

## Part 1: Revenue Measures

**Table 1: Revenue measures since the 2004-05 MYEFO<sup>(a)</sup>**

Page		2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
	<b>ATTORNEY-GENERAL'S</b>				
	<i>Australian Customs Service</i>				
9	Asian Development Bank – customs duty concession	..	..	..	..
247	Civil Aviation Safety Authority – long-term funding strategy(b)	-	-	-	..
9	Customs accredited client programme	-	-	-	-
10	Import Processing Charges – restructure	5.0	5.1	5.2	5.3
103	Imports – additional revenue compliance activities(b)	10.8	23.2	24.8	26.5
10	Tariff concessions – abolishing the three per cent tariff on business inputs	-290.0	-300.0	-320.0	-340.0
	<i>Federal Magistrates Court</i>				
101	Family law disputes – increased capacity(b)	1.4	1.4	1.4	1.4
	<i>Insolvency and Trustee Service Australia</i>				
11	Insolvency and Trustee Service Australia – implementation of cost recovery review	-	6.9	6.9	6.9
	<b>Portfolio total</b>	<b>-272.8</b>	<b>-263.4</b>	<b>-281.7</b>	<b>-299.9</b>
	<b>COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS</b>				
	<i>Australian Film, Television and Radio School</i>				
108	Australian Film, Television and Radio School – relocation(b)	nfp	nfp	nfp	nfp
	<i>Australian Sports Commission</i>				
111	EuroHub – European training base for Australian athletes(b)	-	0.7	0.7	0.7
	<b>Portfolio total</b>	<b>-</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>
	<b>EDUCATION, SCIENCE AND TRAINING</b>				
	<i>Department of Education, Science and Training</i>				
127	James Cook University – Additional Veterinary Science and Tropical Agriculture Places(b)	-	..	..	0.1
129	Our Universities – additional medical places at James Cook University(b)	..	..	..	..
	<b>Portfolio total</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>0.1</b>
	<b>EMPLOYMENT AND WORKPLACE RELATIONS</b>				
	<i>Australian Communications Authority</i>				
203	Radiofrequency Electromagnetic Energy Programme – maintain funding(b)	-0.2	-0.2	-0.2	-0.2
	<b>Portfolio total</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>
	<b>ENVIRONMENT AND HERITAGE</b>				
	<i>Department of the Environment and Heritage</i>				
156	Water Efficiency Labelling and Standards Scheme(b)	2.0	0.4	0.5	0.4
	<b>Portfolio total</b>	<b>2.0</b>	<b>0.4</b>	<b>0.5</b>	<b>0.4</b>

**Table 1: Revenue measures since the 2004-05 MYEFO<sup>(a)</sup>(continued)**

Page		2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
	<b>FINANCE AND ADMINISTRATION</b>				
	<i>Department of Finance and Administration</i>				
277	Royal Australian Mint buildings – refurbishment(b)	-	-	-	0.9
	<b>Portfolio total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.9</b>
	<b>FOREIGN AFFAIRS AND TRADE</b>				
	<i>Department of Foreign Affairs and Trade</i>				
89	Providing for Australia's Security – biometrics for border control – progressive introduction of ePassports(b)	11.0	18.6	20.3	20.7
	<b>Portfolio total</b>	<b>11.0</b>	<b>18.6</b>	<b>20.3</b>	<b>20.7</b>
	<b>HEALTH AND AGEING</b>				
	<i>Department of Health and Ageing</i>				
12	Pharmaceutical Benefits Advisory Committee – cost recovery arrangements	-	-	11.1	11.2
	<i>Private Health Insurance Ombudsman</i>				
202	Private Health Insurance – increased funding for the Private Health Insurance Ombudsman through an increase in the Complaints Levy(b)	0.2	0.2	0.2	0.2
	<b>Portfolio total</b>	<b>0.2</b>	<b>0.2</b>	<b>11.3</b>	<b>11.4</b>
	<b>IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS</b>				
	<i>Department of Immigration and Multicultural and Indigenous Affairs</i>				
117	Asia Pacific Economic Cooperation 2007(b)	0.1	0.2	0.4	0.4
231	Migration Programme – increase of up to 20,000 skilled places(b)	5.2	5.3	5.5	5.7
232	Migration Programme – seasonal harvest workers – increased working holiday makers(b)	0.9	2.0	2.0	2.1
233	Migration Programme – Trade Skills Training Visa – arrangement for regional Australia(b)	1.0	2.9	4.0	4.1
234	Migration Programme – Two-Stage Skilled Designated Area Sponsored visa(b)	-	-	-	0.4
237	Skilled migration promotion(b)	9.5	9.7	9.9	10.2
89	Providing for Australia's Security – biometrics for border control – phased application of identification technology(b)	10.4	10.7	11.0	11.3
	<b>Portfolio total</b>	<b>27.0</b>	<b>30.8</b>	<b>32.7</b>	<b>34.1</b>
	<b>INDUSTRY, TOURISM AND RESOURCES</b>				
	<i>Department of Industry, Tourism and Resources</i>				
239	Industry Capability Network Limited and Supplier Access to Major Projects Programme – extension(b)	-0.3	-0.3	-0.3	-
	<b>Portfolio total</b>	<b>-0.3</b>	<b>-0.3</b>	<b>-0.3</b>	<b>-</b>
	<b>PRIME MINISTER AND CABINET</b>				
	<i>Australian National Audit Office</i>				
244	Australian National Audit Office – changes to the auditing environment(b)	1.3	1.3	1.4	1.4
	<b>Portfolio total</b>	<b>1.3</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>

**Table 1: Revenue measures since the 2004-05 MYEFO<sup>(a)</sup>(continued)**

Page		2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
	<b>TRANSPORT AND REGIONAL SERVICES</b>				
	<i>Civil Aviation Safety Authority</i>				
247	Civil Aviation Safety Authority – long-term funding strategy(b)	4.9	4.8	9.2	14.1
	<i>Department of Transport and Regional Services</i>				
249	Motor vehicle standards – improved service standards and lower fees(b)	-1.6	-1.6	-1.6	-1.6
	<i>Stevedoring Industry Finance Committee</i>				
145	Asbestos Claims Management(b)	-2.5	-1.9	-1.7	-1.7
	<b>Portfolio total</b>	<b>0.8</b>	<b>1.3</b>	<b>5.9</b>	<b>10.8</b>
	<b>TREASURY</b>				
	<i>Australian Prudential Regulation Authority</i>				
258	Superannuation Choice – implementation(b)	1.6	0.9	1.0	1.1
	<i>Australian Taxation Office</i>				
13	Approval of Bendigo Stock Exchange for the purpose of the foreign investment fund rules	..	..	..	..
13	Asian Development Bank – income tax exemption for Australian staff	..	..	..	..
14	Australian companies' foreign branch profits – operation of ships and aircraft in international traffic	-	-	-	-
14	Capital gains tax – extending the marriage breakdown roll-over relief and related amendments	-1.0	-1.0	-1.0	-1.0
247	Civil Aviation Safety Authority – long-term funding strategy(b)	-	-	-	-5.0
15	Company losses – further amendments to the loss recoupment rules	*	*	*	*
15	Consolidation – changes to the loss rules	-	-5.0	-1.0	-1.0
15	Consolidation – extension of time to make irrevocable elections	*	*	*	*
16	Denial of deductions for illegal activities	*	*	*	*
16	Extension of tax-timing hedging rules	*	*	*	*
17	Film Licensed Investment Company scheme – two year extension	-	-4.0	-4.0	-
17	Forestry – extension of the 12-month prepayment rule for managed investment schemes	-	-	-30.0	-35.0
17	Franking deficit tax offset	..	..	..	..
18	Fringe benefits tax – exemption for certain payments to worker entitlement funds	-	-	-	-
19	Imputation – share capital tainting	..	..	..	..
19	Inclusion of film copyright in the effective life regime	-15.0	-35.0	-55.0	-70.0
20	Indirect tax concession scheme – concessions for diplomats and consular missions	..	..	..	..
20	Mature age worker tax offset – extended definition of net income from working	-70.0	-75.0	-75.0	-75.0
21	Medicare levy – increasing the Medicare levy low income thresholds	-38.0	-19.0	-18.0	-18.0

