



STRAIGHT TALK



Federal Budget

Key Financial Implications

The release of a federal budget is always an interesting time. There are a flurry of announcements and it can be difficult to cut through to the key messages. Whilst the personal tax rate cuts announced last year will be honoured this budget includes a number of changes to other taxation, superannuation and government pension benefits. These proposals are subject to legislation and may be subject to change.

SUPERANNUATION

Concessional Contributions – reduction from 1 July 2009

The annual cap for concessional superannuation contributions has been halved from \$50,000 to \$25,000, and the transitional concessional contributions cap for those over age 50 has been reduced to \$50,000 per year from \$100,000 (up to 30 June 2012 after which time it will revert to \$25,000).

This new lower \$25,000 cap will be increased by indexation.

Non-Concessional Contributions – maintained at existing level

The annual cap for Non-concessional Contributions (NCC) Cap will remain at \$150,000 for financial year 2009/10 (or \$450,000 under the 3-year 'bring forward' rule). The indexed amount of \$165,000 recently announced by the Australian Taxation Office will not apply.

The NCC cap will be calculated as 6 times of the new lower concessional cap.

Government co-contribution – temporarily reduced

The superannuation co-contribution scheme will:

- be reduced to a rate of 100% for contributions made for the financial years 2009/10, 2010/11 and 2011/12;
- then be increased to 125% for the financial years 2012/13 and 2013/14 years; and
- be restored to 150% for the financial year 2014/15.

Other measures

It is proposed to align preservation age with the age pension age. More details will be available when The Australia's Future Tax System Review Panel issues its final report scheduled for December 2009.

The Australia's Future Tax System Review Panel will be undertaking further examination into the concessional tax treatment for superannuation contributions and for salary sacrifice arrangements. More details will be available when The Australia's Future Tax System Review Panel issues its final report scheduled for December 2009.

Australia and New Zealand have agreed in principle to allow movement of superannuation benefits between Australian and New Zealand superannuation funds. The final details of the scheme are currently being settled with New Zealand.

RETIREMENT MEASURES

Age pension rates - Increase from 20th September 2009

Pensioners who receive the Age Pension, Disability Support Pension, Carer Payment, Veterans' Service Pension, Income Support Supplement, War Widow/ers Pension, Bereavement Allowance, Wife Pension, and Widow B Pension will receive an additional:

- \$32.49 a week for single pensioners on the full rate of pension
- \$10.14 a week for pensioner couples (combined) on the full rate of pension.

Therefore, from 20 September 2009, the maximum assistance for single pensioners will increase from around \$304.19 per week to \$336.68 per week and for pensioner couples from around \$497.36 per week to \$507.50 per week.

Age Pension age – increase from 2017

The age pension age will progressively increase. From 2017, eligibility age will increase to 65.5 and will also increase by 6 months every 2 years so that by 2023, the new qualifying age will be 67 years.

Income test taper – Increase

From 20 September 2009, the income test taper will be increased from 40 to 50 cents for each additional dollar of income received by a single pensioner and from 20 to 25 cents for each member of a couple above the allowable income free thresholds. Existing part pensioners affected by the income test changes will retain their existing entitlements, maintained in real terms, plus an increase of \$10.14 per week for singles or couples combined. A transition to the new system will be introduced to ensure that existing part-pensioners retain their existing entitlements until they receive a better outcome.

Pension drawdown relief extended

The current minimum drawdown relief concession (that is the ability to halve the pension payments) provided to retirees for this financial year will be extended for the 2009/10 income year.

Pension Bonus Scheme closed. Work Bonus introduced

The government will close the Pension Bonus Scheme from 20 September 2009 but existing members of the scheme will continue to accrue entitlements.

Under the new arrangements, the government will increase rewards to work through a Work Bonus. From 20 September 2009, half of the first \$500 fortnightly employment income will not count as part of the income test so part pensioners who work will retain more of their pension entitlements.

Commonwealth Seniors Health Care Card – new proposed income definition dropped

The government will not proceed with the proposal to include gross tax free superannuation payments in assessing eligibility for the Commonwealth Seniors Health Card.

The government is also simplifying the payment of allowances by combining the existing Seniors Concession Allowance and Telephone Allowance into a new Seniors Supplement. Single Commonwealth Seniors Health Card and Veteran's Gold Card holders will receive an extra \$129 per year to better reflect the costs for those who live alone. (Rates of \$790pa for singles and \$1,190pa for Couples will be paid on a quarterly basis).

Other measures

The income tested fee for residential aged care will be charged from the day of entry, removing the current 28 day delay. This will align the residential income tested fee with other aged care fees payable from the day of entry into the aged care facility. The income test itself will not change.

