Federal Budget Update 2009

BT Financial Group

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Details – Economics

1. Budget Overview 2009-10

What a difference a year makes! Last year, the new Government brought down a neutral Budget, which it tried to sell as "tough" because, after a fairly long period in which economic growth in Australia had been a little too strong for its own good, Australia clearly had an inflation problem. At the time, there were some incipient concerns about global economic growth, but few if any knew what was just around the corner. Thanks mainly to the commodity price boom, it was possible to produce a budget with forecast annual surpluses between $15 and $20 billion as far as the eye could see.

This year, Australia is in the midst of its first recession in eighteen years, dragged in by the worst performance by the global economy in living memory, and the commodity price boom is well and truly over. As a result, a massive hole has opened up on the revenue side of the Budget and, even if the Government (wrongly) did nothing to try to offset the effects of the recession, we would be looking at large deficits for several years.

At times like this, it is as well to remind ourselves that the Budget exists to serve the purposes of the economy, rather than the other way around. So it is entirely appropriate that the short-term response of the Government to the weakness of the economy increases the size of the deficit still further. But there needs also to be a credible plan to wind the deficit back over time. And that plan is complicated by the fact that, in common with almost every other developed nation, Australia has a long-term deficit "problem" caused by the aging of the population. Hence the need, even in an expansionary Budget such as this one, to look carefully at measures ("middle-class welfare", for example) that increase the deficit for insufficient purpose.

The above paragraphs were written before the Treasurer stood up this evening, but late in his speech he acknowledged specifically the need to provide stimulus (and jobs) in the short term while laying out a path for the Budget to return eventually to surplus. As in the past, a country can fall into a deficit hole very quickly but it then takes a long time to get back out. The Treasurer's best guess is 2015/16, which means we will run deficits for the rest of my working life at least. Given the eventual strong growth in GDP in the Budget assumptions, and given a working memory of history, it may prove even tougher to get the Budget back to eventual surplus. This doesn't mean that the Government should have gone tougher in this Budget (and despite more than one reference to "hard choices" the only way that you could describe this year's budget as tough is in the sense that it was difficult!), but it almost certainly means that tough decisions will have to be made in future years. That said, there is a bit of "Robin Hood" in the Budget, since high-income earners will be hurt by the changes to superannuation and private health insurance, while those pensioners that last until they are 67 will benefit significantly.

As the table shows, after a surplus in 2007/08, the Budget fell into significant deficit in 2008/09, and this will get bigger in the first year of the new Budget, 2009/10. The underlying cash balance will hit a record $57.6 billion, or 4.9% of GDP. Most of this increase is due to "revenue write-downs" caused by the weak economy, but some of it is due to explicit easing. The deficit share of GDP is bigger than in either of the past two recessions, but still relatively small compared with elsewhere in the world (in the US and UK, the deficit is running well over 10% of GDP). Thereafter the deficit declines, albeit slowly, as the economy recovers.

In total, the Budget delivers about 1 percent more of fiscal stimulus in 2009/10, with the focus being on infrastructure, pension reform, paid maternity leave and education and health spending. This is in sharp contrast to the "cash splashes", which were directed at households.

Table 1: Key Budget Parameters

	Actual	Estimates			Projections	
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue ($b)	**303.7**	**295.9**	**290.6**	**294.8**	**320.8**	**349.7**
Per cent of GDP	26.8	24.7	24.7	24.1	24.7	25.2
Expenses ($b)	**280.1**	**324.4**	**338.2**	**344.5**	**356.4**	**375.0**
Per cent of GDP	24.8	27.1	28.7	28.2	27.4	27.0
Net operating balance ($b)	23.6	-28.5	-47.6	-49.7	-35.6	-25.3
Net capital investment ($b)	2.6	4.3	5.5	6.3	6.1	5.0
Fiscal balance ($b)	**21.0**	**-32.9**	**-53.1**	**-56.0**	**-41.8**	**-30.3**
Per cent of GDP	1.9	-2.7	-4.5	-4.6	-3.2	-2.2
Underlying cash balance ($b)(a)	**19.7**	**-32.1**	**-57.6**	**-57.1**	**-44.5**	**-28.2**
Per cent of GDP	1.7	-2.7	-4.9	-4.7	-3.4	-2.0
Memorandum item:						
Headline cash balance ($b)	28.2	-35.9	-59.8	-58.9	-48.5	-25.1

(a) Excludes expected Future Fund earnings.

Remarkably, forecast revenues in 2009/10 is down by $50 billion from the 2008 Budget figuring, with most of this change being a consequence of the economic weakness.
Table 2 shows the major new initiatives in the Budget.

