

Balancing Act

Federal Budget

Adviser Update

2009

Introduction

Well it could have been worse. Some of us can remember the 1996 horror Budget where we came away with the Super Surcharge. At least they didn't go back to that.

As we stayed back and watched the Budget, we noted that Treasurer Swan and his speechwriters had mined the Thesaurus for as many different words and phrases they could find to describe the bad times we are having. This was the Budget "forged in fire" from a recession "unleashed on Australia with a brutal, uncompromising force". (I think someone had just been to see "Wolverine".) However there is hope for "recovery and beyond" (time for a new speechwriter Wayne).

Much of the immediate "bad news" had been strategically leaked over the last week so we were (at least nominally) prepared for reduced concessional super contribution caps and a reduced super co-contribution. Although there was some good news – increases to the Age Pension and an extension of the reduced minimum super pension draw down, this was not a Budget framed for largesse – unless you are in the construction industry.

The Government sought revenue wherever it could without damaging its Labour voting constituency – most Collins/George Street hobby farmers don't vote for the ALP. However some measures such as changes to the tax treatment of employee share schemes had us scratching our heads.

The Government also released the long awaited Henry and Harmer Reviews into Retirement Incomes and Pensions which included some very interesting proposals for the future of retirement incomes.

Details released in the Budget are as follows...

Tax – individual marginal tax rates

Current tax thresholds from 1 July 2008 tax thresholds Income range (\$)	Tax rate (%)	New tax thresholds from 1 July 2009 tax thresholds Income range (\$)	Tax rate (%)
0 – 6,000	0	0 – 6,000	0
6,001 – 34,000	15	6,001 – 35,000	15
34,001 – 80,000	30	35,001 – 80,000	30
80,001 – 180,000	40	80,001 – 180,000	38
180,001 +	45	180,001 +	45

New tax thresholds from 1 July 2009 tax thresholds Income range (\$)	Tax rate (%)	Tax Payable (Resident)
0 – 6,000	0	Nil
6,001 – 35,000	15	Nil + 15% of excess over \$6,000
35,001 – 80,000	30	\$4,350 + 30% of excess over \$35,000
80,001 – 180,000	38	\$17,850 + 38% of excess over \$80,000
180,001 +	45	\$55,850 + 45% of excess over \$180,000

Tax – Low Income Tax Offset

For 2009-10, the upper threshold for the LITO will increase from \$60,000 to \$63,750, and from 1 July 2010, to \$67,500. The low income tax offset will continue to phase out from \$30,000 at a rate of 4 cents in the dollar for every dollar of income over \$30,000.

The maximum LITO is therefore \$1,350 for the 2009/10 year up from \$1,200 this year. Estimated Annual Tax Savings resulting from changes to marginal tax rates (including LITO)

Gross Income	08/09 Tax	09/10 Tax	Saving	Gross Income	08/09 Tax	09/10 Tax	Saving
\$20,000	\$900	\$750	\$150	\$120,000	\$34,000	\$33,050	\$950
\$40,000	\$5,200	\$4,900	\$300	\$140,000	\$42,000	\$40,650	\$1,350
\$60,000	\$12,000	\$11,700	\$300	\$160,000	\$50,000	\$48,250	\$1,750
\$80,000	\$18,000	\$17,850	\$150	\$180,000	\$58,000	\$55,850	\$2,150
\$100,000	\$26,000	\$25,450	\$550	\$200,000	\$67,000	\$64,850	\$2,150

Tax – Medicare threshold

From the 2008/09 year, the Medicare levy low-income thresholds will be increased as follows.

Family situation	2008/09 year	2009/10 year
Single	\$17,309	\$17,794
Married or entitled to sole parent rebate	\$29,207	\$30,025
Pensioners under pension age (single)	\$22,922	\$25,299
Add for each extra dependant	\$2,682	\$2,757

Tax – Foreign employment income exemption changes

Currently, Australians working overseas for over 90 consecutive days are eligible for a general exemption which means they do not pay any Australian income tax on their foreign employment income. Subject to certain specified exceptions, this will change such that the foreign employment income will be subject to Australian tax (at the ordinary marginal tax rates) with a tax offset allowable for tax paid in the foreign jurisdiction.

