

Australian Federal Budget Summary 2009

The second budget from the current Labor Government was released on Tuesday, 12 May 2009. This edition of IFFP Pocketwatch outlines the main changes in the areas of superannuation, taxation, pension & health.



Superannuation

1. Concessional Contribution cap

Effective 1 July 2009 the concessional contribution cap (money invested into super that attracts the concessional 15% tax rate) will be reduced. This includes contributions made via employer, salary sacrifice and personal deductible contributions.

The transitional cap for those over age 50 will also be reduced:

Financial year	Concessional Contribution cap under age 50		Transitional Concessional Contributions cap (over age 50)	
	Previous limits \$	Post Budget \$	Previous limits \$	Post Budget \$
2009-10	55,000	25,000	100,000	50,000
2010-11	55,000	25,000	100,000	50,000
2011-12	60,000	25,000	100,000	50,000
2012-13	60,000	25,000	60,000	25,000
2013-14	60,000	25,000	60,000	25,000
2014-15	65,000	30,000	65,000	30,000

2009-2010 concessional contributions cap shown above has been indexed to AWOTE at 4% pa and rounded down to the nearest \$5,000.



What this means:

- Investing higher amounts into superannuation will be less tax-effective after the end of this financial year.
- If you were planning to take advantage of the current high limits, you need to do so before 30 June 2009. Contact your industry super fund for more information on payment options.
- If your current payments into super will exceed the new limits shown above for 2009/2010 you should urgently review these arrangements. The tax that applies to excess contributions is 31.5% plus 15% contributions tax. Excess Concessional Contributions will also count towards the non-concessional contributions cap.
- People planning to maximise contributions as they neared retirement should urgently review their current contributions and retirement strategies, as additional 'last minute' contributions will be significantly less tax effective after 30 June 2009.
- The maximum amount that can be split to a spouse has also been reduced in line with the Concessional Contribution limits. Any members currently accessing this strategy should review their financial situation for 2009/2010.

What hasn't changed:

There were no changes announced to the non-concessional contribution limits or bring-forward rule.

2. Transition to Retirement (TTR) Pensions

Despite much speculation that these would be closed to new entrants, no changes were announced. However, the changes to the concessional contribution caps discussed previously may have a significant detrimental impact on this strategy for many people.

What this means:

Any members who are currently contributing in excess of \$50,000 should urgently review their current payments and retirement strategies. Possible solutions include:

- Reducing salary sacrifice or personal deductible contributions
- Reducing the income drawn from a TTR pension
- Possibly rolling some funds from TTR Pension back into a superannuation accumulation fund

Special warning: Many members salary sacrifice any annual bonuses as a matter of course, without knowing the amount of bonus. This could easily cause an inadvertent breach of the new lower concessional contributions cap, and result in tax being levied on these payments at the highest marginal rate. These arrangements should be reviewed.

3. Government Co-contribution

The 'co-contribution' amount that the government pays under this program will be reduced as a temporary measure. The new limits are listed below.

Financial year	Matching rate	Maximum co-contribution available
2008-09	150%	\$1,500
2009-10	100%	\$1,000
2010-11	100%	\$1,000
2011-12	100%	\$1,000
2012-13	125%	\$1,250
2013-14	125%	\$1,250
2014-15	150%	\$1,500

Note: Co-contribution thresholds will continue to be indexed to AWOTE.



What this means:

- Eligible members should maximise the co-contribution available this financial year - Remember, contributions must be made by 30 June 2009.
- In 2009-2010 singles with incomes below \$50,000 should investigate other contribution strategies, as it may be financially beneficial for them to make additional contributions after tax. This is because the benefit received from the Government co-contribution is higher than the salary sacrifice tax savings available.

Tip: Despite the temporary reduction in the Government co-contributions amount this still remains an excellent way for lower income earners to 'boost' their superannuation savings – the return on additional contributions paid is 100%.

4. Temporary reduction in minimum pension drawdown limits extended

As widely anticipated, the current temporary arrangement allowing a 50% reduction in minimum annual payments for retirement income streams will be extended to the end of the 2009/10 financial year (30 June 2010).

This extension to the minimum pension drawdown requirements acknowledges that while over recent months there have been some signs of stabilisation in investment markets, these have not as yet significantly impacted asset values/balances.

The announcement will apply to both existing and new pension/income stream members.

What does this mean?

- A member aged 65 with \$100,000 in a pension account at 1 July 2009 would normally have been required to draw \$5,000 as a minimum annual payment. This will now be reduced by 50% to \$2,500.
- Reducing the amount being drawn may result in a small increase in Centrelink benefits. If this strategy is implemented, you should advise Centrelink within 14 days of the electing to receive reduced income.

