

## SOME HIGHLIGHTS FROM THE 2009 FEDERAL BUDGET ANNOUNCEMENT

In the face of a global recession, the Federal Government's 2009 Budget has focused on increased infrastructure spending to help support jobs and boost the economy. The Budget delivers on the individual tax cuts promised last year and includes a number of proposed changes to the Age Pension and superannuation. We take a quick look at some of these Budget announcements below.

### Budget 2009 snapshot

- + Concessional super contribution caps reduced
- + Temporary reduction in government co-contribution
- + Promised tax cuts delivered
- + Reductions to the Private Health Care Rebate
- + Age Pension age will increase to 67 by 2023
- + Increases to social security payments
- + Pension taper rate increased to 50 cents for singles
- + First Home Owners Grant extended for six months
- + Paid parental leave introduced from 2011

### What are the changes to the superannuation contribution caps?

#### Reduction of concessional contribution cap

From 1 July 2009, the government will reduce the concessional (pre-tax) contributions cap for those aged under 50 in the financial year to \$25,000 pa (indexed). This is down from \$50,000 pa for this financial year. As this change does not apply until next financial year, investors have until 30 June 2009 to make the full contribution for this financial year.

The transitional contributions cap (available to individuals aged 50 and over until 2012) will be reduced from \$100,000 pa to \$50,000 pa (not indexed).

Those investors who currently have a salary sacrifice or transition to retirement strategy in place, or who are self-employed and make personal deductible super contributions, should speak to their financial adviser to discuss whether they need to review their arrangements or consider boosting concessional contributions this financial year.

The reduction to these caps means that, in future financial years, investors will need to be more careful to avoid exceeding their concessional contribution cap and incurring hefty excess contributions tax.

Some investors may also need to revisit their strategy and consider making smaller contributions over a longer time frame to ensure their retirement goals can be met.

Your financial adviser can provide detailed information on your personal situation.

### Future changes to the non-concessional cap

The cap on non-concessional (after-tax) contributions will remain at \$150,000 pa for the 2009–10 financial year. In future, this cap will be calculated as six times the level of the indexed concessional contributions cap. There has been no change to the 'bring-forward rule', so investors are still able to make non-concessional contributions of \$450,000 over three financial years.

### What about the government co-contribution?

While eligibility for the government co-contribution remains unchanged (income of up to \$60,342 pa), from 1 July 2009 there will be a temporary reduction in the maximum co-contribution – down from \$1.50 to \$1.00.

This means that if a person earning \$30,342 pa or less makes a \$1,000 after-tax contribution to super, the government will co-contribute \$1,000, rather than the current \$1,500.

After three years, the government plans to lift this contribution to \$1.25 in 2012–13 and 2013–14, returning to the full \$1.50 co-contribution in 2014–15.

Despite these changes, the government co-contribution remains an attractive scheme. For example, a person earning \$40,000 who contributes \$1,000 to super (\$685 after tax at a marginal tax rate of 31.5%), would be eligible for a co-contribution of \$678, making a total net super contribution of \$1,363. However, if they salary sacrificed the same amount to super, their net super contribution would be just \$850 (after contributions tax is applied).

### Will there be any changes to transition to retirement strategies?

Despite many rumours, no changes to pre-retirement pensions were announced. However, the reduction in the amount that can be salary sacrificed to super (due to a drop in the concessional contributions cap) could affect this strategy.

Your financial adviser can provide more detailed information on your personal situation.

## Are there any changes to payments from account-based pensions?

The government will extend the pension drawdown relief it announced for this financial year into 2009–10, continuing the halved minimum pension draw-downs for account-based pensions. This measure is designed to help pension account balances recover from capital losses resulting from the global financial crisis.

The table below shows the minimum annual payment (a percentage of your account balance) you are required to draw this financial year and next.

Age	Minimum annual payment	Minimum annual payment for 2008–09 and 2009–10 <sup>1</sup>
Under 65	4%	2%
65–74	5%	2.5%
75–79	6%	3%
80–84	7%	3.5%
85–89	9%	4.5%
90–94	11%	5.5%
95 and over	14%	7%

It's important to remember that if a person has already drawn down more than the reduced minimum, their minimum will be calculated as the amount they have actually received. No refunds will be allowed.

## Will the qualifying age for the Age Pension increase?

From 1 July 2017, the government will begin a gradual increase in the qualifying age for the Age Pension, by six months every two years. By 1 July 2023, the qualifying age for the Age Pension and the Commonwealth Seniors Health Card will be 67. See the table below for more information.

