



12 May 2009

## Budget snapshot: how are you affected?

The 2009/10 Federal Budget has significant impacts on financial strategies, particularly for people nearing retirement. Here's a quick summary.

### key financial strategy impacts

- ~ Tax cuts confirmed
- ~ Changes to Commonwealth Seniors Health Card dropped
- ~ Age Pension full rate increased
- ~ Pension income test tougher
- ~ Concessional contributions to super trimmed
- ~ Lower minimum super pension drawdown extended
- ~ Private health insurance to cost more for high-income earners
- ~ Employee share plan benefits cut

### retirement strategy impacts

#### Concessional super contributions limit halved

From 1 July 2009, the amount that can be contributed to super at concessional tax rates will be halved. This includes Superannuation Guarantee, salary sacrifice and personal contributions that attract a tax deduction. The change affects:

- ~ higher-income earners,
- ~ those who want to reduce a potential capital gains tax liability on sale of an asset, and
- ~ people who want to 'catch-up' on super contributions in later years.

It also reduces the benefit of the popular 'transition to retirement' strategy, for employees aged 55+ who start a pension and sacrifice part of their salary to super.

From 1 July 2009 for people aged 50+, the 'transitional' contributions cap reduces from \$100,000 to \$50,000. For younger people, the concessional contributions cap reduces from \$50,000 to \$25,000 (indexed).

#### no indexing of non-concessional contributions cap

The non-concessional contributions cap of \$150,000 pa (or \$450,000 over three years) was to be indexed from 1 July 2009 to \$165,000 pa. This won't happen in 2009/10, so there's now no advantage in delaying non-concessional contributions to 1 July 2009.

#### Super co-contribution cut for now

The Government's super co-contribution will be cut temporarily. For contributions made between 1 July 2009 and 30 June 2012, the government will contribute \$1 (instead of the current \$1.50) for every dollar up to a maximum \$1000. From 1 July 2012 it increases to \$1.25, finally going back to \$1.50 from 1 July 2014. Income thresholds apply:

income range (2008-09)	co-contribution
\$30,342 or less	Full co-contribution
\$30,343 to \$60,341	Partial/tiered co-contribution
\$60,342 or more	No co-contribution

#### lower minimum pension drawdown extended

In February the Government halved the minimum pension drawdown requirements for account based income streams for 2008-09. This has been extended for 2009-10.

#### Commonwealth Seniors Health Card (CSHC) changes dropped

A proposal to include the gross amount of tax-free super income in the income test for the CSHC has been dropped. However, the proposal to include amounts salary sacrificed to super in the income test still applies from 1 July 2009.

#### Pension and Centrelink changes

Age Pension age will increase for both men and women to 67 from 1 July 2023. This will be achieved by increasing the qualifying age by six months every two years from July 2017. Currently, qualifying ages are 63.5 for women, 65 for men.

Other pension changes that all come in from 20 September 2009:

- ~ **Rate increase:** full rate pension increases by \$32.49/week for singles and \$10.14/week for couples. This includes Age Pension, Disability Support Pension and Carer Payment.
- ~ **Income test tougher:** for single pensioners, the rate at

which the pension reduces will increase from 40 cents for each additional dollar of private income to 50 cents in the dollar. For each member of a couple, this 'taper' increases from 20 cents to 25 cents. Current part pensioners who would be hurt by this will have existing payment rates maintained.

- ~ **Pension bonus scheme closed to new members:** While existing members of this scheme are not affected, it closes to new members from 20 September 2009. The scheme provides a tax-free lump sum (maximum \$34,815/single or \$29,077/couple) to people who stay in the workforce and delay receiving the Age Pension. The scheme will be replaced by a new Work Bonus which provides an exemption from the income test for 50% of the first \$500 of employment income.

### Employee Share Acquisition Scheme (ESAS) benefits cut

The Budget limits access to employee share schemes, with the result that employees with an Adjusted Taxable Income of more than \$60,000 can no longer participate in \$1,000 exempt plans. The ability to defer tax on the value of shares or rights acquired has also gone from Budget night. These measures apply immediately.

### health insurance changes affect high income-earners

Changes to the Private Health Insurance tax offset and Medicare levy surcharge thresholds announced before the Budget come in from 1 July 2010. The offset will be means tested and the Medicare levy surcharge will apply as shown in the table below:

means testing thresholds for private health insurance tax offset and Medicare levy surcharge

single income*	family income*	offset < age 65	offset 65-70	offset ≥ age 70	surcharge
< \$75,000	< \$150,000	30%	35%	40%	nil
\$75,001 – \$90,000	\$150,001 – \$180,000	20%	25%	30%	1%
\$90,001 – \$120,000	\$180,001 – \$240,000	10%	15%	20%	1.25%
> \$120,000	> \$240,000	nil	nil	nil	1.5%

\* income definition is Adjusted Taxable Income. For those crossing age thresholds, application of each threshold is based on days of eligibility.

### other changes

A number of other changes were also announced including:

- ~ Proposed tax cuts confirmed
- ~ 18 weeks paid parental leave from 1 January 2011
- ~ First home buyers boost extended in full until 1 October 2009, but abolished 31 December 2009
- ~ Additional carer payments.

### learning more

To understand the changes in more detail and how your financial strategy may be affected, please contact your financial adviser or call us on 1800 626 881.



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