



Federal Budget 2010/11: What does it mean for you?

Budget highlights

Top 10 key changes which may affect your financial planning strategies:

- More money in your pocket
- Tax offset for out-of-pocket medical expenses
- Easier tax returns
- Tax boost for savings
- 'Catch-up' with super contributions
- Increased retirement savings
- Super break for older workers
- Super top-up reductions confirmed but...
- ...super boost for low income earners
- Good news for first home buyers

The Federal Budget 2010/11 has many of the traditional hallmarks of an election year budget.

Many of the budget measures confirmed the Government's response to the Henry Tax Review. While mining companies and smokers have been hit with tax increases, the final instalment of cuts to personal tax rates announced in 2008 will go ahead, and there is increased spending on health.

One of the most significant financial planning changes is the 50 per cent tax discount on the first \$1,000 of interest earned, providing an incentive for increased saving. Also welcome is the permanent higher concessional contribution cap for those aged 50 or over whose total superannuation balance is less than \$500,000.

Economically, there is good news, with an earlier return to surplus predicted and lower forecasts for unemployment.

More money in your pocket

The Government has confirmed the income tax rates and thresholds announced in the 2008/09 budget.

The maximum annual low income tax offset will increase from \$1,350 to \$1,500 from 1 July 2010. The threshold at which the offset begins to phase out will remain at \$30,000. Those eligible for the full offset will have an effective tax-free threshold of \$16,000 in 2010/11.

If your annual income exceeds \$16,000 the changes will give you a tax saving of between \$150 and \$1,300.

Tax offset for out-of-pocket medical expenses

The Government has raised the threshold for the medical expenses tax offset from \$1,500 to \$2,000, meaning that you have to spend \$2,000 on medical expenses before you are eligible for a 20 per cent tax offset on amounts over this.

Continued on page 2

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Federal Budget 2010/11: What does it mean for you? continued

Easier tax returns

From 1 July 2012, you will be able to claim a standard deduction of \$500 for work-related expenses and the cost of managing your tax affairs, increasing to \$1,000 a year later. If you have deductible expenses greater than the standard deduction amount, you will still be able to claim for higher expenses.

Tax boost for savings

From 1 July 2011, the Government will introduce a 50 per cent tax discount on up to \$1,000 of interest earned on investments such as deposits, bonds, debentures and annuity products held in authorised deposit-taking institutions, including eligible banks, building societies and credit unions. If you're on a 30 per cent personal tax rate, you stand to gain a maximum benefit of approximately \$157, while if you're on the top rate you'll benefit by \$232 per annum.

'Catch up' with super contributions

From 1 July 2012, the \$50,000 transitional concessional contributions cap will be extended permanently for investors age 50 or over with total super balances of less than \$500,000. This gives you more opportunity to play 'catch up' on your super if you're nearing retirement.

Increased retirement savings

There will be a phased increase in the superannuation guarantee (SG) rate from 9 to 12 per cent, starting in 2013. This will boost retirement savings for all working Australians.

Financial year	SG rate %	Increase from previous year %
2009/10 to 2012/13	9.00	–
2013/14	9.25	0.25
2014/15	9.50	0.25
2015/16	10.00	0.50
2016/17	10.50	0.50
2017/18	11.00	0.50
2018/19	11.50	0.50
2019/20	12.00	0.50

Super break for older workers

Older workers will stand to benefit from an increase in the SG age limit from 70 to 75 in 2013. The new limit will bring employer obligations in line with the age limit for voluntary and self-employed contributions.

Super top-up reductions confirmed but...

The reduced matching rate for Government super co-contributions will be permanently held at 100 per cent, up to a maximum of \$1,000 per annum. Current eligibility thresholds will be frozen at \$31,920 and \$61,920 for the next two financial years.

...super boost for low income earners

From 1 July 2012, the Government will make a 15 per cent super contribution (up to a maximum of \$500 a year) to match concessional contributions made by investors with an adjusted taxable income of up to \$37,000. The annual maximum of \$500 will be available if you have employer, salary sacrifice or personal deductible contributions of \$3,333 or more, and will be paid by the Government into your super account.

Good news for first home buyers

At the moment, if you have a First Home Saver Account (FHSA), you have to keep your savings there for four years before you can use the funds to buy a home. If you buy a home before the end of the minimum qualifying period, the Government is proposing to allow you to pay your FHSA savings into an approved mortgage, rather than requiring them to be paid into your super account.