**Table 1: Revenue measures since the 2004-05 MYEFO<sup>(a)</sup>(continued)**

Page		2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
	<b>TREASURY(continued)</b>				
21	Medicare levy surcharge – lump sum payments in arrears offset	-	-0.1	-0.1	-0.1
22	New international taxation arrangements – foreign income exemption for temporary residents	-	-	-50.0	-55.0
22	New international taxation arrangements – not proceeding to treat 'ceasing to be an Australian resident' as a taxing point for the employee share scheme rules	*	*	*	*
23	New international taxation arrangements – reforms to the capital gains tax treatment of non-residents	-50.0	-50.0	-65.0	-65.0
23	New international taxation arrangements – removal of foreign loss and foreign tax credit quarantining	-	-	-25.0	-25.0
24	Non-commercial loans – bringing forward the effect of previously announced changes	*	*	*	*
24	Not proceeding with proposed changes to the taxation of partnerships and joint ventures	-	-	-	-
25	Not proceeding with the generic regime for the taxation of rights	35.0	50.0	55.0	65.0
25	Personal income tax – closure of Operation HUSKY for taxation purposes	-	-	-	-
26	Personal income tax – exclusion of purely cosmetic procedures from the medical expenses offset	-	10.0	10.0	10.0
26	Personal income tax – foreign income exemption for Australians working in Iraq	-1.0	-	-	-
	Personal income tax cuts	-3,100.0	-5,600.0	-6,250.0	-6,700.0
28	Petroleum resource rent tax – modifications to the proposed gas transfer price regulations	-	-	-	-
29	Petroleum resource rent tax – policy modifications	-	-45.0	21.0	1.0
29	Philanthropy – establish new general deductible gift recipient categories	-	..	-11.0	-11.0
30	Philanthropy – updating the list of eligible deductible gift recipients	*	*	*	*
31	Review of International Taxation Arrangements – changes to the definition of 'commencing day'	*	*	*	*
31	Review of International Taxation Arrangements – removing inappropriate consequences that follow from the listing of a country	..	..	..	..
32	Superannuation – closure of the Superannuation Holding Accounts Special Account to new employer deposits	-	*	*	*
32	Superannuation – splitting of superannuation contributions	4.5	5.3	4.0	3.6
	Superannuation – surcharge abolition	-	-650.0	-875.0	-990.0
33	Superannuation – tax treatment of superannuation annuities on marriage breakdown	-	-	-1.0	-2.0
34	Superannuation – transitional period to comply with the choice of fund insurance requirement	-0.2	-1.1	-2.0	-2.2
34	Superannuation – use of Superannuation Holding Accounts Special Account as an eligible choice fund	-1.0	-	-	-

**Table 1: Revenue measures since the 2004-05 MYEFO<sup>(a)</sup>(continued)**

Page		2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
	<b>TREASURY(continued)</b>				
35	Superannuation guarantee – payments of wages received after employment ceases	-	-3.0	-3.0	-3.0
35	Superannuation guarantee – reducing incidence of double payment	-0.4	-0.9	-0.9	-0.8
36	Tax exemption of Commonwealth Trade Learning Scholarships	-	-	-	-
36	Taxation treatment of business 'blackhole' expenditure	-	-35.0	-70.0	-100.0
37	Thin capitalisation – transitional period for International Financial Reporting Standards	-	-	-	-
37	Wine equalisation tax – extending the producer rebate to New Zealand wine producers	-7.0	-8.0	-8.0	-9.0
	<i>Department of the Treasury</i>				
103	Imports – additional revenue compliance activities(b)	1.5	1.5	1.6	1.6
	<b>Portfolio total</b>	<b>-3,241.0</b>	<b>-6,464.4</b>	<b>-7,452.4</b>	<b>-8,085.8</b>
	<b>Total impact of revenue measures(c)</b>	<b>-3,471.9</b>	<b>-6,675.0</b>	<b>-7,661.8</b>	<b>-8,305.4</b>

\* The nature of the measure is such that a reliable estimate cannot be provided.

.. Not zero, but rounded to zero.

- Nil.

nfp Not for publication.

(a) A minus sign before an estimate indicates a reduction in revenue, no sign before an estimate indicates a gain to revenue.

(b) Details of these measures can be found under Part 2: Expense measures.

(c) Measures may not add due to rounding.

**Table 2: Revenue measures up to the 2004-05 MYEFO<sup>(a)</sup>**

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>ATTORNEY-GENERAL'S</b>				
Customs duty				
Excise on imported grape-wine products with an alcohol content exceeding 22 per cent	..	..	..	..
Extension of the SPARTECA-TCF scheme	-1.1	-1.4	-1.6	-1.9
<b>Portfolio total</b>	<b>-1.1</b>	<b>-1.4</b>	<b>-1.6</b>	<b>-1.9</b>
<b>EDUCATION, SCIENCE AND TRAINING</b>				
Aged care - additional university places for aged care nursing	..	..	..	..
Strengthening Cancer Care - radiation therapy internships and undergraduate places	..	..	..	..
University of Notre Dame - additional places for medicine, nursing and teaching	-	..	..	..
<b>Portfolio total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS</b>				
Temporary Protection Visa - caseload resolution	1.4	0.1	-	-
<b>Portfolio total</b>	<b>1.4</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>
<b>TRANSPORT AND REGIONAL SERVICES</b>				
Christmas Island Phosphates	-0.2	-	-	-
Norfolk Island memorial for Minister Buffet - proceeds for the transfer of crown land	..	..	..	..
<b>Portfolio total</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>TREASURY</b>				
30 per cent child care tax rebate	-	-280.0	-305.0	-330.0
Amend the tax treatment of copyright collecting societies	..	..	..	..
Consolidation				
Ensure deferred tax liabilities do not result in capital gains or losses in the transition to consolidation	*	*	*	*
Treatment of irrevocable elections	-	-	-	-
Closure of Operation DAMASK X and Operation PALATE for taxation purposes	*	*	*	*
Deductible gift recipients				
Admissions to registers of organisations and prescribed private funds	*	*	*	*
Deductibility of certain gifts	*	*	*	*
Defence Force Income Support Allowance - linked tax exemption	1.0	1.0	1.0	1.0