Table 2: Major Initiatives in the 2009-10 Budget

	2009-10 $m	2010-11 $m	2011-12 $m	2012-13 $m	Total(a) $m
Spending					
Building blocks of the future economy	701	1273	1824	2043	6878
Education Investment Fund	595	935	651	317	2566
Health and Hospital Fund	466	848	813	643	2955
Increase to Pension Payment	2714	3615	3787	3993	14113
Paid Parental Leave	14	190	260	267	731

(a) Total includes amounts spent prior to 2009/10

Table 3: Major Savings in the 2009-10 Budget

	2009-10 $m	2010-11 $m	2011-12 $m	2012-13 $m	Total $m
Superannuation changes	1005	1203	1150	1022	4380
Private health insurance changes	-125	695	650	681	1901
Reform of Family Payments	253	482	727	958	2419

This is an incomplete list, of course, but it does highlight the major areas addressed by the Budget. In total, the new spending initiatives announced total $52.2 billion in the next four years, with the savings totaling $22.6 billion.

2. The Economic Background

The economic environment is the most uncertain that it has been for many years. Some time in the past twelve months, the Australian economy fell into its first recession since the one “we had to have” in 1991. At time of writing, we still have not reported two successive quarters of negative GDP growth, but this is a “rubbish” definition of a recession anyway. Early last year, the unemployment rate was (briefly!) 3.9%. It is now 5.4%. That’s all one needs to know.

The relevant questions are, of course, how deep and how long. The Budget has never before included a forecast of negative growth, but this one certainly does. GDP is forecast to fall by 0.5% in 2009/10 after zero growth in the current fiscal year (2008/09). It then recovers by 2.25% in 2010/11 and by a robust 4.5% in both 2011/12 and 2012/13. The fall in GDP in 2009/10 is dominated by an 18.5% fall in business investment. The unemployment rate is forecast to peak above 8.5% sometime in 2010/11. This latter rate is a considerable change to the 7% forecast by the Treasury as recently as early-February. My suspicion is that we may finally have become too pessimistic about the economy. Recent data suggest that the pace of decline is still quite moderate, and there are many “green shoots” in the global economy. Green shoots is the new parlance for signs that the world economy is no longer in free fall, and that there is cause for thinking that recovery may not be that far away. In addition, the stimulus already applied to the Australian economy has been quite large. It would not surprise me to see the unemployment rate peak below 8%.

Table 4
Major Economic Parameters

	Forecasts			Projections	
	2008-09	2009-10	2010-11	2011-12	2012-13
Real GDP	0	-0.5	2.25	4.5	4.5
Employment	-0.25	-1.5	0.5	2.5	2.5
Unemployment Rate	6	8.25	8.5	7.5	6.5
CPI	1.75	1.75	1.5	2	2.5
Nominal GDP	5.75	-1.5	3.75	6.25	6.75

There are several other features of the economic background worth of note. First, the Treasury has departed from its usual practice of assuming trend growth after the first year, and has forecast below-trend growth in 2010/11, followed by a strong cyclical recovery. This has the eventual effect of speeding up the return to surplus, which is probably politically expedient.

Second, inflation is projected to remain low for the next three years implying, if these forecasts are realised, that interest rates will remain low for a long time yet.

Third, the fall in nominal GDP in 2009/10 sends a message that a fall in the terms of trade (of a little more than 13%) will have a significant effect on income growth.

3. Market Reaction

Will be slight. Far too much has been made of the idea that we are running up massive debt and somehow putting the welfare of our grandchildren at risk. It is true that CGS on issue are expected to expand from $112 billion currently to $301 billion in four years time, but Federal debt as a share of GDP is expected to peak at just 13.8%, a figure that is laughably low by international standards (eg Japan and Italy are heading for debt/GDP ratios of close to 125%, and the average for the G7 will get close to 90%). The biggest determinant of the movement in the long bond rate in the next few days will be whatever happens in the US!

Chris Caton
Chief Economist

Details – Superannuation

1. Concessional Contributions Cap reduced

The Government has announced that, effective 1 July 2009, the concessional contributions cap (CC) will be reduced to $25,000 (indexed) per annum. Concessional contributions generally include SG, salary sacrifice contributions and personal deductible contributions.

The transitional CC, which applies to individuals aged 50 and over at any time during the transitional period (2007/08 to 2011/12), will be halved from $100,000 pa to $50,000 pa (not indexed) for the 2009/10, 2010/11 and 2011/12 financial years.

However, the annual non-concessional contributions cap (NCC), will remain at the 2008/09 level of $150,000. It is proposed that from next financial year the NCC will be calculated as six times the level of the CC.

