



BUDGET UPDATE

May 2009

The 2009 Federal Budget reflected a subdued economic climate, with pensioners and carers the big winners, and those in higher income tax brackets most likely to be adversely affected. Some of the key issues include:

- An increase in the full Age Pension for both singles and couples
- A progressive increase in Age Pension age to 67 from 2017
- A decrease in the concessional contribution caps for superannuation, and
- A reduction in the private health insurance rebate and an increase in the Medicare levy surcharge for those on higher incomes.

We have set out below a brief overview of the main announcements as they affect superannuation, employees and employers. Please note that the announcements below are yet to be legislated. For further clarification on any of these changes or for assistance with how they may impact your personal situation, please contact your Vertex adviser.

SUPERANNUATION CHANGES

Concessional contribution limits

The concessional contribution (CC) caps (ie. the limit on concessionally treated tax deductible contributions) for those under and over age 50 will be halved from 2009/10. As a consequence of these changes, the annual non-concessional contribution cap (ie. the limit of post-tax contributions) will become six times the CC cap (as it applies to those under age 50).

The table below shows the caps for the current financial year, those that were scheduled to apply for 2009/10, and the new reduced caps for 2009/10.

Contribution Cap	2008/09	2009/10 (before Budget)	2009/10 (after Budget)
Concessional contributions (CC) cap			
Under age 50 ¹	\$50,000	\$55,000	\$25,000
Over age 50 (until 30/6/2012) ²	\$100,000	\$100,000	\$50,000
Non-concessional contributions (annual NCC) cap³	\$150,000	\$165,000	\$150,000
3-year NCC cap⁴	\$450,000	\$495,000	\$450,000
CGT cap¹ (lifetime limit for eligible business owners)	\$1,045,000	\$1,100,000	\$1,100,000

¹ These thresholds are indexed in line with movements in Average Weekly Ordinary Time Earnings (AWOTE) in increments of \$5,000 (rounded down).

² This cap is not indexed.

³ This cap is equal to six times the CC cap. It will change when the CC cap is indexed.

⁴ This cap only applies to individuals less than 65 on the first day of the financial year. The year in which the 3-year cap is initially triggered determines the value that can be contributed during the 3-year period.

The reduction in the CC cap may affect salary sacrifice and transition to retirement pension strategies. In addition, the NCC cap will not be increased for 2009/10.

Grandfathering arrangements will apply to ensure that the employer funding rate for existing defined benefit arrangements in place at 12 May 2009 are deemed to meet the new reduced cap.

Superannuation co-contribution

The maximum rate and amount of Government co-contributions to superannuation (previously \$1,500 for each \$1,000 contributed by an eligible taxpayer) will be reduced over a five year period. This is a temporary reduction; from 2014/15 the co-contribution again increases to a maximum of \$1,500.

The reductions to the maximum rate and amounts of the Government co-contribution are summarised in the table below.

Contribution year	Matching rate %	Maximum co-contribution
2009/10	100%	\$1,000
2010/11	100%	\$1,000
2011/12	100%	\$1,000
2012/13	125%	\$1,250
2013/14	125%	\$1,250
2014/15 onwards	150%	\$1,500

Minimum pension payment requirements

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 be required to draw down half 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 1 July	Original percentage of account balance (pa)	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%



SOCIAL SECURITY CHANGES

Age Pension qualifying age

The qualifying age for the Age Pension and the Commonwealth Seniors Health Card for men and women will be increased to 67 years of age at a rate of six months every two years, beginning in 2017, to reach 67 on 1 July 2023. The current Age Pension age for men is 65 and 63½ years for women (increasing in half yearly increments to align with the male Age Pension age).

Age Pension payment rates

From 20 September 2009, the full rate single pension will be increased by \$32.49 a week, while the full rate pensioner couples (combined) will be increased by \$10.14 a week. Those receiving an Age Pension, Service Pension, Disability Support Pension, Carer Payment, Bereavement Allowance, Widow B Pension, Wife Pension, Income Support Supplement and War Widow/ers Allowance will benefit from this increase, which will be comprised of a supplement and an increase in the base pension rate.

In addition, a new price index will be developed to index the base pension rate. Designed specifically for households who rely on the pension, the new Pensioner and Beneficiary Living Cost Index will generally be higher than the Consumer Price Index (CPI). The CPI will still be used to index relevant eligibility thresholds. The effective benchmark for the single pension will also be increased from 25 per cent to 27.7 per cent of Male Total Average Weekly Earnings.

Income test taper rate

The income test taper rate which is used to determine eligibility for various social security payments will be increased from 40 cents in the dollar to 50 cents in the dollar. Based on the current thresholds and pension payments including the increases proposed in this Budget, the Age Pension will be reduced to zero at a fortnightly income of \$1,343 per fortnight for a single person and \$2,163.88 per fortnight for a couple.

PERSONAL TAXATION CHANGES

Personal tax rates

No changes have been announced to the tax rates confirmed in the 2008-09 Federal Budget. These rates and thresholds are below.

Current thresholds (2008/09)	Tax rate	New tax thresholds (2009/10)	Tax rate	New tax thresholds (2010/11)	Tax rate
\$0 - \$6,000	0%	\$0 - \$6,000	0%	\$0 - \$6,000	0%
\$6,001 - \$34,000	15%	\$6,001 - \$35,000	15%	\$6,001 - \$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%

The Medicare levy does not apply to those on low incomes as a result of the Medicare levy low income threshold. This threshold will be increased to \$17,794 for individuals (from \$17,309) and \$30,025 for individuals in families (from \$29,207), with effect from 1 July 2008. The additional amount of threshold for each dependent child or student will increase to \$2,757. The Medicare levy threshold for pensioners below Age Pension age will be increased to \$25,299 (previously \$22,922), with effect from 1 July 2008 to ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

Medicare levy surcharge and private health

From 1 July 2010, private health insurance rebates will be reduced for high income earners, while the Medicare levy surcharge will increase.

For singles earning less than \$75,000 and couples earning less than \$150,000, the existing 30%, 35%, and 40% private health insurance rebates respectively will remain.

OTHER TAXATION CHANGES

The Government has also announced changes to the tax treatment of the following areas:

- Family Tax Benefit (FTB) Part A and B
- Paid parental leave
- Employee share schemes

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