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2009 Federal Budget

With leaks about the 2009 Federal Budget emerging months in advance, no one was really surprised at the details of Labor’s second attempt to keep the Australian economy in the black. Despite the jaw-dropping clanger of the largest deficit in Australian history – roughly \$58 billion for 2009/10 – what surprised most was the Budget’s lack of revolutionary solutions to manage the current economic conditions, aside from more spending. This Informer summarises some of the key proposals and how they might affect you.

Nation Building for Recovery

In his second Federal Budget, Treasurer Wayne Swan blamed the impact of the Global Financial Crisis (GFC) for the abysmal turnaround of their forecast 2008/09 budget surplus to the \$30 billion deficit forecast revealed on Budget night.

However, the budget that promised to be so tough, some dubbed it “The Ruddy Horror Picture Show”, was more of a fine-tuning of elements largely already leaked, than anything particularly radical.

Citing this budget as one of “Nation Building for Recovery”, the Treasurer iterated the three-pronged focus of job creation, nation building and a path back to surplus. With unemployment predicted to hit 8.5% (equating to about 1 million Australians out of work) and economic growth to fall by 0.5% by 2010/11, the Government has its work cut out for it.

And, with billions being channelled into a third stimulus package of national infrastructure projects, assistance for small to medium-sized businesses, hospitals and education, the Government forecasts that we won’t be seeing a budget surplus again until 2015/16.

Winners and losers

The biggest winners were single pensioners, carers, first time home buyers and parents. And, with focus remaining on the low to middle income earners, high income earners were the clear losers, along with private health insurance members.

Here’s a round-up of what’s on the table.

1. Changes to super

Not too many changes here in terms of number, but those proposed were none too pleasing.

a. Co-contribution reductions

Originally introduced to help low income earners, the Government proposes to temporarily reduce the maximum co-contribution over the next four years, gradually increasing again to its current limit in 2014. Here’s how it will work:

Financial Years	Maximum Co-contribution (pa)
1 July 2009 – 30 June 2012	\$1,000
1 July 2012 – 30 June 2014	\$1,250
1 July 2014 –	\$1,500

We’ll provide more detail on the revised co-contribution proposals soon in a separate AXIS Informer.

b. Concessional contribution caps halved

The annual cap on concessional contributions, which include employer and salary sacrifice contributions, will be permanently lowered.

The current \$50,000 pa limit will be halved to \$25,000 pa from 1 July 2009. And, the transitional arrangements introduced for those aged 50 and over, will also halve from \$100,000 pa to \$50,000 pa from 1 July 2009 until 30 June 2012.



If you've combined a salary sacrificing strategy with a Transition to Retirement (TTR) pension, this reduction in the concessional cap will naturally impact the amount you can contribute. However, the tax benefits still remain attractive.

On a positive note, the grandfathering arrangements which were introduced previously for certain defined benefit members will remain.

We'll be issuing a separate AXIS Informer on the proposed concessional contribution caps, including advice on TTR strategies shortly.

c. Non-concessional contribution caps unchanged

While the current \$150,000 pa cap for non-concessional contributions will remain as is for the 2009/10 financial year, it will now be indexed at six times (currently three times) the annual concessional contributions cap.

Therefore, it will only increase when the revised \$25,000 pa cap is increased through indexation. Under existing arrangements, the non-concessional contribution cap was due to increase to \$155,000 pa for the 2009/10 financial year.

d. Lost accounts transferred to unclaimed monies

From 1 July 2010, super funds will be required to transfer accounts with less than \$200 or accounts which have been inactive for five years to the ATO's unclaimed monies account.

According to ASFA, this equates to about a 40% reduction in the number of lost accounts, which will help to streamline the Lost Members Register and the administrative workload for super funds.

2. Changes to age pensions

The ongoing issue of Australia's ageing population was highlighted through the number of proposed changes to the pension system.

a. Access to Age Pension

From 2017, access to the Age Pension will gradually increase from 65 to 67 years.