FAMILY BENEFITS

Paid Parental Leave - New

This scheme will be available to parents for births and adoptions that occur on or after 1 January 2011 and parents will be able to lodge claims from 1 October 2010.

The scheme will provide 18 weeks postnatal leave paid at the federal minimum wage (currently \$543.78 per week). There is some eligibility requirement for the scheme which is largely based on being actively in the work force prior to the birth or adoption of the child and includes a means test of an adjustable taxable income of \$150,000 or less in the financial year prior to the date of birth or adoption of the child.

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.

The Government has said it will provide employers with the funds in advance and employers will act as "paymasters" in most situations.

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.

Those receiving paid parental leave will not be eligible for Baby Bonus except in cases of multiple births where parents will not receive the Baby Bonus for the first child only. They 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. However, people who choose 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.

Family Tax Benefit Part A - Indexation

From 1 July 2009, Family Tax Benefit Part A (FTB-A) payment rates will be indexed by the CPI, consistent with other family payments such as Family Tax Benefit Part B and the Baby Bonus.

Currently, the maximum rates of FTB-A for children under 16 are benchmarked to a proportion of the combined couple rate of pension payments or adjusted by CPI, whichever is higher.

Upper income thresholds for Family Tax Benefits and Baby Bonus - Frozen

The Government will reform family payments through maintaining the higher income thresholds for family payments at their current level until July 2012. The following higher income thresholds (ordinarily indexed by CPI) will remain fixed until July 2012:

- the Family Tax Benefit Part B primary earner income threshold, which will remain at \$150,000;
- the income threshold for receiving the dependency tax offsets, which will remain at \$150,000;

- the Baby Bonus eligibility threshold, which will remain at \$75,000 of family income in the six months following the birth or adoption of a child (equivalent to \$150,000 a year); and
- the higher income-free area of Family Tax Benefit Part A, which will remain at \$94,316 of family income (plus \$3,796 for each child after the first).

Please speak with your adviser about how the changes might affect you, but here's a quick summary of the changes mooted in the budget.

Key points on Super

- Concessional Contributions cap reduced
- Transition to Retirement (TTR) Pensions remain
- Maximum Government Co-contribution reduced
- Minimum pension reduction extended
- Small and insoluble lost accounts to be transferred to the ATO
- Transfer benefits between Australian and New Zealand superannuation funds
- Extension of capital loss roll over for complying superannuation fund

Key points on Taxation

- Reductions in Personal Income Tax
- Private Health Insurance Rebate reduced
- Medicare Levy Surcharge increased
- Increase in the Medicare Levy low income thresholds
- First Home Owner's Grant Boost extended
- Small business tax relief
- Small business CGT relief
- Fringe Benefits Tax relief for donations
- Changes to taxation of employee share scheme entitlements
- Removal of tax exempt status for foreign employment income
- CGT relief for roll-overs between fixed trusts
- Tightened access to non-commercial business losses
- Tightened non-commercial loan rules

Key points on Social Security

- Age Pension increased
- Income Test – Changes to taper rate
- Incentives for Pension-age Australians to remain in the workforce
- Benefits for self-funded retirees
- Increase to the minimum Age Pension age
- Pensioner and beneficiary living cost index
- Paid Parental Leave
- Family Tax Benefits Parts A and B (and Baby Bonus)
- Maternity Immunisation Allowance
- Changes in the Assets Test hardship rules
- Carer Supplement
- Aged Care: Ending the 28 day income test exemption

TAXATION

Personal income tax – last year's announcement maintained

| Tax Thresholds (FY 09-10) | Marginal tax rate | Tax Thresholds (FY 10-11) | Marginal tax rate |
|----------------------------|-------------------|----------------------------|-------------------|
| \$0 - \$6,000 | 0% | \$0 - \$6,000 | 0% |
| \$6,001 - \$35,000 | 15% | \$6,001 - \$37,000 | 15% |
| \$35,001 - \$80,000 | 30% | \$37,001 - \$80,000 | 30% |
| \$80,001 - \$180,000 | 38% | \$80,001 - \$180,000 | 37% |
| \$180,001 + | 45% | \$180,001 + | 45% |



Did You Know?

WHK Group is the leading provider of accounting and financial services to small and medium business throughout Australia & New Zealand.

Year end tax planning

As the end of the financial year is fast approaching, now is a good time to contact your accountant, tax specialist and financial planner to assist in reviewing and discussing tax planning opportunities.