Comment:

This change will only apply to taxpayers who, despite the overseas employment, continue to be Australian residents for tax purposes. The tax position of non-residents is not impacted by this change.

Tax – Small business tax break extended

The Small Business and General Business Tax Break will be expanded to allow a bonus deduction of 50 per cent (up from 30 per cent) to small businesses with a turnover of less than \$2 million that acquire an eligible asset (including most depreciable assets such as cars, office furniture, computers but not software) between 13 December 2008 and 31 December 2009 and install it ready for use by 31 December 2010. This will apply to assets acquired for at least \$1,000. The previously announced 30 per cent and 10 per cent

Comment:

No change in scope of the measure, only the benefit. A further boost to small business to encourage investment.

Tax – Special Disability Trusts - taxation of unexpended income and CGT main residence exemption

Changes will ensure that the unexpended income of a Special Disability Trust is taxed at the relevant beneficiary's personal income tax rates rather than at the top personal tax rate plus Medicare Levy, with effect from the 2008-09 income year. In addition, the CGT main residence exemption will extend to include a residence that is owned by a Special Disability Trust and used by the relevant beneficiary as their main residence, with effect from the 2009-10 income year.

Comment:

A specifically targeted measure to remedy certain non-intended adverse tax outcomes associated with these arrangements, which are originally established for succession planning by parents and immediate family members for the current and future care (including accommodation needs) of a person with a severe disability.

Tax – Private health insurance rebate

From 1 July 2010, the government will introduce three new “Private Health Insurance Tiers” in respect of the Private Health Insurance Rebate as follows (compared to the current 30 per cent Rebate and one per cent Surcharge):

- Tier 1: For singles earning more than \$75,001 (couples \$150,001), the Rebate will be 20 per cent for those up to 65 years (25 per cent for those over 65, and 30 per cent for those over 70 years). The Surcharge for avoiding private health insurance will remain at one per cent.
- Tier 2: For singles earning more than \$90,001 (couples \$180,001), the Rebate will be 10 per cent, for those up to 65 years (15 per cent for those over 65, and 20 per cent for those over 70 years). The Surcharge for avoiding private health insurance will be increased to 1.25 per cent.
- Tier 3: For singles earning more than \$120,001 (couples \$240,001), no Rebate will be provided. The Surcharge for avoiding private health insurance will be increased to 1.5 per cent.

All income thresholds will continue to remain indexed.

Comment:

Affected singles and couples may re-visit their private health cover arrangements. Not only will the cost of cover increase for higher income earners, but they will also face a higher penalty if they decide not to have the requisite cover. It will be interesting to see how this will be implemented, as the current ability to claim the rebate via lower regular premiums may be unworkable once the Tiers are in place, presumably leading to the Rebate being claimed via the tax return process.

Tax – Off market share buy-backs

The recommendations of the Board of Taxation to improve the taxation treatment of off-market share buy-backs have been accepted, and are intended to have effect from the date of Royal Assent of the amending legislation. Broadly, legislation will be introduced to:

- include a specific provision to debit the franking account of a company that undertakes an off-market share buy-back to cancel the tax benefit of streaming imputation credits from non-resident to resident shareholders;
- deny notional losses to shareholders that participate in off-market share buy-backs conducted by listed companies;
- modify the income tax law to specify the basis for determining the capital/dividend split;
- extend the period of lodgement for a distribution statement for a company conducting an off-market share buy-back, and

- confirm that certain integrity rules (such as the franking credit streaming rules) do not apply to tender style off-market share buy-backs.

The government also endorses the Board recommendation that the ATO remove the “14 per cent administrative cap” on the level of discount for off-market share buy-backs undertaken by listed companies.

Tax – Managed Investment Trusts – capital account election

Rules will be introduced to allow managed investment trusts to make an election to treat its disposals of eligible assets (eg shares, units and real property) as being on capital account and thereby allowing the CGT discount (where other conditions are satisfied) to flow through to unit holders.

This follows the Board of Taxation’s interim advice in respect of its review of the taxation of managed investment trusts, and follows concerns from the ATO that some disposals should be properly characterised as being on revenue account.

