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It's 'almost that time of year again' - the end of the financial year!

After a period of sustained volatility and uncertainty across investment markets, both still affecting markets and the investment outlook, it has never been more important to ensure your financial affairs are structured to suit personal needs and expectations. It is timely to look at those areas that can affect your financial position or any action that can be taken to improve future progress before the end of financial year. Please feel free to make an appointment with us to discuss your own personal situation.

The 2009/10 Federal Budget is characterized by a $57.6 billion deficit, with the Government expecting to see the budget return to a surplus position in 2015/16. The focus of spending is on infrastructure and building projects in an effort to limit the increase in unemployment and to 'build for the future". While there were no significant tax changes announced, it is important to note that the tax cuts announced in last year's Budget have been wound back.

Now for our May update....

2009 Federal Budget Summary

On 12th May 2009, Treasurer Wayne Swan delivered his second Federal Budget. This was one of the most eagerly anticipated Budgets in decades, in which a range of measures were announced, including:

In a Snapshot:

- Retention of previously legislated personal income tax cuts and low income tax offset changes
- Halving the cap on concessional super contributions
- Temporarily reducing the super co-contribution
- Halving the minimum drawdown rates for account-based super pensions for 2009/10
- A phased increase in Age Pension age to 67
- Increase in Investment Allowance Small Business Tax Break to 50%
- Use of non-commercial losses restricted for high income earners
- Introduction of a means test for the private health insurance rebate
- A tiered system for the application of Medicare Levy Surcharge for those without private health insurance
- Changes to tax treatment of foreign employment income
- Removing tax deferral for shares issued under Employee Share Schemes
- Removal of tax-free super/pension payments from the Commonwealth Seniors Health Card income test

Personal Tax Rates & Thresholds

Taxable income ($)	Current Rate from 01.7.08 (%)	Taxable Income ($)	Enacted Rate From 1.07.09 (%)	Taxable Income ($)	Enacted Rate from 1.7.10 (%)
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

The Government has delivered on its promise to provide income tax cuts this year and next. The cuts, promised in the 2007 federal election, will lower the current 40 percent tax rate to 37 percent by the middle of 2010, while the threshold for the 30 percent rate will be lifted to $37,001, compared to $34,001 currently.

Already announced changes to tax thresholds and rates mean by the middle of 2010, a person earning $60,000 will be about $8.65 a week better off, while those earning above $180,000 will gain an extra $66.35 a week.

The Budget also confirmed a previously announced increase in the maximum amount of the low income tax offset from the current $1,200 to $1,350 in 2009-10 and $1,500 in 2010-11.

Superannuation Changes

Reduced concessional contributions cap

The Government announced a 50 percent reduction in the concessional contributions cap to $25,000 (or $50,000 for those over the age of 50). This will apply to contributions made during the 2009-10 financial year. For those aged over 50, the concessional contributions cap will reduce to $25,000 in 2012-13. The existing concessional contributions cap of $50,000 (or $100,000 for those over the age of 50) **will continue to apply for the full 2008-09** financial year.

The non-concessional contributions cap will remain at $150,000 for the 2009-10 financial year. Also the ability to make up to $450,000 in non-concessional contributions over a 3 year period remains intact.

Reduction in government co-contribution

A temporary reduction was announced in the personal contribution amounts that will be matched by the government via the superannuation co-contribution scheme.

- Government matching rate will reduce from 150% ($1.50) to 100% ($1.00) up to a maximum of $1,000 for personal non-concessional contributions in the following financial years:
    - 2009/2010
    - 2010/2011
    - 2011/2012
- The matching rate will reduce to 125% ($1.25) up to a maximum $1,250 for personal non-concessional contributions in the following financial years:
    - 2012/2013
    - 2013/2014
- The matching rate will return to 150% ($1.50) up to a maximum $1,500 for personal non-concessional contributions from 1 July 2014.

Account-based pension extended drawdown relief

The minimum drawdown relief for account based pensions, which allows pensioners to reduce the minimum pension payment required by 50 percent, has been extended for another 12 month period, continuing the relief for the 2009-10 financial year.

This means for a person under the age of 65, only 2 percent of an account-based pension is required to be paid over the 2009-10 financial year.

Super still tax free after 60 years of age

Please note that there was no change announced in the Budget in relation to the current measure of superannuation benefits being tax free after 60 years of age.