**Table 2: Revenue measures up to the 2004-05 MYEFO<sup>(a)</sup>(continued)**

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>TREASURY (continued)</b>				
Entrepreneur's tax discount	-	-400.0	-390.0	-370.0
Fuel tax reform - removal of excise on burner fuels(b)	-	-	-	-
Mature age worker tax offset	-335.0	-354.0	-350.0	-345.0
Response to recommendations arising from the Review of Self-Assessment for income tax returns	-11.5	-21.5	-47.5	-78.5
Simplified imputation system - consequential and other amendments	..	..	..	..
Simplified Tax System (STS) - optional cash accounting	-15.0	-125.0	-130.0	-90.5
Superannuation				
Bring forward the simplification of superannuation guarantee earnings bases to 1 July 2008	-3.0	-3.0	-6.0	-4.0
Changes to the reduction in the surcharge rate	-	-	200.0	310.0
Expansion of the definition of 'dependant'	-5.0	-5.0	-5.0	-5.0
Grandfathering of superannuation payment rules for people aged 75 or more at 30 June 2004	-2.7	-1.9	-1.6	-1.4
Modifications to pension and annuity integrity regulations	-	-	-	-
Removal of \$3,000 limit on child superannuation contributions	..	..	..	..
Removal of Superannuation Guarantee reporting requirement	*	*	*	*
Remove tax deductions for personal contributions by new co-contribution recipients	0.5	0.5	0.5	0.5
Transitional relief for small funds	*	*	*	*
Taxation of financial arrangements				
Debt and equity interests	*	*	*	*
Defer the commencement of reforms to accruals/realisations framework	-45.0	60.0	-5.0	-
Foreign currency regulations - technical and compliance cost savings amendments	*	*	*	*
Foreign currency regulations - use of weighted average cost and average rates of exchange	*	*	*	*
Tax treatment of financial instruments issued by credit unions and mutual building societies	-2.0	-3.0	-4.0	-5.0
Taxation of franked dividends received by Australian branches of non-residents on net assessment basis	*	*	*	*
Tax exemption for seniors' concession allowance and utilities allowance	-	-	-	-
Uniform capital allowances - statutory effective life caps for trucks, buses, light commercial vehicles and truck trailers	-	-	-	-

**Table 2: Revenue measures up to the 2004-05 MYEFO<sup>(a)</sup>(continued)**

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>TREASURY (continued)</b>				
Wine equalisation tax				
Amendments to mead regulations	-	-	-	-
Extension of wine producer rebate to producers of cider, perry and sake	-1.0	-1.0	-1.0	-1.0
Wine equalisation tax compliance improvements	*	*	*	*
<b>Portfolio total</b>	<b>-418.8</b>	<b>-1133.0</b>	<b>-1043.7</b>	<b>-919.0</b>
<b>Decisions taken but not yet announced</b>	<b>18.0</b>	<b>19.1</b>	<b>20.3</b>	<b>21.6</b>
<b>Total impact of revenue measures(c)</b>	<b>-400.6</b>	<b>-1115.1</b>	<b>-1025.0</b>	<b>-899.3</b>

\* the nature of the measure is such that a reliable estimate cannot be provided

.. not zero, but rounded to zero

- nil

nfp not for publication

(a) A minus sign before an estimate indicates a reduction in revenue, no sign before an estimate indicates a gain to revenue

(b) Measure reported as taken but not announced in the 2004-05 Budget. The impact of this measure (-\$60 million per year in 2006-07, 2007-08 and 2008-09) is already included in the forward estimates.

(c) Measures may not add due to rounding

## ATTORNEY-GENERAL'S

### Asian Development Bank — customs duty concession

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Customs Service	..	..	..	..

The Government will allow Asian Development Bank (ADB) officers to import personal effects (including furniture) free of duty when first taking up a post in Australia. The measure will take effect when necessary changes to the ADB regulations come into operation.

The measure will implement an arrangement reached between the ADB and Australia for the establishment of ADB's Australian office.

The Government is also providing an income tax concession to officers of the ADB — see related item *Asian Development Bank – income tax exemption for Australian staff* in Budget Paper No. 2 under the Treasury portfolio. A GST concession is also proposed, but this is subject to the approval of the state and territory governments — see related item *Asian Development Bank – GST concession* in Appendix A of Budget Paper No. 3.

### Customs accredited client programme

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Customs Service	-	-	-	-

The Government will implement arrangements under the Accredited Client Programme for eligible importers to pay estimated customs duty liability for a month in the middle of that month, with a settlement process in the following month based on a periodic declaration. This measure simplifies the arrangements for reporting of imports and exports by accredited clients through the introduction of periodic declarations, as opposed to entries that have to be lodged for each and every consignment of goods. The measure does not involve any net deferral of customs duty.

### Import Processing Charges — restructure

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Customs Service	5.0	5.1	5.2	5.3

The Government will restructure and increase the Import Processing Charge (IPC) to better align charges with the costs of processing imports so as to ensure the full recovery of the Australian Customs Service's import processing costs. The new charges will result in additional revenue of \$50.6 million over four years, including \$30 million over four years included in the forward estimates at the *Mid-Year Economic and Fiscal Outlook 2004-05*.

Under the new arrangements, the Government will continue to set the IPC based on the mode of entry and will not proceed with the previously announced intention to move to a fee structure based on the value of the imported goods. Importers will now pay \$49.50 per declaration for sea imports, \$30.10 per declaration for air imports and \$20.00 per declaration for pipeline imports. The Self-Assessed Clearance charge will be removed.

The \$30 million included in the *Mid-Year Economic and Fiscal Outlook 2004-05* provided full recovery for costs that had previously been partly offset by Customs, including the costs associated with the Cargo Examination Facilities programme and the Increased Quarantine Intervention programme. The additional \$20.6 million since *Mid-Year Economic and Fiscal Outlook 2004-05* provides for full cost recovery of additional compliance activities undertaken by Customs, including those associated with the Australia-United States Free Trade Agreement (see the related expense measures *Imports – additional revenue compliance activities* and *Australia-United States Free Trade Agreement* in the Attorney-General's portfolio in Budget Paper No.2).

### Tariff concessions — abolishing the three per cent tariff on business inputs

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Customs Service	-290.0	-300.0	-320.0	-340.0

Note: This measure has a cost to revenue of \$36 million in 2004-05.

The Government will remove the three per cent tariff applying to business inputs imported under a Tariff Concession Order. This measure will take effect from 11 May 2005.

Business inputs that do not have domestically produced substitutes attract a three per cent concessional tariff rate. The Government will remove the tariff, providing these business inputs with duty free entry. This will further reduce business input costs and increase the competitiveness of Australian industry.

This measure delivers on the Government's election commitment *From Strength to Strength: The Coalition's Policy for Australian Industry* to remove the three per cent tariff on business inputs used in the manufacture of wind turbines.

**Insolvency and Trustee Service Australia — implementation of cost recovery review**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Insolvency and Trustee Service Australia	-	6.9	6.9	6.9
<i>Related capital (\$m)</i>				
Insolvency and Trustee Service Australia	1.7	-	-	-
<i>Related expense (\$m)</i>				
Insolvency and Trustee Service Australia	0.5	0.5	0.5	0.5

The Government will apply cost recovery arrangements from 1 July 2006 for a range of services provided by the Insolvency and Trustee Service Australia (ITSA). This will involve changes to ITSA's existing fees and charges, and introduction of a levy on amounts recovered in debt agreements. These new arrangements will ensure that ITSA's fees and charges better reflect the cost of the particular services.

The Government will provide \$3.7 million over four years (including \$1.7 million in capital funding in 2005-06) to implement the new arrangements.

## HEALTH AND AGEING

### Pharmaceutical Benefits Advisory Committee — cost recovery arrangements

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Department of Health and Ageing	-	-	11.1	11.2
<i>Related expense (\$m)</i>				
<i>Department of Health and Ageing</i>	0.6	1.5	0.6	0.6
<i>Related capital (\$m)</i>				
<i>Department of Health and Ageing</i>	-	0.4	-	-

From 1 July 2007, the Government will recover the costs of the Pharmaceutical Benefits Advisory Committee's review of submissions for new listings on the Pharmaceutical Benefits Scheme, leading to additional revenue of \$22.3 million over four years.