Key features of these rules include:

- The election is intended to be irrevocable;
- Will apply to all managed investment trusts and to unit trusts 100 per cent owned by managed investment trusts that meet certain requirements;
- The election will not be available to managed investment trusts that are currently taxed like companies under the Public Unit Trust and Corporate Unit Trust rules;
- As an integrity measure and recognising the recent investment market performance, the election will be deemed to apply to all disposals in the 2009 tax year regardless of when it is actually made. This removes the temptation for trusts to sell down revenue losses to offset against other income in the current year and make the election in a following year.

Comment:

Whilst this would not result in any change to many managed investment trusts, it represents a great result for the funds management industry which was potentially faced with a disadvantage when compared to the tax outcomes from direct investment by clients. This also benefits smaller superannuation funds who are not of a sufficient size so as to access mandates from professional managers. Now that capital account can be achieved with certainty, it will be interesting what changes, if any, the Henry Review makes to the taxation of capital gains.

Tax – Anti tax-deferral (attribution) rules

Changes will be made to Australia’s anti tax deferral (attribution) regimes which ensure that residents cannot accumulate income offshore and thereby defer, or even avoid, Australian tax. They will have effect for income years on or after Royal Assent to the legislation.

The current rules are extremely complex and have the effect of attributing certain income to tax despite there not being any distribution or dividend paid in respect of the underlying foreign investment. These changes

implement most of the recommendations of the Board of Taxation review of the attribution regimes. The changes will include measures to:

- modernise the controlled foreign company (CFC) provisions;
- repeal and replace the foreign investment fund (FIF) provisions with a specific narrowly defined anti avoidance rule; and
- amend the transferor trust rules to enhance their effectiveness and improve their integrity.

The Government will consult on the implementation of these reforms.

Comment:

Any simplification of these rules are to be welcomed, particularly in the investments / managed investment trust area. The Media Release announcing these changes states that the reforms “will dramatically reduce compliance costs for managed funds and other businesses, saving business up to \$80 million each year”.

Tax – Taxation of employee share schemes

Under new rules, all discounts on shares and options provided under an employee share scheme - either qualifying or non-qualifying - will be assessed in the income year in which they are acquired. The effect of this is that employees acquiring shares or options under qualifying employee share schemes will no longer be able to elect to defer taxation on their discount to a later time. This will ensure that all forms of remuneration are taxable in the year the remuneration is received.

Currently an employee under a qualifying share scheme can elect to be assessed on discounts provided on shares or rights in the income year the shares or rights are acquired. If no election is made, the discount is taxed at a later time (such as when disposal restrictions on the shares or rights are lifted). If an employee elects to be taxed upfront they receive a tax exemption of up to \$1,000 on the discount.

Access to the \$1,000 upfront concession will also be limited. The \$1,000 upfront tax exemption will be limited to those employees with a taxable income of less than \$60,000 after adjustment for fringe benefits, salary sacrifice and negative gearing losses. The measure will take effect with respect to shares and rights acquired after 7:30pm (AEST) on 12 May 2009.

Comment:

This represents a dramatic change to the current treatment. It is clear from the Media Release that the Government is concerned that taxpayers do not include the discount in their income at the appropriate time where they have not made the upfront election and choose to be taxed on a deferred basis. A practical consequence of this is that the employee will need to fund the tax on this income out of their own resources, as, depending on the terms of the grant of shares / rights, they may not be able to sell down shares to pay the tax. Expect to see significant changes to the way share plans are designed – will employer provided loans to acquire shares become popular?

Tax – Tightening access to non commercial business losses

The Government will tighten the application of the rules on the use of non commercial losses to prevent high income individuals from offsetting excess deductions from non commercial business activities against salary and other income.

The measure will ensure excess deductions from unprofitable business activities cannot be used to reduce salary and wage income. Taxpayers with an adjusted taxable income of over \$250,000 will instead have excess deductions quarantined to the business activity.

Taxpayers will still have the ability to apply to the Commissioner of Taxation for relief from the rules if there are exceptional circumstances or because the nature of the activities means that a taxpayer is temporarily carrying on an uncommercial business but the activities they are undertaking are nonetheless independently assessed as commercially viable. The measure has effect from the 1 July 2009.