Our specialists can help you by:

- Making the planning process as effective and simple as possible;
- Understanding your current financial year's profit and taxable income estimate;
- Considering your business structure and how the tax laws are applicable to your circumstances;
- Considering the consequences of changing the business structure and or operations;

Some of the taxation ideas you might consider to effectively plan include:

- Reducing assessable income - Derivation and timing of income, selecting the best capital gains tax option and understanding CGT small business concessions
- Maximising present deductions and offsets - Timing of deductions, taking advantage of one-off 30% investment allowance

- Reducing rate of tax / deferring payment of tax - Utilising averaging for primary producers and considering farm management deposits
- Diverting income - Transfer income producing assets, use of discretionary distributions eg family trust
- Reviewing business structures - The tax profiles of family members, the impact of tax losses in various entities

Some of the financial planning ideas you might consider to effectively plan include:

- Making personal superannuation contributions and potentially claiming a tax deduction or salary sacrificing into superannuation – Increasing your superannuation savings for your retirement and minimising your tax liability at the same time
- Government co-contribution – Qualifying for up to \$1,500 additional contribution to boost your superannuation savings if you earn less than \$60,342
- Spouse superannuation contributions tax offset – Increasing your spouse's superannuation savings and potentially claim a tax deduction for it if your spouse earns less than \$13,800

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E-Newsletter

Client surveys have informed us that our clients would prefer shorter more targeted newsletters and that email is their preferred mode of receiving them.

We will therefore be moving towards e-newsletters once our new website is up and running later this year.



You've probably heard about corporate governance and thought that mainly applies to listed companies and certain government institutions. Whilst there are certain requirements in that space, good governance is a principle that is important for all organisations.

The following tips are a starting point for you to consider good governance within your organisation.

1. Initiate an overview of your organisation's approach to risk management.

- Recognising gaps in your risk management process can help facilitate a coordinated response to improve the reporting and disclosure process;
- This allows organisations to be proactive rather than reactive.

2. Confirm the integrity and timeliness of the management reporting process.

- Ensure that the content and nature of the reporting function is both relevant and addresses the requirements and expectations of different user groups.

3. Understand high risk financial reporting areas.

- Balances involving significant judgement or management estimation can vary significantly within a financial reporting context;
- Critique the basis for your key financial reporting assumptions;

- Determine how aggressive or conservative your accounting policies are.

4. Assess the adequacy of resourcing.

- Confirm your finance people have the right tools for the job;
- Periodically evaluate the performance of your finance staff;
- Put in place appropriate succession planning.

5. Encourage informal dialogue with professional advisers.

- Seek regular interactions with trusted advisers to ensure you have an outside-in view of your business ie views, benchmarking, relative performance and insights;
- Obtain information on a real time basis and strengthen the working relationship.

6. Prepare for a crisis.

- Contingency planning using 'what if' scenarios reinforces an organisation's operational flexibility to respond appropriately to crises in a timely manner.

7. Evaluate the appropriateness of the tone set by key management.

- Promote a culture of compliance and commitment to financial reporting integrity;
- Actions by senior management should be clear, unambiguous and consistent;

- Monitor the culture through employee surveys and interaction with personnel.

To discuss any of these matters further please contact your WHK Audit & Risk Assessment Professional.

Did You Know?

WHK Horwath annually produce a **Corporate Governance Report** with the University of Newcastle that provides a number of tips for good corporate governance. This report is also useful for investors to consider the corporate governance of the top 400 ASX listed firms. The report is released in a few weeks. Please speak with your adviser about obtaining a copy.

Definition

Corporate Governance: An internal system encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity. Sound corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes.
Gabrielle O'Donovan

WHK recognised for excellence

Throughout WHK we have a number of staff and services that have recently been recognised for outstanding achievements. Whilst we don't often shout these things from the rooftops we thought it might make you feel better to know that the people working at WHK are the best in the business!

Self Managed Super Funds (SMSF):

Financial Review's Smart Investor recently compiled a list of the cheapest and the best platforms for Self Managed Superannuation Funds. WHK was featured on the shortlist and clients of WHK were used as a case study throughout the article. WHK has been a specialist in both administering Self Managed Super Funds and providing Audits for some time. Pleasingly when we were stacked up against the others in the market we came up very well! In fact WHK managed the largest number of SMSF's on the list.

Top Financial Planner:

Earlier this year one of WHK's Financial Planners featured in the Masterclass of Australia's most skilled advisers. The AFR Smart Investor Masterclass exam is administered each year covering a range of topics including tax, investment strategies, superannuation and SMSF's and even financial maths.

Graeme Quinlan from our Melbourne office was ranked number 4 in Australia, a fantastic achievement. Graeme was asked what helped make him a 'top performer'. Graeme said that "it comes from the satisfaction derived from the relationship you develop with clients over a period of time".

Leading Lending & Finance Advisers:

We had a number of staff that featured in the Top 200 Salesmasters 2008 - Professional Lenders Association Network (Plan). To be named on this list (see image right) is a significant achievement given the large number of lenders throughout Australia.