From	New Age Pension age	Affects people born	Current age
1 July 2017	65 years 6 months	1 Jul 1952 – 31 Dec 1953	55.5 – 57
1 July 2019	66	1 Jan 1954 – 30 Jun 1955	54 – 55.5
1 July 2021	66 years 6 months	1 Jul 1955 – 31 Dec 1956	52.5 – 54
1 July 2023	67	1 Jan 1957 – onwards	52.5 or younger

## Will there be tax cuts next financial year?

The government will uphold the tax cuts promised in last year's Budget. The major changes are that from 1 July 2009, the income threshold for the 30% tax rate will be increased from \$34,001 pa to \$35,001 pa, and the 40% tax rate for those earning \$80,001 pas to \$180,000 pa will drop to 38%.

When these tax cuts are delivered from 1 July 2009, a person on an average income of \$60,000 pa will receive an extra \$5.77 per week. Those on lower incomes of \$15,000 pa to \$30,000 pa will receive an extra \$2.89 per week. At the other end of the spectrum, high income earners on more than \$180,000 pa will receive an extra \$41.35 per week.

Tax rate	Threshold
<b>Current 2008–09 FY</b>	
0%	\$0 – \$6,000
15%	\$6,001 – \$34,000
30%	\$34,001 – \$80,000
40%	\$80,001 – \$180,000
45%	\$180,001+

<b>2009–10 FY (from 1 July 2009)</b>	
0%	\$0 – \$6,000
15%	\$6,001 – \$35,000
30%	\$35,001 – \$80,000
38%	\$80,001 – \$180,000
45%	\$180,001+

<b>2010–11 FY (from 1 July 2010)</b>	
0%	\$0 – \$6,000
15%	\$6,001 – \$37,000
30%	\$37,001 – \$80,000
37%	\$80,001 – \$180,000
45%	\$180,001+

## Has the Medicare Levy changed?

From 1 July 2009, the 1 % Medicare Levy surcharge threshold for low income earners will increase to \$17,794 pa for singles (up from \$17,309 pa) and for members of a family the rate will increase to \$30,025 pa (up from \$29,207 pa). Each dependent child or student's rate will increase from \$2,682 pa to \$2,757 pa.

The rate for pensioners below Age Pension age will increase to \$25,299 pa (up from \$22,922 pa) to ensure people in this group will not have a Medicare liability where they don't have an income tax liability.

## Will the proposed changes affect social security entitlements?

### Increase in government support pension

The single base pension will be increased from 25% of Male Total Average Weekly Earnings (MTAWE) to 27.7%. This means that from 20 September 2009, the base pension and pension supplement will increase by:

- W \$32.49 per week for single pensioners on the full rate of pension
- W \$10.14 per week (combined) for couple pensioners on the full rate of pension.

### New pension supplement introduced

A new pension supplement will be introduced from 20 September 2009. This will be an amalgamation of the former GST pension supplement, Pharmaceutical Allowance, Utilities Allowance and Telephone Allowance. This new supplement will be available to all income support payment recipients, except those receiving Newstart Allowance, Special Benefit and Sickness Benefit.

In addition, from 20 September 2009 a new seniors supplement will be established for holders of the Commonwealth Seniors Health Care Card and veterans eligible for the Gold Card. This new supplement is the amalgamation of the former Seniors Concession Allowance and the Telephone Allowance.

### Increase in pension taper rate

From 20 September 2009, the income test taper will increase from 40 to 50 cents in the dollar for a single pensioner, and for members of a couple from 20 to 25 cents in the dollar. This means that for each extra dollar of income earned above the threshold allowed by the pension income test (currently \$138 per fortnight for single pensioners and \$240 per fortnight for pensioner couples (combined)), pension payments will be reduced by 50 cents.

These changes are designed to recoup the costs of increasing the pension and to ensure that those who need it most receive the pension.

### Pension Bonus Scheme

From 20 September 2009, the Pension Bonus Scheme will be closed to new entrants. Instead, the government will introduce an income test concession. However, if you are already registered for the Pension Bonus Scheme prior to this date, you will continue to accrue entitlements.

Your financial adviser can provide information on eligibility requirements and whether the Pension Bonus Scheme or the concession is more beneficial depending on your personal situation. People who want to register for the Pension Bonus Scheme, and are eligible, will need to register before 20 September 2009. Commonwealth Seniors Health Card

From 1 July 2009, income that is salary sacrificed to super will be included in the income test for the Commonwealth Seniors Health Card. However, tax-free superannuation pension income will not be included.

This means that the eligibility of self-funded retirees for the Commonwealth Seniors Health Card will continue to be unaffected by tax-free pension income or lump sum super withdrawals.