Comment:

The Media Release states that the activities that are targeted do not have a commercial purpose and are no more than hobbies or lifestyle choices. Hobby farms are mentioned as a potential example, but how wide could these rules extend? Holiday rentals?

Tax – Tightening the non commercial loan rules

Changes, applying from 1 July 2009, will ensure that benefits provided by a private company to its shareholders or their associates are taxed by tightening the rules that prevent shareholders and their associates avoiding tax on distributions and benefits they receive from private companies.

The measure extends 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.

Other technical amendments will be made to strengthen Division 7A, including to ensure that corporate limited partnerships cannot be used to circumvent its operation.

Extending the TFN withholding arrangements to closely held trusts. The Government will extend the tax file number (TFN) withholding arrangements to closely held trusts (which are trusts that generally have fewer than 20 beneficiaries), including family trusts, with effect from the 2010-11 income year.

The measure will ensure that assessable distributions to beneficiaries of closely held trusts align with the amounts included by these beneficiaries in their tax returns. Individuals who have tax withheld by trustees can claim a credit for that tax in their tax return.

Comment:

As an integrity measure, this change has the intention of ensuring compliance with existing taxation laws by improving the efficiency and effectiveness of the ATO's income matching system.

Tax – Entrepreneurs' tax offset - application of income test deferred

The Government will defer, to 1 July 2009, the application of the income test for the entrepreneurs' tax offset (ETO) announced in last year's Federal Budget. The deferral ensures that the timing and nature of the income test is consistent with the Government's broader income testing reforms. The Government will consult on the form of the income test.

The ETO currently provides a 25 per cent tax offset against the income tax liability for small business with annual turnover of less than \$75,000.

Tax – Research and Development tax rebate

With effect from the 2011 tax year, the current R&D concessions will be replaced with a new R&D tax credit regime. A refundable tax credit will be at a 45 per cent rate for small business (turnover less than \$20 million), including those businesses in a tax loss position. A non-refundable tax credit of 40 per cent will apply to other businesses.

The Government had previously announced that optional capital gains tax loss rollovers will be available in mergers of complying superannuation funds occurring between 23 December 2008 and 30 June 2010.

In the Federal Budget, the Government announced that the availability of the rollover will be extended by one further year to 30 June 2011. In addition, the measure will also apply to mergers involving pooled superannuation trusts where the continuing fund has at least five members and to mergers involving the complying superannuation business of life insurance companies.

The rollover is to apply to capital losses realised prior to the merger along with disposals (and capital losses) that are triggered under the actual merger process.

Super – Pension drawdown relief extended

The minimum drawdown amount for account-based pensions and term allocated pensions will be halved for the 2009/10 income year. This extends the current concession provided to self-funded retirees for the 2008/09 income year.

Super – Contribution Cap Reduction

The concessional contributions cap has been halved to \$25,000 a year from its current limit of \$50,000. The government will introduce special concessions for persons who are defined benefit fund members on 12 May 2009.

A reduction will also apply to the transitional threshold for concessional contributions. The transitional concessional cap will be reduced from its current annual level of \$100,000 to \$50,000 per year. The transitional concessional cap of \$50,000 will apply for the 2009/10, 2010/11 and 2011/12 years of income.

In the future, the non-concessional contributions cap will only increase when the new lower \$25,000 cap is increased by indexation. It will be calculated as 6 times the level of the (indexed) concessional contributions cap.

The Government has ruled out any changes to the non-concessional cap and the 3 year averaging rule. What has been affected is the benefit of indexation for the 2009-10 year which was meant to move up to \$165,000.

	2008/09		2009/10	
	Over age 50	Under age 50	Over age 50	Under age 50
Concessional Contribution Cap	\$100,000	\$50,000*	\$50,000	\$25,000
Non Concessional Contribution Cap	\$150,000	\$150,000	\$150,000**	\$150,000**

* Indexed concessional contribution cap for 2009/10 year was going to be \$55,000.

