

Beancounter's Bulletin

Baumgartner Partners Quarterly Newsletter

4th Quarter 2005/06

"2006 Federal Budget – tax reform continues"

Introduction

Welcome to this quarter's edition of Beancounter's Bulletin. We hope that you find the contents informative and useful and as usual we welcome any suggestions for future editions.

Federal Budget 2006 by Martin Dorecki

The Federal Treasurer, The Hon. Peter Costello, delivered his 11th budget on the 9th of May 2006 which included significant tax reform initiatives. The following is intended to be a very brief summary of some of the measures.

Significant personal income tax cuts

From the 1st of July 2006, the 30% threshold will increase from \$21,601 to \$25,001, the 42% marginal tax rate will be reduced to 40% with the threshold increasing to \$75,001, and the top marginal tax rate will be cut from 47% to 45% with the threshold increasing to \$150,001.

New rates and thresholds from 1 July 2006

0-6,000	0%
6,001-25,000	15%
25,001-75,000	30%
75,001-150,000	40%
150,001+	45%

The Treasurer indicated that the 2006-07 budget tax cuts should ensure that over 80% of taxpayers face a top marginal tax rate of 30% or less. One potential implication of these changes is to revisit novated lease arrangements and assess their tax effectiveness given the cut in personal income tax rates.

Capital allowances- accelerated tax depreciation deductions

The budget includes a proposed increase in the diminishing value rate under the uniform capital allowance regime, from 150 percent to 200 percent for eligible assets acquired on or after the 10th of May 2006.

Small business CGT concessions

The proposed changes will apply to CGT events that happen in the 2006-07 and later income years. The government has announced that it will amend the small business CGT concessions to make them simpler, clearer and fairer and to reduce compliance costs for small businesses. Access to the concessions will also be improved. The amendments to the concessions will include changes to the maximum net asset value test, the active asset test, the 15-year exemption, the retirement exemption, the small business roll-over and the application of the concessions to partnerships.

Fringe Benefits Tax changes

The government indicated that it would be implementing a number of measures in relation to Fringe Benefits Tax ("FBT"). These measures will include a reduction in the FBT rate from 48.5% to 46.5% with effect from the 1st of April 2006.

Family trusts

As part of its initiative to simplify and streamline the tax system, the Government will also make changes to the family trust election rules to increase flexibility for family trusts.

Superannuation

There are proposed sweeping changes to the existing superannuation system in Australia, with effect from the 1st of July 2007. Superannuation benefits paid from a taxed superannuation arrangement after the age of 60, either as a pension or lump sum are proposed to be tax-free. Reasonable Benefit Limits (RBL's) will be abolished and existing pension incomes will become tax-free from the 1st of July 2007.

Benefits taken from untaxed funds (primarily public sector funds) or from taxed funds prior to age 60, will continue to be taxed, but under a simplified system.

The following are just some of the reforms announced as part of a wide-ranging array of measures which will affect individuals and businesses both large and small. For further guidance on how the budget changes will affect your specific circumstances, please contact our office.

"We're more than just number crunchers"

Quote of the quarter

"So your opening sale has just closed, what now?"

"So, now we open the closing sale".

Accountant joke of the quarter

It was three in the morning when a busker began playing his banjo outside the bedroom window of a wealthy tycoon.

Eventually, the window was opened. "What do you think you are doing waking me up in the middle of the night?"

"Listen, mate" said the busker. "I don't tell you how to run your business, so don't tell me how to run mine".

Around the traps

We congratulate Janelle and Brett Madigan on becoming parents to a beautiful baby girl named Keirra on the 27th of April 2006. For pictures, please refer <http://www.geocities.com/babymadigan/>

Also we welcome Martin Dorecki, who joins the firm as our taxation specialist.

End of Financial Year is a Time to Reflect *by Brett Madigan*

For most small business owners, the end of the financial year is a time for last minute tax planning to reduce that looming tax bill or to increase your tax refund. This is often a frantic time for business owners and can often lead to hasty last minute decisions being made on how to spend and invest your hard earned time and money.

If you find yourself in this predicament year after year, it is a clear sign that you may be lacking the appropriate organization within your business. Although it is wise to minimize your taxation, it is much more important that you are maximizing profitability. (Remember – spending for the sake of a tax deduction is wasted money unless that after tax money spent comes back with interest!) And neither of these objectives should be last minute strategies. You should have a clear strategic plan and business process that you are implementing and monitoring throughout the year to ensure that these two key objectives are being met.

The end of the financial year is a perfect time to reflect on how well you are running your business. That is, how well you have planned, implemented your strategy, monitored results, taken corrective action and most importantly, achieved your objectives.

The next time you speak with your relationship manager at Baumgartners, why not ask them about developing a business and taxation strategy for the 2007 financial year to help you maximize your profitability and minimize your taxation?

As your strategic business advisors, we can not only work with you to ensure you meet your compliance needs, but more importantly we can assist you throughout the year to help you meet your business and lifestyle objectives, whilst finding ways to improve cash flow and minimize your tax. Now that's what you want from a real accountant!

Why not take advantage of a free one hour strategic planning session with your relationship manager, which we are offering throughout the June and July 2006 period? It may just be the most valuable time spent with your accountant to date!

Please let us know if you would like us to do any special features in future editions of Beancounter's Bulletin.

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