



**May 2009**

### **Budget Special and Year End Strategies**

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The Federal Budget on 12 May 2009 was released in the midst of a deepening Global Financial Crisis – a force five global recession unlike any seen since the Great Depression of the 1930's. Everyone has been affected with the government predicting 1 million+ jobless before the recession comes to an end.

Importantly the turnaround in Budget finances has been dramatic with the Government announcing 12 months ago that the 2008-2009 financial year would see a \$21bn surplus – only to change that estimate to a \$58bn deficit, with more deficits in store. To show themselves as responsible economic managers the government has a big Budget hole to be filled and someone or some group has to pay.

With this background it was with great concern that the superannuation industry watched the unfolding of the Budget. Long the favoured tax concessional savings vehicle for tens of millions of Australians, there was much concern that the time had come for the government to begin to limit the size and breadth of the generous concessions. Was Swan going to take back what Costello had given?

With a great sigh of relief, the Treasurer tinkered around the edges of superannuation leaving the most significant benefit of all – tax free lumps sums and pensions for over sixties intact. Importantly for trustees of SMSFs the government did not announce any measures specific to these family type of superannuation funds. This edition of the SMSF Strategies newsletter looks at the 2009 Budget and also some important SMSF strategies to consider.

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## The May 2009 Budget

The key superannuation changes announced in the May 2009 Budget are:



### 1. **Deductible contributions:**

Deductible or concessional contributions as they are now known are subject to a cap. Where this cap is breached the member of the superannuation fund will be assessed by the Commissioner on the excessive concessional contribution at a tax rate of 31.5%. From 1 July 2009 the concessional contributions tax cap will be reduced from \$50,000 to \$25,000. At the same time, the transitional concessional caps for those members over age 50 prior to 1 July 2012 will be decreased from \$100,000 to \$50,000. *This may well change with future governments.* Finally the non-concessional contributions caps – that cap the undeducted contributions a member can make into a fund will remain at \$150,000 until 1 July 2011 when the figure will become a factor of 6 times the concessional cap.

### 2. **Co-contributions limited**

The superannuation co-contribution system, whereby the government matches contributions made by members to a superannuation fund (subject to an income threshold) has been a spectacular success in encouraging low income earners to contribute to superannuation. Surprisingly many of our clients including partly employed retirees have been able to access the co-contribution. However the current \$1.50 contribution made by government for every \$1 of non-concessional contribution has proved expensive. The government has announced that it will reduce the 150% factor to 100% from 1 July 2009 for the next three income years, rising to 125% on 1 July 2012 and 150% on 1 July 2014.

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### 3. Minimum Pension Payment reductions to stay

One of the conditions of commencing an Accounts Based Pension is that the pension member must take a minimum pension payment each income year. With the share market down significantly many pension members complained that the existing minimum pension requirements would require a realisation of fund assets at a capital loss. Capital preservation as opposed to forced income withdrawal was the preferred option for these members. The government announced in February 2009 that the minimum pension factor to be applied to a member's Accounts Based Pension was to be reduced by 50% for the year ending 30 June 2009. *The government has decided to extend this measure for one more financial year.*



### 4. Age Pension changes

To keep its election commitments the government has increased the following pensions from 20 September 2009:

- ★ Single pension - \$32.49 per week which now combines the GST, telephone, pharmaceutical and electricity allowances;
- ★ Couples pension - \$10.14 per week – a supplement to cover the above allowances.

For those currently aged pension age in receipt of the Commonwealth Health Care Card a Seniors supplement will be announced to take the Card's place and assets are not to be included in the test for the supplement - only income.

The government has also announced an increase in the incomes test taper from 40c to 50c in the dollar for a single aged pensioner and from 20c to 25c for a couple to decrease payments to higher income earners. Although as a measure to increase the incentive for Aged Pension recipients to remain in the workforce and not lose their pension entitlements – 50% of the first \$500 of employment income in any fortnight is exempt from the incomes test.

Finally the age pension age will gradually increase to age 67 from 2017.

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## SMSF Budget Strategies

The Budget changes means it is vital to spend time with us superannuation tax planning for year end - 30 June 2009. Some strategies that may apply include:

- ★ For over 50 retirees and other non-employed SMSF members who are able to contribute, a tax deduction is available of \$100,000 prior to year end. Remember this is to be limited from 1 July 2009. Don't waste this opportunity!
- ★ The tax deduction may be used where the member contributes shares, managed funds, business property and farming property into the fund – a great way to offset any capital gains tax liability.
- ★ SMSF borrowing is now taking off and with the government's Budget silence on the topic it is vital to look at the ability of a SMSF trustee to borrow to acquire member's assets – *such as those listed above*, or other assets from third parties including residential property, commercial property and shares. Importantly the interest costs will be deductible to the trustee of the fund and a 12 month deductible pre-payment can be made.
- ★ Life and disability insurance is a must for every member of the fund. Importantly any premiums paid for life and disability insurance is tax deductible to the fund.



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***“With the Budget changes and the continuation of the SMSF borrowing rules it is vital to contact us prior to year end to discuss how Budget, SMSF borrowing and continuing Simpler Super strategies can significantly impact your SMSF.”***

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## Contact Details

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