** Indexed non concessional contribution cap for 2009/10 year was going to be \$165,000.

Excess Contributions Tax (ECT)

Contributions exceeding these caps are subject to the following tax rates, concessional contributions – 31.5 per cent and non concessional contributions – 46.5 per cent

Comment:

Monitoring of contribution levels to ensure that contribution caps are not exceeded is an ongoing process that can be particularly difficult where a member has multiple employers and/or multiple superannuation funds. 24,000 ECT assessments have been issued for the 2007/08 year demonstrating the problem of monitoring contribution cap limits. Given the reduction in the concessional contribution cap announced in the Budget, this is likely to increase in future years.

Members with multiple employers or superannuation funds should consider consolidating accounts and contributing to a superannuation fund that monitors contribution caps to ensure the non concessional contribution cap is not exceeded.

Strategy Consideration – Contribution Cap Reduction

The reduction in the concessional contribution cap may adversely impact financial plans currently in place.

Take the case of a 50 year old client who has a financial strategy in place previously recommended by their financial adviser to make concessional contributions of \$100,000 p.a. up until 30 June 2012 when the cap would revert back to the standard CC. Under the changes announced in the budget the maximum concessional contribution has been reduced to \$50,000 p.a. Current scenario: the reduction in the concessional contribution cap for over 50's by \$50,000 p.a. for the next three years, will result in a member's estimated super accumulation balance in 10 years time reducing by approximately \$300,000 (based on nine per cent p.a. growth and income). This may seriously impact on a client's retirement plan especially for SME owners who have small super balances.

Super – Strategy option 1

Non Concessional Contributions to replace the lost super accumulation balance in 10 years time (i.e. \$300,000) a client may make additional non concessional super contributions.

However, because non concessional contributions are made from post tax dollars a client on the top marginal tax rate would now need to earn approximately \$80,000 p.a. (compared to \$50,000 above) in order to be able to make non concessional contributions of \$42,500 p.a. over the next 3 years. This would effectively give the client the same estimated super balance in 10 years time.

Super – Strategy option 2

Non Concessional Contributions and Gearing with the change to the concessional contribution cap, a client may not have the ability to take \$80,000 in income (i.e. an additional \$30,000) in order to make a \$42,500 non concessional contribution.

It may be more likely that they take \$50,000 as regular income, paying tax at marginal tax rates and making a non concessional contribution. Assuming a client is on the top marginal tax rate, \$50,000 in income would allow the client to make a non concessional contribution of \$26,750 p.a. for the next 3 years. These non concessional contributions would only generate an estimated super balance of approximately \$185,000 (assuming returns as above) in 10 years time leaving the client a savings shortfall of approximately \$115,000. A gearing strategy may be considered (incorporating a risk assessment) outside of superannuation to reduce this savings shortfall.

Assuming the client implements a \$225,000 gearing strategy in year 1 using a home or investment equity loan in conjunction with the non concessional contributions of \$26,750 p.a., the client should be able to accumulate the same savings balance of \$300,000 in 10 years time.

Super – Co-contribution decreased

The Government co-contribution has been reduced with effect from 1 July 2009. The new co-contribution rates are as follows:

- 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.

Comment:

Despite the co-contribution being reduced it still remains an extremely attractive benefit which provides a guaranteed 100% tax free payment. This risk return trade off is better than any other investment in the market. Note that from 1 July 2009, the income test for co-contribution eligibility will add back salary sacrificed super contributions.

Super – Lost superannuation account amendments

Two small amendments have been made to the treatment of lost superannuation amounts.

These changes are:

- superannuation providers will be required to transfer lost accounts with balances less than \$200, or which have been inactive for five years and for which there are insufficient records to identify the owner of the account, to unclaimed monies. This measure will apply from the 2010/11 income year; and
- superannuation provider's obligations under the unclaimed money regime will be matched with the requirements of the temporary resident unclaimed superannuation regime. The amended regime will apply to payments of unclaimed money due after 1 July 2009.

Centrelink/Gov't Support – Paid Parental Leave

A Paid Parental Leave scheme for parents will be available in respect of births and adoptions that occur on or after 1 January 2011. The scheme will provide 18 weeks postnatal leave paid at the federal minimum wage (currently \$543.78 per week).

