlements Act 1986.

Customs – Introduction of 4 year Time Limit on Recovery of Duty

A 4 year statutory time limit on the recovery of customs duty, other than in cases involving fraud or evasion, will be introduced.

This compares with the current system where there is no time limit on recovery. This measure will provide consistency with other indirect taxes and provide greater certainty for importers.

Customs – Deferred Settlement of Excise and Excise-equivalent Customs Duties

In a major new measure, the Treasurer announced the Government will allow small businesses to defer the settlement of excise and excise equivalent customs duties to a monthly cycle, with any applicable duty now payable on the 21st day of the month following the relevant month in which a liability arises.

This compares with the current system whereby businesses can only apply for and obtain settlement deferral for up to 7 days. The measure will take effect from the later of 1 July 2008 or the date of Royal Assent of the enabling legislation.

Customs – Streamlining Eligibility for Refunds, Remissions and Drawbacks

The Government's intention to align excise and customs legislation to establish consistent eligibility conditions across all excise and customs equivalent product classes for taxpayers seeking refunds, remissions or drawback of duty.

The measure will essentially ensure that all excisable products (alcohol, tobacco and fuel) become eligible for a refund of duty where they are returned to a place licensed to receive the goods or they are destroyed with the prior approval of authorities. Such goods will also continue to be eligible for duty drawback if subsequently exported.

The measure will take effect from the later of 1 July 2008 or the date of Royal Assent of the enabling legislation. The Government considers the measure will increase the opportunities for manufacturers and importers to access a refund of duty and reduce compliance costs.

Should you require assistance additional information, contact your PKF Tax Adviser or

Lance Cunningham on
02 9240 9736 | lance-cunningham @pkf.com.au
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia

PKF has offices throughout Australia:
ADELAIDE – BRISBANE – CANBERRA – DARWIN – GOLD COAST – HOBART
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