There was no mention of any change to the 'bring forward' arrangement.

The indexation method of the CC remains unchanged. The table below compares the projected contributions caps that would have applied over the next six years with the reduced contributions cap in light of the changes announced.

Financial Year	Pre Budget CC	Post Budget CC	Pre Budget Transitional CC	Post Budget Transitional CC
2009/10	$55,000	$25,000	$100,000	$50,000
2010/11	$55,000	$25,000	$100,000	$50,000
2011/12	$60,000	$25,000	$100,000	$50,000
2012/13	$60,000	$25,000	$60,000	$25,000
2013/14	$60,000	$25,000	$60,000	$25,000
2014/15	$65,000	$30,000	$65,000	$30,000

*In this table, concessional contributions caps have been calculated as the 2009/10 concessional contributions cap indexed to AWOTE at 4% pa, rounded down to the nearest $5,000.

Certain members with defined benefit interests at 12 May 2009 will have 'grandfathering' arrangements apply (where their notional taxed contributions would otherwise exceed the reduced cap). Similar arrangements were applied when the concessional contributions cap was introduced in 2007.

Impact

- Clients who have money available to invest into superannuation in the current financial year could consider maximising superannuation contributions to fully utilise their 2008/09 contributions caps.
- Clients currently making total concessional contributions of more than $25,000 each year (or $50,000 if aged 50 or over) will need to reduce salary sacrifice (or personal deductible contributions) from 1 July 2009 to ensure that they do not inadvertently breach the reduced concessional contributions cap. Excess concessional contributions are subject to tax of 31.5%, in addition to the 15% contributions tax. Excess concessional contributions also count towards an individual's non-concessional contributions cap.
- For clients not currently making additional contributions to superannuation (ie in addition to SG), the need to start making contributions earlier is now greater, as the ability to make large 'last minute' concessional contributions has been diminished. Clients could be encouraged to start a regular savings plan into super to ensure adequate retirement savings are accumulated.
- Contributions splitting – the maximum allowable amount able to be split will be reduced in line with the CC.
- Clients who are salary sacrificing bonuses, especially where the amount is unknown, need to take extra care not to inadvertently exceed the CC.

2. Transition to Retirement (TTR) Pensions remain	No specific change was announced regarding TTR income streams. However, the contribution cap change may impact individuals who utilise strategies which combine salary sacrifice and TTR pensions.

Impact

- Clients currently undertaking TTR strategies and who make concessional contributions of $50,000 or less per annum will not be impacted by the contribution cap change.
- Those making concessional contributions in excess of $50,000 will need to review their strategy to ensure it is re-balanced for the post 1 July 2009 contribution rules. This may include:
  - reducing the amount of their salary sacrifice or personal deductible contributions;
  - reducing the income from their TTR pension;
  - if already drawing the minimum income from their TTR, rolling some of their TTR pension into accumulation phase of superannuation (keeping in mind the continued temporary reduction in minimum payments for 2009/10), or
  - contributing surplus income as personal after-tax contributions after reaching the new concessional cap (care should be taken as this is generally, only appropriate for some individuals age 60 or over).

3. Maximum Government Co-contribution reduced

A temporary reduction of the maximum Government co-contribution from $1,500pa to $1,000pa has been announced. This will apply to eligible personal superannuation contributions made on or after 1 July 2009.

At the end of 3 full financial years, the co-contribution matching rate will be gradually increased until it returns to 150% in 2014-15. The lower and upper co-contribution thresholds will not be impacted and will continue to be indexed to AWOTE, but the reduction rate will change; see the below table for details:

	2009-10 to 2011-12	2012-13 and 2013-14	2014-15 onwards
Matching rate	100%	125%	150%
Maximum co-contribution	$1,000	$1,250	$1,500

The table below shows the Government co-contribution entitlement for a personal superannuation contribution of $1,000 for a range of taxable incomes; comparing 2008/09 to 2009/10.

Total taxable income *	$30,000	$40,000	$50,000	$60,000	$70,000
2008/09 - $1,500 max co-cont:					
Gov't co-contribution	$1,500	$1,017	$517	$17	$0
Net super contribution	$2,500	$2,017	$1,517	$1,017	$1,000
2009/10 - $1,000 max co-cont:					
Gov't co-contribution**	$1,000	$678	$345	$12	$0
Net super contribution	$2,000	$1,517	$1,017	$1,000	$1,000

* The definition of taxable income for co-contributions will be expanded from 1 July 2009.
** Estimated Government Co-contributions have been calculated using the 2008/09 lower threshold. This threshold will be indexed to AWOTE for 2009/10.