Taxation

1. Previously announced changes to personal income tax rates will apply

The previously announced changes to personal income tax rates (from 1 July 2009 and 1 July 2010) will proceed.

New rates and tax payable will be:

2008-09		2009-10		2010-11	
Taxable income \$	Rate	Taxable income	Rate	Taxable income	Rate
0-6,000	0%	0-6,000	0%	0-6,000	0%
6,001-34,000	15%	6,001-35,000	15%	6,001-37,000	15%
34,001-80,000	30%	35,001-80,000	30%	37,001-80,000	30%
80,001-180,000	40%	80,001-180,000	38%	80,001-180,000	37%
180,001+	45%	180,001+	45%	180,001+	45%

Taxable income \$	Current tax (2008-09)	Legislated tax (2009-10)	Legislated tax (2010-11)
30,000	3,600	3,600	3,600
35,000	4,500	4,350	4,350
75,000	16,500	16,350	16,050
80,000	18,000	17,850	17,550
150,000	46,000	44,450	43,450

Note: Medicare levy and tax offsets are not included

2. Low Income Tax Offset (LITO)

- 1 July 2009 the upper threshold will increase to \$63,750.
- 1 July 2010 the upper threshold will increase to \$67,500.
- LITO will continue to phase out at \$0.04/\$1.00 of income above \$30,000.
- 2009-2010 - maximum LITO is \$1,350. The represents as increase of \$150 from 202008/09.

Health

1. Private Health Insurance Rebate

- Currently, the 30% rebate is not means tested.
- From 1 July 2010, the Government proposes to introduce a three tiered approach to determine the amount of private health insurance rebate payable to individuals.
- Income above the upper threshold will result in a complete loss of the private health insurance rebate.
- Age will also be a factor in determining the amount of rebate received.



	Current surcharge thresholds (projected to 2010-11)	Tier 1	Tier 2	Tier 3
Income (Singles)	\$0 - \$75,000	\$75,001 - \$90,000	\$90,001 - \$120,000	\$120,000+
Income (Family)	\$0 - \$150,000	\$150,001 - \$180,000	\$180,001 - \$240,000	\$240,001+
Medicare levy surcharge	Nil	1.00%	1.25%	1.50%
Private health insurance rebate under 65	30%	20%	10%	Nil
Private health insurance rebate under 65 - 69	35%	25%	15%	Nil
Private health insurance rebate under 70 and over	40%	30%	20%	Nil

What this means:

- Current rebates will continue to apply for singles earning under \$75,000 and families under \$150,000.
- Higher income earners will pay more for cover due to the loss of rebate, but also a higher Medicare levy surcharge if they choose not to have cover.
- The current practice of claiming the rebate via lower premiums may become unworkable once the Tiers are in place. This may lead to the rebate being claimed via a tax return.



2. Medicare Levy Low Income Thresholds

The new Medicare Levy thresholds applicable for the 202008/09 years are \$17,794 for singles (previously \$17,309) and \$30,025 for families (previously \$29,207). Each dependent child or student increases the threshold by \$2,757.

Pensioner low income threshold has been increased to \$25,299 for the 2008/09 year. Thus pensioners will not pay the levy when they have no income tax liability.

Centrelink/Social Security

1. Age Pension increases

The following changes will take effect from 20 September 2009 and apply to the Age Pension, Service Pension, Disability Support Pension, Carer Payment, Bereavement Allowance, Widow B Pension, Wife Pension, Income Support Supplement and War Widows.

Single Age Pension will increase by \$30 per week.

- Combination of four current allowances (GST, Utilities, Telephone/Internet and Pharmaceuticals) into one fortnightly 'pension supplement'.
- Pensioner supplement increases by \$2.49 per week for singles and \$10.14 per week for couples combined.



Single Age Pension			
Maximum Age Pension	20/3/09	Post 20/9/09	Increase
Per fortnight	\$575.80	\$640.78	\$64.98
Per Annum	\$14,970.80	\$16,660.28	\$1,689.48
Couple Age Pension (combined)			
Maximum Age Pension	20/3/09	Post 20/9/09	Increase
Per fortnight	\$957.80	\$978.08	\$20.28
Per Annum	\$24,902.80	\$25,430.08	\$527.28

2. Changes to the Age Pension Taper Rate

- From 20 September 2009 payment rates will be reduced by \$0.50 for each \$1.00 of extra income above the income test 'free area'.
- Transitional arrangements will apply for existing part pensioners affected by this change. Individuals who are worse off will continue to be assessed at the \$0.40 taper rate on the reduced base rate of pension (pre-20 September 2009 rate) until they are better off under the new rules.

