



## 2009-2010 Federal Budget Summary

The following represents a Muirfield summary of what we believe to be the major parts of the budget that could impact you, our clients.

In the face of global economic uncertainty, the Government's 2008-2009 budget has pinned its hopes of economic recovery on increased infrastructure spending to help support jobs.

Wayne Swan's second budget has maintained his promise to increase the age pension and to proceed with individual tax cuts. The budget includes a number of changes to taxation, superannuation and government pension benefits. These changes include reducing superannuation salary sacrifice concessions from 1 July 2009, increasing the maximum age pension amount, reducing the private health insurance rebate, temporarily reducing the Government Co-contribution and extending the 50% reduction to minimum pension drawdown's.

### Superannuation

#### Reducing the Concessional Contribution caps

The concessional contributions cap is proposed to halve to \$25,000 per annum with effect from the 2009-2010 financial year, limiting the ability to salary sacrifice into super for higher income earners. 'Transition to Retirement' pensions remain, however the strategy will be somewhat limited with the transitional cap of \$100,000 for those aged 50 or older also being halved from 2009-2010 to \$50,000 and will cut out from 1 July 2012 as originally planned.

The annual cap on non-concessional contributions remains at \$150,000 for 2009-2010. In the future, the cap will be calculated as six times the level of the indexed concessional contributions cap.

#### **Comment:**

**As predicted via an email to you last week the government has halved the concessional contribution cap. Fortunately the rumours that the change was to take effect from budget night (12 May 2009) were unfounded, so those that did not get their contributions in by today don't need to worry. For those of you salary sacrificing more than \$50,000/\$25,000 some adjustments may need to be made. An appointment to review will be important.**

**The tax free status of lump sums, account based pensions and superannuation annuity payments from age 60 remains intact, so super is still a very attractive vehicle for saving for retirement.**

## Account-based pension – further drawdown relief

The Government will halve the minimum payment amounts for account-based pensions for 2009-2010. Reducing the minimum payment amounts for account-based pensions will assist pension account balances to recover from capital losses from the global recession. This measure extends the pension drawdown relief provided by the Government for 2008-2009. The minimum annual income payment for an account-based pension is calculated as a minimum percentage of the account balance as follows:

Age	Minimum annual payment	Minimum annual payment for 2008-2009 as per Regulations (announced 18 February 2009)*	Minimum annual payment for 2009-2010 as per Government announcement
Under 65	4%	2%	2%
65-74	5%	2.5%	2.5%
75-79	6%	3%	3%
80-84	7%	3.5%	3.5%
85-89	9%	4.5%	4.5%
90-94	11%	5.5%	5.5%
95 and more	14%	7%	7%

### Comment

As announced on our website on 19 February 2009, if you would prefer to not draw as much from your investments in your account based pension because you can access other money then we can amend your pension payments in line with this government initiative. If you would like to reduce your pension please contact us so that this can be arranged.

## Temporary Reduction in the Government Co-Contribution.

The maximum Government Co-Contribution will be reduced from \$1,500 to \$1,000 from 1 July 2009. Whilst the benefit is no longer as significant this is still a very simple and effective way to increase your superannuation savings prior to retirement. The table below shows the maximum Government Co-Contribution amount by year (please note the current shade out threshold is \$30,342).

Year	Co-contribution rate	Phase out
2009-10, 2010-11 and 2011-12	100% (max \$1,000)	Reduces by 3.333 cents for every dollar of income above shade out threshold
2012-13 and 2013-14	125% (max \$1,250)	Reduces by 4.167 cents for every dollar of income above shade out threshold
2014-15	150% (max \$1,500)	Reduces by 5 cents for every dollar of income above shade out threshold

### Comment

**Make hay while the sun shines. If you can avail yourself of this benefit this year and get 50% more than in future – do so!,**

## Social Security

### Increase to Pension Payments

The Government's Secure and Sustainable Pension Reform will provide age, wife and disability support pensioners, carer payment recipients and veteran income support recipients with two primary payments:

- A base fortnightly rate of pension; and
- A Pension Supplement that includes the value of the current GST pension supplement, Pharmaceutical Allowance, Utilities Allowance and Telephone Allowance into one payment.

From 20 September 2009, the new pension package will result in:

- An increase of \$32.49 per week for single pensioners on the full rate of pension. This is made up of a \$30 per week increase in the single basic pension rate and \$2.49 in the new Pension Supplement.
- An increase of \$10.14 per week (combined) for couple pensioners on the full rate of pension. This reflects an increase in the new Pension Supplement only.