Cost recovery will occur by charging fees to companies making submissions to the Pharmaceutical Benefits Advisory Committee.

The Department of Health and Ageing will be provided with \$3.7 million over four years (including \$0.4 million of capital funding) to establish and manage the cost recovery process.

## TREASURY

### Approval of Bendigo Stock Exchange for the purpose of the foreign investment fund rules

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	..	..	..	..

The Government has added Bendigo Stock Exchange (BSX) to the list of approved stock exchanges for the purpose of the foreign investment fund rules.

This measure will assist BSX to compete equally with other listed exchanges to attract foreign company listings. It will also benefit taxpayers by reducing their compliance costs when they invest in BSX listed foreign companies.

The change came into effect on 12 March 2005.

### Asian Development Bank — income tax exemption for Australian staff

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	..	..	..	..

The Government will extend the income tax exemptions available to Asian Development Bank (ADB) staff to Australian citizens in the ADB office to be established in Australia. This exemption will have effect from the date of Royal Assent of changes to the enabling legislation.

Australia currently provides the ADB and its staff certain privileges and immunities, including the exemption from income tax of the salary and emoluments received by bank officials who are not Australian citizens.

The ADB is preparing to open an office in Australia. This will be one of two resident missions established to service the special needs of the Pacific Island Countries.

This measure is part of a broader arrangement with the ADB that will facilitate the day to day running of the office.

The Government is also providing a customs duty concession for ADB officers — see related item *Asian Development Bank – customs duty concession* in Budget Paper No. 2 under the Attorney-General's portfolio. A GST concession is also proposed, but this is subject to the approval of the state and territory governments — see related item *Asian Development Bank – GST concession* in Appendix A of Budget Paper No. 3.

**Australian companies' foreign branch profits — operation of ships and aircraft in international traffic**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-	-	-

The Government will ensure that Australia continues to tax foreign branch income and gains of Australian companies derived from the operation of ships or aircraft in international traffic.

In 2004, the foreign branch profits exemption was expanded to all countries. The interaction between the expanded exemption and Australia's tax treaties could produce the unintended result that income and gains derived by an Australian company's foreign branch, from operations of ships or aircraft in international traffic, would not be taxed in Australia or the country in which the foreign branch operates.

The changes will take effect from 1 July 2004, the date from which the expanded foreign branch profits exemption first applied.

Further information can be found in the press release of 19 January 2005 issued by the Minister for Revenue and Assistant Treasurer.

**Capital gains tax — extending the marriage breakdown roll-over relief and related amendments**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-1.0	-1.0	-1.0	-1.0

The Government will extend the existing capital gains tax (CGT) roll-over relief on marriage breakdown to assets transferred under a binding financial agreement or an arbitral award entered into under the *Family Law Act 1975* or similar arrangements under state, territory or foreign legislation. The Government will ensure that the CGT roll-over interacts appropriately with the main residence exemption, and that marriage breakdown cash settlements do not give rise to CGT liabilities. The extension of the CGT roll-over relief and related amendments will apply to CGT roll-overs, and CGT events relating to cash settlements, occurring after the date of Royal Assent of the enabling legislation.

**Company losses — further amendments to the loss recoupment rules**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	*	*	*	*

The Government will defer, for one year, the introduction of the \$100 million total income ceiling for the same business test. The income ceiling will now apply to tax losses incurred in income years commencing on or after 1 July 2005.

The Government will also make minor changes to the continuity of ownership test to clarify how companies test whether they have the same owners. One change will ensure that companies are not required to trace ownership through government bodies, statutory bodies, non-profit companies or charities. Another change will exempt non-profit companies from testing for continuity of dividend and capital rights. These measures will have effect from 1 July 2002.

Further information can be found in the press release of 11 February 2005 issued by the Minister for Revenue and Assistant Treasurer.

**Consolidation — changes to the loss rules**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-5.0	-1.0	-1.0

The Government will modify the consolidation loss rules to allow entities that join a consolidated group with an available fraction of nil, due to rounding, to instead be able to round to the nearest significant digit, with effect from 1 July 2002.

**Consolidation — extension of time to make irrevocable elections**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	*	*	*	*

The Government will allow consolidated groups until 31 December 2005 to make or revoke certain elections under the consolidation regime. The election to form a consolidated group or multiple entry consolidated group will remain irrevocable.

The consolidation regime provides for a number of choices that the head company of the group can make in respect of setting the tax cost of the group's assets and for the utilisation of carry forward losses. Currently these choices cannot be changed or revoked after 31 December 2004.

### *Budget Measures 2005-06*

Because of the number of legislative changes still being made to the consolidation regime, the time for head companies to make certain elections will be extended. This will allow taxpayers sufficient time to operate under the benefit of these new rules before having to make their final elections.

Further information can be found in the press release of 20 December 2004 issued by the Minister for Revenue and Assistant Treasurer.

#### **Denial of deductions for illegal activities**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	*	*	*	*

The Government will amend the income tax law to ensure that taxpayers are not able to obtain tax deductions for expenditures they incur in relation to illegal activities, with effect from 30 April 2005. Deductions will be denied for losses and outgoings to the extent they are incurred in the furtherance of, or directly in relation to, activities in respect of which the taxpayer has been convicted of an indictable offence. Similarly, the capital gains tax provisions will be amended so that losses and outgoings incurred in relation to illegal activities in respect of which the taxpayer was convicted of an indictable offence do not form part of the cost base or reduced cost base for capital gains purposes. This will ensure that no capital loss or reduced capital gain can arise from such expenditure.

Where the taxpayer is undertaking a lawful business but is convicted of an illegal activity while carrying out that business, a deduction will continue to be allowed for expenditure where it would have been incurred in any case, regardless of the illegal activity.

Further information can be found in the press release of 29 April 2005 issued by the Treasurer.

#### **Extension of tax-timing hedging rules**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	*	*	*	*

The Government will extend the proposed tax-timing hedging rules, beyond gold producers and cotton traders, to all taxpayers – in all industries – with audited financial accounts, with effect from the commencement of the final stages (Stages 3 and 4) of the taxation of financial arrangements reforms.

**Film Licensed Investment Company scheme — two year extension**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-4.0	-4.0	-

The Government will extend the Film Licensed Investment Company (FLIC) scheme for two years.

The FLIC structure allows investors to spread risk by investing in a slate of film projects whilst receiving a 100 per cent income tax deduction on the funds invested. The extension will allow one licensee to raise concessional capital which will be capped at \$10 million in each of the two years.

The concessional capital raising will begin from the date of issue of the licence or 1 July 2005, whichever occurs later, and will conclude on 30 June 2007.

This measure was announced on 4 October 2004 as part of the Government's election commitment in *Strengthening Australian Arts* and *A World Class Australian Film Industry*.

**Forestry — extension of the 12-month prepayment rule for managed investment schemes**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-	-30.0	-35.0

The Government will extend the 12-month prepayment rule for forestry managed investments for a further two years until 30 June 2008. In addition, the Government will conduct a review of the taxation treatment of plantation forestry in the context of the Government's broader plantation and natural resource management policies.

The 12-month prepayment rule for forestry managed investments, which is currently due to expire on 30 June 2006, allows investors to obtain an immediate deduction for funds contributed in one financial year for seasonally dependent agronomic operations undertaken during the following year.

**Franking deficit tax offset**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	..	..	..	..

The Government will modify the franking deficit tax offset rules to remove three unintended consequences, with effect from 1 July 2002.

