

## Fact Sheet Federal Budget 2010

### Key Focus

- ▶ Over age 50 concessional contribution cap increase
- ▶ Super contributions to increase from 9% to 12%
- ▶ Permanent reduction to Government Co-contribution
- ▶ Low income workers to receive \$500 super contribution
- ▶ Super contributions extended to age 75
- ▶ Super pension minimum income changes
- ▶ Personal savings 50% discount on tax on interest

### Summary

The following is a summary of the main changes to superannuation and personal savings as announced in the 2010 Federal Budget. The Government has also reconfirmed the key proposals announced earlier this month in response to the Henry Review of Taxation. We have limited ourselves to explaining the main changes we believe will have a direct impact upon our members.

If you require any further information about these changes, please contact your Catholic Financial Services financial planner or call our Member Services Centre on 1300 655 002.

### Superannuation proposals

#### ▶ Concessional contributions caps increase

The concessional contributions cap (employer and salary sacrifice) for those aged 50 or more was set to reduce to \$25,000 from 1 July 2012. This measure retains the higher contributions cap of \$50,000 (indexed) permanently, but only for those who have total super balances of under \$500,000.

#### Concessional contributions caps increase (over age 50)

Financial year	Contribution cap
2009/10 to 2011/12	\$50,000
From 1 July 2012	\$50,000 (if super balance under \$500,000) \$25,000 (if super balance is over \$500,000)

#### ▶ Comment

*This measure will assist those members employing salary sacrifice and transition to retirement strategies. Care will need to be taken by members with balances close to \$500,000.*

*There are no changes proposed to the making of non-concessional (after tax) contributions; currently up to \$150,000 per year.*

► **Increasing the superannuation guarantee (SG) rate to 12%**

The current SG contribution rate is 9 per cent. The SG rate is proposed to be increased gradually with initial increments of 0.25% on 1 July 2013 and on 1 July 2014. Further increments of 0.5% will apply annually up to 2019/20, when the SG rate will be set at 12 per cent.

**Increasing the superannuation guarantee rate from 9 to 12 per cent**

Financial year	SG Rate (%)
2013/14	9.25
2014/15	9.50
2015/16	10.00
2016/17	10.50
2017/18	11.00
2018/19	11.50
2019/20	12.00

► **Comment**

*This will be a welcome boost to the retirement savings of most working members. Salary sacrifice arrangements and concessional contribution strategies will need to be reviewed in light of the increases to ensure the concessional contribution caps are not breached.*

*According to the Treasurer, a 30 year old on an average income will retire with an additional \$108,000 whereas someone of the same age who has “an interrupted work pattern”, for family or other reasons, typically a woman, will pocket an extra \$78,000 in super.*

► **Permanent reduction to Government Co-contribution**

Despite last year’s Budget announcement that the co-contribution would return to previously higher levels, the latest Budget proposes that the matching rate for the superannuation co-contribution will be permanently retained at 100% up to an annual maximum contribution of \$1,000.

The Government will also freeze the indexation applied to the income threshold above which the maximum superannuation co-contribution begins to phase down for 2010/11 and 2011/12.

This means that people with total income less than \$31,920 can receive the full \$1,000 entitlement and those with total income above \$61,920 will receive no entitlement. Also, from 1 July 2009, total income is now based on gross income which includes any amounts salary sacrificed into superannuation.

This entitlement applies only to non-concessional (after tax) contributions.

► **Comment**

*This unexpected measure is not good news for lower to medium income earners as the planned return to the more generous entitlements will not apply. However, low income earners may be eligible to receive additional benefits as set out below.*

► **Low income earners tax rebate on super contribution**

In addition to any co-contribution entitlement, this proposal will provide a superannuation payment of up to \$500 annually for individuals on gross incomes of up to \$37,000 who either receive employer contribution support or salary sacrifice into superannuation themselves.

The amount will be paid into the individual’s superannuation account to directly boost their retirement savings.

Employer and salary sacrifice contributions made from 1st July 2012 will be eligible for this payment.

► **Comment**

*This effectively means that up to \$500 of the 15% contributions tax on employer contributions will be returned to the superannuation accounts of low income earners (ie. gross income below \$37,000).*

► **Raising the superannuation guarantee age limit from 70 to 75**

This proposal will raise the superannuation guarantee (SG) age limit from 70 to 75. Workers aged 70 to 74 will be eligible to have SG contributions made on their behalf for the first time.

► **Comment**

*Whilst this measure will only affect a small number of members, it simplifies the contribution rules as the new SG age limit will now match the age limit for voluntary and self employed contributions.*

► **Superannuation pension minimum income changes**

Although not included specifically in the Budget papers, the temporary reduction to the minimum annual income factors for superannuation pensions, which was put in place because of the global financial crisis, will cease on 30th June 2010. The factors for these pensions will then revert to their original minimums from the 1st of July 2010 as seen in the table below.

**Changes to Account Based and Pre-Retirement Pension minimum factors**

Age	Minimum annual income payment (2009-10)	Minimum annual income payment (from 1 July 2010)
Under 65	2.0%	4.0%
65-74	2.5%	5.0%
75-79	3.0%	6.0%
80-84	3.5%	7.0%
85-89	4.5%	9.0%
90-94	5.5%	11.0%
95 +	7.0%	14.0%

► **Comment**

*The cessation of the temporary reduction to minimum factors means it is important that members should seek professional advice when reassessing their income requirements.*

► **Personal savings 50% discount on taxation of interest**

From 1 July 2011, individuals will be entitled to a 50% tax discount on up to \$1,000 of interest earned, including interest on deposits held with banks, building societies or credit unions, as well as bonds, debentures or annuity products.

For example a person earning a pre-tax interest rate of 6%, would need to have a savings balance of around \$16,700 for the full discount to apply.

**Discount of 50% for interest income**

Individual's Tax Rate (%)*	Interest earned (\$)	Discount received (\$)	Tax saving (\$)
15	1,000	500	75
30	1,000	500	150
37	1,000	500	185
45	1,000	500	225

Example: \$1,000 interest x 50% gives \$500 assessable income x 30% tax rate = \$150 tax saving

► **Comment**

This measure will be very welcome, particularly by many older Australians who prefer holding their non-superannuation savings in interest-bearing products.

## Conclusion

As stated earlier, this is a summary of some of the superannuation and personal saving initiatives proposed in this years Federal Budget. These reforms are aimed at delivering improvements in retirement savings and a fairer distribution of superannuation tax concessions.

The Government also reaffirmed that it will never increase the rate or broaden the base of the GST or remove tax free superannuation payments for the over 60s.

It is important to keep in mind that these recommendations will require legislation to be drafted and passed by Parliament before becoming law.