



# BUDGET 2009-10

## ECONOMIC IMPLICATIONS

The economic environment has deteriorated over the last 12 months both domestically and globally. The outlook is for a further deterioration in growth over the coming year, before moving into positive territory in 2010/11. After that, the Australian economy is forecast to record quite strong growth in future years. Whilst there were no significant tax changes announced there some proposed measures.

Inflation is not expected to be a concern over coming years: the government expects it to fall under the Reserve Bank's target band before heading back to the middle of the band in 2012-13. Figures until the year 2012 is shown below.

	2008-09	2009-10	2010-11	2011-12
<b>Real GDP</b>	0%	-0.5%	2.25%	4.5%
<b>Employment</b>	-0.25%	-1.5%	0.5%	2.5%
<b>Unemployment rate</b>	6%	8.25%	8.5%	7.5%
<b>CPI</b>	1.75%	1.75%	1.5%	2%
<b>Nominal GDP</b>	5.75%	-1.5%	3.75%	6.25%

The global recession and end of the commodity boom has led to the first budget deficit in many years, and is something we will have to live with for a number of years into the future. Whilst moving into a deficit to stimulate the economy out of a recession is not in itself an issue, forecasts that the budget will head back to surplus in the future are important. Currently the Treasurer is forecasting that the budget will remain in deficit until 2015/16.

## Key budget parameters

	Actual	Estimates			Projections	
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Revenue (\$b)</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
<b>Expenses (\$b)</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
<b>Fiscal balance (\$b)</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
<b>Underlying cash balance (\$b)(a)</b>	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
<i>Memorandum item:</i>						
Headline cash balance (\$b)	28.2	-35.9	-59.8	-58.9	-48.5	-25.1

(a) Excludes expected Future Fund earnings.

The key areas of spending that the Budget is proposing are in infrastructure, education, increases to pension payments and paid parental leave.

The key areas of saving that the Budget is proposing are in the reform of family payments, changes to superannuation payments and health care rebates.

## Market implications

There should not be a large market implication, whilst government debt is forecast to increase, the broader global stage will have more impact on the local market in coming months.

# FINANCIAL PLANNING IMPLICATIONS

## SUPERANNUATION CHANGES

- ▶ Concessional contribution cap reduced to \$25,000 from 1 July 09 for those under 50
- ▶ Transitional concessional cap reduced to \$50,000 from 1 July 09 for those over 50

In one of the worst kept secrets announced in the budget, the Government will more than halve the concessional contribution cap to \$25,000 for those under 50 from 1 July 2009. Without this change, the cap would have increased to \$55,000 from 1 July 2009.

For those over 50, the transitional concessional cap will decrease from \$100,000 to \$50,000 from 1 July 2009 until 30 June 2012, when it will fall in line with the regular cap.

- ▶ Non-concessional contribution cap to remain at \$150,000 for 2009/10 financial year

The non-concessional cap was due to increase to \$165,000 from 1 July 2009, but will now stay at \$150,000 for 2009/10. Thereafter, it will be calculated as 6 times the concessional contribution cap.

- ▶ Government Co-contribution reduced to 100% from 1 July 2009 to 30 June 2012
- ▶ Co-contribution will then be 125% from 1 July 2012 to 30 June 2014

The Government will temporarily pay a Government Co-contribution of only 100% instead of the usual 150%. The rate of reduction of the maximum co-contribution will be decreased from 5c per dollar to 3.33c per dollar to ensure that those with income under \$60,342 remain eligible.

From 1 July 2012, the Co-contribution will increase to 125%, and on 1 July 2014 will increase again back to the original 150%.

- ▶ Account based pension minimum draw down halved for 2009/10

The Government will extend the halving of the minimum required pension payment for account based pensions that applied in 2008/09 to also apply in 2009/10. This measure will also apply to allocated pensions and term allocated pensions.

- ▶ Retirement savings portability scheme between Australia and New Zealand

While presently it is not possible to rollover or transfer Australian superannuation to a foreign superannuation fund, the Government has agreed in principle to signing a memorandum of understanding with New Zealand to establish an Australia / New Zealand superannuation portability scheme.

This measure may in the future allow the transfer of superannuation between Australian funds and New Zealand KiwiSaver funds.

## TAX CHANGES

- ▶ Rate at which 30% Marginal Tax Rate (MTR) cuts in will increase from \$34,000 to \$35,000 from 1 July 2009
- ▶ 40% MTR will decrease to 38% from 1 July 2009

The tax cuts announced in last year's budget will apply from 1 July 2009. These changes will reduce personal tax for those earning over \$34,000 pa, and particularly those earning over \$80,000 pa.

- ▶ Medicare Levy Surcharge increased for those earning over \$75,000 pa (\$150,000 for couples)
- ▶ Private health insurance rebate for those earning over \$75,000 pa (\$150,000 for couples)

From 1 July 2010, the Government will introduce a number of income tiers which will determine the level of private health insurance rebate a client can receive, as well as the rate of Medicare Levy Surcharge that will apply if they do not take out private health cover.

Arrangements for those earning under \$75,000 (\$150,000 for families) will remain unchanged.

