

**Introduction**

The 2008-09 Federal Budget contained few surprises thanks to the 'leaking' of most of the key details in the days prior to the official announcement. In this update we will outline those issues that we see as having the most impact on our clients and their families.

**Reduction of Superannuation Contribution Caps from 1 July 2009**

The Government has reduced the maximum concessional contribution from \$50,000 to \$25,000 per annum, coming into effect on 1 July 2009 in what was a highly anticipated move. This change significantly reduces the level of superannuation contributions that can be claimed as a tax deduction and impacts on those who are salary sacrificing and/or utilising a transition to retirement strategy.

An important point to note is that with the reduced concessional cap in place care must be taken to avoid making concessional contributions in excess of the new limit. Super Guarantee contributions from your employer are counted towards your concessional cap. For anyone who has turned 50 during the current financial year it is still possible to take advantage of the current transitional concessional cap of \$100,000 prior to 30 June 2009 as this has also halved to \$50,000 until 2012.

The annual non-concessional contribution cap will remain at the same level as 2008-09, or \$150,000. The scheduled indexation increase has been reversed and in the future the non-concessional cap will simply be six times the concessional contribution cap. The government has ruled out any reduction to the non-concessional caps at this time, stating they will remain at \$150,000 (indexed) for the 2009/10 income year and beyond.

**Temporary reduction of the Government co-contribution from 1 July 2009 to 30 June 2014**

The Government has put in place a temporary reduction of the maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions. The table below shows the change from the current maximum of \$1,500 that comes into effect from July 1 2009.

	2009-2010	2010-2011	2011-2012	2012-13	2013-14	2014-15
<b>Maximum co-contribution payable</b>	\$1,000	\$1,000	\$1,000	\$1,250	\$1,250	\$1,500

**Extension of 50% minimum pension draw down relief from 1 July 2009**

For the current financial year the Government has reduced the minimum pension drawdown from account based pensions to half of the legislated minimum. This relief has been extended for the 2009-10 financial year. The reduced drawdown rates are:

Age	Minimum Annual Payment	Minimum annual pension for 2009-10 as per the budget announcement
<b>Under 65</b>	4%	2%
<b>65-74</b>	5%	2.5%
<b>75-79</b>	6%	3%
<b>80-84</b>	7%	3.5%
<b>85-89</b>	9%	4.5%
<b>90-94</b>	11%	5.5%
<b>95 plus</b>	14%	7%

**Retirement incomes report released**

The Australia's Future Tax System Review Panel has released its preliminary report into retirement incomes. The review supports the current three-pillared system with some minor amendments. The major recommendations of the review include:

- Increasing the age pension age to 67 years
- Maintaining the current superannuation guarantee threshold of 9%
- Aligning the superannuation preservation age with the age pension age
- Undertaking further examination into the concessional tax treatment for superannuation contributions and for salary sacrifice arrangements
- The final version of the panel's report is due to be released in December 2009.

**Announced tax cuts from 1 July 2009**

As announced in last year's budget, the new personal income tax thresholds for the 2009-10 financial year are as follows:

Income threshold	Current Tax Rate
\$0-\$6,000	0%
\$6,001-\$34,000	15%
\$35,001-\$80,000	30%
\$80,001-\$180,000	40%
\$180,000+	45%

Income threshold	Future Tax Rate
\$0-\$6,000	0%
\$6,001-\$35,000	15%
\$35,001-\$80,000	30%
\$80,001-\$180,000	38%
\$180,000+	45%

### Small business CGT concessions

The Government will make several changes to the small business capital gains tax (CGT) concession provisions so that they operate more flexibly and as intended. A transitional rule will extend the time for taxpayers to choose to access the concessions where the choice arises from changes to the concessions announced in the 2008-09 Budget and the 2008-09 Mid-Year Economic and Fiscal Outlook. This extension of time will apply from Royal Assent of the amending legislation.

Access to the concessions for assets acquired on the death of an individual will be extended to cover assets that have passed to a testamentary trust where the individual would have been able to access the concessions at the time of their death. This extension will apply to CGT events happening in the 2006-07 income year and later income years.

