



FEDERAL BUDGET 2009 – SUMMARY

13 May 2009

As widely expected, last night's Federal Budget contained a number of proposals that will affect clients. Importantly, the proposals will require passage of legislation before implementation can occur.

TOPICS COVERED

- 1. SUPERANNUATION**
- 2. TAXATION**
- 3. SOCIAL SECURITY AND AGED CARE**
- 4. FAMILY BENEFITS**

1. SUPERANNUATION

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.

REDUCING THE CONCESSIONAL CONTRIBUTIONS CAPS

The Government has announced a proposed reduction to the contribution caps effective from the 2009-2010 financial year. The reductions are as follows:

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

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 contributions, with effect to contributions made from 1 July 2009. Under this measure, the matching rate will be:

- 100 per cent for 2009/10, 2010/11 and 2011/12, with a maximum co-contribution of \$1,000, reduced by 3.333 cents for each dollar by which the person's total income exceeds the shade out threshold for receiving the full co-contribution;
- 125 per cent for 2012/13 and 2013/14, with a maximum co-contribution of \$1,250, reduced by 4.167 cents for each dollar of total income above the shade out threshold; and
- 150 per cent from 2014/15 onwards, with a maximum co-contribution of \$1,500, reduced by 5 cents for each dollar of total income above the shade out threshold.



ACCOUNT BASED PENSIONS — EXTENDED DRAWDOWN RELIEF FOR INCOME STREAMS

The Government will extend the pension drawdown relief provided for the 2008/09 financial year and will continue to halve the minimum payment amounts for account based and market linked (term allocated) income streams for the 2009/10 financial year.

TRANS-TASMAN RETIREMENT SAVINGS PORTABILITY SCHEME

The Government has agreed in principle to the signing of a memorandum of understanding with New Zealand to establish a trans-Tasman retirement savings portability scheme.

The portability scheme will permit transfers of superannuation savings between certain Australian superannuation funds and New Zealand KiwiSaver funds.

The scheme will have effect from a date which will be set in accordance with the memorandum of understanding. The final details of the scheme are currently being settled with New Zealand.

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.

2. TAXATION

PERSONAL INCOME TAX CUTS

The reduction in personal income tax rates, including the low income earner and senior Australian tax offsets, outlined in previous budgets continue to be phased in progressively. These have already been legislated.

- Personal tax rates – the top tax rate of 45% applies over \$180,000 of taxable income.
- Low income earner tax offset (LITO) – in the 2009/10 financial year, an individual with no other offset entitlements will not pay tax until their income exceeds \$15,000, while a child under 18 years old will be able to receive "unearned" income of \$3,000 and pay no tax.
- Senior Australian Tax Offset (SATO) – From 1 July 2009, Australians eligible for the SATO and the LITO will not pay tax until they reach an annual income of \$29,867 for singles and up to \$51,360 for couples.



INCREASING THE MEDICARE LEVY LOW-INCOME THRESHOLDS

The Medicare levy low-income thresholds are \$17,794 for individuals and \$30,025 for families with effect from 1 July 2008. Also, the additional amount of threshold for each dependent child or student will increase to \$2,757.

For pensioners below Age Pension age the Medicare levy threshold has increased to \$25,299 with effect from 1 July 2008. This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

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)

Three new 'Private Health Insurance Tiers' to better balance the mix of incentives for people to take out private health insurance will apply from 1 July 2010.

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

- 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.

EMPLOYEE SHARE SCHEMES

From Budget night all discounts on shares and rights under an employee share scheme will be assessed in the year they are acquired. The current rules allowing the discount to be taxed at a later time will be removed. The measure will also limit access to the current \$1,000pa upfront concession to employees with an adjusted taxable income of less than \$60,000.

CAPITAL GAINS TAX ARRANGEMENTS FOR MANAGED INVESTMENT TRUSTS

The Government will allow Australian managed investment trusts (MITs) to make an irrevocable election to apply the capital gains tax (CGT) regime as the primary method for taxing disposals of assets, with effect from the 2008/09 income year. Currently, gains and losses on disposal of investments by MITs may be on capital or revenue account, depending upon the characterisation of the investment activities concerned.

This will ensure, for example, that resident MIT investors will be entitled to the CGT discounts.



TIGHTENING ACCESS TO NON-COMMERCIAL BUSINESS LOSSES

Effective from the 2009/10 income year, the Government will tighten the application of rules on the use of non-commercial losses to prevent high income individuals from offsetting excess deductions from non-commercial business activities against salary and other income. The measure will ensure excess deductions from unprofitable business activities cannot be used to reduce salary and wage income of high income earners.