*Budget Measures 2005-06*

First, the franking deficit tax offset penalty will apply only for those income years in which a corporate tax entity franks a distribution during the income year for which the franking deficit arises.

Second, any franking debits arising as a result of the application of a penalty provision in the income tax law will be disregarded when determining the amount of an entity's tax offset arising from its franking deficit tax liability.

Third, the full franking deficit tax offset will be allowed where, broadly, events that caused excessive over franking were outside of the company's control or were unanticipated, and did not involve any broader exploitation of the imputation system.

**Fringe benefits tax — exemption for certain payments to worker entitlement funds**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-	-	-

The Government will remove the condition that contributions to approved worker entitlement funds must be required under an industrial instrument in order for employers to be eligible for a fringe benefits tax (FBT) exemption, with effect from 1 April 2005.

Currently, contributions made by employers to approved worker entitlement funds are exempt from FBT only if the payments are 'required under an industrial instrument'. As a result, employers may be liable to pay FBT on their contributions to approved worker entitlement funds in cases where the contributions are optional, but not required, under the relevant industrial instrument.

The measure will provide an exemption from FBT for payments to approved worker entitlement funds, where the payment is made by an employer under an industrial instrument for the purposes of meeting obligations to make leave or redundancy payments for employees.

The measure will ensure that regardless of whether contributions to approved worker entitlement funds are required or optional, the contributions will not be taxed twice (once as a fringe benefit when paid into the fund and again as income when paid out of the fund).

**Imputation — share capital tainting**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	..	..	..	..

The Government will allow certain companies to transfer amounts into their share capital accounts without triggering the share capital tainting rules, with effect from 1 July 1998 when the Simplified Imputation System came into effect.

This measure will ensure that the share capital tainting rules are not triggered where amounts contributed to an insurance company by its members before the insurance company demutualised are transferred by the company to its share capital account.

This measure also prevents the share capital tainting rules from being triggered where an amount is transferred to a share capital account under a debt-for-equity swap if the amount transferred does not exceed the market value of the debt being extinguished.

Further information can be found in the press release of 7 February 2005 issued by the Minister for Revenue and Assistant Treasurer.

**Inclusion of film copyright in the effective life regime**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-15.0	-35.0	-55.0	-70.0

The Government will amend the capital allowance treatment of film copyright so that the effective life depreciation regime will apply. This change will apply to expenditure on copyright a taxpayer has taken out on or after 1 July 2004.

Under this regime taxpayers may choose to self-assess the effective life of their asset or utilise the Commissioner of Taxation's safe harbour effective life determination. Currently, films that do not qualify for the Australian film concessions must be written off under the provisions applying to copyright more generally, which provide a write off over the lesser of 25 years or the period until the copyright ends.

**Indirect tax concession scheme — concessions for diplomats and consular missions**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	..	..	..	..

The Government has extended the concessions to which diplomatic and consular missions of certain countries are entitled under the Indirect Tax Concession Scheme (ITCS). The changes have effect from the date that Australia signed an agreement with each country.

The ITCS provides refunds of luxury car tax, wine equalisation tax and fuel excise to international organisations, diplomatic and consular missions and visiting defence forces. This measure affects the level of these concessions provided to diplomatic and consular missions of: Afghanistan; Botswana; Bulgaria; the Democratic People's Republic of Korea; East Timor; Israel; Pakistan; Singapore; Spain; Tunisia; Ukraine; United Arab Emirates; and Venezuela.

The Government is also providing a GST concession under the ITCS — see the related item *Indirect tax concession scheme – GST concessions for diplomats and consular missions* in Appendix A of Budget Paper No. 3.

**Mature age worker tax offset — extended definition of net income from working**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-70.0	-75.0	-75.0	-75.0

The Government will extend eligibility for the Mature Age Worker Tax Offset. This is a new tax offset of up to \$500 which is available to workers 55 years of age and older, with effect from the 2004-05 income year.

Eligibility for the offset will be extended to those taxpayers who carry on a business in partnership and meet the other eligibility criteria. This is in addition to the other categories of taxpayers who are eligible for the offset, which includes wage and salary earners, taxpayers with personal services income and taxpayers who carry on a business as a sole trader.

The offset will also be calculated on the basis of net income from working, for all workers aged 55 years and over, including wage and salary earners, allowing them to subtract relevant deductions (for example work related expenses) before calculating whether they are eligible for the offset.

Mature age workers will be eligible for some offset if they derive net income from working that is less than \$63,000 from 2005-06 (or \$58,000 in the 2004-05 income year).

Amendments to give effect to the offset were introduced into Parliament on 10 February 2005 as part of Tax Laws Amendment (2005 Measures No. 1) Bill 2005.

**Medicare levy — increasing the Medicare levy low income thresholds**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-38.0	-19.0	-18.0	-18.0

The Government will increase the Medicare levy low income thresholds to \$15,902 for individuals and \$26,834 for families, with effect from 1 July 2004. The additional amount of threshold for each dependant child or student will also be increased to \$2,464. The increase in thresholds takes into account movements in the CPI and ensures that low income families and individuals are exempt from paying the levy.

The Medicare levy low income threshold for pensioners below age pension age will also be increased. From 1 July 2004, the threshold will rise to \$19,252. This will ensure that pensioners below age pension age do not pay the Medicare levy while they do not have an income tax liability.

**Medicare levy surcharge — lump sum payments in arrears offset**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-0.1	-0.1	-0.1

The Government will provide concessional Medicare levy surcharge treatment for certain taxpayers who receive lump sum payments in arrears, with effect from the 2005-06 income year.

Currently, taxpayers are liable for the Medicare levy surcharge if their income exceeds the relevant threshold and they do not have private health insurance. This is the case even where a taxpayer has exceeded the threshold only because of the receipt of a large lump sum payment in arrears.

This measure will allow certain taxpayers who are eligible for the lump sum payments in arrears tax offset and have a Medicare levy surcharge liability to receive a reduction in their surcharge liability. The reduction in Medicare levy surcharge liability will be based on calculations similar to those currently used for the lump sum payments in arrears tax offset. This will provide consistent income tax and Medicare levy surcharge treatment of lump sum payments in arrears.

**New international taxation arrangements — foreign income exemption for temporary residents**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-	-50.0	-55.0

The Government will re-introduce legislation to provide a four-year income tax exemption for temporary residents for most foreign source income, including capital gains on foreign assets. The measure will generally have effect from the first income year after the date of Royal Assent of the enabling legislation.

The measure will also remove interest withholding tax obligations for temporary residents, and make temporary residents exempt from the foreign investment fund rules regardless of the period of residence.

This measure will assist Australian companies to draw on global markets for highly skilled labour by reducing the compliance and tax burden on first-time temporary residents.

The measure was first announced by the Government on 11 November 1999. Legislation was introduced on 30 May 2002 and 23 October 2002. On both occasions, this legislation failed to pass the Senate.

**New international taxation arrangements — not proceeding to treat ‘ceasing to be an Australian resident’ as a taxing point for the employee share scheme rules**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	*	*	*	*

The Government will not proceed with a measure to treat ‘ceasing to be an Australian resident’ as a taxing point under the employee share scheme rules.

The original measure, announced as part of *A New Business Tax System*, aimed to facilitate collection of tax where individuals changed residence during the lifecycle of an employee share or right. However, as part of the *Review of International Taxation Arrangements*, the Government announced a more general approach to the taxation of cross-border employee shares and rights. The aim was to align these provisions more closely with international norms for apportioning taxing rights between countries. Ceasing residence as a taxation point was reconsidered in this context.