The provisions which treat certain distributions to entities connected with a private company as dividends will be excluded from applying to the small business CGT retirement exemption. This exclusion will apply from Royal Assent of the amending legislation. This measure was introduced into Parliament together with the previously announced changes to the concessions on 19 March 2009.

### Employee share scheme eligibility from 13 May 2009

Under the current rules an employee can elect to be assessed on discounts provided on shares or rights in the year they are acquired under an employee share scheme. If no election is made the discount is taxed at a later time. If the employee makes an election to be taxed upfront they receive a tax exemption of up to \$1,000 on the discount. The proposed measure will:

- Remove the existing election and access to discounts provided on shares or rights in the financial year they are acquired. Consequently, removal of the tax deferral option will ensure that remuneration in the form of share discounts are taxed at an appropriate time and rate and will result in a reduction of tax avoidance opportunities, and
- Limit access to the upfront concession to employees with an adjusted taxable income of less than \$60,000 per year, resulting in a better take-up and availability of employee share arrangements by low and middle income earners.

### Closely held trusts and TFN withholding arrangements from 1 July 2010

This measure ensures that assessable distributions to beneficiaries of closely held trusts (including family trusts) align with amounts declared in tax returns by beneficiaries. This will not apply to income where tax is directly payable by the trustee, such as minors' assessable income. Taxpayers who have tax withheld by trustees will be able to claim a credit for that tax in their tax return.

### Age pension age to increase to age 67 from 1 July 2017

The qualifying age for the Age Pension and the Commonwealth Seniors Health Card for men and women will increase to 67 years of age from July 2023. The Henry Tax Review report on the retirement income system also recommends aligning the superannuation preservation age with this higher Age Pension age. The qualifying age will begin to increase from July 2017, by six months every two years.

From	New age pension age	Affects people born	Current age
1 July 2017	65 years 6 months	1 July 1952 – 31 Dec 1953	55.5 – 57
1 July 2019	66	1 Jan 1954 – 30 Jun 1955	54 – 55.5
1 July 2021	66 years 6 months	1 July 1955 – 31 Dec 1956	52.5 – 54
1 July 2023	67	1 Jan 1957 – onwards	52.5 or younger

### Increase in government support pension amount from 20 September 2009

The single base pension will be increased to 27.7 per cent of Male Total Average Weekly Earnings (MTAWE), from its present 25 per cent of MTAWE. This means that from 20 September 2009 the single basic pension rate will be increased by \$30 per week. In addition, from 20 September 2009 the base pension and the Pension Supplement will be increased by:

- \$32.49 per week for single pensioners on the full rate of pension; and
- \$10.14 per week (each) for couple pensioners on the full rate of pension.

### Paid Parental Leave from 1 January 2011

A government funded Paid Parental Leave scheme will be introduced. The parental leave payment will be equal to the federal minimum wage (currently \$543.78 per week), and can be paid for up to 18 weeks to the primary care giver.

The primary carer must have earned less than \$150,000 (income test yet to be defined) for the financial year prior to the child's birth or adoption, and have satisfied a work test. The work test requires the person to have worked at least 330 hours in the preceding 10 months, which equates to one full-time day per week. They must also have worked continuously for 10 out of the 13 months preceding the birth or adoption; therefore the work test cannot be satisfied by only working full-time for two months prior to the birth of a child.

The Baby Bonus will not be payable if claiming Paid Parental Leave. Neither will other family assistance payments, such as Family Tax Benefit (FTB) Part B, dependent spouse, child-housekeeper and housekeeper tax offsets, for the period of payment of the Paid Parental Leave. In the case of multiple births, the Baby Bonus would still be payable for the second child.

The payment will form part of the person's taxable income, and can be transferred to another caregiver if the primary carer returns to work.

