Profile's Synopsis of the 2009 Federal Budget

…………The first round of tough decisions………

DATE: 13 MAY 2009

The popular media has, and will report the main points to come out of the Budget. Our objective is to cover the three (3) key areas that we believe are pertinent to our clients, being:

1. Superannuation;
2. Taxation; and
3. Social Security.

We have attached our economic summary of the Budget for those who wish to indulge in the financial side of the Budget.

SUPERANNUATION

- **No change to Transition to Retirement (TtR) Pensions**
- **Reduction of concessional contribution caps from 1 July 2009**
- **No change to non-concessioanl caps (but change in future calculation methodology)**
- **Temporary reduction of Government co-contribution from 1 July 2009 to 30 June 2014**
- **Extension of 50% minimum pension draw down relief from 1 July 2009**

Last night the rumour mills were silenced and the cold hard truth of the anticipated changes to superannuation were announced.

Surprisingly, there was no attack on the popular Transition to Retirement (TtR) Pensions (this year), which is a sign that any change would be too far felt and a commitment of the Government to retirement savings. Having said that, the reduction in the concessional contribution cap flies in the face of future retirement savings (via superannuation). While Profile did encourage clients to bring forward any planned superannuation contributions prior to last night, the commencement date for the new caps is effective from 1 July 2009 (unlike prior changes that have been effective from budget night).

The change in concessional caps will necessitate a revision of strategy for clients, including the amendment of existing salary sacrifice arrangements for 2009/10.

The non-concessional (after tax) contribution limits remain unchanged and the future measure will be linked to the concessional cap (being 6x). Furthermore, the "bring forward" provision remains unchanged.

The Government's co-contribution came under scrutiny and has been temporarily reduced, with effect from 1 July 2009. The measure is still an attractive strategy to employ for those eligible, even taking into account the reduction in co-contribution.

The pension drawdown relief afforded to self-funded retirees (initially announced in February this year), has been extended into 2009/10. This is both a reflection of the degree of financial market turmoil and its impact on retirees' savings and a commitment to ensure that those people who have savings in superannuation are not forced to withdraw and sell assets at compromised valuations. We communicated to those clients affected by the change in February and will be discussing this further at upcoming review meetings.

Regrettably, superannuation is perceived as the rich man's investment and as such, the Government focused its attention on removing the favourable treatment afforded to superannuation, with comments that only 2% of the working population were taking advantage of the concessions (ie salary sacrificing up to the contribution limits). This budget was the first since the introduction of the infamous "surcharge levy" where it has been regressive in nature. We believe that the current measures are a short-term fix to plug a hole in an otherwise sinking revenue vessel and cannot be sustained over the long term. A regression of superannuation savings will lead to an increase in Aged Pension dependency as people (continue to) fail to make long term decisions on their post retirement planning.

The only other superannuation aspect worthy of note is that the increase of Aged Pension age to 67 could possibly be a precursor to an increase in preservation age. While not announced as part of the Federal Budget, we understand that it does fall under the scope of the Henry Tax Review and is likely to have implications for future planning of retirement savings. We will monitor the progress of the Henry Tax Review and communicate our analysis and findings.

TAXATION

- **Announced tax cuts from 1 July 2009**
- **Employee share scheme eligibility from 13 May 2009**
- **Means testing for Private Health Insurance Rebate from 1 July 2010**
- **Increase in Medicare Surcharge Levy**
- **Business Investment Concessions extended and increased**
- **FBT exemption for Charitable donations by employees**

While there have been no additional tax cuts announced, the previously legislated tax cuts will go ahead for the 2009/10 and 2010/11 financial years.

2009/10 Income Tax Thresholds

Income Threshold	Tax Rate
$0 - $6,000	0%
$6,001 - $35,000 (Up from $34,000)	15%
$35,001 - $80,000	30%
$80,001 - $180,000	38% (Down 2%)
$180,001 +	45%

Employee Share Schemes

Previously employees have been able to elect to be assessed on discounts provided on shares and rights in the year they are acquired (and receive a tax exemption of up to $1,000) **or** defer until a later income year.

The proposed changes remove this choice with the discount to be assessed in the year of grant and the $1,000 tax exemption only applying to individuals with an adjusted taxable income below $60,000.

For those of you looking at taking up employee share offers you will now need to:

- Consider your cash flow to meet the potential tax liability given the granting of the shares will not generate any cash flow.
- Estimate your adjusted taxable income for the year the shares are to be assess if the $1,000 discount will might apply.

