

## 2008 budget update

The 2008 Federal Budget has proved far less eventful than the 2006 and 2007 Budgets. There were not too many surprises, which is attributable to the number of pre Budget leaks. What was extremely positive about the Budget is that the government has made no attempt to claw back the tax free superannuation for those over 60. This will be a relief for all who have transitioned towards superannuation over recent years and confirms the significance of superannuation as the central plank of the government's retirement incomes policy.

On the positive side, many of our clients will benefit from the:

- Increase of the 30% PAYG threshold from \$30 000 to \$34 000;
- Increase in the low Income Tax Offset and flow on impact to the Senior Australian Tax Offset;
- Increase in the Medicare levy threshold; and
- Increase in the Medicare levy surcharge threshold.

There were however some negatives. It is hard to be critical of the government for making these changes, as many of these could honestly be seen as "loopholes" under current legislation, with the changes now bringing a more level playing field. The ones which will impact on the majority of our clients are outlined below.

1. You will not be able to "salary sacrifice" yourself down to a level of assessable income that will then qualify you for certain government benefits (such as the co-contribution, part age pension etc). Say an individual was earning a salary of \$80 000, and was salary sacrificing \$50 000. This would bring their assessable income down to \$30 000, meaning that if they then contributed \$1000 to their superannuation they would receive almost all of the Government co-contribution of \$1500. It may also be that by undertaking this salary sacrifice, their partner (who is of age pension age) is eligible for a part age pension, as the income test only considers the "assessable income". Under the proposed changes the \$50 000 that is sacrificed will be added back into the calculation for co-contribution, age pension, family tax benefits etc. This will also impact directly on those with child support obligations.
2. In something that will impact on a large number of our clients, the income which they draw down from their allocated pensions will now be considered in determining their eligibility for a Commonwealth Health Care Card. At the moment, this income is tax exempt for those over 60 years of age, and therefore not counted. Unfortunately, in doing this the government did not increase the threshold of \$50 000 for a single person and \$80 000 for a couple, meaning that many of our clients who receive a health care card may lose this entitlement. For example, if Edward has a CSS pension of \$60 000 and he and Margaret receive \$30 000 from an allocated pension each year, they currently qualify for a health care card as the only income considered is his \$60 000 CSS pension. However, from July 2009 the \$30 000 received from the allocated pension will also be taken into account, making their income \$90 000, making them ineligible.
3. The removal of same sex discrimination. Although the detail is yet to be provided, nothing to date has suggested that this will not include the government's schemes such as CSS, PSS, DFRDB and MSBS. This should mean that members of these schemes will now see their same sex partners eligible for a reversionary pension upon their death. Obviously we await further clarification on this point.
4. Those salary packaging "work related items" such as laptops, electronic diaries etc, will now be subject to greater restriction.

There were many other announcements in the budget, but the majority of these will not weigh too heavily on many of our clients (ie, we do not have many clients earning more than \$150 000 per

year still having babies). A detailed budget summary from AXA is attached for your information \* , while we will update many of these issues in our next edition of *BLa Bla Bla*.