

# 2009 Federal Budget Update

The 2009 Federal Budget has been unveiled, including a number of changes to taxation, superannuation and government pension benefits.

In the face of global economic uncertainty, the Government's 2009 budget has pinned its hopes of economic recovery on increased infrastructure spending to help support jobs, as well as an increase to the age pension and tax cuts for individuals.

The 2009 budget changes unveiled are proposals only, unless otherwise stated below, they need to successfully pass through parliament before becoming law and they may be subject to further changes during this process.

The budget changes include reducing superannuation salary sacrifice concessions, progressively increasing the age pension age to 67, reducing the private health insurance rebate, extending the First Home Owners Boost and introducing paid parental leave.

## Taxation

### Personal Income tax cuts

In accordance with the tax cuts announced in last year's budget, the new personal income tax thresholds for the 2009/10 year will be as follows **(These have already been legislated)**:

Income thresholds 08/09 \$	Tax rate	Income thresholds 09/10 \$	Tax rate	Income thresholds 10/11 \$	Tax rate
0 – 6,000	0%	0 – 6,000	0%	0 – 6,000	0%
6,001 – 34,000	15%	6,001 – <b>35,000</b>	15%	6,001 – <b>37,000</b>	15%
34,001 – 80,000	30%	<b>35,001 – 80,000</b>	30%	<b>37,001 – 80,000</b>	30%
80,001 – 180,000	40%	80,001 – 180,000	<b>38%</b>	80,001 – 180,000	<b>37%</b>
180,001+	45%	180,001 +	45%	180,001	45%

### CA Comments

- Clients who have implemented a transition to retirement strategy may wish to amend the amount they are salary sacrificing to take into account the new \$35,000 threshold and the 38% tax rate. Clients may need to take into account the proposed changes to the concessional contributions cap.
- The Low income tax threshold has also increased. Adult tax payers can now earn \$15,000 p.a. and pay no tax. Children can also receive \$3,000 p.a. in income and pay no tax. (Australian tax residents only)

### Increased Medicare Levy low income threshold

From 1 July 2008 the Government will increase the Medicare levy low income threshold to \$17,794 for individuals and \$30,025 for individuals in families. The additional amount of threshold for each dependent child or student will also increase to \$2,757.

### Medicare levy surcharge thresholds

The Medicare levy surcharge thresholds will remain at \$70,000 for singles and \$140,000 for families for the 2009/10 financial year.

### Private health insurance rebate (PHIR)

The proposal is to introduce three new 'Private Health Insurance Tiers', based upon age and an income test, to better balance the mix of incentives for people to take out private health insurance from 1 July 2010.

The existing 30% through to 40% PHIR arrangements will remain in place for singles with income of less than \$75,000 pa and families with income of less than \$150,000 pa.

- **Tier 1** applies to singles with income of more than \$75,000 (more than \$150,000 for families). The PHIR will be 20 per cent if under 65, increasing to 25 per cent from age 65 and 30 per cent from age 70. The surcharge for not taking out private health insurance will remain at 1 per cent.
- **Tier 2** applies to singles with income of more than \$90,000 (more than \$180,000 for families). The PHIR will be 10 per cent if under 65, increasing to 15 per cent from age 65 and 20 per cent from age 70. The surcharge for not taking out private health insurance will increase to 1.25 per cent.
- **Tier 3** applies to singles with income of more than \$120,000 (more than \$240,000 for families). There will be no PHIR. The surcharge for not taking out private health insurance will be increased to 1.5 per cent.

Table of proposed changes:

	Current surcharge Thresholds (projected 2010/11)	Tier 1	Tier 2	Tier 3
<b>Singles</b>	<b>\$0 - \$75,000</b>	<b>\$75,001 - \$90,000</b>	<b>\$90,001 - \$120,000</b>	<b>\$120,000 +</b>
<b>Families</b>	<b>\$0 - \$150,000</b>	<b>\$150,001 - \$180,000</b>	<b>\$180,001 - \$240,000</b>	<b>\$240,000 +</b>
<i>Medicare levy surcharge</i>	Nil	1.00%	1.25%	1.50%
<i>PHIR</i>				
<i>Less than 65 years</i>	30%	20%	10%	Nil
<i>65 to 69 years</i>	35%	25%	15%	Nil
<i>70 years or over</i>	40%	30%	20%	Nil

The current arrangement will remain unchanged for singles with income less than \$75,000 p.a. and families with income of less than \$150,000 p.a.

