

## Budget 2009/10

Welcome to the 2009/10 Budget issue of The Pulse.

Please find within an overview of changes contained in the Federal Budget which may impact on you and your family.

The past year has been an extremely challenging one from an economic perspective. The Federal Government began the 2008/09 Financial Year with a forecast Budget Surplus of \$22 Billion. It appears they will end the year with a deficit of around \$22.5 Billion, which is an enormous turn around from where we started out!. We are clearly now in a very different world economically and it may take investors a period of time to adjust to this new paradigm.

The consensus from economists around the world is that we are likely to be entering a sustained period of low economic growth, higher inflation and hence higher interest rates. This will necessitate the revisiting of many investment and retirement strategies for investors, as many of the assumptions these strategies were based on may change. It may also mean that investors need to adjust their expectations from their investment portfolios and also perhaps their retirement plans, especially if they are below age 52 now and were planning to retire onto the Aged Pension.

This recent Federal budget has certainly highlighted the importance of having a financial plan in place which is flexible and can be adapted to your changing circumstances. It also highlights the importance of a regular meeting with your Financial Planner to revisit your plan and discuss your current circumstances. Health Super Financial Planning has a dedicated review service for clients, which proactively contacts clients in order to arrange review meetings with clients.

I hope you find this budget edition of The Pulse informative, and urge you to contact us on either 1300 780 223 or [info@hsfp.com.au](mailto:info@hsfp.com.au) if you have any questions regarding the budget changes.

Regards

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## Health Super Financial Planning - Budget In Brief

The Federal Treasurer Mr Wayne Swan, on Tuesday 12th May handed down the 2009/10 Federal Budget. The government has stated their aim is to run with a large budget deficit for the next 6-7 years intending to then bring the budget back into surplus. Running a budget deficit in recessionary periods is regarded as good economic management, the trick with this is to time the return to budget surpluses and begin repaying the debt.

Many of the forecasts handed down along with the budget are so far into the future that it is difficult to determine their accuracy, which in turn makes it hard to project out any longer term implications from this budget. Possibly the dominant theme to take away from this years budget is that the Federal Government is going to continue its program of borrowing money in order to stimulate the Australian Economy for the next few years at least. The biggest winners from this strategy are likely to be the Institutional Bond Traders who have seen a dormant bond market and long forgotten career choice reborn within the period of 12 months!

Please note that this budget update is an overview only, and does not address all the initiatives announced in the Federal Budget. If you are concerned that the changes discussed in this paper or any other changes announced may affect you please contact your Health Super Financial Planner to discuss further.

### Significant changes announced with regard to:

#### Superannuation

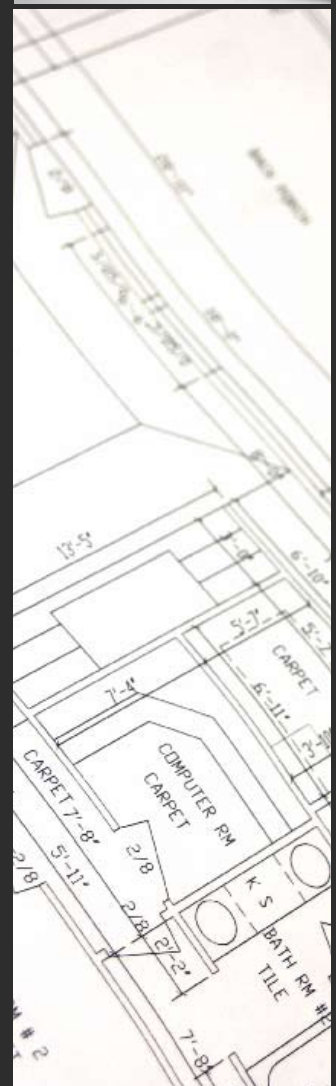
- Halving of the concessional contribution cap to \$25,000 and transitional concessional contribution cap to \$50,000 from 1 July 2009.
- Transition to Retirement (TTR) pensions to remain for members over age 55.
- Reduction in the government co-contribution matching rate for the next 5 years.
- Minimum pension reduction from super accounts extended.

#### Taxation

- Reductions in personal income tax
- Private health insurance rebate income tested
- Medicare levy surcharge increase

#### Social Security

- Age pension increases.
- Changes to Income test taper rate.
- Pension bonus scheme scrapped.
- Benefits for self funded retirees.
- Increase to minimum age pension age





## Superannuation - Concessional Contributions Cap Reduced

Concessional contributions include superannuation guarantee, salary sacrifice contributions and personal deductible contributions. Effective 1 July 2009, the concessional contribution cap will be reduced to \$25,000 (indexed) per annum for those under 50. The transitional concessional contribution (until 2011/12) which applies to individuals over 50 is also to be halved to \$50,000. Post 30 June 2012 this will be halved to \$25,000.

In light of the changes, the below tables show the reduced concessional contributions cap.

