

## FEDERAL BUDGET 2009 UPDATE – BRIEF SUMMARY

The Government has delivered what it says is one of the most difficult Budgets since the great depression, with many winners and losers. Home-buyers, pensioners, students and parents-to-be were among the winners. High income earners and those planning to retire soon were the worst hit.

### TAXATION

#### TAX CUTS FROM 1 JULY 2009 TO REMAIN

From 1 July 2009		From 1 July 2010	
Taxable income (\$)	Rate (%)	Taxable income (\$)	Rate (%)
0 - 6,000	0	0 - 6,000	0
6,001 - <b>35,000</b>	15	6,001 - <b>37,000</b>	15
<b>35,001</b> - 80,000	30	<b>37,001</b> - 80,000	30
80,001 - 180,000	<b>38</b>	80,001 - 180,000	<b>37</b>
180,001 +	45	180,001 +	45

#### THE EFFECT ON SHARE INVESTORS

The Government's tax cuts will make investments in Australian shares even more tax effective. For an investment portfolio paying fully franked dividends, no tax will be payable if the dividends received are equal to or less than:

<b>2008/09 (Current)</b>	<b>\$85,217</b>
2009/10	\$92,474
2010/11	\$99,235

#### INCREASING THE MEDICARE LEVY LOW-INCOME THRESHOLDS

The Government will increase the Medicare levy low-income thresholds to \$17,794 for individuals and \$30,025 for individuals in families, with effect from 1 July 2008.

The additional amount of threshold for each dependent child or student will also increase to \$2,757.

The Government will also increase the Medicare levy threshold for pensioners below Age Pension age to \$25,299, with effect from 1 July 2008. This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

## SUPERANNUATION

### ACCOUNT-BASED PENSIONS — FURTHER DRAWDOWN RELIEF FOR RETIREES

The Government will halve the minimum payment amounts for account-based pensions for 2009/10. Reducing the minimum payment amounts for account-based pensions will assist pension account balances to recover from capital losses from the global recession.

The reduction in the minimum payment amounts applies to account-based, allocated and market-linked (term allocated) pensions.

### REDUCING THE CONCESSIONAL CONTRIBUTIONS CAPS

The Government will improve equity in the superannuation system by reducing the concessional contributions cap to \$25,000 per annum (indexed), with effect from the 2009/10 financial year.

The transitional concessional contributions cap (applicable to individuals aged 50 and over for the 2009/10 to 2011/12 financial years) will be reduced to \$50,000 per annum.

The annual cap on non-concessional contributions is \$150,000 per annum for the 2008/09 financial year and will remain at that level in 2009/10. In the future, the cap will be calculated as six times the level of the (indexed) concessional contributions cap.

### REDUCING THE GOVERNMENT CO-CONTRIBUTION

The Government will temporarily reduce the matching rate and maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions, with effect from 1 July 2009.

Under this measure, the matching rate will be:

- 100 per cent for 2009/10, 2010/11 and 2011/12, with a maximum co-contribution of \$1000, reduced by 3.333 cents for each dollar by which the person's total income exceeds the shade out threshold for receiving the full co-contribution;
- 125 per cent for 2012/13 and 2013/14, with a maximum co-contribution of \$1,250, reduced by 4.167 cents for each dollar of total income above the shade out threshold; and
- 150 per cent from 2014/15 onwards, with a maximum co-contribution of \$1,500, reduced by 5 cents for each dollar of total income above the shade out threshold.

## FIRST HOME OWNERS

### FIRST HOME OWNERS BOOST — EXTENSION

The Government will extend the First Home Owners Boost for six months to support the housing market and first home buyers.

For eligible first home buyers entering into contracts between 1 July 2009 and 30 September 2009 (inclusive) the First Home Owners Boost will continue to provide \$7,000 for the purchase of established homes and \$14,000 for the purchase of new homes. In combination with the existing \$7,000 First Home Owners Scheme grant, this means that first home owners will receive a total of \$14,000 for established homes and \$21,000 for new homes.

For eligible first home buyers entering into contracts between 1 October 2009 and 31 December 2009 (inclusive) the First Home Owners Boost will provide

\$3,500 for the purchase of established homes and \$7,000 for the purchase of new homes. When combined with the existing First Home Owners Scheme grant, this means that first home owners will receive a total of \$10,500 for established homes and \$14,000 for new homes.

## GOVERNMENT SUPPORT

### COMMONWEALTH SENIORS HEALTH CARD — INCOME TEST

The Government will not proceed to change the Commonwealth Seniors Health Card income test to include gross tax-free superannuation pension income in the adjusted taxable income test.

The Government will proceed to include income that is salary sacrificed to superannuation in the income assessment, with effect from 1 July 2009.