The definition of income for this purpose will be the same as the definition used for the Medicare Levy Surcharge which includes: taxable income, salary sacrifice super, personal deductible super contributions, net investment losses and reportable fringe benefits.

## Superannuation & Retirement Income

The pre budget speculation that the transition to retirement condition of release would be removed did not eventuate. However, concessional contribution caps were reduced and a temporary reduction in the matching government co-contribution will occur. You can also continue to reduce your retirement income stream drawdown to 50% of the minimum for the 2009/10 financial year.

### Reduction of concessional contribution cap from 1 July 2009

The Government will reduce the concessional contributions cap to \$25,000 per annum (indexed), with effect from the 2009/10 financial year.

The transitional concessional contributions cap (applicable to individuals aged 50 and over for the 2009-10, 2010-11 and 2011-12 financial years) will be reduced to \$50,000 per annum. 'Grandfathering' arrangements will apply to certain members with defined benefit interests as at 12 May 2009 whose notional taxed contributions would otherwise exceed the reduced cap.

The annual cap on non-concessional contributions (NCC) is \$150,000 per annum for the 2008-09 financial year and will remain at that level in 2009-10. In the future, the non concessional cap will be calculated as six times the level of the (indexed) concessional contributions cap.

### CA Comments

- The reduction of the concessional contribution cap to \$25,000 (\$50,000 transitional to 30 June 2012) from 1 July 2009 does not apply until next financial year so clients will not be penalized for contributing within the current concessional contribution (\$50,000 or \$100,000 transitional) cap this financial year.
- Next year's cap reduction means employed clients will need to review their salary sacrifice arrangements and self-employed clients their personal deductible super contributions and consider contributing more this financial year. In addition, all clients may need to consider drip-feeding contributions over a longer period in order to meet their retirement goals.

### Temporarily reducing the Government co-contribution

The Government will temporarily reduce the matching rate and maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contribution with effect from 1 July 2009.

Under this measure, the matching rate and corresponding reduction will be:

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Maximum co-contribution payable	\$1,000	\$1,000	\$1,000	\$1,250	\$1,250	\$1,500
Reduction for each \$1 of total income above shade out threshold	3.333 cents	3.333 cents	3.333 cents	4.167 cents	4.167 cents	5 cents

No change was announced to the lower and upper income thresholds for co-contribution eligibility. The 2008-09 shade out threshold is \$30,342 with no co-contribution payable if total income exceeds \$60,342.

### Release of the Australia's Future Tax System Report into Retirement Incomes

The Government released the Australia's Future Tax System (Henry Review) Report on the retirement income system. The report recommended amongst other things the following items:

- Australia's three-pillar retirement income system (means tested Age Pension, compulsory saving through the Superannuation Guarantee and voluntary saving for retirement) should be retained.
- tax-assisted voluntary superannuation contributions should be more fairly distributed, and questioned whether the current cap on the concessions was appropriate. This was partially implemented in this budget.
- the preservation age for superannuation should be gradually increased to 67 years.
- the current superannuation guarantee should be retained at 9 per cent.

The panel has deferred final recommendations on other issues until the December 2009 report to enable consideration in the context of the broader tax-transfer system.

#### CA Comment

- The Australian Super System is here to stay and is still the most tax effective vehicle for building wealth retirement.

## Social Security and Family Benefits

### Increase to age pension payments

The Government has announced that from 20 September 2009 it will provide age pensioners, DVA service pensioners, wife pensioners, disability support pensioners and carer payment recipients with an increase in their entitlements as follows:

- for singles: an increase of \$30 pw in the base pension and \$2.49 pw in a new Pension Supplement; and
- for couples: an increase of \$10.14 pw in a new Pension Supplement.

The new Pension Supplement will combine the existing pension supplement, Pharmaceutical Allowance, Utilities Allowance and Telephone Allowance into a consolidated payment.

### Increase in pension income test 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 from 20 to 25 cents in the dollar for each member of a couple above the allowable income free thresholds. This threshold is currently \$138 per fortnight for single pensioners and \$240 per fortnight for pensioner couples (combined).