(Concessional caps)

Financial Year	Pre Budget	Post Budget
2009/10	\$55,000	\$25,000
2010/11	\$55,000	\$25,000
2011/12	\$60,000	\$25,000
2012/13	\$60,000	\$25,000
2013/14	\$60,000	\$25,000
2014/15	\$65,000	\$30,000

(Transitional Caps)

Financial Year	Pre Budget	Post Budget
2009/10	\$100,000	\$50,000
2010/11	\$100,000	\$50,000
2011/12	\$100,000	\$50,000
2012/13	\$60,000	\$25,000
2013/14	\$60,000	\$25,000
2014/15	\$65,000	\$30,000

Source: Asgard

Importantly, the non concessional contribution cap will be six times the level of the concessional contributions cap. Currently this is \$150,000 (6 x \$25,000). There was no mention of any change to the bring forward arrangements for those people under 65.

### *So what does this mean in terms of Retirement Strategies?*

Superannuation still remains the most tax effective investment environment available to Australians. You can direct contributions into superannuation at a tax rate of 15% (compared to your marginal tax rates), can have the investment earnings taxed at a maximum of 15% (again saving marginal tax rates) and can withdraw from superannuation tax free after the age of 60. This change reduces the ability of people to make large, concessional tax superannuation contributions close to retirement. It will put a greater emphasis on retirement planning and more specifically on making superannuation contributions early in life.

### Strategy Thoughts

As this current financial year is the last with the higher maximum concessional contributions, you may wish to increase your superannuation salary sacrifice or self employed superannuation contributions as much as you can over the last 5 weeks leading up to 30 June 2009.

There was some discussion that the transition to retirement rules may be under some threat. This has proven to be unfounded. A transition to retirement strategy remains one of the most tax effective ways to increase savings in the lead up to retirement. One element of this strategy, (the ability to increase tax advantaged salary sacrifice contributions back into super) is now hampered by the new limits on tax deductible contributions into superannuation as mentioned earlier.





## Reduction in the government co-contribution

Effective 1st July 2009 the Government Co-contribution will be reduced. Currently, if you are earning less than \$60,342 a year and make a personal contribution to superannuation, you receive a Government Co-contribution of \$1.50 for every \$1.00 that you contribute up to a limit, depending on your income. The maximum Government Co-contribution is \$1,500 when you make a personal contribution of \$1,000 if you are earning less than \$30,342.

From 1 July 2009 the government will reduce their contribution of \$1.00 for every eligible \$1.00 personal contribution. This will increase to \$1.25 from July 2012, then back to \$1.50 from July 2014.

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%	\$1,250

## Strategy Thoughts

Now is the time to make a Government Co-contribution, when the Government contributes \$1.50 for every \$1.00 that is made as a personal contribution. It is an opportunity that you might pay particular attention to - including the possibility of making contributions on behalf of adult children or grandchildren. You don't have to make a \$1,000 contribution - if you put in a smaller amount like \$50 it will be matched with a \$75 contribution. This is still the most efficient way of turning \$50 into \$125 that we know of.

## Minimum pension reduction extended

It was announced that the halving of the minimum draw down rate from a superannuation pension will remain for the next financial year. This measure was introduced recently so people can preserve their capital due to the Global Financial Crisis. This effectively gives people more choice if they wish to draw less from their superannuation pension, giving their investments more time to recover.

Age at start of pension and each 1 July	Original annual drawdown of account balance (%)	Reduced annual drawdown of account balance 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%





## Taxation

### Reductions in personal income tax

The government kept one of their election promises and confirmed that personal tax rates will be reduced (see below)

Current thresholds (2008/09)	Tax rate	Thresholds in 2009/10	Tax rate	Thresholds in 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%

### Tax payable and potential tax savings

The following table shows the amount of tax payable and tax saved in future financial years for a range of taxable incomes, when compared to the current (2008/09) financial year.

Taxable income	2008/09	2009/10		2010/11	
	Tax payable	Tax payable	Tax saved	Tax payable	Tax saved
\$20,000	\$900	\$750	\$150	\$600	\$300
\$40,000	\$5,200	\$4,900	\$300	\$4,450	\$750
\$60,000	\$12,000	\$11,700	\$300	\$11,250	\$750
\$80,000	\$18,000	\$17,850	\$150	\$17,550	\$450
\$100,000	\$26,000	\$25,450	\$550	\$24,950	\$1,050
\$120,000	\$34,000	\$33,050	\$950	\$32,350	\$1,650
\$140,000	\$42,000	\$40,650	\$1,350	\$39,750	\$2,250
\$160,000	\$50,000	\$48,250	\$1,750	\$47,150	\$2,850
\$180,000	\$58,000	\$55,850	\$2,150	\$54,550	\$3,450
\$200,000	\$67,000	\$64,850	\$2,150	\$63,550	\$3,450





## Private health insurance rebate income tested

Effective 1 July 2010, the Government will introduce three new 'Private Health Insurance Incentive Tiers'. Existing arrangements will remain unchanged for singles with income of less than \$75,000 p.a. and families with incomes of less than \$150,000 p.a.

