

Tupicoffs Budget Update 13 May 2009

Last night's Federal Budget turned out to be somewhat of a non-event. The threats of abolishing the 'Transition to Retirement' strategy went unmentioned and taxes within super or pension funds were left as they stand.

The government appears to be focusing their efforts on managing the rising unemployment levels through investments into infrastructure. We expect that we have seen the last of the cash handouts and hope that the focus can now be directed to improving health, education and infrastructure where required.

Following possibly the biggest write down in tax receipts in Australia's history (estimated \$210 billion over the forward estimates to 2012/13), the government had the choice to either increase taxes and reduce expenditure or take on additional debt to fund the planned projects. The Government chose the later and have forecast the net debt position to increase from -0.4% of GDP in 2008/09 to 13.6% of GDP in 2012/13.

There were some changes to pension, superannuation, taxation and pension benefits which we have summarised in this document.

SUPERANNUATION

Reduction of Concessional Contribution Cap

Commencing 1 July 2009, the cap on deductible super contributions has been reduced to a modest \$25,000 per annum for individuals under the age of 50 and \$50,000 for those 50+. Deductible super contributions include SG, salary sacrifice contributions and personal deductible contributions. The transitional arrangements allowing people above age 50 to contribute more to super will still cease from 1 July 2012. Individuals who are currently salary sacrificing above these limits will need to revise their contributions down from 1 July to ensure they do not inadvertently exceed the limits and incur additional tax. Those currently utilising the transition to retirement strategy may also need to reassess the level of income being drawn from their pension.

Minimum Pension Payments

The Government has recently reduced the minimum pension payments for the year to half of the legislated minimum pension (which ranges between 4% and 14% per annum). This was planned to only run until 30 June 2009 but has now been extended to include next financial year as well. This will benefit individuals who are not relying on the pension income as it will enable them to keep more money in the tax free pension environment, where it will hopefully benefit from a rebound in the share market.

Government Co-contribution

The Government Co-contribution has been temporarily reduced from \$1,500 to \$1,000 for the 2009/10 financial year until the 2011/12 financial year. For the 2012/13 and 2013/14 financial year it will increase to \$1,250 and return to \$1,500 from 2014/15. Although the benefit has reduced, this remains an extremely attractive strategy. The current shade out threshold for 2008/09 is \$30,342 with no contribution payable after reaching income in excess of \$60,342.



TAXATION

Tax Cuts

On a positive note, the tax cuts promised in the last Federal Budget were honoured. The table below illustrates the personal income tax thresholds for 2009/10.

Income Threshold	Tax Rate
\$0 - \$6,000	0%
\$6,001 - \$35,000	15%
\$35,001 - \$80,000	30%
\$80,001 - \$180,000	38%
\$180,000 +	45%

The Medicare Levy low income threshold will increase to \$17,794 for individuals and \$30,025 for individuals in families. Each dependant child or student will increase the threshold by \$2,757. The threshold for pensioners under age pension age will increase to \$25,299.

Low Income Tax Offset

The maximum low income tax offset will gradually increase to \$1,500 per annum from 1 July 2010. The table below outlines the changes.

	2008/09	2009/10	2010/11
Maximum Offset	\$1,200	\$1,350	\$1,500
Upper income threshold	\$60,000	\$63,750	\$67,500
Maximum tax-free income	\$14,000	\$15,000	\$16,000

Small Business Tax Bonus

Small Businesses will receive a bonus deduction of 50% for the purchase of eligible assets prior to December 2009. To qualify as a small business the turnover must be less than \$2 million and the eligible asset must cost more than \$1,000.

Pay As You Go (PAYG) relief

From 1 July 2009 the PAYG instalments will be reduced for those small businesses making quarterly instalments. The adjustment factor for calculating the instalments will be reduced from 9% to 2% and will therefore ease the cashflow burden for eligible small businesses.

Foreign Employment Income

From 1 July 2009 some foreign employment income will become taxable in Australia with a tax credit for any foreign tax paid. Some exemptions apply.

Non-commercial Business Losses

From 1 July 2009, taxpayers with adjusted taxable income in excess of \$250,000 will not be able to use excess deductions from non-commercial business activities to offset their other income. Those excess deductions will be quarantined to that business activity. Therefore, high income earners cannot use losses from activities that are more likely to be considered hobbies to reduce their other taxable income.

Employee Share Scheme

Shares received as part of an employee share scheme will be taxed in the year that they are received. Employees who receive salary in the form of discounted shares will no longer be able to defer paying tax on the discount.

Additionally, the exemption on the first \$1,000 of shares will now only be available to employees with adjusted taxable income of less than \$60,000.