The new Pension Supplement will be indexed twice a year in line with CPI.

#### **Comment:**

**The pension reforms should make things a little easier for pensioners to understand as they will be dealing with two payments as opposed to a number of allowances. Secondly an increase in the pension amount, although small, is always welcome.**

### Changes to Centrelink's Income Test

For those of you who are paid an Age Pension via the Income test – read on.

From 20 September, the income test taper will increase from 40 to 50 cents in the dollar for a single pensioner and from 20 to 25 cents for each member of a couple, for income above the relevant income free threshold. The 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 will have a transitional safety net apply allowing them to keep existing entitlements, maintained in real terms, plus an increase of \$10.14 per week for singles or couples combined.

They will continue to receive these existing entitlements, including the increase, until they are better off under the new pension rules.

### Closure of the Pension Bonus Scheme

The Government will close the Pension Bonus Scheme to new entrants 20 September 2009.

Existing members will continue to accrue entitlements under existing rules.

To continue to encourage workforce participation among older Australians, the Government will establish a new income test concession for employment income called a Work Bonus. Under the new Work Bonus, only 50% of the first \$500 per fortnight of employment income will count for income test purposes. This will enable up to \$250 of earnings to be excluded from means testing.

## Commonwealth Seniors Card – Income Test

**This is a big win to those over 65 with account based pension or for those making lump sum withdrawals from superannuation.** It was announced as part of the 2008-2009 Federal Budget that gross tax-free superannuation lump sum and pension income was to be included in the adjusted taxable income test for the Commonwealth Seniors Health Care Card.

The Government has decided not to proceed with this measure.

Income that is salary sacrificed to superannuation, however, will be included in the income assessment with effect from 1 July 2009 as announced in the 2008-2009 budget.

## Other

### Paid Parental Leave

A Paid Parental Leave (PPL) scheme will be introduced for new parents who are the primary carers of a child born or adopted on or after 1 January 2011.

An eligible person will receive taxable PPL payments at the level of the Federal Minimum Wage, currently \$543.78 a week, for a maximum period of 18 weeks. In most cases, the person will receive the payment through their employer.

To be eligible for the PPL scheme, the primary carer (usually the mother) must be in paid work and have:

- been engaged in work continuously for at least 10 of the 13 months prior to the expected birth or adoption of the child; and
- undertaken at least 330 hours of paid work in the 10 month period (an average of around one day of paid work a week).

An income test of \$150,000 will apply based on the primary carer's adjusted taxable income in the previous financial year.

PPL will cover employees, including casual workers, as well as contractors and the self-employed. If a primary carer returns to work before they have received all of their PPL entitlement, they may be able to transfer the unused part of their PPL to another caregiver (usually the father) who meets eligibility requirements.

### Extension of the First Home Owners Boost for six months

**This will be relevant to all of you with younger children who are looking to buy their first home.**

For eligible first home buyers entering into contracts between 1 July 2009 and 30 September 2009 the First Home Owners Boost will continue to provide \$7,000 for the purchase of established homes and \$14,000 for the purchase of new homes. This means that first home owners will receive a total of \$14,000 for established homes and \$21,000 for new homes.

For eligible first home owners entering into contracts between 1 October 2009 and 31 December 2009 the boost will provide \$3,500 (making a total of \$10,500) for the purchase of established homes and \$7,000 (making a total of \$14,000) for the purchase of new homes.

### Private Health Insurance Rebate

Currently, the private health insurance rebate is 30%, 35% or 40%, depending on an individual's age. The proposal is to introduce a tiered system that is based upon age and an income test, which reduces the rebate for those individuals and couples who exceed a threshold. The Medicare Levy Surcharge applies to individuals or couples who do not take out private health insurance. The current Medicare Levy Surcharge is 1%. The proposal is for an income test to apply to the Medicare Levy Surcharge, so that individuals and couples with income above the threshold will pay a higher Medicare Levy Surcharge of up to 1.5%. The following tables outline the current and proposed tiers:

	Tier 1	Tier 2	Tier 3	Tier 4
<b>Single</b>	<\$75,000~	\$75,001 - \$90,000	\$90,001 - \$120,000	>\$120,001
<b>Couple</b>	<\$150,000 ~	\$150,001 - \$180,000	\$180,001 - \$240,000	>\$240,001
MLS*	1%	1%	1.25%	1.50%
Up to 65	30%	20%	10%	0%
65 – 69	35%	25%	15%	0%
70+	40%	30%	20%	0%

\* Medicare Levy Surcharge