

# Budget Newsflash

## May 2009

Overall, the 2009 Federal budget was not as harsh as many had expected, despite the swing from a \$21.7 billion surplus last year to a \$57.6 billion deficit this year. We hope the treasurer is correct in his bullish estimates of Australia's future growth potential!

Some of the key issues addressed in the budget include:

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

This email outlines the budget items we believe will have the most impact on our clients.

### Superannuation changes

#### **Concessional contribution limits**

Many of Lifestyle's clients will be affected by the changes to superannuation contribution limits, which seem to be very short-sighted as they reduce an individual's ability to save for their own

retirement and will therefore incur more expense for future governments.

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).

This is more than a halving of the limits, as the CC caps were due to be indexed this year and this indexation is now postponed as a new base year has been set.

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.

The reduction in the CC cap will 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.

# Lifestyle Newsflash

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Contribution Cap	2008/09	2009/10 (before Budget)	2009/10 (after Budget)
Concessional contributions (CC) cap			
Under age 50 <sup>1</sup>	\$50,000	\$55,000	\$25,000
Over age 50 (until 30/6/2012) <sup>2</sup>	\$100,000	\$100,000	\$50,000
Non-concessional contributions (annual NCC) cap <sup>3</sup>	\$150,000	\$165,000	\$150,000
3-year NCC cap <sup>4</sup>	\$450,000	\$495,000	\$450,000
CGT cap <sup>1</sup> (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.

## 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 as 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.

## Medicare levy surcharge and private health rebates

From 1 July 2010, private health insurance rebates will be reduced for so called "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.

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## Paid parental leave

From 1 January 2011, parents will be eligible for 18 week's leave paid at the federal minimum wage (currently \$543.78 per week). Payments under the scheme will be included in taxable income. To be eligible for the scheme, a parent in paid work must have:

- worked continuously with one or more employers for at least 10 of the 13 months before the expected date of birth or adoption,
- worked at least 330 hours in those 10 months, which is equivalent to around one full day of work each week, and
- an adjusted taxable income of \$150,000 or less in the financial year prior to the date of birth or adoption of the child.

The scheme is in addition to any employer funded parental leave and will be available to contractors, casual workers and the self-employed. Parents who receive paid parental leave will not receive the Baby Bonus (except in the case of twins or multiple births), or FTB Part B during the 18 week paid parental leave period.

Those who choose not to receive paid parental leave or are otherwise not eligible will continue to receive the current forms of family assistance such as the Baby Bonus, where eligible.

## 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 comprise of a supplement and an increase in the base pension rate.

### **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.

### **Commonwealth Seniors Health Card**

The definition of adjusted taxable income for the purposes of the Commonwealth Seniors Health Card will no longer include the gross tax-free superannuation pension income which was previously announced in the 2008-09 Budget. The Government will proceed, however, to include income that is salary sacrificed to superannuation in the income assessment with effect from 1 July 2009. The assessment of salary sacrifice to superannuation is consistent with the arrangements that have existed for Age Pension for some time.

*For further clarification on any of the above changes or for assistance with how they may impact your personal situation, please contact Lifestyle on 02 9410 6000.*