The Government also contributes \$850 a year if you deposit \$5,000 or more into your FHSA. And you will benefit from a flat 15 per cent tax rate on any interest earned.



For more information on how the Federal Budget 2010/11 will affect your personal financial situation, please contact us today.

10 tax tips for 2010

The 2009/10 financial year is drawing to a close, which means it's time to examine your finances to ensure they are as tax-efficient as possible.

To help you conduct a quick audit of your tax situation, we've pulled together our top 10 tax time tips to help you boost your bottom line.

1. Sacrifice your salary to super

If your marginal tax rate is more than 15 per cent, salary sacrifice can be a great way to boost your superannuation and pay less tax. By putting your pre-tax salary into super, rather than having it taxed at your marginal rate, you may save tax.

2. Offset capital gains

Tax is normally payable on any capital gains. To lessen this obligation it may be possible to realise investment losses on non-performing assets through 2009/10. Capital losses from previous years can also be carried forward and used to offset capital gains.

3. Move assets into a lower tax rate ownership

This strategy involves changing the ownership of assets from a higher to a lower income tax bracket. For example, if a husband works part time and his wife earns a higher wage from full-time employment, it may be tax-effective for assets to be in the husband's name.

However, be aware that putting this strategy into action can trigger capital gains tax and other transaction costs.

4. Contribute to your super

Whether you make personal tax-deductible (concessional) or after-tax (non-concessional) contributions, putting money into super can be very tax effective. This is because earnings on super assets are taxed at a concessional rate (up to 15 per cent), compared with earnings on your personal investments, which are taxed at your marginal tax rate (up to 46.5 per cent).

Personal tax deductible (concessional) contributions

If you are under 50, you can make contributions of up to \$25,000 (indexed) each financial year. If you are over 50, you can contribute up to \$50,000 for the 2009/10 to 2011/12 financial years, after which the limit will revert to \$25,000 (indexed).



After-tax (non-concessional) contributions

A cap of \$150,000 each financial year applies to these contributions. This amount can be averaged over a three-year period to allow for a larger one-off contribution of up to \$450,000 if you are under 65.

Penalty rates of tax may apply where you make contributions in excess of these caps.

5. Contribute to your spouse's super

You can claim an 18 per cent tax offset on super contributions of up to \$3,000 made on behalf of a low-income or non-working spouse. To be eligible for the maximum \$540 tax offset, your spouse's total income¹ must be under \$10,800 per financial year, while a reduced offset is available if your spouse earns less than \$13,800.

6. Qualify for a Government co-contribution

If your total income² is less than \$61,920 in 2009/10, you may be eligible for a super co-contribution from the Federal Government. For each dollar in personal super contributions, the Government will contribute up to \$1, up to a maximum co-contribution of \$1,000 for those earning less than \$31,920.

7. Protect your income

Cover for one of your greatest assets – your ability to earn an income – can be an important part of securing your financial future. Income protection insurance replaces up to 75 per cent of your salary if you are unable to work due to sickness or an accident, plus the insurance premium is tax deductible.

8. Take out life insurance within super

Normally personal life insurance premiums are not tax deductible. However, if this insurance is held within your super fund, and you make either salary sacrifice or personal concessional contributions, you are effectively getting a tax deduction on your insurance premiums.

9. Start a transition to retirement strategy

Once you reach 55, you can access your super through a transition to retirement pension (a regular income stream drawn from your super savings). In most cases, you'll pay less tax on income received through a pension than you would on the same amount of salary or wages, making this a great way to boost your super balance.

10. Claim an education tax refund

The Education Tax Refund (ETR) is a government initiative to help with the cost of educating primary and secondary school children. Eligible parents, carers, legal guardians and independent students can get a 50 per cent tax offset on a range of primary and secondary school education expenses, such as computers, educational software, textbooks and stationery, subject to certain conditions and limits.

To learn more about boosting your financial bottom line, please call our office today. We can help you determine how to best structure your financial affairs and generate additional wealth.

1 Total income includes assessable income, reportable fringe benefits and reportable employer superannuation contributions.

2 Total income includes assessable income, reportable fringe benefits and reportable employer superannuation contributions less certain business deductions.

Tax advantages of investing in super

Superannuation is an investment for the long term, designed to ensure you remain financially independent in retirement. However the tax advantages associated with super make it an effective way of saving for retirement.

Super has a super tax advantage

Of course, super isn't the only way that we can support ourselves in retirement. Other assets such as direct shares, managed funds, investment properties and even cash in the bank can also help generate retirement wealth.

