

Federal Budget 2008 - Summary

We're sure everyone is going to be calling the Federal Budget of 2008 'The Battler' Budget with Treasurer Wayne Swan announcing a massive \$21.7 billion surplus (representing 1.8% of GDP) targeted mostly at struggling families. But Midwinter's *Technical Basis* team is calling it 'The Opportunity Lost' Budget. The biggest opportunity lost being the inclusion of salary sacrifice contributions in the definition of income for the purposes of the Government Co-contribution amongst other benefits, will hit almost all financial advisers and their accumulation clients hardest. It will significantly affect the ability to bridge the retirement savings gap for many Australians and flies in the face of Labor's supposed calls for an increase in the SG for exactly the opposite reason.

Superannuation

Salary Sacrifice Contributions treated as income for Government Co-Contribution amongst other things – An absolute blunder!

With effect from 1 July 2009 the Government plans to expand the definition of income to include salary sacrifice contributions to super. This affects the super Co-contribution, Income support payments where below Age Pension age, family assistance, financial and retirement savings assistance delivered through the tax system and child support.

The Labor Government claims it resolves an inconsistency in the treatment of 'non-wage' remuneration in the income tax and transfer system that allows individuals and families to access more government support payments than would be possible if their salary sacrificed contributions were paid as salary or wage income.

However, what is not being realised is that using salary sacrifice contributions to increase the ability to access the Government Co-Contribution greatly assists those in the accumulation phase earning less than the Government Co-contribution upper threshold of \$58,980 to bridge their retirement savings gap by using both non-concessional and concessional contributions (salary sacrifice) to enhance net contributions to super. The effects of the benefits that are effectively removed by the Government's announcement are highlighted in the article, "[Finding the optimal mix of contributions to bridge the retirement savings gap](#)" by Matthew Esler, Midwinter's General Manager of Strategy & Technical Services.

Tax free lump sums for persons with a terminal medical condition

The Government will back-date the commencement of the previously announced measure to make superannuation lump sum benefits tax free for people with a terminal medical condition to 1 July 2007.

Superannuation Clearing House Facility

From 1 July 2009 the Government will provide \$16.1 million over three years to fund a Superannuation Clearing House Facility to assist in managing employers' obligations to provide superannuation choice to employees. This facility will be offered free of charge by the Australian Government to small businesses with fewer than 20 employees and on a fee-for-service basis to larger businesses.

Choice of Superannuation Fund

The Government plans to reduce funding to the ATO and Superannuation Complaints Tribunal for the *Choice of Superannuation Fund* measure because of its suggested successful implementation. The termination of additional funding for the Superannuation Complaints Tribunal will be matched by a reduction in levies collected by the Australian Prudential Regulation Authority through the financial sector supervisory levy on superannuation funds.

Taxation

Personal income tax - specifically targeting low to middle-income earners

Please click the following link for the [effect of the Government's Personal Income Tax Cuts](#)

Did you know? Midwinter's *Reasonable Basis* software already has the new tax rates built into the tax calculator in the toolkit section of the software. Other modules will be updated in the next release.

There was nothing new announced in tonight's proposals relating to personal income tax cuts as Treasurer Wayne Swan had jumped the gun by releasing Tax Laws Amendment (Personal Income Tax Reduction) Bill 2008 prior to last night's Budget. The Government's proposed reduction in personal income tax commencing from 1 July 2008 can be summarised in below:

Proposed individual income tax changes

From 1 July 2008		From 1 July 2009		From 1 July 2010	
Marginal Thresholds	Tax Rate	Marginal Thresholds	Tax Rate	Marginal Thresholds	Tax Rate
\$0 - \$6,000	0%	\$0 - \$6,000	0%	\$0 - \$6,000	0%
\$6,001 - \$34,000	15%	\$6,001 - \$35,000	15%	\$6,001 - \$37,000	15%
\$34,001 - \$80,000	30%	\$35,001 - \$80,000	30%	\$37,001 - \$80,000	30%
\$80,001 - \$180,000	40%	\$80,001 - \$180,000	38%	\$80,001 - \$180,000	37%
\$180,000	45%	\$180,000	45%	\$180,000	45%

Low Income Tax Offset Changes

The Government also plans to extend the low income tax offset (which will help some of your transition to retirement clients) and amendments to the Medicare Levy Act 1986 raise the income threshold at which tax payers who are eligible for the Senior Australian Tax Offset become liable to pay the Medicare Levy.

The maximum Low Income Tax Offset (LITO) will be increased from \$750 to \$1,200 from 1 July 2008, to \$1,350 from 1 July 2009 and to \$1,500 from 1 July 2010, however the rate at which LITO phases out will continue to be 4 cents for every dollar of income over \$30,000. The changes to LITO over the next three years can be summarised below:

Proposed Low Income Tax Offset (LITO) changes

Year	Maximum LITO	Reduction rate	Upper Thresholds
Current	\$750		\$48,750
From 1 July 2008	\$1,200	Reduces by 4 cents per dollar above the lower threshold (\$30,00)	\$60,000
From 1 July 2009	\$1,350		\$63,750
From 1 July 2010	\$1,500		\$67,500

Senior Australian Tax Offset (SATO) increases

As a consequence of increasing the maximum LITO, the level of income above which those eligible for the Senior Australian Tax Offset (SATO) will increase as follows:

- From 1 July 2008: \$28,867 for singles and \$24,680 for each member of a couple;
- From 1 July 2009: \$29,867 for singles and \$25,680 for each member of a couple; and
- From 1 July 2010: \$30,685 for singles and \$26,680 for each member of a couple.