### PAID PARENTAL LEAVE

The Government will introduce a Paid Parental Leave scheme from 1 January 2011. The government funded scheme will provide eligible parents with up to 18 weeks of leave at the Federal Minimum Wage, currently \$543.78 per week.

These payments will:

- be treated as taxable income and will affect entitlement to family assistance payments,
- not be counted as income for income support payments.

People who elect not to receive Paid Parental Leave or who do not qualify will continue to receive the Baby Bonus and other family payments, where they meet eligibility requirements.

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 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.

In some cases Paid Parental Leave will be able to be transferred to another caregiver if the primary carer returns to work before they have received their full Paid Parental Leave entitlement.

Parents who choose to receive Paid Parental Leave will not receive the Baby Bonus, except in 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 also not be eligible for the Family Tax Benefit Part B and the dependent spouse, child-housekeeper and housekeeper tax offsets for the 18 week period or whilst they are in receipt of Paid Parental Leave.

### PENSION INCOME TEST CONCESSION FOR OLDER AUSTRALIAN WHO ARE WORKING

The Government will continue to encourage workforce participation among older Australians by establishing a new pension income test concession for employment income.

Under the new Work Bonus, 50 per cent of the first \$500 per fortnight of employment income will not count for income test purposes.

### INCREASE TO PENSION PAYMENTS

The new pension package will deliver the following increases:

- \$32.49 per week increase for single pensioners on the full rate of pension; and
- \$10.14 per week (combined) increase for couple pensioners on the full rate of pension.

These increases will be provided in two forms, through an increase in the base rate of pension for singles; and through an increase in a new Pension Supplement for both singles and couples.

The Government will provide a \$30 per week increase in the single basic pension rate.

For the new Pension Supplement, the Government will provide:

- \$2.49 per week increase for singles; and
- \$10.14 per week combined increase for couples.

These increases in assistance 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 Widow/ers, and will take effect on 20 September 2009.

The new Pension Supplement will also be provided to Widow Allowees, Partner Allowees and other income support recipients over age pension age.

#### INCREASE IN THE AGE PENSION AGE

The Government will increase the qualifying age for the Age Pension and the Commonwealth Seniors Health Card for men and women to 67 years of age from 2023.

The transition to the higher Age Pension age will commence in July 2017, with the qualifying age increasing by six months every two years, to reach 67 on 1 July 2023.

#### TIGHTENING THE INCOME TEST TAPER

The Government will increase the income test taper from 40 to 50 cents in the dollar for a single pensioner and from 20 to 25 cents in the dollar for each member of a couple, for income above the relevant income free threshold. This threshold is currently \$138 per fortnight for single pensioners and \$240 per fortnight for pensioner couples (combined).

As part of this measure, the higher income test threshold for pensioners with children (currently \$162.60) will be abolished to align the pension income test with the allowance and family payments income tests.

Existing part pensioners affected by the income test changes will keep existing entitlements, maintained in real terms, plus an increase of \$10.14 per week for singles or couples combined.

To increase incentives to undertake paid employment, an income test concession for employment income will be introduced for people of Age Pension age and for veterans of Service Pension age. Employment income will be assessed fortnightly, with only half of the first \$500 of fortnightly employment income to be counted in assessing their pension entitlement.

## PRIVATE HEALTH INSURANCE

#### PRIVATE HEALTH INSURANCE REBATE

Effective 1 July 2010, the Government will introduce three new 'Private Health Insurance Incentive Tiers'. Existing arrangements will remain unchanged for singles with income of less than \$75,000 per annum and families with incomes

of less than \$150,000 per annum. Income in this context refers to income for Medicare levy surcharge (the surcharge) purposes.

- Tier 1 will apply to singles with income of more than \$75,000 (more than \$150,000 for families), based on current projections.
  - The private health insurance rebate will be 20 per cent, increasing to 25 per cent at 65 years of age, and to 30 per cent at 70 years.
  - The private health insurance surcharge for not taking out complying private health insurance will remain at 1 per cent.
- Tier 2 will apply to singles with income of more than \$90,000 (more than \$180,000 for families).
  - The private health insurance rebate will be 10 per cent, increasing to 15 per cent at 65 years of age, and to 20 per cent at 70 years.
  - The surcharge for not taking out complying private health insurance will be increased to 1.25 per cent.
- Tier 3 will apply to singles with income of more than \$120,000 (more than \$240,000 for families).
  - No private health insurance rebate will be provided.
  - The surcharge for not taking out complying private health insurance will be increased to 1.5 per cent.

All income thresholds will continue to be indexed to AWOTE and will also be adjusted for families with more than one child in the same manner as existing arrangements for the surcharge.

## WHO DO I TALK TO FOR FURTHER INFORMATION?

If you would like further information regarding how the budget affects you, please speak to your Citi Smith Barney Financial Planner.

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