#### Commonwealth Seniors Health Card (CSHC) – income test

The government will remove the inclusion of gross tax-free superannuation pension income in the proposed amendment to the definition of income used for determining eligibility to the Commonwealth Seniors Health Card. The government will proceed with the inclusion of income that is salary sacrificed to superannuation in the income assessment. Based on this announcement, from 1 July 2009 the definition of Adjusted Taxable Income (ATI) used for CSHC will include:

- Taxable Income
- Fringe Benefit
- Target foreign income
- Net investment losses
- Salary sacrifice super contributions
- Personal deductible super contributions

This policy reversal means that many CSHC holders who were facing the loss of their card from 1 July 2009 may now retain their card. A self funded retiree's eligibility for the CSHC will now continue to be unaffected by tax free pension income or lump sum super withdrawals.

#### Reform of family payments from 1 July 2009

From 1 July 2009, as a cost reduction measure, the Family Tax Benefit (FTB), FTB Part A payment rates will be indexed by the Consumer Price Index (CPI) consistent with other family payments such as FTB-B and the Baby Bonus. Currently the maximum rates of FTB-A for children under the age of 16 are benchmarked to the higher of a proportion of the combined couple rate of pension payments, or CPI.

The upper income threshold for FTB-A, FTB-B, dependency tax offsets and the Baby Bonus will remain at its current level until July 2012. These thresholds would ordinarily be indexed by CPI. The following upper thresholds will remain:

Benefit Type	Income purpose	Cut off threshold
Family Tax Benefit Part B	Income of primary income earner	\$150,000
Dependency tax offset	Income of taxpayer claiming the offset	\$150,000
Baby Bonus	Combined family income in the six months following the birth of the child	\$75,000
Family Tax Benefit Part A	Combined family income before losing entitlement	\$94,316 (plus \$3,796 for each additional child)

#### Private Health Insurance Rebate from 1 July 2010

The government has proposed to means test the 30% private health insurance rebate for middle to high income earners according to age. This is going to be achieved through introducing a four tier system with a parallel increase in the Medicare Levy Surcharge rate to penalise taxpayers who do not have eligible private health insurance.

- Tier 1 – Singles with income of more than \$75,000 (more than \$150,000 for families), the rebate will be reduced to 20%, increasing to 25% at 65 years of age, and to 30% at 70 years. The Medicare Levy Surcharge for not having eligible private health insurance remains at 1%.
- Tier 2 – Singles with income of more than \$90,000 (more than \$180,000 for families), the rebate will be 10%, increasing to 15% at 65 years of age, and to 20% at 70 years. Medicare Levy Surcharge for not taking out eligible private health insurance will be increased to 1.25%.
- Tier 3 – No private health insurance rebate for singles with income of more than \$120,000 (more than \$240,000 for families). The Medicare Levy Surcharge for not taking out eligible private health insurance will be increased to 1.5%.

Table of proposed change (Source: Federal Budget Paper No. 2):

	Current surcharge thresholds (projected 2010-11)	Tier 1	Tier 2	Tier 3
<b>Singles</b>	<b>\$0 - \$75,000</b>	<b>\$75,001 - \$90,000</b>	<b>\$90,001 - \$120,000</b>	<b>\$120,001+</b>
<b>Families</b>	<b>\$0 - \$150,000</b>	<b>\$150,001 - \$180,000</b>	<b>\$180,001 - \$240,000</b>	<b>\$240,001+</b>
Medicare levy surcharge	nil	1.00%	1.25%	1.50%
Private health insurance rebate				
Less than 65 years	30%	20%	10%	nil
65 to 69 years	35%	25%	15%	nil
70 years or over	40%	30%	20%	nil

The current arrangement will remain unchanged for singles with income less than \$75,000 p.a. and families with income of less than \$150,000 p.a.

The definition of income for this purpose will be same as the definition used for the Medicare Levy Surcharge which includes: taxable income, salary sacrifice super, personal deductible super contributions, net investment losses and reportable fringe benefits.

**Extension to the First Home Owners Boost**

The government will extend the First Home Owners boost for another six months. The following table summarises the extension of the First Home Owner grant:

<b>Contract date for purchase (inclusive)</b>	<b>First Home Owner grant for established home</b>	<b>First Home Owner grant for new home</b>
1 July 2009 – 30 September 2009	\$14,000	\$21,000
1 October 2009 – 31 December 2009	\$10,500	\$14,000
After 1 January 2009	\$7,000	\$7,000