

## 2009 Federal Budget Summary

In one of the most eagerly anticipated Budgets in decades, the Federal Government announced a range of measures last night. The following is a summary of the main proposals in those areas of most interest to our clients - **superannuation, taxation and social security**.

### Superannuation

#### Concessional Contributions Caps reduced...

Effective 1 July 2009, the concessional contributions cap (CC) will be **reduced to \$25,000** (indexed) pa. Concessional contributions generally include the 9% super guarantee, salary sacrifice contributions and **personal deductible** contributions.

The transitional CC, which applies to individuals aged 50 and over at any time during the transitional period (2007/08 to 2011/12), will be halved from **\$100,000 pa to \$50,000 pa** (not indexed) for the 2009/10, 2010/11 and 2011/12 financial years.

Non-concessional contributions will **remain** at the 2008/09 level of \$150,000.

#### Impact

- Clients who have money available to invest into superannuation in the current financial year could consider maximising superannuation contributions to fully utilise their 2008/09 contribution caps.
- Clients currently making total concessional contributions of more than \$25,000 each year (or \$50,000 if aged 50 or over) will need to reduce salary sacrifice (or personal deductible contributions) from 1 July 2009 to ensure that they do not inadvertently breach the reduced concessional contributions cap.

Excess contributions are taxed at 31.5%, in addition to the 15% contributions tax.

- Clients who are salary sacrificing bonuses, especially where the amount is unknown, need to take extra care not to inadvertently exceed the CC.

#### Transition to Retirement Pensions remain...

No specific change was announced regarding TTR income streams. However, the contribution cap change may impact individuals who utilise strategies which combine salary sacrifice and TTR pensions.

#### Impact

- Clients currently undertaking TTR strategies and who make concessional contributions of \$50,000 or less per annum will not be impacted by the change.
- Salary sacrifice and personal deductible contributions may need to be reduced from 1 July 2009. Those making concessional contributions in excess of \$50,000 will need to review their strategy to ensure contributions do not exceed the limit.
- Reduce TTR income drawdowns if necessary (from 1 July 2009).

#### Co-contribution reduced...

A temporary reduction of the maximum Government co-contribution from **\$1,500 pa to \$1,000 pa** has been announced, effective 1 July 2009.

At the end of three full financial years, the co-contribution 'matching rate' will be gradually increased until it returns to 150% in 2014-15. The lower and upper co-contribution thresholds will not be impacted.

## Impact

- As a rule of thumb, for 2009/10, individuals with total income under \$50,000 pa and \$1,000 of after tax money available to contribute will be generally better off investing an after-tax amount of \$1,000 compared with an equivalent (grossed-up) amount invested pre-tax. This is because the benefit received by the Government co-contribution is higher than the equivalent tax savings available through salary sacrifice.

## Pension drawdown relief continued...

In a press release on 18 February 2009, the Government announced that clients in account based pensions, allocated pensions and term allocated pensions (TAPs) would only have the option to draw down half of their calculated minimum income requirement for 2008/09. **This relief has been extended for a further 12 months to 30 June 2010.**

The reduced drawdown rates are set out below.

Age at start of pension and each July 1	Original percentage of account balance	Reduced drawdown % for 2009/10
Under 65	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-89	9%	4.5%
90-94	11%	5.5%
95 or more	14%	7%

## Impact

- Clients need to decide, in light of last year's market turbulence and falling investment values, whether they should reduce their income drawdowns – for this we encourage clients to contact Westmount for a review. **Those clients already taking advantage of this measure are not required to do anything.**

## Taxation

### Reductions in Personal Income Tax...

The Government has confirmed that previously legislated tax cuts will go ahead for the 2009/10 and 2010/11 financial years. No additional tax cuts were announced in this budget.

Current		From 1 July 2009		From 1 July 2010	
Taxable Income	Rate %	Taxable Income	Rate %	Taxable Income	Rate %
0-\$6,000	0	0-\$6,000	0	0-\$6,000	0
\$6,000-\$34,000	15	\$6,001-\$35,000	15	\$6,000-\$37,000	15
\$34,001-\$80,000	30	\$35,001-\$80,000	30	\$37,001-\$80,000	30
\$80,001-\$180,000	40	\$80,001-\$180,000	38	\$80,001-\$180,000	37
\$180,001+	45	\$180,001+	45	\$180,001+	45

### Private Health Insurance Rebate/Medicare Levy Surcharge changes...

From 1 July 2010 the following private health insurance rebate and Medicare levy surcharge rates will apply to higher income earners...

	Income	Income	Income
Singles	\$75,000-\$90,000	\$90,001-\$120,000	\$120,001+
Families	\$150,001-\$180,000	\$180,001-\$240,000	\$240,000+
Medicare Levy Surcharge	1.00%	1.25%	1.50%
<b>Health Insurance rebate...</b>			
Less than 65	20%	10%	Nil
65-69	25%	15%	Nil
70 and over	30%	20%	Nil

### First Home Owner's Grant Boost – extension...

The First Home Owners Boost will be extended until 31 December 2009, but at a lower rate from 1 October 2009. Eligible first home buyers entering into contracts

between 1 July 2009 and 30 September 2009 (inclusive) will receive a total of \$14,000 for established homes and \$21,000 for new homes.

Eligible first home buyers entering into contracts between 1 October 2009 and 31 December 2009 (inclusive) will receive a boost of \$3,500 for the purchase of established homes and \$7,000 for the purchase of new homes. When combined with the existing First Home Owners Scheme, eligible participants will receive a total of \$10,500 for established homes and \$14,000 for new homes during this period.

### Employee share scheme changes...

Effective immediately, shares and rights issues as part of an employee share scheme will be taxed in the year of receipt. This means employees who receive salary through discounted company share packages will no longer be able to defer paying tax on the discount. Additionally, the current exemption for the first \$1,000 of shares issued will be limited to people with an adjusted taxable income of less than \$60,000.

### Small business relief...

The small business and general business tax break will be extended to allow a bonus deduction of 50% to small business with a turnover of less than \$2 million that acquire an eligible asset between 13 December 2008 and 31 December 2009 where it is ready for use by 31 December 2010. The previously announced 30% and 10% bonuses continue to apply to all other businesses.

## Social Security

### Pension payments to increase...

The Government announced an increase to the Age Pension to take effect from 20 September 2009. The full rate single pension will be increased by \$32.49 a week, while the full rate pensioner couples (combined) pension will be increased by \$10.14 a week.

These increases will be provided in two forms: through an increase in the base rate of pension for singles and an increase in the base rate through the new Pension Supplement for both singles and couples.

### Commonwealth Seniors Health Card...

The Government has **reversed** its previous decision (announced in the 08/09 budget) to include the gross tax-free superannuation pension income in their definition of adjusted taxable income. This decision is a significant win for clients.

However, The Government will proceed to include income that is salary sacrificed to superannuation in the income assessment.

### Increase in Age Pension age...

The qualifying age for the Age Pension and the Commonwealth Seniors Health Card will be increased for men and women to 67 years of age from 2023. The qualifying age will be increased by six months every two years, commencing from 1 July 2017 and reaching 67 on 1 July 2023.

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