To be eligible for the scheme, a parent in paid work:

- must have worked continuously with one or more employers for at least 10 of the 13 months before the expected date of birth or adoption;
- must have worked at least 330 hours in those 10 months (equivalent to around one full day of work each week); and
- must have an adjusted taxable income of \$150,000 or less in the financial year prior to the date of birth or adoption of the child.

Parents who are eligible for Paid Parental Leave will be able to continue to access employer funded leave (maternity leave and recreation leave) around the time of the birth or adoption of a child.

Paid Parental Leave will be available to contractors, casual workers and the self-employed. Payments made under the scheme will be taxable. Parents who receive paid parental leave will not receive the Baby Bonus (except in the case of twins or multiple births), or FTB-B during the 18 week Paid Parental Leave period. Mothers and primary carers not in full-time paid work will continue to receive the current forms of family assistance (including the Baby Bonus), if they meet the relevant eligibility requirements.

Superannuation payments will not initially be introduced for the Paid Parental Leave. Its introduction will be considered as part of a comprehensive review of scheme, within three years after the scheme's implementation.

Centrelink/Gov't Support – New carer supplement

A new carer supplement, will be made by 30 June 2009 with subsequent payments starting from 1 July 2010. The new supplement will provide:

- \$600 per annum to all Carer Allowance recipients for each person being cared for; and
- \$600 per annum to all Carer Payment recipients.

People who receive both Carer Payment and Carer Allowance will be eligible for both payments.

The existing Child Disability Assistance Payment of \$1,000 per annum for carers who are paid Carer Allowance (child) will continue.

Centrelink/Gov't Support – Family Tax Benefit and other family payments

From 1 July 2009, FTB-A payment rates will be indexed by the Consumer Price Index consistent with other family payments such as FTB-B and the Baby Bonus. This will replace the current arrangement whereby maximum rates of FTB-A for children under the age of 16 are benchmarked to a proportion of the combined couple rate of pension payments, or adjusted by the Consumer Price Index, whichever is higher.

Existing higher income thresholds for family payments will remain fixed until July 2012

Family Tax Benefit Part B = \$150,000

Dependency Tax Offsets = \$150,000

Baby Bonus = \$75,000 family income in the six months following the birth or adoption of a child (equivalent to \$150,000 a year)

Family Tax Benefit Part A = \$94,316 of family income (plus \$3,796 for each child after the first)

These thresholds would ordinarily be indexed by the Consumer Price Index.

Centrelink/Gov't Support – Pension Bonus Scheme Abolished

The Government will close the Pension Bonus Scheme to new entrants from 20 September 2009 as they believe the vast majority of participants would have continued in the workforce in the absence of the scheme.

Existing members of the scheme will continue to accrue entitlements under existing rules.

However people turning age 65 post 20 September 2009 who continue to work will benefit from a new Work Bonus scheme whereby 50 per cent of the first \$500 per fortnight of employment income will not count for income test purposes.

Centrelink/Gov't Support – Age Pension Changes

Age pension qualifying age will increase to age 67 in 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. The following table indicates the new age pension ages.

Date	New age pension age	Affects people born	When group reaches new age pension age
1 July 2017	65 years and 6 months	1 July 1952 to 31 December 1953	1 January 2018 to 30 June 2019
1 July 2019	66 years	1 January 1954 to 30 June 1955	1 January 2020 to 30 June 2021
1 July 2021	66 years and 6 months	1 July 1955 to 31 December 1956	1 January 2022 to 30 June 2023
1 July 2023	67 years	From 1 January 1957	From 1 January 2024

Centrelink/Gov't Support – Increases in age Pension rate

An increase to the Age Pension rate 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. This increases the single base pension from 25 per cent to 27.7 per cent of Male Total Average Weekly Earnings and this new benchmark will be legislated.

A new Pension Supplement will also be paid:

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

The new Pension Supplement will consolidate the Goods and Services Tax pension supplement, Pharmaceutical Allowance, Utilities Allowance and Telephone Allowance. The Pension Supplement will be paid fortnightly, in conjunction with the base pension. From 1 July 2010 pensioners will have greater choice under the new arrangements in how frequently they receive the pension supplement. Around half of the Supplement will become available on a quarterly basis.