The review of taxation of cross-border employee shares and rights is now complete. In the course of the review, alternative options were identified for moving towards an internationally acceptable method of apportioning taxing rights. As a result, the Government will not proceed with ceasing residence as a taxation point at this stage.

**New international taxation arrangements — reforms to the capital gains tax treatment of non-residents**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-50.0	-50.0	-65.0	-65.0

The Government will bring Australia's capital gains tax (CGT) rules and tax treaty practice into line with international standards by targeting the application of CGT to non-residents' real property, and the business assets of Australian branches of a non-resident rather than the current wide range of assets.

In addition, an interposed entity rule will protect the integrity of these rules by applying CGT to non-portfolio interests in interposed entities (including foreign interposed entities), where the value of such an interest is wholly or principally attributable to Australian real property. This interposed entity rule will replace that recommended by the *Review of Business Taxation*, partly reflecting the narrower base of CGT assets to be targeted.

The measure will have effect on or after the date of Royal Assent of the enabling legislation.

**New international taxation arrangements — removal of foreign loss and foreign tax credit quarantining**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-	-25.0	-25.0

The Government will simplify the foreign source income rules by removing foreign loss and foreign tax credit quarantining. The measure will allow foreign losses to be deducted from domestic income and will eliminate the need for foreign tax credits and revenue losses of controlled foreign companies to be quarantined into separate classes.

The measure will reduce compliance costs for Australian multinationals, regional headquarters, managed funds, and small businesses expanding offshore.

These changes will apply to income years beginning on or after Royal Assent of the enabling legislation.

The measure also fulfils the Government's election commitment to remove foreign loss quarantining in relation to film income, announced in *Strengthening Australian Arts and A World Class Australian Film Industry*.

**Non-commercial loans — bringing forward the effect of previously announced changes**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	*	*	*	*

The Government has brought forward the effect of previously announced changes to the non-commercial loan rules to the 2004-05 income year.

In the 2004-05 Budget, the Government announced it would allow shareholders of private companies until the lodgement day of the company's tax return to repay a loan or put a loan on a commercial footing in order to avoid the operation of the non-commercial loan rules. This measure was originally announced to have effect in relation to the income year following the date of Royal Assent of the enabling legislation.

The measure will now have effect in relation to loans made in the 2004-05 year of income or a later year of income. This will allow taxpayers earlier access to the reduced compliance costs provided by the measure.

Legislation giving effect to this change was included in *Tax Laws Amendment (2004 Measures No. 7) Act 2005* which received Royal Assent on 1 April 2005.

**Not proceeding with proposed changes to the taxation of partnerships and joint ventures**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-	-	-

The Government will no longer proceed with a previously announced measure to develop the *Review of Business Taxation's* proposed rationalised treatment for partnerships and joint ventures.

The decision to proceed is no longer appropriate in light of changes made to the taxation laws and to the policy agenda since its announcement, in particular, the policy decision taken in 2002 not to proceed with consistent entity taxation.

In addition, benefits from implementing this measure would not have justified the significantly increased compliance costs that would have resulted, particularly for small business.

**Not proceeding with the generic regime for the taxation of rights**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	35.0	50.0	55.0	65.0

The Government will no longer proceed with a previously announced measure to develop a generic regime for the taxation of rights and intangible assets.

The *Review of Business Taxation* proposed a generic rights regime to put the taxation of rights on a basis that more closely reflects the economic substance of the arrangements.

The decision to proceed is no longer appropriate in light of changes made to the taxation laws and to the policy agenda since its announcement.

In particular, the benefits of a new generic rights regime do not justify the added complexity and length of the law, or the risk to the integrity of the tax system and the revenue arising from the varying character of such rights, that would result from its implementation.

The Government will continue to consider, on a case-by-case basis, requests by taxpayers for review of the current taxation treatment of specific rights where they believe the current law is inappropriate.

**Personal income tax — closure of Operation HUSKY for taxation purposes**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-	-	-

The Government will close off the ‘non-warlike’ status of Operation HUSKY for taxation purposes, with effect from 28 February 2003 (the date on which the operation ceased). This means that the related tax offset will no longer be available to Australian Defence Force members who served on this operation effective from this date.

Operation HUSKY was Australia’s contribution to the International Military Advisory and Training Team in Sierra Leone. The specified locality of Operation HUSKY was determined to be ‘non-warlike’ from 15 January 2001. ‘Non-warlike’ overseas localities are those that are deemed to be uncongenial or isolated. The ‘non-warlike’ status of Operation HUSKY entitled certain Australian Defence Force members serving on this operation to access the Overseas Forces Tax Offset under section 79B of the *Income Tax Assessment Act 1936*.

**Personal income tax — exclusion of purely cosmetic procedures from the medical expenses offset**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	10.0	10.0	10.0

The Government will exclude purely cosmetic procedures from the Medical Expenses Offset (MEO), with effect from the 2005-06 income year.

The Government will amend the definition of eligible medical expenses under the *Income Tax Assessment Act 1936* to restrict access to the MEO, so that taxpayers will no longer be able to claim this offset in relation to purely cosmetic procedures.

The MEO is available to resident taxpayers at a rate of 20 per cent of any net medical expenses above the \$1,500 threshold in an income year. The MEO does not apply to any proportion of expenses reimbursed by Medicare or health insurance funds.

**Personal income tax — foreign income exemption for Australians working in Iraq**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-1.0	-	-	-

The Government will restore a foreign income exemption for certain Australians employed in Iraq to the extent they have lost the exemption as a result of the retrospective suspension of the Iraqi income tax system.

The Iraqi Coalition Provisional Authority (CPA) retrospectively suspended the Iraqi income tax system from 1 January 2003 to 30 April 2004. As a consequence of that decision some Australians working in Iraq would no longer be exempt from Australian tax.

This measure will ensure that those Australians working in Iraq who would ordinarily have had their foreign income exempt, had the CPA not retrospectively suspended the Iraqi income tax system, are still covered by the foreign income exemption provisions.

Further information can be found in the press release of 19 January 2005 issued by the Minister for Revenue and Assistant Treasurer.

**Personal income tax cuts**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-3,100.0	-5,600.0	-6,250.0	-6,700.0

The Government will provide tax cuts worth \$21.7 billion over four years. These are in addition to the tax cuts provided in the 2004-05 Budget, which are worth \$14.7 billion over four years from 2004-05.

Changes to the personal income tax rates and thresholds are to be made as follows:

- The lowest marginal tax rate will be reduced from 17 per cent to 15 per cent from 1 July 2005.
- The 42 per cent threshold will be raised to \$63,001 from 1 July 2005 (as announced in the 2004-05 Budget). It will then be raised again to \$70,001 from 1 July 2006.
- The 47 per cent threshold will be raised to \$95,001 from 1 July 2005 (compared to \$80,001 as announced in the 2004-05 Budget). It will then be raised again to \$125,001 from 1 July 2006.

**New tax scale**

Current tax thresholds	Tax rate	New tax threshold from 1 July 2005	Tax rate	New tax thresholds from 1 July 2006	Tax rate
Income range (\$)	%	Income range (\$)	%	Income range (\$)	%
0 - 6,000	0	0 - 6,000	0	0 - 6,000	0
6,001 - 21,600	17	6,001 - 21,600	<b>15</b>	6,001 - 21,600	<b>15</b>
21,601 - 58,000	30	21,601 - <b>63,000</b>	30	21,601 - <b>70,000</b>	30
58,001 - 70,000	42	<b>63,001 - 95,000</b>	42	<b>70,001 - 125,000</b>	42
70,001 +	47	<b>95,001 +</b>	47	<b>125,001 +</b>	47

The tax cuts will boost disposable incomes and improve the incentives for all Australian taxpayers to participate in the workforce. They will ensure that more than 80 per cent of taxpayers will face a top marginal tax rate of no more than 30 per cent over the forward estimates period.

