smartsuper
superfund administrators

Budget Update May 2009

KEY CHANGES AFFECTING YOUR SUPERANNUATION

- **Concessional contribution caps reduced – you can now claim less as a tax deduction**
- **Pension drawdown relief extended – minimum drawdown to stay at 50%**
- **Temporary reduction in the Government co-contribution**

Reduction of the concessional contributions caps

As was leaked prior to budget night, the amount you can claim as a tax deduction for superannuation has been reduced by 50% as from the next financial year.

Age	New concessional (deductible) amount	Current concessional amount (up until 30 June, 2009)
Under 50	$25,000	$50,000
50 and over (up to 2012)	$50,000	$100,000

The annual cap on **non-concessional contributions** will remain unchanged at $150,000 per annum for the 2008-09 financial year and will remain at that level in 2009-10. In the future, the cap will be calculated as six times the level of the (indexed) concessional contributions cap.

Account-based pensions — further drawdown relief for retirees

The Government will leave the minimum amounts that must be drawn from account-based pensions, allocated pensions and market-linked (term allocated) pensions at 50% of the prescribed amounts for the 2009-10 year as applied for the 2008-2009 year.

Minimum payments are determined by age and normally vary between 4 per cent and 14 per cent of the value of the pension account balance at 1 July each year. For 2010 they will vary between 2 per cent and 7 per cent of the value of the pension account balance at 1 July, 2009 (ie half the normal rate).

Government co-contribution temporarily reduced

The Government will temporarily reduce the matching rate and maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions, with effect from 1 July 2009.

The temporary reduction in the co-contribution matching rate is not expected to have a significant impact on the level of superannuation contributions because the scheme will remain very generous — the matching rate will continue to provide a return on contributions of at least 100 per cent.

Under this measure, the matching rate will be:

- 100 per cent for 2009-10, 2010-11 and 2011-12, with a maximum co-contribution of $1,000, reduced by 3.333 cents for each dollar by which the person's total income exceeds the shade out threshold for receiving the full co-contribution;
- 125 per cent for 2012-13 and 2013-14, with a maximum co-contribution of $1,250, reduced by 4.167 cents for each dollar of total income above the shade out threshold; and
- 150 per cent from 2014-15 onwards, with a maximum co-contribution of $1,500, reduced by 5 cents for each dollar of total income above the shade out threshold.

smartsuper pty limited
abn 47 003 822 339 afs licence 247120
level14,124 walker street, north sydney nsw 2060
PO box 529, north sydney nsw 2059
phone: 1300 138 348 fax: 1300 138 349
www.smartsuper.com.au

Key Changes to your Personal Situation

Access to non-commercial business losses tightening

The Government will tighten the application of the rules on the use of non-commercial losses to prevent high income individuals from offsetting excess deductions from non-commercial business activities against salary and other income. The measure has effect from the 2009-10 income year.

The measure will ensure excess deductions from unprofitable business activities cannot be used to reduce salary and wage income of high income earners. Taxpayers with an adjusted taxable income of over $250,000 will instead have excess deductions quarantined to the business activity. The existing rules will continue to apply to taxpayers with an adjusted taxable income of $250,000 or less. The new test for taxpayers with adjusted taxable income greater than $250,000 will restrict the ability of such taxpayers to claim losses for non-commercial activities that are more likely to be in the nature of lifestyle choices or hobbies.

Taxpayers will still have the ability to apply to the Commissioner of Taxation for relief from the rules if there are exceptional circumstances or because the nature of the activities means that a taxpayer is temporarily carrying on an uncommercial business but the activities they are undertaking are nonetheless independently assessed as commercially viable.

Watch out if you have a hobby farm, horse stud or boat hire business and are generating losses!

No deferral of tax on employee share schemes

Employees will no longer be able to defer paying tax on the discount component of any shares issued under employee share schemes. The discount will now be taxed at normal rates in the year the shares are given subject to a tax-free component of $1,000 for employees with taxable incomes less than $60,000.

Medicare levy low-income thresholds increased

The Government will increase the Medicare levy low-income thresholds (ie how much you can earn **before** you have to pay the Medicare levy) to $17,794 for individuals and $30,025 for individuals in families, with effect from 1 July 2008.