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.

Centrelink/Gov't Support – Aged care income test changes

Pensioners in aged care will be protected so that at least 30 per cent of the \$32.49 per week pension increase will be maintained to help meet their incidental expenses. As a result, single pensioners in aged care will have \$10.09 more per week than they currently have.

As the maximum basic daily fee in residential aged care is linked to the rate of the single pension, the remaining 70 per cent of the pension increase will go to aged care homes in the form of an increase in the basic daily fee.

This will see the maximum basic daily fee decrease from 85 per cent to 84 per cent of the total base pension amount. As a result of the \$32.49 a week increase in the pension, the maximum basic daily fee will rise from \$233.87 per week to \$256.27 per week.

In addition, aged care residents who are in care on 19 September 2009, and who do not receive a pension and so do not benefit from the pension increase, or are part-pensioners who do not benefit significantly from the pension increase, will have their existing fee levels fixed at the current level until they leave care.

Those entering care after 19 September 2009 and who do not receive a pension or do not receive a significant benefit from the pension increase, will initially pay the same level of fees as is currently paid by residents. Over 4 years, their fees will gradually increase until they are paying 84 per cent of the pension, consistent with other residents. To ensure that aged care homes receive the same level of income for all new residents entering care from 20 September 2009, a compensating Government funded aged care supplement will be introduced.

The new basic daily fees and the Government supplement will start from 20 September 2009 in line with the commencement of pension changes.

Centrelink/Gov't Support – Income Test – increased taper rate

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).

Below is an example of how the new taper rates will affect the Age Pension entitlement of a Single Pensioner at various levels of income.

Centrelink assessed income	Pension reduction - Income test		Centrelink assessed income	Pension reduction - Income test	
	Current taper rate	New taper rate		Current taper rate	New taper rate
\$200	\$24.80	\$31.00	\$800	\$264.80	\$331.00
\$400	\$104.80	\$131.00	\$1,000	\$344.80	\$431.00
\$600	\$184.80	\$231.00	\$1,200	\$424.80	\$531.00

Centrelink/Gov't Support – Youth allowance/Austudy

The Government will increase the level of personal income at which Youth Allowance and Austudy begin to be reduced from \$236 to \$400 per fortnight. Where an individual's income is between \$400 and \$480 per fortnight, the payments will be reduced by \$0.50 for every dollar of income earned. The payment will be reduced by \$0.60 for every dollar earned if the individual's income is in excess of \$480 per fortnight. The increase to the income thresholds will take effect from 1 January 2011.

Centrelink/Gov't Support – First home owners grant extension

The First Home Owner's Boost (FHOB) will be extended for an extra six months and will be reduced by half for the last three months of the extension period.

For eligible first home buyers entering into contracts between 1 July 2009 and 30 September 2009 (inclusive) the FHOB will continue to provide \$7,000 for the purchase of established homes and \$14,000 for the purchase of new homes. This means that including the \$7,000 First Home Owner's Grant, until 30 September, purchasers of new homes will continue to be eligible for \$21,000 of assistance, and purchasers of existing homes will continue to be eligible for \$14,000 of assistance.

Between 1 October 2009 and 31 December 2009 the FHOB grants will be \$3,500 for the purchase of established homes and \$7,000 for the purchase of new homes. This means that including the \$7,000 First Home Owner's Grant, from 1 October until 31 December, purchasers of new homes will be eligible for \$14,000 of assistance, and purchasers of existing homes will be eligible for \$10,500 of assistance. The FHOB grants are in addition to the existing \$7,000 grant under the First Home Owners Scheme.

This document has been prepared for general information purposes only and not as specific advice to any particular person. Any advice contained in this document is General Advice and does not take into account any person's particular investment objectives, financial situation and particular needs. Before making an investment decision based on this advice you should consider, with or without the assistance of a securities adviser, whether it is appropriate to your particular investment needs, objectives and financial circumstances. Infocus Securities Australia Pty Ltd trading as Infocus Money Management ABN 47 097 797 049 AFSL No. 236523 Source: IOOF Techconnect 2009 Federal Budget Review.