Access will be in six month increments over a seven year period, as follows:

Date of Birth	New Age Pension Age	Start Date
1 Jul 1952 – 31 Dec 1953	65 yrs 6 mos	1 Jul 2017
1 Jan 1954 – 30 Jun 1955	66 yrs	1 Jul 2019
1 Jul 1955 – 31 Dec 1956	66 yrs 6 mos	1 Jul 2021
1 Jan 1957 –	67 yrs	1 Jul 2023

b. Increased Age Pension rate

From 20 September 2009, single pensioners claiming the Age Pension will be better off, with the rate increasing by \$32.49 per week, consisting of a \$30.00 per week increase in the base rate and a new Pension Supplement of \$2.49.

Pensioner couples will receive an extra \$10.14 per week combined through the Pension Supplement.

The Pension Supplement will replace various other allowances including utilities, telephone, pharmaceuticals and goods and services tax.

c. Pension Bonus Scheme

The Pension Bonus Scheme commenced on 1 July 1998. Under the Scheme, individuals who choose to continue working and, therefore, defer claiming the Age Pension, may be entitled to a tax-free lump sum bonus once they start claiming the Age Pension.

The Budget proposes to close the Scheme off to new entrants from 20 September 2009.

d. Lower taper rate for pension incomes test

While the assets test remains unscathed, the taper rate for the incomes test will reduce from 20 September 2009.

For every dollar of personal income over the income-free cap of \$138 per fortnight for singles and \$240 per fortnight for couples, the Age Pension will reduce by 50 cents, instead of the current 40 cents.

The following table shows how receiving a part pension will affect the annual amount of income pensioners will be able to receive:

	Current Amount (pa)	From 20/9/09 (pa)
Singles	\$47,444	\$38,693
Couples	\$72,423	\$59,228

This translates into a drop of \$8,751 pa for singles and \$13,195 pa for couples.

Transitional arrangements will apply for existing pensioners.

e. New Work Bonus

Those receiving a part pension and income from employment will be able to retain more of their pension entitlements from 20 September 2009 through the introduction of a Work Bonus.

The Bonus effectively excludes half of the first \$500 per fortnight earned from employment from the incomes test.

f. Drawdown relief for Account Based Pensions

Every 1 July, the new minimum annual payment amounts for Account Based Pensions are calculated. Due to the GFC and consequent volatility impacting share markets throughout 2008, many account balances are now significantly lower than when the payment amounts were first calculated.

In order to meet the required minimum drawdown, many retirees would have to sell assets and most likely realise losses in the current market environment.

In recognition of this, in February 2009, the Government introduced a 50% reduction in the minimum payment amount to apply for the six months to 30 June 2009.

The Budget proposes to extend this drawdown relief for the 2009/10 financial year.

3. Other changes

- a. The **First Home Owners Boost** will be extended to 31 December 2009, with the existing grant amounts reducing from 1 October 2009.
- b. From 1 January 2011, parents taking leave due to newborn children will receive **Paid Parental Leave** for up to 18 weeks at the federal minimum wage.
- c. The 30% rebate available to **private health insurance** members will be reduced down to 0% based on age and annual income.
- d. Single carers on the full pension, providing constant care to adults and/or children with physical, intellectual or psychiatric disabilities will receive a **Carer Payment** increase of \$32.49 per week.

- e. The **Small Business and General Business Tax Break** will increase from 30% to 50% for eligible assets ordered between December 2008 and December 2009.

Ask AXIS Financial Group

This Informer highlights some of the more pertinent proposals detailed in the 2009 Federal Budget.

If you'd like guidance or advice on how the proposals could affect you, your super and/or your family, please call our friendly Advisory Group or Technical Services team on (08) 9426 5800 or 1800 111 299 or email us at: mail@axisfg.com.au

And remember to look out for our separate AXIS Informers on the proposed changes to the co-contribution and concessional contribution caps.

References used in compiling this document:

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- *www.treasury.gov.au, Fact Sheet Pension Drawdown Relief for Retirees.*
- *www.centreflink.gov.au, A Guide to Australian Government Payments, 20 March to 30 June 2009.*

If you have any questions regarding the information in this bulletin, please contact your adviser:

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