Medicare Levy - low income threshold increases

Applying from 1 July 2007, the Government will increase the Medicare levy low-income thresholds to \$17,309 for individuals and \$29,207 for individuals who are in families, with effect from 1 July 2007. This measure has an ongoing cost to revenue which is estimated to be \$170.0 million over the forward estimates period. The additional amount of threshold for each dependent child or student will also increase to \$2,682. The increase in these thresholds takes into account movements in the Consumer Price Index and ensures that low-income families and individuals are not liable to pay the Medicare levy. The Government will also increase the Medicare levy threshold for pensioners below Age Pension age to \$22,922, with effect from 1 July 2007. 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.

Medicare Levy Surcharge – threshold increases

The Government will increase the Medicare levy surcharge (MLS) thresholds for singles from \$50,000 to \$100,000 and for those who are members of a family from \$100,000 to \$150,000, with effect from 1 July 2008. The existing MLS threshold has not changed since 1997 and the Government claims that want to refocus the MLS on higher income earners.

Definitions of income to include net losses from investments

The Government will expand the definitions of income used to determine eligibility for particular government support programs to include net financial investment losses, and net rental property losses, with effect from 1 July 2009.

The measure expands the adjusted taxable income definitions to include net financial investment losses and the definition of income used for particular tax programs to include net rental property losses and net financial investment losses. This affects the Senior Australians Tax Offset, Medicare levy surcharge and dependency tax offsets.

Family Tax Benefit cessation for recipients who do not lodge tax returns

The Government have announced that where Family Tax Benefit recipients in a family have not lodged their tax returns for more than 12 months following the relevant entitlement year and have not responded to Centrelink reminders, they will no longer be entitled to receive Family Tax Benefit through fortnightly instalments. The measure will commence on 1 July 2009 and will ensure that people only receive the Government support to which they are entitled.

Social Security

Commonwealth Seniors Health Card — adjusted taxable income test

The Government will change the Commonwealth Seniors Health Card income test to include gross income from superannuation income streams from a taxed source and include income that is salary sacrificed to superannuation in the income assessment. The measure means that in applying the existing income test, all income received by seniors — whether from superannuation or another source such as a managed fund or interest from a bank account, is treated in the same way.

Seniors Concession Allowance increased

From March 2008, the annual rate of the Senior Concession Allowance increased from \$218 to \$500. Seniors Concession Allowance is paid to Commonwealth Seniors Health Card holders and certain Department of Veterans' Affairs Gold Card holders. The allowance will be paid quarterly, rather than bi-annually.

Utilities Allowance increase and eligibility extended

The Utilities Allowance will be extended to recipients of Disability Support Pension, Carer Payment, Invalidity Service Pension, Partner Service Pension, Income Support Supplement, Bereavement Allowance, Widow B Pension and Wife Pension irrespective of age.

From March 2008, the Utilities Allowance annual rate increased from \$107.20 to \$500 for singles (or couples combined). It will also be paid quarterly with payments in March, June, September and December.

Additional Support for Ageing Carers

The Government will provide \$100.0 million in 2007/08 to State and Territory governments under the Commonwealth State Territory Disability Agreement to increase the availability of supported accommodation for people with a disability where their carer's are ageing.

Carer Bonus

The Government have announced that Carer Payment recipients will receive \$1,000 and recipients of Carer Allowance will receive \$600 for each eligible person in their care. The payments will be exempt from income tax. Those receiving both payments on 13 May 2008 will receive both lump sum payments.

Seniors Bonus increased

The Government will provide a tax-exempt payment of \$500 to individuals in receipt of Age Pension, veterans' pensions, Widow B Pension, Wife Pension, Seniors Concession Allowance, Mature Age Allowance, Widows Allowance or Partner Allowance as at 13 May 2008.

Residential aged care 0% real interest loans

The Government has announced that it will provide \$300 million in zero real interest loans to assist in expanding the availability of residential aged care beds.

Summary

Superannuation

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- Access to tax free lump sums for persons with a terminal medical condition
- Superannuation Clearing House Facility
- Choice of Superannuation Fund

Taxation

- Personal income tax cuts – specifically targeting low to middle-income earners
- Low Income Tax Offset (LITO) changes
- Senior Australian Tax Offset (SATO) changes
- Medicare Levy - low income threshold increases
- Medicare Levy Surcharge – threshold increase
- Definitions of income to include net losses from investments
- Family Tax Benefit cessation for recipients who do not lodge tax returns

Social Security

- Commonwealth Seniors Health Card — adjusted taxable income test
- Seniors Concession Allowance increased
- Utilities Allowance increase and eligibility extended
- Additional Support for Ageing Carers
- Carer Bonus
- Seniors Bonus increased
- Residential aged care 0% real interest loans

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