Impact

As a rule of thumb, for 2009/10, individuals with total income under $50,000 pa and $1,000 of after tax money available to contribute will be generally better off investing an after-tax amount of $1,000 compared with an equivalent (grossed up) amount invested pre-tax. This is because the benefit received by the Government co-contribution is higher than the equivalent tax savings available through salary sacrifice.

4. Minimum pension reduction extended

The Government announced that the 50% reduction in minimum annual payment amounts for certain retirement income streams will be extended to the 2009/10 financial year. The reduction applies to account-based, allocated and market-linked (term allocated) pensions and annuities.

The minimum payment formula has not been changed.

Impact

- Individuals with an existing income stream, and those who purchase a new income stream in 2009/10, will have the ability to only receive half of their minimum annual payment in 2009/10.
- Centrelink/DVA clients who choose to reduce their payments should be aware that their Centrelink benefits may be affected by their choice. These clients should advise Centrelink/DVA of their change in circumstances within 14 days. This is an existing Centrelink/DVA requirement for notification of change in circumstances.
- Clients will have more flexibility with their income payments. Their income needs can be reviewed to ensure their pension payments next year reflect those needs.

5. Small and insoluble lost accounts to be transferred to the ATO	From 1 July 2010, superannuation providers will be required to transfer accounts of lost members with balances of less than $200 (small accounts), and those which have been inactive for a period of five years and have insufficient records to identify the owner of the account "insoluble accounts" to unclaimed monies. Former members of these lost accounts will be able to reclaim their money from the ATO.
Impact	➢ It will decrease the number of members on the Lost Members Register ➢ It will increase the importance of members remaining in contact with their superannuation providers.
6. Transferring benefits between Australian and New Zealand superannuation funds	The Government has agreed in principle to establish a 'trans-Tasman retirement savings portability scheme'. The scheme will permit transfers of superannuation savings between certain Australian superannuation funds and New Zealand KiwiSaver funds. The Budget paper states the "establishment of the scheme is consistent with, and supports, the movement toward a single economic market between Australia and New Zealand." The start date of the scheme has not yet been determined.
7. Extension of capital loss roll over for complying superannuation fund	The Government announced further enhancements to the optional capital gain tax loss roll over for complying superannuation fund mergers where the continuing fund has at least 5 members. The roll over provisions will be extended to 30 June 2011 to ensure funds have sufficient time to utilise the provisions. Under the proposed measures, merging superannuation entities in a net capital loss position will be able to elect to roll over assets with accrued capital gains as well as accrued capital losses. The measures will also include pooled superannuation trusts and complying superannuation businesses of life insurance companies.

Details – Taxation

1. Reductions in Personal Income Tax

The Government has confirmed that previously legislated tax cuts will go ahead for the 2009/10 and 2010/11 financial years. No additional tax cuts were announced in this budget.

Current		From 1 July 2009		From 1 July 2010	
Taxable income	Rate	Taxable income	Rate	Taxable income	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%

Income tax payable at selected taxable income levels (ignoring Medicare levy and tax offsets)

Taxable income	Current tax (08/09)	Legislated tax (09/10)	Legislated tax (10/11)
$30,000	$3,600	$3,600	$3,600
$35,000	$4,500	$4,350	$4,350
$75,000	$16,500	$16,350	$16,050
$80,000	$18,000	$17,850	$17,550
$150,000	$46,000	$44,450	$43,450

2. Private Health Insurance Rebate

The Government has announced changes to the private health insurance rebate. These changes take affect from 1 July 2010.

Currently, the private health insurance rebate is payable to anyone who took out cover with a complying private health insurance policy and is based on the premium paid.

Age of the oldest person covered by the policy*	Amount of the rebate
Less than 65 years	30% of the premium paid
65 to 70 years	35% of the premium paid
70 years only	40% of the premium paid

*If the oldest person moves into the next age group during the year, the rebate is based on the number of days that person was in each group.

From 1 July 2010 the Government will introduce a 3 tiered approach to determine the amount of private health insurance rebate payable to individuals. Once income is above the upper threshold ($120,000 for singles and $240,000 for couples) no private health insurance rebate will be payable. The amount of the rebate will also be dependant on the age of the individual as the tables below illustrate.

	Current surcharge thresholds (projected 2010/11)	Tier 1	Tier 2	Tier 3
Singles	$0-$75,000	$75,001 - $90,000	$90,001 - $120,000	$120,001+
Families	$0 - $150,000	$150,001 - $180,000	$180,001 - $240,000	$240,001+
Medicare levy surcharge	Nil	1.00%	1.25%	1.50%
Private health insurance rebate				
Less than 65	30%	20%	10%	Nil
65 – 69	35%	25%	15%	Nil
70 and over	40%	30%	20%	Nil

All income thresholds will continue to be indexed. The new definition of income for Medicare Levy Surcharge will be used to determine rebate entitlements (see below).

