

# The 2009 Federal Budget – how it may affect you

## Introduction

On 12 May 2009, Treasurer Wayne Swan delivered the Government's second Federal Budget. It was a Budget that caught few by surprise, with many of the measures announced via the Press over the preceding days and weeks.

While much has already been written of the announced changes, it is appropriate to examine some of the proposals that potentially impact you. There are changes announced in the Budget that may also present you with opportunities to boost your retirement savings.

It is, however, important to note that the measures announced in the Budget are, at this stage, proposals only. To become law, these measures need to successfully pass through Parliament.

It is important that you seek professional financial advice and review your financial plans in relation to the impact that these measures may have upon your personal financial position.

## Tax cuts

Despite not gaining a mention in the Treasurer's Budget speech, the Government has recommitted to the previously legislated tax cuts for many income earners for the 2009/10 and 2010/11 tax years.

The combination of adjustments to tax rates, thresholds and offsets will result in the following tax savings:

Taxable income	Saving in 2009/10	Additional saving in 2010/11
\$10,000	\$0	\$0
\$15,000	\$150	\$0
\$30,000	\$150	\$150
\$45,000	\$300	\$450
\$60,000	\$300	\$450
\$80,000	\$150	\$300
\$100,000	\$550	\$500
\$130,000	\$1,150	\$800
\$160,000	\$1,750	\$1,100
\$180,000+	\$2,150	\$1,300

Australians have now seen tax cuts delivered over a long succession of Federal Budgets. It is important to recognise the impact tax savings may have in your personal financial planning.

While for those on average income tax cuts of \$300 in 2009/10 and an extra \$450 per annum thereafter may sound modest, these amounts could be the important start of a savings or investment program. These amounts are not being "consumed" and could be diverted to a savings program (or a debt elimination program if appropriate) without any impact at all on discretionary income.



## Superannuation

A Federal Budget just wouldn't be the same if the Government didn't at least tinker with the superannuation rules. This year, the Government announced a number of changes to superannuation, but also flagged further potential changes as part of a series of reviews of the pension, superannuation and tax systems.

### Superannuation still stacks up

With current annual negative investment returns, many have recently questioned the attractiveness of superannuation as an investment structure.

Superannuation allows you exposure to a variety of investment classes such as cash, fixed interest, shares and property. So, it is important to remember that superannuation was, and is, a concessional tax structure for holding investments, not an investment itself.

With changes to tax rates and thresholds for 2009/10 and 2010/11, it is appropriate to revisit the taxation of superannuation in comparison.

The 2009/10 resident income tax table is as follows:

Taxable income	Tax payable
\$0 - \$6,000	0%
\$6,001 - \$35,000	\$0 + 15% > \$6,000
\$35,001 - \$80,000	\$4,350 + 30% > \$35,000
\$80,001 - \$180,000	\$17,850 + 38% > \$80,000
\$180,001 +	\$55,850 + 45% > \$180,000

With a maximum tax rate of 15% on concessional superannuation contributions and earnings on superannuation, it is evident that superannuation is relatively concessional tax for those with a taxable income of \$35,000 or above (where they would otherwise be paying tax at rates of 30%, 38% or 45%, plus any Medicare levy and surcharge if applicable).

### Reductions to concessional superannuation contributions

The Government has announced a reduction in the level of concessional superannuation contributions. These are contributions made from pre-tax income including the 9% Superannuation Guarantee contributions as well as salary sacrifice and personal deductible contributions to \$25,000 p.a. from \$50,000.

The annual cap for those 50 years of age and over will also be reduced from \$100,000 to \$50,000 until 30 June 2012.

While most Australians are already contributing less than these reduced limits, this measure effectively reduces the maximum level of pre-tax superannuation contributions that can be made by, or on behalf of, an individual.

Individuals who may be affected the most by these reduced limits are those who have commenced a Transition to Retirement pension after 55 years of age and are drawing a pension and salary sacrificing into superannuation at the same time.

### Government co-contribution

The Government superannuation co-contribution has been a broadly successful savings measure aimed at lower and middle income earners, whereby personal superannuation contributions made by an individual were matched with a contribution from the Government of 150% of the amount contributed, up to a maximum co-contribution of \$1,500 p.a.