However, there are substantial differences in taxation between super investments and non-super assets.

The earnings and income from most assets held outside the super system (interest, rent, share dividends) are taxed at your marginal tax rate of up to 46.5 per cent (including the Medicare levy). In contrast, earnings within super are taxed at a maximum rate of just 15 per cent, regardless of your marginal tax rate.

When super and non-super assets are sold, the proceeds are usually subject to capital gains tax. However in the case of super, the amount of capital gains tax will typically be lower and if you are in pension phase there may be no capital gains tax payable at all.

So, if your marginal tax rate is more than 15 per cent and you invest in super, your return will usually be better than a similar investment outside super. As shown in the following table, the higher your marginal tax rate, the more effective it is for you to invest in super.

Investment earnings	Marginal tax rate ¹	Super tax rate	Invested in:		Difference
			Non-super	Super	
\$1,000	0%	15%	\$1,000	\$850	-15.0%
\$1,000	16.5%	15%	\$835	\$850	1.8%
\$1,000	31.5%	15%	\$685	\$850	24.1%
\$1,000	39.5%	15%	\$605	\$850	40.5%
\$1,000	46.5%	15%	\$535	\$850	58.9%

Once you reach the age of 65 (or age 55 if you satisfy a condition of release such as retirement), your super investment is accessible at any time. And if you are 60 or over, no tax is generally payable on withdrawal.

Investing inside super versus out – a real difference

For many of us, being able to access money is important. As super has strict rules around this, some people would rather invest outside super.

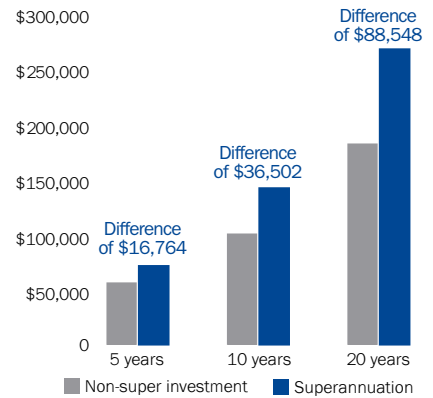
However, if you're investing your money to save for retirement anyway, the tax benefits of keeping it in super are considerable.

To illustrate the potential benefits of investing in super for retirement, see the following graph. If you invest \$20,000 outside of super in ordinary savings for 10 years, and contribute \$1,000 each month as well, it may grow to around \$98,000. Investing the same amount in super for 10 years may grow to around \$134,000. That's \$36,000 more – almost a year's worth of income for a comfortable retirement!²

As you can see, access to your investment comes at a price. While investing in super may mean there are rules as to when you can take your money out, the tax treatment of super can make a significant difference to your end investment.



Investing inside super vs outside



Assumptions:

The projections in this example are based on various assumptions, including but not limited to:

For non-super investment: Non-super managed fund return – growth rate 2.37% pa, income 4.88% and franking 0.56% – based on Pathways 70 (balanced fund) return used for long range client modelling. Regular investments are \$1,000 based on pre tax per month ie net \$605 per month, not indexed over life of projection. Marginal tax rate 38% plus Medicare levy 1.5% used over life of projection (ie earning > \$80,000 pa (2009-10)).

For superannuation investment: super growth rate 6.60% pa is after tax – based on Pathways 70 (balanced fund) return used for long range client modelling. Contributions are \$1,000 per month net of contributions tax 15%, ie net \$850 per month, not indexed over life of projection.

Results are adjusted for inflation at 3%. No administration fees or charges have been deducted. Capital gains tax not taken into account.

The super advantages

- Super is a tax structure that gives you access to concessional tax rates, rather than your normal marginal tax rates.
- Salary sacrifice may enable you to put more of your income into your super account rather than making after-tax contributions, with the added benefit of reducing your overall taxable income.
- You can invest in many of the same things you might want to invest in outside of super such as bank deposits, listed companies, property and infrastructure, but with the added benefit of less tax.
- As you can't access your savings until retirement (except in specific circumstances), you won't spend your savings before you retire.

If you'd like to find out more about the best investment option for you, please make an appointment with our office. We can help you work out the best way to invest your money to ensure you save enough to enjoy a comfortable retirement.

1 2009/10 tax rates, including Medicare levy.

2 Westpac – ASFA Retirement Standard figures for the December 2009 quarter show that for a comfortable lifestyle in retirement, a single person requires \$38,611 a year and a couple \$51,727.