SOCIAL SECURITY

Pension Payment Changes

Pension payments will be amended as follows from 20 September 2009:

- An increase to the base rate for single age pensioners of \$30 per week;



- Four separate allowances (GST, Utilities, Telephone/Internet and Pharmaceuticals) will be consolidated into one 'pension supplement' which will be paid fortnightly; and
- The pension supplement will increase by \$2.49 per week for singles and \$10.14 per week for couples.

The above changes will only apply to recipients of the Age Pension, Service pension, Disability Support Pension, Carer Payment, Bereavement Allowance, Widow B Pension, Wife Pension, Income Support Supplement and to War Widows.

Income Test Changes

The income test for pensioners will be reduced by 50 cents in the dollar for income above the income test 'free area'. This is an increase from the existing 40 cent in the dollar reduction.

Pensioner Bonus Scheme

The Pensioner Bonus Scheme will be stopped for new applicants from 20 September 2009. People that are already registered for this scheme will continue to accrue benefits. The Pensioner Bonus Scheme will be replaced by the Pensioner Work Bonus. From 20 September 2009 the bonus will provide pensioners with a maximum of \$125 per fortnight in additional pension payments by disregarding half of the first \$500 per fortnight of employment income for the income test.

Commonwealth Seniors Health Care Card

The Government had previously proposed to include tax free pension income in the income test for the Commonwealth Seniors Health Care Card however they have now reneged on this plan. The government will however proceed with the plan to include salary sacrificed super contributions in the income assessment.

Seniors Supplement

A Seniors Supplement of \$790.40 pa for singles and \$1,190.80 pa for couples will be given to self-funded retirees who are eligible for the Commonwealth Seniors Health Care Card or Department of Veterans; Affairs gold Card with the current Seniors Concession Allowance. This supplement will be paid quarterly.

Eligibility Age for Age Pension

From 2023 the eligibility age for the Age Pension and Commonwealth Seniors Health Card will increase for men and women to age 67. The transitional arrangements will commence from July 2017 and the qualifying age will increase by 6 months every 2 years. Individuals eligible for the Veterans Service Pension will continue to qualify from age 60.

Carer Payment Supplement

Individuals in receipt of the Carer Payment or other related income support payments will receive a new Carer Supplement of \$600 per annum. This will be paid to people who receive either:

- Carer Payment
- Wife Pension and Carer Allowance
- Department of Veterans' Affairs (DVA) Partner Service pension and Carer Allowance
- DVA Carer Service Pension

Where an individual receives both the Carer payment and Carer Allowance, they will receive two payments (totalling \$1,200).

Paid Parental Leave

The Government funded parental leave scheme will commence on 1 January 2011. Payments at the federal minimum wage (currently \$543.78 per week) will be paid to the primary carer for a period of 18 weeks. This income will be taxable and will affect entitlements to different family assistance payments. Where they are eligible, the baby bonus and Family Tax Benefit B will still be paid to those who do not qualify for the scheme or those who opt not to participate. Parents who participate in the scheme will not be eligible for the following benefits within the 18 week period:

- Family Tax Benefit Part B
- Dependant Spouse



- Child-housekeeper
- Housekeeper tax offset

First Home Owners Boost

Rightly or wrongly, the First Home Owners Boost was extended in full for the next three months and will halve for the last quarter of this year. This means until September the boost will remain at \$14,000 for established homes and \$21,000 for new homes. This will reduce to \$10,500 and \$14,000 respectively until it cuts out at the end of December. This may keep the lower end of the property market propped up for a bit longer, however those who are least able to afford to take on a mortgage are being encouraged to do so in a market where job losses are expected to rise exponentially. This may ultimately prove to be an inappropriate strategy.

Private Health Insurance Rebate

The Private Health Insurance Rebate will also be wound back as a new tiered scale will be introduced from 1 July 2010. The Medicare Levy Surcharge will also be increased for higher income earners who do not hold Private health Insurance. The table below illustrates these changes.

Tiers	Status	Private Health Insurance Rebate			Medicare Levy Surcharge
		Under 65	Age 65 – 70	Age 70+	
Current	Singles earning \$0 to \$75,000	30%	35%	40%	0%
	Families earning \$0 to \$150,000				
Tier 1	Singles earning \$75,001 to \$90,000	20%	25%	30%	1%
	Families earning \$150,001 to \$180,000				
Tier 2	Singles earning \$90,001 to \$120,000	10%	15%	20%	1.25%
	Families earning \$180,001 to \$240,000				
Tier 3	Singles earning \$120,001 +	0%	0%	0%	1.5%
	Families earning \$240,001 +				