The Government has proposed a temporary reduction to the matching rate and maximum co-contribution payable on an individual's non-concessional contribution.

	2008/09	2009/10, 2010/11 & 2011/12	2012/13 & 2013/14	From 2014/15
Maximum co-contribution	\$1,500	\$1,000	\$1,250	\$1,500
Co-contribution ratio	\$1.50 per \$1	\$1 per \$1	\$1.25 per \$1	\$1.50 per \$1
Taper rate	5%	3.333%	4.167%	5%
Lower income threshold	\$30,342	Indexed prior year's threshold	Indexed prior year's threshold	Indexed prior year's threshold
Upper income threshold	\$60,342	Year's lower income threshold plus \$30,000	Year's lower income threshold plus \$30,000	Year's lower income threshold plus \$30,000

## Employee share scheme tax concessions

The Government has proposed that from 7:30pm 12 May 2009 (i.e. the time of the Budget announcement) that the tax concessions relating to employee share schemes be altered.

Currently, the taxation treatment of benefits received under such a scheme depend on whether the employee share scheme is qualifying or non-qualifying.

Qualifying shares or options provide employees with two choices:

- › an employee can elect to be assessed in the year that shares or options are acquired. All employees have access to an upfront tax exemption of up to \$1,000 on discounts received per year or
- › if no election is made, taxation is deferred until a later date.

Non-qualifying shares that are issued under an employee share scheme are taxed on the discount when the employee acquires the shares or options.

The proposal provides that all discounts received on shares and options will be assessed in the income year they are acquired.

In addition, the upfront tax concession of \$1,000 for qualifying schemes will be limited to those employees with a taxable income (with some adjustments) of less than \$60,000. Unions and other lobby groups have already expressed concerns about the proposed \$60,000 income limit as being far too low.

This measure may result in eligible individuals re-evaluating the appropriateness of such schemes for their personal circumstances.

Since the Budget announcement, this has become a widely discussed area with both employers and employees calling on the Government for a considered review of these proposals.

## Paid Parental Leave

The Government has announced a paid Parental Leave Scheme from 1 January 2011. Eligible primary carers will receive 18 weeks paid parental leave at the Federal Minimum Wage, currently \$543.78 per week.

An eligible primary carer must have:

- › earned less than \$150,000 in the full financial year prior to the birth or adoption of a child
- › worked at least 330 hours over the 10 months preceding the birth or adoption of a child and
- › worked continuously with one or more employers for at least 10 of the 13 months before the expected date of birth or adoption.

Superannuation payments whilst on Paid Parental Leave will be considered as part of the review of the scheme which will take place in 2013.

Those who do not qualify or elect not to receive paid parental leave will continue to receive the Baby Bonus and other family payments, based on eligibility.

## Increase in the Age Pension age

In what was possibly the only great surprise of the Budget and the most hotly debated announced measure since, the Government has proposed to increase the qualifying age for the Age Pension from 65 to 67 between 1 July 2017 and 1 July 2023.

Only those born on or after 1 July 1952 (i.e. currently under 57 years of age) will be affected. Everyone born after 1 January 1957 will have an Age Pension age of 67.

Date of Birth	Age	Earliest date of eligibility
1 July 1952 – 31 Dec 1953	65.5	1 January 2018
1 Jan 1954 – 30 June 1955	66	1 January 2020
1 July 1955 – 31 Dec 1956	66.5	1 January 2022
1 Jan 1957 and later	67	1 January 2024

While a report received by the Government has recommended also increasing the preservation age for superannuation (the age at which superannuation can be withdrawn), the Government has not announced any change to accessing superannuation benefits at this time.

## Get assistance now

As you can see, there have been many proposed changes to superannuation, tax and social security in this year's Budget.

It is important that you contact your financial planner as soon as possible to see how the 2009 Budget may affect you and your family.

Your planner will be able to help you implement or review your financial plan and maximise the existing opportunities before 30 June 2009 to make the Budget changes work for you.

For more information, contact your ANZ Financial planner.



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