The additional amount of threshold for each dependent child or student will also increase to $2,757. The increase in these thresholds takes into account movements in the Consumer Price Index and ensures that low-income families and individuals are not liable to pay the Medicare levy.

The Government will also increase the Medicare levy threshold for pensioners below Age Pension age to $25,299, with effect from 1 July 2008. This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

Private health insurance rebate – new tiered scales to be introduced

Effective from 1 July 2010, the Government will effectively reduce the rebate on Private Health Cover premiums for everyone with those on higher incomes affected the most. The Government says that they are introducing three new *'Private Health Insurance Incentive Tiers'* to better balance the mix of incentives for people to take out private health insurance.

Existing arrangements will remain unchanged for singles with income of less than $75,000 per annum and families with incomes of less than $150,000 per annum. Income in this context refers to income for Medicare levy surcharge (the surcharge) purposes.

Income Level		Age			Surcharge Payable if do not take out cover
Single	Family	Under 65	65-69	70 plus	
75,000	150,000	20%	25%	30%	1.00%
90,000	180,000	10%	25%	20%	1.25%
120,000	240,000	Nil	Nil	Nil	1.50%

All income thresholds will continue to be indexed to wages. The income thresholds will also be adjusted for families with more than one child in the same manner as existing arrangements for the surcharge.

Example – if you are single and on an income of $200,000 you must decide between paying $3,000 in additional levy to the Tax Office or paying $3,000 to a Health Fund.

First Home Owners Grant Boost Extended

For eligible first home buyers entering into contracts between 1 July 2009 and 30 September 2009 (inclusive) the First Home Owners Boost will continue to provide $7,000 for the purchase of established homes and $14,000 for the purchase of new homes. In combination with the existing $7,000 First Home Owners Scheme grant, this means that first home owners will receive a total of $14,000 for established homes and $21,000 for new homes.

For eligible first home buyers entering into contracts between 1 October 2009 and 31 December 2009 (inclusive) the First Home Owners Boost will provide $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 grant, this means that first home owners will receive a total of $10,500 for established homes and $14,000 for new homes.

Increase in the Age Pension age

The Government will increase the qualifying age for the Age Pension and the Commonwealth Seniors Health Card for men and women **to 67 years of age from 2023**, as follows.

Date	New age pension age	Affects people born	When group reaches new age pension age
01-Jul-2017	65 years and 6 months	1 July 1952 to 31 December 1953	1 January 2018 to 30 June 2019
01-Jul-2019	66 years	1 January 1954 to 30 June 1955	1 January 2020 to 30 June 2021
01-Jul-2021	66 years & 6 months	1 July 1955 to 31 December 1956	1 January 2022 to 30 June 2023
01-Jul-2023	67 years	From 1 January 1957	From 1 January 2024

The transition to the higher Age Pension age will commence in July 2017, with the qualifying age increasing by six months every two years, to reach 67 on 1 July 2023. This timeline dovetails with the current process for increasing the female Age Pension age, which is being increased from 63.5 today to 65 years of age by July 2013. The current Age Pension age for men is 65.

The Intergenerational Report projected that the percentage of people aged over 65 will increase from 13 per cent to 25 per cent by 2047, reflecting changing demographics and increases in life expectancy. When the Age Pension was introduced in 1909, a male retiring at age 65 would have expected to spend 11 years in retirement. At that time, around half of the male population reached retirement age. Today, over 85 per cent of the male population reaches retirement age and can expect to spend over 19 years in retirement.

Family Tax Benefit Part A (FTB-A) — removing the link to pension indexation

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

Family payments — pause to indexation of upper income thresholds of FTB-A, FTB-B and Baby Bonus

The Government will reform family payments through maintaining the higher income thresholds for family payments at their current level until July 2012.

The following higher income thresholds will remain fixed until July 2012: the Family Tax Benefit Part B primary earner income threshold, which will remain at $150,000; the income threshold for receiving the dependency tax offsets, which will remain at $150,000; the Baby Bonus eligibility threshold, which will remain at $75,000 of family income in the six months following the birth or adoption of a child (equivalent to $150,000 a year); and the higher income-free area of Family Tax Benefit Part A, which will remain at $94,316 of family income (plus $3,796 for each child after the first). These thresholds would ordinarily be indexed by the Consumer Price Index.