3. Medicare Levy Surcharge increase	To ensure that middle and high income earners do not abandon their private health insurance the Government has introduce variable rates of Medicare Levy surcharge, if appropriate private heath insurance cover is not held and certain income thresholds are exceeded (as illustrated in the table above). Previously legislated changes to the definition of 'income' will also apply to the Medicare levy surcharge from 1 July 2009, which includes: – taxable income; – reportable fringe benefits; – reportable employer superannuation contributions; – personal deductible superannuation contributions; – total net investment loss Note: amounts withdrawn from superannuation to which the low rate cap amount ($150,000 for 2009/10) has been applied are not included in 'income".
4. Increase in the Medicare Levy low income thresholds	The Government has announced new Medicare levy thresholds that are applicable for the current financial year (ending 30 June 2009). These are $17,794 for individuals (previously $17,309) and $30,025 for families (previously $29,207). The increase on these thresholds for each dependent child or student will be $2,757. The low income threshold for pensioners below age pension age has been increased to $25,299 for the year ending 30 June 2009. This will ensure such pensioners do not pay the Medicare levy when they do not have an income tax liability.
5. First Home Owner's Grant Boost - extension	The Government have announced that the First Home Owners Boost (FHOB) will be extended for a further 6 months for both the housing market and first home buyers. For eligible first home buyers who enter into contracts between 1 July 2009 and 30 September 2009, the FHOB will continue to provide $7,000 for the purchase of established homes and $14,000 for the purchase of new homes. Combined with the first home owners grant eligible persons who purchase an existing dwelling will receive $14,000 of assistance and where eligible persons purchase a new dwelling they will receive $21,000 of assistance. For eligible first home buyers who enter into contracts between 1 October and 31 December the FHOB will be halved. Where an existing dwelling is purchased, an eligible first home buyer will receive $3,500 of assistance where as if an new dwelling is purchased they would receive $7,000 of assistance. Coupled with the first home owners grant, eligible first home buyers will receive $10,500 assistance for an existing dwelling and $14,000 of assistance for a new dwelling.
6. Small business tax relief	Effective date: eligible assets acquired between 13 December 2008 and 31 December 2009 As part of previous fiscal stimulus packages, the Government had announced that small business (those with a turnover of less than $2million) would be able to claim a bonus tax deduction for the acquisition of eligible assets, in addition to the usual capital allowance deduction. Initially set as a 10% bonus deduction, then 30%, the bonus has again been lifted to 50%. To be an eligible asset for this bonus, the asset must: – cost more than $1,000 (although substantially similar assets may be aggregated in order to reach this threshold) – be purchased between 13 December 2008 and 31 December 2009 – be used or installed ready for use by 31 December 2010. As an example of the benefit this provides, for a small business being conducted through a corporate structure, for every $1,000 of eligible asset acquired, the total tax deduction will be $1,500. A $1,500 tax deduction provides a tax saving of $450. Therefore the overall after tax cost of $1,000 acquisition would be $550. The increase in the level of bonus deduction and extension of time, from 30 June 2009, for asset acquisition provides some relief for small business taxpayers who may have struggled to acquire these assets due to cash flow constraints. For non-small business taxpayers, the minimum asset threshold to qualify for a bonus is $10,000 (subject to similar aggregation rules) and the bonus conditions are set out in the following table.

Bonus deduction	Asset purchased between	First used by or installed ready for use by
30%	13 December 2008 and 30 June 2009	31 December 2010
10%	1 July 2009 and 31 December 2009	31 December 2010

7. Small business CGT relief

Effective date: CGT events happening in the 2006-07 and later income years

Changes have previously been made to ensure that the beneficiary of an asset from a deceased estate (or the estate itself) is eligible to claim small business CGT relief in certain circumstances where the deceased would have been eligible for the relief if they had sold the asset immediately prior to their death.

This form of extended relief is to be made available in situations where the asset has passed through to a testamentary trust.

It will be important to review any asset disposals from these testamentary trusts in the 2006-07 or later income years to ensure the maximum CGT relief has been claimed.

8. Fringe Benefits Tax relief for donations

Effective date: FBT year commencing 1 April 2008

Amendments will be made to the FBT legislation to ensure that an FBT liability won't arise where an employee chooses to package donations to deductible gift recipient organisations. This will essentially mean that there is no tax difference between an individual personally making these donations (the usual case) and people looking to package such donations (the less frequent and previously more costly option).