## What does the Budget mean for families?

### Introduction of government-funded paid parental leave

The government plans to introduce a government-funded paid parental leave scheme from 1 January 2011. This payment will be equal to the federal minimum wage (currently \$543.78 per week), and can be received for up to 18 weeks.

To be eligible for this payment, the primary carer must have earned less than \$150,000pa<sup>3</sup> for the financial year prior to the child's birth or adoption, and have satisfied a work test. The payment will be taxable, and can be transferred to another caregiver if the primary carer returns to work.

A person receiving paid parental leave will not receive the Baby Bonus and will also be ineligible to receive other family assistance payments such as Family Tax Benefit Part B, dependent spouse, child-housekeeper and housekeeper tax offsets, while parental leave payments are being paid.

### Changes to family payments

From 1 July 2009, the Family Tax Benefit Part A payment rates will be indexed by the consumer price index (CPI), consistent with other family payments such as Family Tax Benefit Part B and the Baby Bonus.

The upper income threshold for Family Tax Benefit Part A and Part B, dependency tax offsets and the Baby Bonus will remain at its current level until July 2012 (these thresholds would ordinarily be indexed by CPI).

The cut-off thresholds for these family payments are set out in the table below.

Benefit	Income purpose	Cut-off threshold
Family Tax Benefit Part A	Combined family income before losing entitlement	\$94,316 (plus \$3,796 for each additional child)
Family Tax Benefit Part B	Income of primary income earner	\$150,000
Dependency tax offset	Income of taxpayer claiming the offset	\$150,000
Baby Bonus	Combined family income in the six months following the birth of the child	\$75,000

<sup>3</sup> The income test for this payment is yet to be defined.

## Are there any changes for carers?

All recipients of the Carer Payment will receive a \$600 pa non-taxable carer supplement. The first payment will be made by 30 June 2009, with subsequent payments from 1 July 2010. Carer Allowance recipients will receive \$600 pa for each person they are caring for. If a person receives both the Carer Payment and the Carer Allowance, they will be entitled to both payments.

## How is the Private Health Insurance Rebate affected?

The government is proposing to means test the 30% private health insurance rebate for middle to high income earners based on age. To achieve this, it plans to introduce a three-tier system, with parallel increases in the Medicare Levy Surcharge rate to penalise taxpayers without eligible private health insurance.

**Tier 1-** Singles with income of more than \$75,000 pa (more than \$150,000 pa for families). For these people, the rebate will be reduced to 20%, increasing to 25% at 65 and to 30% at 70. The Medicare Levy Surcharge for not having eligible private health insurance remains at 1%.

**Tier 2-** Singles with income of more than \$90,000 pa (more than \$180,000 pa for families). For these people, the rebate will be reduced to 10%, increasing to 15% at 65, and to 20% at 70. The Medicare Levy Surcharge for not having eligible private health insurance will be increased to 1.25%.

**Tier 3-** No private health rebate will be available for singles with income above \$120,000 pa (more than \$240,000 pa for families). The Medicare Levy Surcharge for not having eligible private health insurance will be increased to 1.5%.

For singles with income of less than \$75,000 pa and families with income of less than \$150,000 pa, the current 30% rebate will remain unchanged.

## Will first home buyers receive assistance?

The government will extend the First Home Buyers grant for another six months, as shown in the table below.

Contract date for purchase (Inclusive)	First Home Buyer grant for established homes	First Home Buyer grant for new homes
1 Jul 2009 – 30 Sep 2009	\$14,000	\$21,000
1 Oct 2009 – 31 Dec 2009	\$10,500	\$14,000
After 1 Jan 2010	\$7,000	\$7,000

## How are small businesses affected?

### Additional tax breaks

The government will expand the small business and general business tax break it announced in February 2009. Small businesses with turnover of less than \$2 million a year will now be able to claim a bonus tax deduction of 50% where they acquire eligible assets costing more than \$1,000. The asset must be purchased between 13 December 2008 and 31 December 2009 and installed ready for use by 31 December 2010. The previously announced 30% and 10% bonuses will continue to apply for all other businesses.

### Pay As You Go (PAYG) tax relief

In the 2009–10 financial year, the government will reduce PAYG installments for taxpayers who pay quarterly installments based on their previous year's tax, adjusted by GDP growth. From 1 July 2009, the adjustment factor for calculating quarterly installments will be reduced from 9% to 2% to align it with the expected increase in CPI.

This reduction is designed to provide cash flow relief for eligible small businesses, individuals, trusts and small super funds by more closely aligning PAYG installments with likely income tax liability for the year.

We would like to thank Colonial First State for contributing to part of this presentation



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