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## **Federal Budget Wrap up and Opportunities**

It was the most leaked budget in history. There were no major surprises due to the government letting out things in advance then trying to surprise us by not implementing some of the proposals.

### **Taxation**

New thresholds. Nothing much for low income earners here. Anyone under \$35,000 a year of assessable income saw effectively no change.

Those earning \$55,000 a year will save \$2.88 per week.

Those earning \$100,000 a year will save \$10.58 per week.

Those earning \$125,000 a year will save \$20.19 per week.

Additional small business tax break on assets purchased from 13/12/2008 but before 31/12/2009 and installed by 31/12/2010 now extra deduction is 50% instead of the previous 30%. Of course you must have the cash flow to allow this in the first place.

### **Superannuation**

One of the biggest changes in my opinion is the lowering of the contribution caps. If you are under 50 years of age the caps will be reduced next year to \$25,000 and if you are over 50 it will be reduced to \$50,000 followed by a further reduction the following year down to eventually \$25,000 also. People should consider their ability to maximise their contributions this financial year where possible.

This measure has major ramifications on how we all save for retirement. It means people face a situation where superannuation is no longer a sprint at the end. Many people try to pay off their debt and then plough as much money as they can into super. This will no longer work.

### **Case Study**

If we look at an example of someone who is 48 years old now who earns a salary of \$80,000 per year. They have just finished paying off their mortgage and now wish to save seriously for their retirement. Under the superannuation guarantee rules their employer is obliged to already put away \$7,200 per year or \$600 per month in super contributions already.

The most they will be able to salary sacrifice from next year will be an additional \$1,483 per month.

Let's assume this person wants to provide for \$50,000 to \$55,000 income each year in retirement which equates to only 60-65% of what they were earning. They put away the maximum they can and using fairly real assumptions, they will only achieve an income of \$37,000 per year. This is \$15,000 to \$20,000 short of their retirement goal.

### ***So what can they do about it?***

The only real options are:

Delay their retirement.

Accept they will have less.

Target higher returns which effectively means taking on extra risk.

Consider gearing in super.

Some will push the envelope in regards to rules especially in the SMSF area. This is very dangerous.

People really have to start saving for their retirement earlier. It is no longer a sprint but now a marathon.

Look at alternative tax effective investing outside the superannuation environment. Things such as gearing strategies, agribusiness investments and saving outside super will need to be considered.

### **Why would they do this?**

I don't understand why they are doing this as it effectively penalises people who are trying to save for their retirement. One school of thought is that it is a back handed way of limiting the effectiveness of the Transition to Retirement Rules.

### **Co-contributions**

The co-contribution has been retained however it will be reduced temporarily from a maximum of \$1,500 for \$1,000 contributed for those earning less than \$30,342 to \$1,000 next year. By 2014/2015 financial year it is proposed to return to \$1,500. Many think this will be unlikely and it could remain at \$1,000.

This is still very attractive for those who can do it though.

### **Pension age**

Another announcement was the increase of the age pension age to 67 for people who are currently under 52.5 years of age. There is a sliding scale of course which depends on your age.

Service pensions remain at age 60 though.

### **Pension Bonus Scheme**

This is closing from the 20<sup>th</sup> of September 2009. People who are eligible should register before this date. It will be replaced by the New Work Bonus which proposes to only assess 50% of the first \$500 per fortnight of earnings for the income test.

## **Other Changes**

There were many other things announced such as:

Reduced Account Based Pension Drawdown amounts extended.

Paid parental leave introduced.

First home owners grant extended.

Medicare surcharge changes.

Age pension increases.

Commonwealth Seniors Health Card proposed changes abandoned.

## **What did not change.**

Transition to retirement strategies. (Except the amount allowed as discussed above.)

Non concessional contribution limits

Gearing in super funds.

Increase in taper rates for Centrelink assets test. Income test taper rates increased.

Inclusion of principal place of residence if over \$2,000,000.

Dividend imputation system.

SMSF trustee education issues.

## **What should you do?**

There are many complex issues to consider for your particular circumstances. The main thing people should do is sit down with a reputable and professional adviser to ascertain how the changes impact them. There are things you can do about it.

As always we would love to help so for a complimentary appointment call 3252 9990 or visit [www.rodneygibson.com.au](http://www.rodneygibson.com.au).

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