As an opportunity, it may be a way for people to increase their level of philanthropic giving throughout the year, rather than waiting until a specific time when cash flow may be an issue. Of course, it's important for employees to check with their employer whether such packaging arrangements are available.

9. Changes to taxation of employee share scheme entitlements

Effective date: Shares or options acquired after 7:30pm, 12 May 2009

In a move which will simplify the treatment of shares or options acquired under employee share schemes, the option to defer the taxation treatment of any discount (ie the difference between the market value of the share/option and amount paid for its acquisition) until a later income year will be removed. As a result, in all cases this discount will now be assessed in the year of grant.

However, where the employee share scheme meets certain criteria, up to $1,000 of the discount will be exempt from tax but only for individuals with adjusted taxable incomes of less than $60,000 (previously unlimited).

This change will have a significant impact on a number of people, as employee shares are offered by many Australian listed companies, with a general staff entitlement of $1,000 of shares each year where certain thresholds are met. Under the rules prior to this announcement, this was essentially a tax free bonus to each employee, with the individual only having a tax liability for any future growth in the underlying share/option price. This tax free bonus will now be limited to those with adjusted taxable incomes below $60,000.

10. Removal of tax exempt status for foreign employment income

Effective date: 1 July 2009

Under existing tax rules, there is a general exemption from Australian tax for income earned overseas in foreign employment that lasts for at least 91 consecutive days. This general exemption is being removed from 1 July 2009 except where the income is earned as an aid worker, a charitable worker, under certain types of government employment or on projects that are considered to be in the national interest.

In all other cases, the income will be assessable in Australia, but a tax offset will be given for any tax paid in the foreign country on that income, ensuring there is no double taxation.

This change will have a significant impact for expats (who are still residents for Australian tax purposes), particularly those working in Asia. In many Asian countries, expats are earning significantly high wages, but with local taxes in those countries capped at 15%. Under the new rules, this income will be taxed in Australia with a tax offset for the foreign tax paid. If the foreign income is high enough to place the individual on the highest marginal tax rate (46.5% including Medicare levy), they will now have an additional 31.5% tax liability to pay in Australia.

11. CGT relief for roll-overs between fixed trusts

Effective date: 1 November 2008

Limited CGT relief will be provided 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).

Essentially, this relief will allow for the cloning of an existing fixed trust and the transfer of some assets from the original fixed trust to the newly cloned trust, with any CGT consequences being deferred until the new trust actually disposes of the asset.

The Government has stated that “appropriate integrity measures” will accompany these rules (once legislated), so it will important to ensure the final legislation is reviewed in light of the clients circumstances to see if (and when) the relief will actually apply.

12. Tightening access to non-commercial business losses

Effective date: from 2009-10 income year

In a measure clearly aimed at high income earners, rules regarding the use of non-commercial losses will be tightened to prevent taxpayers with adjusted taxable income greater than$250,000 offsetting excess deductions from non-commercial business activities against salary and other income. Rather, the excess deduction will be quarantined to that particular business activity only.

As an example, this change will apply where these taxpayers run a “hobby farm” that generates a net tax loss. The net tax loss will be carried forward to offset against future income from that business, and cannot reduce that taxpayer’s tax liability on income from other sources.

13. Tightening non-commercial loan rules

Effective date: 1 July 2009

Currently, there are extensive tax rules designed to tax certain payments out of private companies to shareholders (or their associates) where a tax advantage has been obtained in the company (eg where the company is entitled to a tax deduction for the payment).

With effect from 1 July 2009 these rules will be tightened further, by extending the non-commercial loan rules to include payments by way of a licence or right to use real property and chattels. This reduces the scope for private companies to allow their shareholders or associates to use company assets such as real estate, cars and boats for free, or at less than their arm’s length value.

14. Other proposed tax changes

Effective date: to be advised subject to further consultation

The Government has announced its intention to make changes in a number of other areas resulting from recommendations of the Board of taxation. The changes include:

- amending existing legislation that deals with the Australian taxation of investments through companies and trusts located off-shore to ensure residents can not accumulate income offshore and thereby defer, or even avoid, Australian tax
- a review of the tax rules affecting companies that undertake an off-market share buy-back and the impact on shareholders.

Details – Social Security

1. Age Pension increases

The Government has announced the following changes from 20 September 2009:

– an increase to the base rate for single age pensioners of $30 per week;
– a combining of the four separate allowances (GST, Utilities, Telephone/Internet and Pharmaceuticals) into one 'pension supplement' that will be paid fortnightly; and
– an increase to the pensioner supplement of $2.49 per week for singles and $10.14 per week (combined) for couples.