Private Health Insurance will cost more for many people…

In order to reduce how much it is spending on the current Private Health Insurance Rebate, the Government has introduced means-testing from 1 July 2010.

Singles earning less than $75,000 p.a. (couples $150,000) will continue to receive the full rebate, but the level of rebate is gradually reduced in tiers over that amount. No rebate on the cost of Private Health Insurance premiums will apply at all to singles earning over $120,000 (couples combined $240,000), with a further two tiers in between.

While the Government's intention is to decrease expenditure, the actual cost of implementing the measures may raise cause for concern on the net benefit (will it be a case of 'guestimating' your income and then playing wait and see on the lodgment of your tax return as to whether you get a refund or pay additional tax?).

….and the cost of not having private health insurance will increase too

If you don't have Private Health Insurance, you will now come under a tiered system to work out how much extra tax you will have to pay in the form of the Medicare Levy Surcharge (MLS):

- Singles earning between $75,000 and $90,000 will pay a 1.00% MLS
- Singles earning between $90,000 and $120,000 will pay a 1.25% MLS
- Singles earning $120,000 and over will pay a 1.50% MLS

This is on top of the normal Medicare levy of 1.5%.
The income thresholds for couples are double the above rates for combined income.

Business Investment Concessions Extended and Increased

Capital expenditure by small business (those with a turnover of $2million or less) is being encouraged with the bonus deduction for the acquisition of eligible assets cut off date being extended to 31 December 2009 and the rate increasing to 50%.

For all other businesses the existing rates and time frames continue to apply.

Fringe Benefits Tax No Longer to Apply to Donations via Salary Sacrifice to Charitable Organisations

Given that donations can already be claimed as a deduction personally, there is no real tax benefit to either the individual or charity due to the change (as donations would have been made personally and hence FBT would not have applied).

The benefit really arises for individuals in that regular donations can now be made without having to worry about claiming the deduction or arranging the payment (assuming your employer allows the salary packaging of donations).

The potential benefit to Charitable organisations is that this will result in an increased and more regular pattern of donations.

SOCIAL SECURITY

Age Pensioners get a small pay rise

For those qualifying for the full age pension, there will be a modest increase of up to $32.49 per week for singles and $10.14 for couples (combined). Pharmaceutical, utilities allowances, etc will be simplified into one single pension supplement paid fortnightly, which is included in the above increases.

Age Pension to begin at age 67

If you are over 57 years of age, this won't affect you. For everyone else, this may come as no surprise. In 2023, you will need to be 67 to get the age pension, phased in gradually from 2017. For example if you are aged 56 today, you will have to wait to age 65.5. If you are under 52.5, you will need to wait until age 67 before qualifying for the Age Pension.

This hints to a future where our younger generations had better start getting used to the idea of paying for their own retirement, as this trend of increasing the Age Pension age can only go one way. Unless they are financially able to stop work, many people will have to face the prospect of a longer career and will have to ensure they have the health and energy to keep going.

Income Test gets tougher…

Age pensioners earning some income (either through work or investment) will be subject to a tougher income test which may result in a lower pension, or missing out altogether if their income is high enough. By changing the "taper rate", recipients of part-age pensions will lose 50c of the pension for every dollar of income earned above certain thresholds where it was only 40c previously.

Income Test gets easier too.

People choosing to work past 65 will now come under a "Work Bonus" which gives them special treatment under the Centrelink income test. Half of the first $500 earned per fortnight will not be counted towards the pension income test, and may mean some people can continue to work and also receive a part-age pension. Because of this new "Work Bonus" the government will close the current Pension Bonus Scheme on 20 September 2009.

Commonwealth Seniors Health Card for self-funded retirees

Finally some good news, the Commonwealth Seniors Health Card income test will have a favourable treatment for income from Allocated Pensions and other tax-free income streams. This means that retirees over 65 who are living on their allocated pension income (but do not qualify for any age pension) will not have their tax-free allocated pension income counted towards the income test for the Commonwealth Seniors Health Card, giving a greater likelihood of qualifying.

Maternity Leave

Subject to meeting certain work qualifications, parents can elect to apply for Government funded maternity leave of $544 a week for 18 weeks. This will disqualify them from the "baby bonus" lump sum. Mothers who have not been working can still receive the baby-bonus. Hopefully these little Aussie babies will grow up to pay taxes one day!

Family Tax benefits

Means-testing which currently applies to Family Tax Benefits and baby bonuses are to be locked in at today's amounts and will not be indexed.