Taxpayers with an adjusted taxable income of over \$250,000 will instead have excess deductions quarantined to the business activity. The existing rules will continue to apply to taxpayers with an adjusted taxable income of \$250,000 or less.

The new test for taxpayers with adjusted taxable income greater than \$250,000 will restrict the ability of such taxpayers to claim losses for non-commercial activities that are more likely to be in the nature of lifestyle choices or hobbies.

TIGHTENING THE NON-COMMERCIAL LOAN RULES

Effective from 1 July 2009, the Government will ensure that benefits provided by a private company to its shareholders or their associates are taxed by tightening the rules that prevent shareholders and their associates avoiding tax on distributions and benefits they receive from private companies.

The measure extends the non-commercial loan rules by reducing the scope for private companies to allow their shareholders or associates to use company assets such as real estate, cars and boats for free, or at less than their arm's length value.

3. SOCIAL SECURITY AND AGED CARE

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 \$30.00 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.

INCOME TEST: INCREASING THE INCOME TEST TAPER RATE

The Government will from 20 September 2009 increase the income test taper 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, for income above the relevant income free threshold (currently \$138 pf for singles and \$240 pf for pensioner couples combined).

Existing part pensioners affected by the income test changes will keep existing entitlements, maintained in real terms, plus an increase of \$10.14 pw for singles or couples combined.

Under the new rules, the pension will be paid to new pensioners with private income of up \$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.



INCOME TEST: CONCESSION FOR EMPLOYMENT INCOME

The Government will continue to encourage workforce participation among older Australians by establishing a new pension income test concession for employment income for people of age pension or service pension age from 20 September 2009. Under the new Work Bonus, half of the first \$500 pf of employment income will not count for income test purposes. This will enable up to \$250 pf of earnings to be excluded from means testing.

CLOSING OF THE PENSION BONUS SCHEME

From 20 September 2009, the Government will close the Pension Bonus Scheme to new entrants. Existing members of the scheme will continue to accrue entitlements under existing rules.

COMMONWEALTH SENIORS HEALTH CARD

The Government will not proceed with an element announced in the 2008-09 Budget to change the Commonwealth Seniors Health Card income test to include gross tax-free superannuation income in the adjusted taxable income test.

The Government will include income that is salary sacrificed to superannuation in the income assessment, with effect from 1 July 2009.

A new Seniors Supplement will be established for Commonwealth Seniors Health Card holders and veterans eligible for the Gold Card. The Seniors Concession Allowance and the Telephone Allowance will be consolidated into the new Seniors Supplement. The single rate of the Seniors Supplement will include an extra \$129 a year, to bring it to two thirds of the rate paid to couples combined.

INCREASE 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 July 2013. The current Age Pension age for men is 65.

NEW ANNUAL CARER SUPPLEMENT

The Government will introduce a new Carer Supplement. The first payment will be made by 30 June 2009 with subsequent payments starting from 1 July 2010. The new supplement will provide:

- \$600 pa to all Carer Allowance recipients for each person being cared for; and
- \$600 pa to all Carer Payment recipients.
- People who receive both Carer Payment and Carer Allowance will be eligible for both payments. This supplement will be non-taxable.

AGED CARE – CHANGES TO BASIC DAILY CARE FEE

To ensure that pensioners in aged care facilities retain a substantial portion of the age pension increase, the maximum basic daily fee will decrease from 20 September 2009 from 85 per cent to 84 per cent of the total base pension amount.



In addition, aged care residents who are in care on 19 September 2009, and who do not receive a pension and so do not benefit from the pension increase, or are part-pensioners who do not benefit significantly from the pension increase, will have their existing fee levels fixed at the current level until they leave care.

Those entering care after 19 September 2009 and who do not receive a pension or do not receive a significant benefit from the pension increase, will initially pay the same level of fees as is currently paid by residents. Over 4 years, their fees will gradually increase until they are paying 84 per cent of the pension, consistent with other residents.

AGED CARE – INCOME TESTED FEE: ENDING THE 28-DAY INCOME TEST EXEMPTION

The Government will from 20 September 2009 apply the income tested fee for residential aged care from the day of entry, removing the current 28-day delay. This will align the residential income-tested fee with other aged care fees payable from the day of entry into the aged care facility.

4. FAMILY BENEFITS

INDEXATION OF FAMILY TAX BENEFIT PART A

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

FREEZING OF THE UPPER INCOME THRESHOLDS FOR FAMILY TAX BENEFITS AND BABY BONUS

The Government will reform family payments through maintaining the higher income thresholds for family payments at their current level until July 2012.

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.