These increases will apply to recipients of the Age Pension, Service Pension, Disability Support Pension, Carer Payment, Bereavement Allowance, Widow B Pension, Wife Pension, Income Support Supplement and to War Widows.

Total increase in Age Pension entitlements

Maximum Single Age Pension entitlement	20 March 2009	from 20 September 2009	Increase
Per fortnight	$575.80	$640.78	$64.98
Per annum	$14,970.80	$16,660.28	$1,689.48

Maximum Couple Age Pension entitlement (combined)	20 March 2009	from 20 September 2009	Increase
Per fortnight	$957.80	$978.08	$20.28
Per annum	$24,902.80	$25,430.08	$527.28

2. Income test – changes to taper rate

From 20 September, 2009, payments to pensioners will be reduced by 50 cents for each extra dollar of private income above the income test "free area". Currently, once a pensioner earns over the tax free amount a 40 cent per $1 reduction applies.

	Amount of income per fortnight before tapering starts	Current – Pension cuts out at:	From 20 Sept 2009- Pension cuts out at:
Singles	$ 138	$ 47,444	$38,693
Couples	$ 240	$ 72,423	$59,228

3. Incentives for pension-age Australians to remain in the workforce

a. Pension bonus scheme scrapped
The pension bonus scheme will be closed from 20 September 2009 to new entrants. There will be no change to existing members of the scheme, and they will continue to accrue entitlements under the current rules. The new 'work bonus' will replace the pension bonus scheme.

b. Pensioner 'Work Bonus'
From 20 September 2009, this bonus will allow pensioners to get a maximum of $125 per fortnight in additional pension payments. This will be achieved by disregarding half of the first $500 per fortnight of employment income under the income test.

4. Benefits for self-funded retirees

a. Commonwealth Seniors Health Card – Government back flip

Earlier this year the Government introduced legislation to include tax free pension income in the income test for the Commonwealth Seniors Health Card (the Card) from 1 July 2009. The intention of this measure was to reduce the number of self funded retirees who were eligible for the Card. The Government has decided not to proceed with these changes.

b. New payment for self funded retirees
From 20 September 2009, approximately 300,000 self-funded retirees will be provided with access to the Seniors Supplement.

The Seniors Supplement will be $790.40 a year for singles and $1190.80 a year for couples combined. Payments will be made quarterly. Self-funded retirees eligible for the Commonwealth Seniors Health Card or the Department of Veterans' Affairs Gold card with the current Seniors Concession Allowance will receive the Seniors Supplement.

5. Increase to the minimum Age Pension Age

The qualifying age for the Age Pension and Commonwealth Seniors Health card will increase for both men and women to 67 from 2023. The transition will not commence until July 2017, when the qualifying age will increase by 6 months every 2 years

Commencement date	Qualifying Age	Affects people born	Reach new Age Pension age
Until 1 July 2017	65 years	Before 1 July 1952	
01 July 2017	65 and 6 months	1 July 1952 to 31 December 1953	1 January 2018 to 30 June 2019
01 July 2019	66 years	1 January 1954 to 30 June 1955	1 January 2020 to 30 June 2021
01 July 2021	66 and 6 months	1 July 1955 to 31 December 1956	1 January 2022 to 30 June 2023
01 July 2023	67 years	From 1 January 1957	From 1 January 2024

The above changes do not impact the qualifying age (age 60) for the Veterans' Service Pension.

6. Pensioner and beneficiary living cost index

The Government will provide funding to develop a new Pensioner and Beneficiary living cost index for use in the cost of living indexation of base rates of income support payments covered by Age pension, Disability Support Pension Carer payment and Service Pension.

Pension rates will continue to be benchmarked to Male Total Average Weekly Earnings (MTAWE). However, the single rate of pension will be benchmarked to 27.7% of MTAWE, up from 25%.

7. Paid Parental Leave

The Government announced it will introduce a paid parental leave scheme. The scheme will be funded by the Government and is intended to commence on 1 January 2011. Parents will be able to lodge claims from 1 October 2010.

Payments under the scheme will be paid to the primary carer at the adult federal minimum wage (currently $543.78 per week) for a period of up to 18 weeks. Payments made under the paid parental leave scheme will be treated as taxable income and will affect entitlement to family assistance payments, but will not be counted as income for income support payments.

Primary carers (such as stay at home mums) who do not qualify for the scheme or those people who elect not receive paid parental leave can still access the baby bonus or Family Tax Benefit Part B where they meet the eligibility requirements for those benefits.
Primary carers will be eligible for the scheme if they:

– Earned less than $150,000 in the full financial year prior to the birth or adoption of a child;
– Have worked at least 330 hours over the 10 months (equivalent to around one full day of work each week) preceding the birth or adoption of a child; and
– Have also worked continuously with one or more employers for at least 10 of the 13 months before the expected date of birth or adoption.