Substantially raising the thresholds for the top two marginal tax rates will more closely align Australia's top threshold with international practice in the OECD. The top marginal rate will apply to only 3 per cent of taxpayers from 2006-07.

### Senior Australians

Senior Australians eligible for the Senior Australians Tax Offset and the low income tax offset currently pay no tax up to an annual income of \$20,500 for singles and \$33,612 for couples (depending on the income earned by each member of the couple). The effect of the reduction in the lowest marginal tax rate to 15 per cent is to lift these income levels up to \$21,968 for singles and \$36,494 for couples. The Government will ensure that the Senior Australians Tax Offset will phase out only once income exceeds the effective tax free threshold for each eligible single or member of a couple.

The Medicare levy threshold that applies to senior Australians will also be increased to ensure that senior Australians do not pay the Medicare levy until they begin to incur an income tax liability.

### **Petroleum resource rent tax — modifications to the proposed gas transfer price regulations**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-	-	-

The Government will amend the proposed Gas Transfer Price Regulations to improve taxpayer certainty and simplify the calculation of the gas transfer price for an integrated gas-to-liquids project. The regulations are necessary to ensure that a gas transfer price can be determined for the purpose of assessing a taxpayer's petroleum resource rent tax (PRRT) obligations in the case where there is no arm's length transaction.

The method to calculate the capital allowance rate in the proposed regulations will be changed from a weighted average cost of capital approach to the long-term bond rate plus seven percentage points approach. Technical changes will also be made to the proposed regulations dealing with the materiality threshold for apportioning costs and the endpoint of the downstream stage of a project. The changes are aimed at simplifying the calculation of the gas transfer price and providing taxpayers with greater certainty with regard to their future PRRT liabilities.

The implementation of the regulations will facilitate investment in Australia's natural gas resources and provide a sound basis for the development of the liquefied natural gas industry.

The changes will take effect once the regulations are made.

**Petroleum resource rent tax — policy modifications**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-45.0	21.0	1.0

The Government will implement a number of changes to the petroleum resource rent tax (PRRT). The changes will enhance the efficiency of the PRRT system by reducing compliance costs, improving administration and removing inconsistencies.

The changes to the PRRT will:

- allow deductibility of transferable exploration expenditure when calculating quarterly PRRT instalment payments;
- allow deductibility of fringe benefits tax for PRRT purposes;
- include PRRT in the self-assessment regime;
- introduce roll-over relief for taxpayers undergoing internal corporate restructuring;
- allow deductibility of project closing down costs when converting a production licence to an infrastructure licence;
- extend the lodgement period for annual PRRT returns from 42 days to 60 days; and
- introduce a transfer notice requirement for vendors disposing of an interest in a petroleum project.

The changes will take effect from 1 July 2006.

**Philanthropy — establish new general deductible gift recipient categories**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	..	-11.0	-11.0

The Government will establish five new general categories of deductible gift recipient (DGR) with effect from 1 July 2006, to cover war memorials, disaster relief, animal welfare, charitable services and educational scholarships.

The measure will allow taxpayers to claim an income tax deduction for certain gifts of money or property to those organisations that are endorsed as DGRs under the new categories. The measure will streamline current DGR arrangements and enable organisations seeking tax deductible status to be considered under the consistent framework provided by the general categories.

*Budget Measures 2005-06*

In order to be a DGR, an organisation must either be endorsed under one of the general categories set out in the income tax law or be listed by name.

**Philanthropy — updating the list of eligible deductible gift recipients**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	*	*	*	*

Since the *Mid Year Economic and Fiscal Outlook 2004-05*, the Government has announced that certain gifts of \$2 or more to the following organisations have been made tax deductible:

- Crime Stoppers Northern Territory Program; and
- Vietnam War Memorial of Victoria.

In addition, since the *Mid Year Economic and Fiscal Outlook 2004-05*:

- 11 organisations have been added and three have been removed from the Register of Environmental Organisations;
- four organisations have been added to the Register of Harm Prevention Charities; and
- 27 organisations have been added and seven have been removed from the Register of Cultural Organisations.

Currently, there are 247 prescribed private funds, 19 of which came into effect after the *Mid Year Economic and Fiscal Outlook 2004-05*.

The Register of Cultural Organisations can be found on the Department of Communications, Information Technology and the Arts website at [www.dcita.gov.au](http://www.dcita.gov.au). The Register of Environmental Organisations can be found on the Department of Environment and Heritage website at [www.ea.gov.au](http://www.ea.gov.au). The Harm Prevention Charities Register can be found on the Department of Family and Community Services website at [www.facs.gov.au](http://www.facs.gov.au).

**Review of International Taxation Arrangements — changes to the definition of ‘commencing day’**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	*	*	*	*

The Government will ensure that ‘commencing day assets’ that are owned by controlled foreign companies enter Australia’s capital gains tax (CGT) net at an appropriate time (the ‘commencing day’). The measure will, for most purposes, apply to ‘CGT events’ occurring on or after the 1 July that next occurs after Royal Assent of the enabling legislation.

This measure will reduce compliance costs where Australian taxpayers acquire an interest in a foreign company that has not been controlled from Australia. This is because in valuing the interest it allows them to ignore capital gains and capital losses on the company’s assets that have accrued prior to the time of acquisition. Hence any future tax liabilities or benefits that may accrue from those accrued gains or losses can be ignored.

Amendments to give effect to this measure were introduced into the Parliament on 17 March 2005 in the New International Tax Arrangements (Foreign-owned Branches and Other Measures) Bill 2005.

**Review of International Taxation Arrangements — removing inappropriate consequences that follow from the listing of a country**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	..	..	..	..

The Government will ensure that a tax liability will not be triggered for a taxpayer merely because a country initially classified as being ‘unlisted’ is reclassified as ‘listed’ under the controlled foreign companies (CFC) rules. The measure will have effect from the day after Royal Assent of the enabling legislation.

The CFC rules are integrity rules designed to prevent taxpayers shifting certain assets to foreign companies in low tax countries to avoid Australian tax. Countries classified as ‘listed’ are those with comparable tax systems to Australia.

The Government recently simplified the CFC rules. This measure will ensure those changes do not trigger unintended tax liabilities for taxpayers when currently ‘unlisted’ countries are designated as ‘listed’.

Amendments to give effect to this measure were introduced into the Parliament on 17 March 2005 in the New International Tax Arrangements (Foreign-owned Branches and Other Measures) Bill 2005.

**Superannuation — closure of the Superannuation Holding Accounts Special Account to new employer deposits**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	*	*	*

The Government will close the Superannuation Holding Accounts Special Account (SHASA) to new employer deposits from 1 July 2006. Employers will no longer be able to use SHASA to meet their superannuation guarantee (SG) obligations.

Currently, employers can make deposits to SHASA on behalf of their employees to meet their SG obligations.

This measure will ensure that contributions made by employers to reduce their SG obligations will, from 1 July 2006, have to be made to a complying superannuation fund or retirement savings account.

Further information can be found in the press release of 14 March 2005 issued by the Minister for Revenue and Assistant Treasurer.

**Superannuation — splitting of superannuation contributions**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	4.5	5.3	4.0	3.6

The Government will allow the splitting of superannuation contributions for contributions made on or after 1 July 2006. In its 2004 election policy document, *Super for All and Understanding Money*, the Government recommitted to its policy of allowing eligible couples to split their employer and personal superannuation contributions with their spouse.

