



## Fact Sheet – Federal Budget May 2007

### What's the verdict?

Governments, businesses, families and individuals alike can use four basic principles to determine the allocation of limited resources to constantly changing alternatives. The four basic principles are:

1. Spend less than you earn
2. Avoid the use of debt
3. Build liquidity
4. Set long term goals

We all have differing opinions on the allocation of funds, however when testing the Federal Budget against the above criteria the Government has rated well. They have a budget surplus (spend less than they earn), they have planned for additional expenditure in areas such as education from the earnings on the budget surplus (avoid the use of debt). They have built liquidity through 10 surplus budgets over the past 12 years and they have set long term goals (Future Fund and Higher Education Endowment Fund). Overall it has been difficult to pick any major flaws in this year's Federal Budget.

### What was announced in the Federal Budget?

From a financial planning perspective last year's Federal Budget was of greater significance than this year's budget, however there are number of notable items in this year's budget:

1. **Tax Breaks**—through increased Marginal Tax Rate thresholds
  - a. 1 July 2007 30% threshold increased from \$25,000 to \$30,000
  - b. 1 July 2008 40% threshold increased from \$75,000 to \$80,000
  - c. 1 July 2008 45% threshold increased from \$150,000 to \$180,000
2. **Low income tax offset** increased from \$600 to \$750 and begins to phase out at \$30,000
3. **Senior Australian Tax Offset** increased to encourage older Australians and married women with no dependent children to work more.
4. **Bonus for pensioners** of \$500
5. **Government Co-contribution** boost – those who are fully eligible and contributed \$1,000 to superannuation during 2005/06 will receive \$3,000 or a 300% return rather than \$1,500 or 150% return.
6. **Childcare rebate** – From 1 July 2007, rates of Child Care Benefit will increase by 10 per cent on top of indexation. The Child Care Tax Rebate will be available as a direct payment shortly after the end of the year.

### How does it impact me/ what should I do?

Depending on your circumstances you should consider the following:

1. Am I **salary sacrificing** the appropriate amount of my salary? Review your salary sacrifice arrangements to take up to \$30,000 in income rather than salary sacrifice it into superannuation. This is particularly relevant for transition to retirement strategies where salary is sacrificed and contributed to superannuation while receiving a pension.
2. How can I best utilise the **additional income** generated from tax breaks? It very easy to swallow up these tax breaks in consumables. Focus on using it for **debt reduction or savings rather than spending**.
3. Have I achieved my long term goals? Senior Australians may wish to consider returning to the work force or staying in the workforce a little longer to boost retirement savings.
4. **Government co-contribution** – determine if you are eligible (see [Fact Sheet— Government Co-contribution](#)) and make the most of it this year. You can't do anything about the 2005/2006 double bonus but you can do something about this year's co-contribution.
5. **Childcare rebate** – this will benefit single parent families in particular however others should consider the benefits of the child care rebate in light of the additional costs (both financial and emotional) of having both parents working. Childcare is the fastest rising item in the family budget over the seven years to March 2007 according to the consumer price index up 67.5% or 9.6% p.a. versus 3.5% CPI.



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Financial Advice Based on Solid Foundations

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