Paid parental leave also will be available to contractors, casual workers and the self employed.

Employer funded leave

Parents who are eligible for the scheme will be able to continue to access employer funded leave around the time of the birth or adoption of the child. This includes employer provided maternity and recreation leave. Government funded paid parental leave can be taken in conjunction with, or in addition to, employer provided paid leave.

Effect on baby bonus and other family benefits

Parents who choose to receive paid parental leave will not be eligible to receive the baby bonus, except in the cases of multiple births where parents will not receive the baby bonus for the first child only.
Parents who choose to receive paid parental leave will not be entitled to the following benefits for the 18 weeks whilst in receipt of paid parental leave:

– Family Tax Benefit Part B
– Dependent spouse
– Child-housekeeper
– Housekeeper tax offset

Operation of the scheme

Employers will make the paid parental leave payments for most employees. The Government will provide employers with funds in advance of the payments they make to employees.

Paid paternity leave & superannuation payments
Paid paternity leave will be considered as part of a comprehensive review of the system, which is intended to take place in 2013. Superannuation payments will not be initially introduced with the paid parental leave. The introduction will be considered as part of a comprehensive review of the scheme.

8. Family Tax Benefit Parts A and B (and Baby Bonus)

Currently the rates of Family Tax Benefit (FTB) Part A are indexed to a proportion of the pension payments or the Consumer Price Index (CPI) should it be higher. From 1 July 2009 FTB Part A will be indexed by the CPI. Generally the income thresholds for FTB parts A and B are indexed by the CPI and this will continue for the lower thresholds. However the higher thresholds will not be subject to CPI indexation until 1 July 2012. These thresholds are:

Benefit	Threshold
FTB Part A - base rate combined income	$94,316
FTB Part B - primary income earner	$150,000
Additional combined income per child after the first	$3,796
Baby bonus - family income in 6 months following the birth	$75,000

For FTB Part A, the taper rates remain at 30 cents for every dollar in excess of these thresholds. The combined effect of these changes will be to slowly reduce the benefits for higher income earners.

9. Maternity Immunisation Allowance

The Government will change the timing of the indexation of the maternity immunisation allowance from twice a year to once a year. The first annual indexation will occur on 1 July 2010.

10. Changes in the asset test hardship rules

Effective from 1 July 2009 the asset test hardship rules will be amended. The changes increase the amount of readily available funds applicants can have when seeking to have an unrealisable asset disregarded.
The new limits (based on payment rates as at 20 March 2009) will be:

Applicant	Limit
Single person with no children	$11,785.80
Single person with dependent child or children, or aged over 60 years with nine months on income support	$12,750.40
Couple	$21,268.00
Parenting payment single	$14,814.80

The limits will be indexed at the same rate as payments, ensuring the limits maintain their real value.

11. Carer Supplement

In addition to the increase in the pension rates of $32.49 per week for singles and $10.14 for couples, carers who receive Carer Payment or a related income support payment will receive a new annual Carer Supplement of $600.

The supplement will be payable to people who receive either:

- Carer Payment
- Both Wife Pension and Carer Allowance
- Both Department of Veterans' Affairs (DVA) Partner Service Pension and Carer Allowance
- DVA Carer Service Pension

Carers who receive both Carer Payment and Carer Allowance will receive two payments ($1,200) every year. The first payment of the Carer Supplement will be made to Carers before July 2009. The regular payment will be made from 1 July 2010 onwards.

12. DVA: Dependant Pension – lump sum payment and closure

Effective date: 30 September 2009

The Government will close the Dependant Pension from the end of September 2009 by providing existing recipients with a one-off lump sum payment equivalent to three years of payments. The Dependant Pension was initially implemented to compensate widows and children who had suffered as a result of a war-caused disability to a veteran.

13. Aged Care: Ending the 28 day income test exemption

Effective date: 2009-10 financial year

The Government will apply the income test for residential aged care from the day of entry, removing the current 28-day delay. Income tested fees will be payable from the day of entry into the aged care facility. The income test itself will not change.

Disclaimer

The information contained in this document dated 13 May 2009 has been given in good faith and has been derived from laws current at this date and our interpretation of them. It has also been devised from the 2009 Federal Budget Papers, Ministerial statements, associated materials, and our interpretation of them. The taxation position described is a general statement and should only be used as a guide. It does not constitute tax advice. This document is to be used as general information only and should not be considered a comprehensive statement on any matter and should not be relied upon as such. This document has been prepared without taking into account any individual objectives, financial situation or needs.

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