Tier 1 will apply for those earning between \$75,000 and \$90,000 (\$150,000 and \$180,000 for families). The rebate will be 20% (increasing after age 65) and the surcharge will remain at 1%.

Tier 2 will apply for those earning between \$90,000 and \$120,000 (\$180,000 and \$240,000 for families). The rebate will be 10% (increasing after age 65) and the surcharge will be increased to 1.25%.

Tier 3 will apply to those earning over \$120,000 (\$240,000 for families). No rebate will apply and the surcharge will be increased to 1.5%.

- ▶ Small business investment allowance to be increased to 50% and to apply until 31 December 2009

Presently, proposed legislation provides potentially a 30% additional tax deduction where businesses purchase eligible assets by 30 June 2009 and a 10% additional deduction for eligible assets purchased prior to 31 December 2009.

For small businesses, in both cases this additional deduction will be increased to 50%. Eligible assets purchased must be installed ready for use by 31 December 2010.

For other businesses, the existing additional deductions for 30% or 10% will continue to apply.

## SOCIAL SECURITY CHANGES

- ▶ Single pension rate increased by \$32.49 per week from 20 September 2009
- ▶ Couples receive increase of \$10.14 per week from 20 September 2009
- ▶ Age Pension age to increase from 65 to 67 between 2017 and 2023
- ▶ Income test for pensions – taper rate increased from 40c per dollar to 50c per dollar from 20 September 2009

The Government has announced as expected a significant increase in the rate received by single pensioners. Couples also receive an increase by way of a new pension supplement (a small amount of the single pensioner's increase is also made up of this supplement).

However, to ensure the long term sustainability of the pension system, the Government has announced that by 2023, the Age Pension age for both men and women will increase to 67.

The rate at which pension entitlements decrease under the Income Test will also be increased on 20 September 2009 from 40c per dollar to 50c per dollar. The Government has guaranteed that existing part pensioners who would be affected by this change will have at least their existing entitlement, in real terms, maintained, however we will need to wait for further detail to see exactly how this guarantee will operate.

- ▶ Pension Bonus Scheme to close to new applicants from 20 September 2009
- ▶ 50% income test concession for first \$500 of employment income per fortnight

While clients who have already registered for the pension bonus scheme can continue to accrue a bonus, clients will not be able to register for the scheme after 20 September 2009.

The Government will instead allow a partial exemption for the first \$500 per fortnight of employment income, where only 50% will count for income test purposes. This will ensure that some incentive is still provided for those looking to work beyond Age Pension age.

- ▶ Paid parental leave from 1 January 2011 where primary carer earning under \$150,000

Paid parental leave will apply for those who meet an income test in the financial year prior to a child's birth. A work test will also apply. Parental leave can be paid for up to 18 weeks and the rate of pay will be the federal minimum wage (currently \$544 per week). The payment will be taxable.

Where a client is receiving paid parental leave, other payments such as the baby bonus, Family Tax Benefit B and dependant tax offsets will not be available.

- Tax free super income stream payments not included in Commonwealth Seniors Health Card (CSHC) income test.

After the Government's proposal to include tax free payments (pension and lump sum) from super in the definition of income for CSHC purposes stalled in the senate, they have now announced that tax free income stream payments from super will not be included as income. It is likely that this announcement will also mean tax free lump sums will also be excluded (although we will need to wait for further confirmation).

This is a big win for self funded retirees over Age Pension age, who would have been unfairly affected had this measure been introduced as originally planned.

The Government has confirmed that they will include both reportable super contributions and net financial investment losses in the definition of income for this purpose from 1 July 2009.

- \$600 pa carer supplement to be introduced from 30 June 2009

The Government will make an annual non-taxable payment of \$600 to Carer Payment recipients, as well as a payment of \$600 to Carer Allowance recipients for each person being cared for. Many clients in this situation may qualify for both payments.

The first annual payment will be made on 30 June 2009, with the second payment on 1 July 2010 and each 1 July thereafter.

- Upper income threshold for Family Tax Benefit A and B, dependency tax offsets and Baby Bonus will remain at current levels until 1 July 2012
- Family Tax Benefit A to be indexed by CPI from 1 July 2009

To control the cost of the family payments system, the Government has announced they will not index upper income thresholds for the above family payments until 1 July 2012.

The indexation of Family Tax Benefit A will also change to CPI indexation, bringing it in line with most other family payments. Currently, Family Tax Benefit A is indexed by the greater of CPI or a proportion of the couple pension rate.

- End to 28 day income test exemption when going into residential aged care

The Government will bring the income tested fee in line with other daily payments for residential aged care and allow it to be charged from the date of entry rather than after the first 28 days.

It is unclear in the budget papers exactly when this measure will commence, but it is likely to apply from 20 September 2009.

## **OTHER MEASURES**

- ▶ First home owners boost to remain at current levels until 30 September 2009
- ▶ Reduced first home owners boost to apply from 1 October 2009 to 31 December 2009

The Government has extended the increase in the first home owners grant until 30 September. The grant for existing homes is \$14,000, with \$21,000 provided to those buying or building a new home.

From 1 October, these rates will decrease to \$10,500 and \$14,000 respectively, and return to the normal \$7,000 for either scenario at 1 January 2010.