HAINES MUIR HILL
CHARTERED ACCOUNTANTS

BUDGET UPDATE

HAINES MUIR HILL   CHARTERED ACCOUNTANTS   FINANCIAL PLANNERS

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2009 / 2010 Federal Budget

Superannuation Changes

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 $450,000 'bring forward' arrangement.

The indexation method of the CC remains unchanged. "Table A" 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.

Certain fund 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 should 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 a penalty 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 are 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 new CC.

Transition to Retirement (TTR) Pensions

No specific changes were announced regarding TTR income streams. However, the contribution cap change may impact individuals who utilise strategies which combine salary sacrifice and TTR pensions.

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TABLE A

Financial Year	Pre Budget CC Under Age 50	Post Budget CC Under Age 50	Pre Budget Transitional CC Over Age 50	Post Budget Transitional CC Over Age 50
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.*

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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).

Minimum pension relief 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.
- For clients who have elected to receive minimum pension payments eg 5%, it is expected that the majority of public offer superannuation funds will automatically apply the new minimum standards eg 2.5%. Clients will need to check with their super fund provider or contact us to determine whether the reduced pension amount is sufficient to meet their ongoing living expenses.

Investment allowance

On 3 February 2009 the Government announced that it would introduce a temporary investment allowance as follows:

- a 30% investment allowance for eligible assets acquired by a business between 13 December 2008 and 30 June 2009, provided the asset is installed ready for use by 30 June 2010; and
- a 10% investment allowance for eligible assets acquired by a business between 1 July 2009 and 31 December 2009, provided the asset is installed ready for use by 31 December 2010.

The Government announced last night that it will be expanding the investment allowance to small businesses (businesses which have an aggregated turnover of less than $2 million).

Small businesses will be eligible for a 50% investment allowance for eligible assets acquired (minimum spend of $1,000) between 13 December 2008 and 31 December 2009, provided the asset is installed ready for use by 31 December 2010.

All other businesses will still be eligible for the 30% and 10% investment allowance if they pass the above criteria (minimum spend of $10,000).

Personal income tax cuts

From 1 July 2009, changes in personal income tax rates will see the 30% income tax rate start from $35,000, up from $34,000 and the 40% income tax rate at the $80,000 income level, will drop to 38%.

From 1 July 2010, the 30% income tax rate start from $37,000, up from the previous year figure of $35,000 and the 40% income tax rate at the $80,000 income level, will drop to 37%.

Private health insurance rebate

From 1 July 2010 the Government will be introducing a three tiered Private Health Insurance Rebate (PHIR) scheme. The Medicare Levy Surcharge thresholds will also be indexed to rises in individual and family taxable incomes.

Employee share schemes

The Government will be simplifying the rules for ESS. Employees will now be assessed on the market value of any shares and options in the year they are acquired by the employee.

In addition, the Government will limit access to the up front $1,000 tax exemption available on employee shares and options, to people with an adjusted taxable income of less than $60,000.

Theses rules will be applicable to any new arrangements entered into from 12 May 2009.

Non-commercial losses

The Government will be introducing new rules to limit access to non-commercial losses where the activity is more of a lifestyle choice or hobby.

Taxpayers with an adjusted taxable income of more than $250,000 and who pass the eligibility criteria for deducting non-commercial losses, will now be restricted from accessing these losses.

The new measures are scheduled to start from 1 July 2009.

Should you have any questions please feel free to call your usual HMH contact.