

## AUSTRALIAN FEDERAL GOVERNMENT 2005-2006 BUDGET

According to *Richard A. Bobb* partner, David Woo “the tax cuts announced in last night’s budget were unexpected”. Mr Woo also welcomed the announcement to abolish the superannuation surcharge levy effective from 1 July 2005, but suggested the Government should have committed itself to this policy change earlier. Mr Woo maintained that the surcharge had been an inefficient way of collecting tax from high net worth superannuants and believes the removal of the levy will make life much easier for trustees, superannuation fund auditors and superannuants alike.

Mr Woo also welcomed the announcement by the Government to allow foreign losses to be offset against domestic income. According to Mr Woo, this levels the playing field in that it allows symmetry between offsetting domestic losses against foreign income and therefore removes another layer of complexity associated with tax law.

Here are some of the more relevant announcements from last night’s Federal Budget, from a tax perspective.

### **Capital Gains Tax & Non Residents**

Non-residents will be relieved of capital gains tax on the disposal of all assets other than real property and the business assets of Australian branches of a non-resident. Special rules will be introduced to ensure interposed companies are not utilised to extend the exemption to the disposal of shares in land-owning companies.

The changes to Australia's domestic law will apply to relevant CGT events occurring on or after the date of Royal Assent to the relevant legislation. The Government intends to introduce this legislation before the end of the 2005-06 financial year.

### **Removal of Foreign Loss and Foreign Tax Credit Quarantining**

The current foreign loss and foreign tax credit ('FTC') quarantining rules prevent taxpayers from applying foreign losses against domestic income. They also prevent taxpayers from receiving credit for foreign tax in excess of the Australian tax payable on assessable foreign income.

The measures announced last night will assist taxpayers by not taxing their domestic income when they suffer an overall (worldwide) loss, by removing the requirement for taxpayers to quarantine foreign losses from domestic income. It will also remove the need for these taxpayers to quarantine their foreign losses and FTCs into separate classes.

These changes will not apply to foreign losses already incurred, but only to income years first commencing on or after the date of Royal Assent to the enabling legislation.

### **Super Splitting**

Taxpayers will have the option to split personal and employer superannuation contributions with their spouse from 1 July 2006, honouring the 2004 election commitment. The big attraction of super splitting is that it will allow couples to have separate super accounts so both partners can take the first \$123,808 of their benefit as a tax-free lump sum. Both partners would also be eligible for their own reasonable benefit limit.

Transfers will be limited to one per year and a fund trustee will be able to refuse an application if it is not made by 1st April after which the contributions were made. Whilst splitting will be voluntary for funds, the introduction of choice of super fund legislation should ensure availability generally.

**Blackhole Expenditure**

The Government will broaden the range of expenditures that can be recognised under the capital gains tax regime and will allow, under a provision of ‘last resort’, deductibility over five years for business capital expenditures not elsewhere recognised within the taxation laws. In addition, where a business is already operating for taxation purposes, certain pre-business expenditures relating to a new business will also be deductible over five years. The measure will have effect from 1 July 2005.

**Personal income tax cuts**

We also set out the new personal income tax rates applicable from 1 July 2005 and 1 July 2006 following the significant and unexpected tax cuts made available to all taxpayers.

Current Brackets		1/7/05 Brackets		1/7/06 Brackets	
\$	%	\$	%	\$	%
0 - 6,000	0	0 - 6,000	0	0 – 6,000	0
6,001 – 21,600	17	6,001 – 21,600	15	6,001 – 21,600	15
21,601 - 58,000	30	21,601 – 63,000	30	21,601 – 70,000	30
58,001 - 70,000	42	63,001 – 95,000	42	70,001 – 125,000	42
70,001 +	47	95,001 +	47	125,001 +	47

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