Increase to pension payments

The new pension package (comprising the base pension and the Pension Supplement) will deliver the following increases:

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

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

The Government will provide a $30 per week increase in the single basic pension rate.

For the new Pension Supplement, the Government will provide:

- a $2.49 per week increase for singles; and
- a $10.14 per week combined increase for couples.

Commonwealth Seniors Health Card — income test

The Government **will not proceed** with an element of the measure *Responsible Economic Management - Commonwealth Seniors Health Card — adjusted taxable income test* announced in the 2008-09 Budget to change the Commonwealth Seniors Health Card income test to include gross tax-free superannuation pension income in the adjusted taxable income test.

The Government **will proceed** with the other element of the measure **- to include income that is salary sacrificed to superannuation in the income assessment**, with effect from 1 July 2009.

Income test taper tightened

The Government will increase the income test taper from 40 to 50 cents in the dollar for a single pensioner and from 20 to 25 cents in the dollar for each member of a couple, for income above the relevant income free threshold. This threshold is currently $138 per fortnight for single pensioners and $240 per fortnight for pensioner couples (combined).

As part of this measure, the higher income test threshold for pensioners with children (currently $162.60) will be abolished to align the pension income test with the allowance and family payments income tests.

Existing part pensioners affected by the income test changes will keep existing entitlements, maintained in real terms, plus an increase of $10.14 per week for singles or couples combined.

To increase incentives to undertake paid employment, an income test concession for employment income will be introduced for people of Age Pension age and for veterans of Service Pension age. Employment income will be assessed fortnightly, with only half of the first $500 of fortnightly employment income to be counted in assessing their pension entitlement.

Pension Bonus Scheme closed

The Government will close the Pension Bonus Scheme to new entrants from 20 September 2009. Existing members of the scheme will continue to accrue entitlements under existing rules.

The Government is closing the scheme to new entrants as evaluation data has indicated that the vast majority of participants would have continued in the workforce in the absence of the scheme.

The Government will continue to encourage workforce participation among older Australians by establishing a new pension income test concession for employment income. Under the new Work Bonus, 50 per cent of the first $500 per fortnight of employment income will not count for income test purposes.

Other Key Changes

Capital gains tax — further amendments to the small business concessions

The Government will make several changes to the small business capital gains tax (CGT) concessions provisions so that they operate flexibly and as intended.

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.

Capital gains tax — limited roll-over relief for fixed trusts

The Government will provide a limited capital gains tax (CGT) roll-over for assets transferred between trusts that have the same beneficiaries with the same entitlements and no material discretionary elements (typically referred to as fixed trusts), with effect from 1 November 2008.

Typically, the transfer of assets from one trust to another would trigger a CGT taxing point.

As a result of this measure, trustees of eligible trusts will be able to defer the CGT consequences of the asset transfer until the receiving trust subsequently deals with the asset. This will allow eligible trusts to restructure without immediate CGT consequences. The measure will be accompanied by appropriate integrity rules.

Tax file number withholding arrangements extending to closely held trusts

The Government will extend the tax file number (TFN) withholding arrangements to closely held trusts, including family trusts, with effect from the 2010-11 income year. This means that you will have tax deducted from any payments made to you unless you provide your personal Tax File Number to the trust

The measure will ensure that assessable distributions to beneficiaries of closely held trusts align with the amounts included by these beneficiaries in their tax returns. The measure will not apply to income upon which tax is directly payable by the trustee of the trust, such as the income assessable to minors. Individuals who have tax withheld by trustees can claim a credit for that tax in their tax return.

Special Disability Trusts — changes to the taxation of unexpended income and the capital gains tax main residence exemption

The Government will ensure that the unexpended income of a Special Disability Trust is taxed at the relevant beneficiary's personal income tax rates rather than automatically at the top personal tax rate plus Medicare Levy, with effect from the 2008-09 income year.

The Government will also extend the capital gains tax main residence exemption to include a residence that is owned by a Special Disability Trust and used by the relevant beneficiary as their main residence, with effect from the 2009-10 income year.