Existing part pensioners affected by the income test changes will not have their entitlements reduced by this change and they will receive an increase of \$10.14 per week for singles or couples combined.

Under the new rules, the pension will be paid to new pensioners with private income of up to \$38,693 for singles and \$59,228 for couples combined, down from \$47,444 for singles and \$72,423 for couples combined under current income test rules.

#### CA Comment

- This only affects you if you are assessed under the Income Test.

### Closing of the pension bonus scheme

From 20 September 2009, the Government will close the Pension Bonus Scheme to new entrants. An income test concession will be introduced instead. Existing members of the scheme will continue to accrue entitlements as previously.

To compensate for the closure of this measure, the Government will introduce a new pension income test concession for people of Age Pension age. The concession will mean that only 50% of the first \$500 of employment income per fortnight will be counted for income test purposes. At a 50 cent taper rate, this concession equates to a maximum increase in age pension entitlement of \$3,250 pa (single or couple combined).

#### CA Comment

- If you are eligible for the Age Pension this year please contact us:
  - Men who turn 65 before 20 September 2009
  - Women born before 31 December 1945

### Increases in the Age Pension age

The Government will increase the qualifying age for the Age Pension and the Commonwealth Seniors Health Card for men and women to 67 years of age from 2023. The transition to the higher Age Pension age will commence in July 2017, with the qualifying age increasing by six months every two years, to reach 67 on 1 July 2023. This timeline dovetails with the current process for increasing the female Age Pension age, which is being increased from 63.5 today to 65 years of age by 2013. The current Age Pension age for men is 65.

From	New Age Pension Age	Affects People Born	Current Age
1 July 2017	65 yrs & 6 mnths	1 July 1952 – 31 Dec 1953	55.5 - 57
1 July 2019	66 yrs	1 Jan 1954 – 30 Jun 1955	54 – 55.5
1 July 2021	66 yrs & 6 mnths	1 July 1955 – 31 Dec 1956	52.5 – 54
1 July 2023	67 yrs	1 Jan 1957 – onwards	52.5 or younger

### Paid Parental Leave

The Government will introduce a Paid Parental Leave scheme from 1 January 2011.

The government funded scheme will provide eligible parents with up to 18 weeks of leave at the Federal Minimum Wage, currently \$543.78 per week. These payments will be treated as taxable income and will affect entitlement to family assistance payments, but will not be counted as income for income support payments.

People who elect not to receive Paid Parental Leave or who do not qualify will continue to receive the Baby Bonus and other family payments, where they meet eligibility requirements.

Primary carers will be eligible for the scheme if they:

- earned less than \$150,000 in the full financial year prior to the birth or adoption of a child;
- have worked at least 330 hours over the 10 months preceding the birth or adoption; and
- have also worked continuously with one or more employers for at least 10 of the 13 months before the expected date of birth or adoption.

In some cases Paid Parental Leave will be able to be transferred to another caregiver if the primary carer returns to work before they have received their full Paid Parental Leave entitlement.

Parents who choose to receive Paid Parental Leave will not receive the Baby Bonus, except in cases of multiple births where parents will not receive the Baby Bonus for the first child only.

Parents who choose to receive Paid Parental Leave will also not be eligible for the Family Tax Benefit Part B and the dependent spouse, child-housekeeper and housekeeper tax offsets for the 18 week period or whilst they are in receipt of Paid Parental Leave.

## **First Home Owner's Boost (FHOB) Extended**

**FHOB is available in full until 30 September 2009 and in part until 31 December 2009.**

The Government has announced an extension to the existing First Home Owner's Boost (FHOB) for an extra six months.

For eligible first home buyers entering into contracts between 1 July 2009 and 30 September 2009 (inclusive), the FHOB will continue to provide \$7,000 for the purchase of established homes and \$14,000 for new homes. This does not include the existing \$7,000 First Home Owner's Grant until 30 September 2009.

Between 1 October 2009 and 31 December 2009 the FHOB grant will be halved to \$3,500 for the purchase of established homes and \$7,000 for the purchase of new homes.

### **CA Comment**

- We have two accredited mortgage consultants who can help you or your children either purchase your first home or refinance an existing loan.

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