- Tier 1 will apply to singles with income of more than \$75,000 (more than \$150,000 for families). The private health insurance rebate will be 20%, increasing to 25% at 65 years of age, and to 30% at 70 years. The private health insurance surcharge for not taking out complying private health insurance will remain at 1%.
- Tier 2 will apply to singles with income of more than \$90,000 (more than \$180,000 for families). The private health insurance rebate will be 10%, increasing to 15% at 65 years of age, and to 20% at 70 years. The surcharge for not taking out complying private health insurance will be increased to 1.25%.
- Tier 3 will apply to singles with income of more than \$120,000 (more than \$240,000 for families). No private health insurance rebate will be provided. The surcharge for not taking out complying private health insurance will be increased to 1.5 per cent.

## Social Security

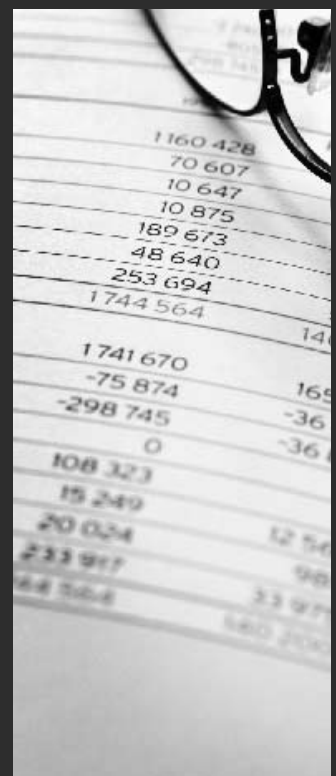
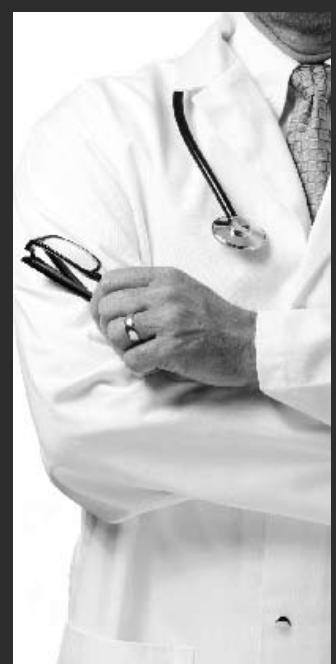
### Age pension rate to increase

An additional \$1,689 a year will be paid to full rate single pensioners and \$527 a year to full rate pensioner couples (combined). This brings the total value of pension payments for singles to 66% of the couples combined package.

From 20 September 2009, full rate single pensioners will receive an additional \$32.49 per week through: an extra \$30.00 per week in the base pension and an extra \$2.49 per week in a new fortnightly Pension Supplement. Full rate pensioner couples will receive an additional \$10.14 per week in the new fortnightly Pension Supplement.

From 20 September 2009, the existing Goods and Services Tax Supplement, Pharmaceutical Allowance, Utilities Allowance, Telephone Allowance (at the higher internet rate), and increased assistance of \$2.49 per week for singles and \$10.14 per week for couples combined will be included in the new fortnightly Pension Supplement.

In addition, the pension income test will be changed. The age pension is reduced by 50 cents for every dollar (up from 40 cents) of income over full pension thresholds (currently \$138 per fortnight for singles and \$240 per fortnight for couples).





## Commonwealth Senior's Health Card - Income Test Amendment

The Commonwealth Senior's Health Card income test will now include income which has been salary sacrificed to superannuation. Previously it was announced that tax-free income from superannuation income streams was to be also counted, however this is now not the case. This is good news for those who were concerned that their tax free superannuation pension incomes may have impeded future access to the benefits provided by holding this card.

## Increase in age pension 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 from 2023. 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.

## Other matters....

We have extracted the issues from the budget that will affect the majority of our members. However it is important to note other changes in the 2009 budget may impact your financial situation (summarised below). If any of these are applicable to you please make an appointment with one of our financial advisers at your earliest convenience.

- Small business tax and CGT relief
- Tightening access to non-commercial business loans
- Tightening access to non-commercial loans rules
- Changes to taxation of employee share scheme entitlements
- Removal of tax exempt status for foreign employment income
- CGT relief for rollovers between fixed trusts
- Extension of capital loss roll over for complying superannuation funds
- Small and insoluble lost super accounts to be transferred to the ATO
- Medicare levy surcharge increase

## Finally.....

I hope that you have found our Budget issue of The Pulse informative. If you have any queries please feel free to contact us on [info@hsfp.com.au](mailto:info@hsfp.com.au). We would like to invite you to contact one of the financial planners on 1300 780 223 or [info@hsfp.com.au](mailto:info@hsfp.com.au) at Health Super Financial Planning to discuss how the 2009/10 Budget will affect you and your family.



# the PULSE

Budget 2009/10



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### Services Available:

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Call 1300 78 02 23 or email [info@hsfp.com.au](mailto:info@hsfp.com.au) to make an appointment with one of our qualified financial planners. Health Super members, and members of their immediate family are entitled to discounted service rates.



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