Age Pension age to increase Date of effect: 1 July 2017

The qualifying age for the Age Pension and the Commonwealth Seniors Health Card for men and women will be increased to 67 years, at a rate of six months every two years, beginning in 2017, to reach 67 on 1 July 2023.

The Government is currently reviewing a recommendation from the Henry Review to align the super preservation age with the higher Age Pension age from 2017. A person can normally only access their superannuation benefits after they reach preservation age and a condition of release is met.

Further analysis of potential gaps between employment and access to super may be required in industries or arrangements where compulsory retirement must occur at an earlier age than the proposed Age Pension age.

Increase in Investment Allowance Tax Break

The proposed 30 percent investment allowance will be increased to 50 percent but only for small businesses with an annual turnover of less than $2 million. There has also been an extension of the dates by which qualifying assets can be acquired and installed to obtain the increased 50 percent allowance. The increased allowance will apply where a small business acquires an eligible asset between 13 December 2008 and 31 December 2009, and the asset is installed or ready for use by 31 December 2010.

Use of non-commercial losses restricted

The Government has tightened the application of the non-commercial losses rules to prevent high income individuals from offsetting excess deductions from non-commercial activities against salary and other income.

From 1st July 2009, taxpayers with an adjusted taxable income over $250,000 will only be able to deduct expenses from non-commercial business activities against the income from those activities. Any excess deductions will be quarantined to the business activity.

Private Health Insurance Rebate and Medicare Levy Surcharge

The Government announced that high income earners will receive a reduction in their private health insurance rebate and face an increase in Medicare levy sucharge if they don’t have private health insurance.

From 1st July 2010, the Government will introduce three new ‘Private Health Insurance Tiers’ for high income earners:

Tier 1:

For singles earning between $75,001 - $90,000 (couples/families $150,001 - $180,000), the rebate will be 20% for those up to 65 years (25% for those between 65-69 years of age, and 30% for those over 70 years). The Medicare levy surcharge for avoiding private health insurance will remain at 1%.

Tier 2:

For singles earning between $90,001 - $120,000 (couples/families $180,001 - $240,000), the rebate will be 10% for those up to 65 years (15% for those between 65-69 years of age, and 20% for those over 70 years). The surcharge for avoiding private health insurance will be increased to 1.25%.

Tier 3:

For singles earning more than $120,000 (couples/families $240,000), no rebate will be provided. The surcharge for avoiding private health insurance will be increased to 1.5%.

If you are a low or middle income earner with $75,000 (couples/families $150,000) or less of income, you will be entitled to the full 30% private health insurance rebate (35% rebate for those between 65 - 69 years of age and 40% rebate if over 70 years) and will not have to pay any Medicare Levy Surcharge.

Foreign Employment Income

From 1st July 2009, Australians working overseas for more than 91 days will be affected due to Budget measures ending general tax exemptions. Now the exemptions will only apply to the following people:

- Aid workers
- Charitable workers
- People under certain types of Government employment, or
- People working on projects that are in the national interest.

Other forms of foreign employment income will generally become taxable and taxpayers will be entitled to a foreign income tax offset for foreign tax paid on this income, which will relieve double taxation for these individuals.

This announcement may impact employees engaged in foreign service (eg international assignees), in particular those employees working in jurisdictions with lower personal income tax rates than Australia. Becoming a non-resident for tax purposes will become more attractive from a tax perspective.

Employee Share Schemes

The Government has announced that all discounts on shares and options provided under an employee share scheme, whether qualifying or non-qualifying, will be assessed in the income year in which they are acquired. That is employees will no longer be able to elect to defer taxation on their discount to a later time.

The Government will also limit access to the $1,000 upfront tax exemption to employees with an adjusted taxable income of less than $60,000.

These measures will apply to shares and options acquired after 7.30pm AEST on 12 May 2009.

Commonwealth Seniors Health Card – Income Test

The Government will not proceed with its proposal to include gross tax-free superannuation pension income in the adjusted taxable income test for the Commonwealth Seniors Health Card. This means that tax free income from a superannuation income stream will not be included in the income test.

However, it will proceed to include income that is salary sacrificed to superannuation in the income assessment, with effect from 1st July 2009. This inclusion of salary sacrifice in the income test is consistent with the income test changes for income support payments that have already been legislated.