	Income per fortnight before taper commences	Pension currently cuts out at	Post 20/9/09 cut-out
Singles	\$138	\$47,444	\$38,693
Couples	\$240	\$72,423	\$59,228





3. Continue to work incentives

- The Pension Bonus Scheme will close to new registrations as from 20 September 2009, however, existing registrations will continue.
- Also from 20 September 2009, a new Pensioner Work Bonus will allow pensioners to receive a maximum of \$125 per fortnight in additional pension payments. This will be achieved by disregarding 50% of the first \$500 of employment income under the income test.

4. Increased access to Centrelink services/benefits for self-funded retirees

Seniors Health Card

- The previously announced changes to the Commonwealth Seniors Health Card to include tax free pension income in the income test for this benefit will not proceed. Current arrangements will remain.

Seniors Supplement

- From 20 September 2009, around 300,000 self-funded retirees will have access to the Seniors Supplement.

This supplement is currently \$790.40 per annum for singles and \$1,190.80 for couples combined, with payments made quarterly. Retirees eligible for the Commonwealth Seniors Health Card or the DVA Gold Card will receive the Seniors Supplement.

For more information about these services/benefits call Centrelink or visit their website: www.centrelink.gov.au

5. Increase in the Age Pension age

- The qualifying age for Age Pension and Commonwealth Seniors Health Card will increase to age 67 from 2023

Start date	Qualifying age	Affects people born	Reach new Age Pension age
Until 1/7/2017	65 years	Pre - 1/7/1952	
1/7/2017	65 years 6 months	1/7/1952 – 31/12/1953	1/1/2018 – 30/6/2019
1/7/2019	66 years	1/1/1954 – 30/6/1955	1/1/2020 – 30/6/2021
1/7/2021	66 years 6 months	1/7/1955 – 31/12/1956	1/1/2022 – 30/6/2023
1/7/2023	67 years	Post - 1/1/1957	From 1/1/2024

5. Pensioner and beneficiary living cost index

- The single rate of pension will now be benchmarked against 27.7% of the Male Total average Weekly Earnings.
- A new living cost index will be developed.

6. Paid Parental Leave

- Payments will be introduced from 1 January 2011, to the primary carer at the adult federal minimum wage (currently \$543.78) for up to 18 weeks.
- Payments will be considered taxable income and will affect entitlement to family assistance payments but will not be counted as income for income support payments.
- Primary carers will be eligible if they:
 - Earned less than \$150,000 in the full financial year prior to birth or adoption and worked at least 330 hours over 10 months (equal to one full day per week) preceding birth or adoption.
 - Worked at least 10 of 13 months before the expected date of birth or adoption.
- This payment will be available to contractors, casual workers and the self-employed.
- If parents receive the paid parental leave they will not be eligible for the baby bonus except for multiple births, where no baby bonus will be paid for the first child. Parents will also not be eligible for:
 - Family Tax Benefit Part B
 - Dependant Spouse
 - Child-Housekeeper
 - Housekeeper tax offset

7. Carer Payments

- A new Annual Carer Supplement of \$600 will be payable in addition to the increase in Pension rates. This will be payable to people who receive:
 - Carer Payment or both Wife Pension and Carer Payments
 - Both DVA Partner Service Pension and Carer Allowance
 - DVA Carer Service Pension
- Carers who receive both Carer Payment and Carer Allowance will receive \$1,200 pa.
- The first Carer Supplement payment will be made before July 2009 with the regular payment made from July 2010 onwards.

Not quite the end of the story!

In this issue of IFFP's **Pocketwatch** we have tried to only summarise those changes that potentially may have the greatest effects on Australian households.

However, as you can see there were a large number of changes (both major and minor) proposed by the Treasurer.

Are we there yet?

It is important to note that most of the Treasurer's announcements are only proposed and can not be implemented until they are ratified by the Senate, where the government does not have a majority.

While it is anticipated that most of the budget measures will be passed by the Senate, it is important to keep up-to-date when this happens and any amendments to the proposed legislation that may occur.

Will there be more?

In his budget speech the Treasurer foreshadowed that the government intends to review the entire Australian taxation system and some aspects of the current superannuation system.

They also announced their intention to review current levels of pensions and benefits for older Australians.

However, these reviews will not impact the announcements made in this year's budget.

Keep in touch!

IFFP will keep you up-to-date with changes as they are occur.

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