The provision of splitting to fund members will be voluntary for superannuation funds. This change to the original splitting model, which proposed mandatory provision, addresses concerns expressed by the industry that some funds will be forced to provide splitting where few or no members have an interest in this being utilised.

This measure was announced on 6 October 2004 as part of the Government's election commitment in *Super for all and Understanding Money*.

**Superannuation – surcharge abolition**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-650.0	-875.0	-990.0

The Government will abolish the surcharge payable on individuals' surchargeable contributions and termination payments, with effect from 1 July 2005.

Currently, the surcharge is payable on individuals' surchargeable contributions where their adjusted taxable incomes exceed \$99,710. The termination payments surcharge is also payable on parts of certain employment-related termination payments that are not rolled over into a superannuation fund.

The Government previously announced an intention to reduce the surcharge to 10 per cent in 2005-06 and 7.5 per cent in 2006-07. The Government has decided to abolish the surcharge rather than continue to phase it down to avoid a situation where compliance and administrative costs would become disproportionate to collections.

As a result of this measure, from 1 July 2005, the surcharge will no longer apply in respect of superannuation benefits that accrue, contributions made or termination payments received from that date.

This measure will simplify the operation of the superannuation system, boost the savings of affected individuals, and provide incentives for individuals to make additional voluntary savings through the superannuation system.

**Superannuation — tax treatment of superannuation annuities on marriage breakdown**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-	-1.0	-2.0

The Government will amend the income tax law so that superannuation annuities that have been split upon marriage breakdown under family law arrangements will be taxed consistently with other superannuation benefits split on marriage breakdown. The measure will have effect from the date of Royal Assent of the enabling legislation.

Currently, the income tax law does not specify the taxation arrangements that will apply to superannuation annuities split on marriage breakdown.

The measure will ensure that superannuation annuities that have been split under family law will receive the same taxation treatment as a superannuation pension split upon marriage breakdown.

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Further information can be found in the press release of 17 March 2005 issued by the Minister for Revenue and Assistant Treasurer.

**Superannuation — transitional period to comply with the choice of fund insurance requirement**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-0.2	-1.1	-2.0	-2.2

The Government will allow employers to continue to contribute to their current superannuation fund for a transitional period of three years, where the fund does not meet the choice of fund insurance requirements and an employee has not chosen a fund.

The choice of fund measure allows most employees to choose the complying superannuation fund or retirement savings account into which their employer makes superannuation guarantee (SG) contributions. Where an employee does not choose a fund, an employer must make SG contributions into a complying superannuation fund that meets the minimum insurance requirements.

The measure will allow employers to continue to contribute to an existing fund until 30 June 2008, and provide these superannuation funds with an opportunity to meet the insurance requirements within this transitional period.

Further information can be found in the press release of 14 March 2005 issued by the Minister for Revenue and Assistant Treasurer.

**Superannuation — use of Superannuation Holding Accounts Special Account as an eligible choice fund**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office (a)	-1.0	-	-	-

(a) Non-tax revenue.

The Government will allow employers to use the Superannuation Holding Accounts Special Account (SHASA) to meet their choice of superannuation fund obligations from 1 July 2005, when the choice of fund policy commences, until 30 June 2006.

Currently, the choice of fund legislation does not allow employers to use SHASA to meet their choice of fund obligations for employees who do not exercise a choice.

This measure will provide employers with the opportunity to use SHASA until 30 June 2006 while they put in place alternative arrangements to contribute to a superannuation fund or retirement savings account where an employee does not choose a fund to which superannuation guarantee contributions will be made on their behalf.

Further information can be found in the press release of 14 March 2005 issued by the Minister for Revenue and Assistant Treasurer.

**Superannuation guarantee — payments of wages received after employment ceases**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-3.0	-3.0	-3.0

The Government will apply the superannuation guarantee (SG) arrangements to payments of salary or wages made after the quarter in which the relevant employment relationship ceased. The arrangements will apply to back payments of salary or wages made on or after the commencement of the first full quarter following Royal Assent of the enabling legislation.

Currently, for the SG arrangements to apply, salary or wages must be paid by an employer to an employee. Where payments of salary or wages are made after the quarter in which the employment relationship ceased, no SG obligation arises.

The measure will ensure that employees receive superannuation entitlements on amounts that should be subject to the SG arrangements.

**Superannuation guarantee — reducing incidence of double payment**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office (a)	-0.4	-0.9	-0.9	-0.8

(a) Includes non-tax revenue of -\$1m in 2005-06, -\$2m in 2006-07, -\$2m in 2007-08, and -\$2m in 2008-09.

The Government will allow certain superannuation contributions made for an employee by an employer to be used to offset any part of a superannuation guarantee (SG) charge liability that relates to that employee. These contributions must have been made within a period of 30 days after the due date for making contributions.

The measure will apply to late payments of contributions made on or after 1 January 2006.

Currently, these contributions cannot be used to reduce an SG charge liability for the previous quarter. Consequently, the employer may effectively pay contributions twice for an individual in respect of the same period.

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This measure will reduce the incidence of disproportionately harsh penalties being incurred by some employers who attempt to do the right thing by their employees and incorrectly pay contributions to a superannuation provider rather than paying the SG charge to the Australian Taxation Office.

#### **Tax exemption of Commonwealth Trade Learning Scholarships**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-	-	-

The Government will allow an exemption from income tax for the Commonwealth Trade Learning Scholarships, with effect from 1 July 2005.

The Commonwealth Trade Learning Scholarships help alleviate the current skill shortages in trade occupations and encourage more young people to take up trade qualifications by easing the financial burden during the early years of an apprenticeship.

The scholarship payments of \$500 will be made to eligible new apprentices on successful completion of the first and second years of a new apprenticeship in a skill shortage trade.

This measure was announced on 26 September 2004 as part of the Government's election commitment in *Commonwealth Trade Learning Scholarships*.

See also the related expense measure titled *Commonwealth Trade Learning Scholarships* in the Education, Science and Training portfolio.

#### **Taxation treatment of business 'blackhole' expenditure**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-35.0	-70.0	-100.0

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.

The measure follows a *Review of Business Taxation* recommendation to provide a systematic solution to blackhole expenditures.

**Thin capitalisation — transitional period for International Financial Reporting Standards**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-	-	-	-

The Government will allow taxpayers to use the *Australian Generally Accepted Accounting Principles* as they existed at 31 December 2004 for thin capitalisation purposes for three years, with effect from 1 January 2005.

Australia adopted *International Financial Reporting Standards* (IFRS) on 1 January 2005. Their adoption may have unintended consequences for taxpayers subject to the thin capitalisation regime.

The three year deferral period will provide an opportunity for the Government to examine whether the existing thin capitalisation rules are appropriate following the adoption of IFRS.

The thin capitalisation regime seeks to ensure that multinationals do not allocate an excessive amount of debt to their Australian operations, thereby claiming excessive income tax deductions.

Further information can be found in the press release of 24 January 2005 issued by the Treasurer.

**Wine equalisation tax — extending the producer rebate to New Zealand wine producers**

Revenue (\$m)	2005-06	2006-07	2007-08	2008-09
Australian Taxation Office	-7.0	-8.0	-8.0	-9.0

The Government will extend the Australian wine equalisation tax producer rebate scheme to eligible New Zealand wine producers who export wine to the Australian market, with effect from 1 July 2005.

This extension demonstrates the close economic relationship shared by Australia and New Zealand.