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PIS Timely Tips



Henry Review of Taxation

In May 2008, the Government announced that it was initiating a review of the Australian taxation system under the title of "Australia's Future Tax System". This far reaching review is being conducted under the chairmanship of Dr Ken Henry and final recommendations are expected to be presented to the Government in late 2009.

However, in May 2009 an initial report was released which considered a range of issues associated with retirement income policy. This report was used as the basis for developing certain aspects of this year's Federal Budget.

The May 2009 report provides some interesting reading in terms of the possible future direction of the development of a retirement income policy within the Australian context.

The Report endorses Australia's current "three pillar" approach to retirement funding. To recap, the three pillars are: a means tested age pension system, compulsory superannuation, and voluntary superannuation. However, it is suggested that some structural weakness in the current three pillar system may need some reform. We expect to see further comment in the final report when it is delivered at the end of the year.

A number of recommendations have been made, some of which have already been adopted in the 2009 Budget. The recommendations include:

Superannuation guarantee

The superannuation guarantee system was introduced in 1992 and requires employers to make compulsory superannuation contributions for most employees. The Henry Review has recommended that, despite many submissions to the contrary, the current 9% level of contributions should be maintained. The Review

does not make recommendations relating to the extension of the SG system to the self-employed, nor does it recommend any changes to the present minimum income threshold of \$450 per month before SG applies.



Age pension qualifying age

The Review recommends that the age at which people qualify for the age pension should be progressively increased from 65 to 67. This change was announced in the May Budget and is scheduled to commence its phase in period from 2017 and be fully implemented by 2023. A further recommendation was to review the age pension age again in 2020 with the view of increasing it further in later years.

Age pension means testing

Government income support benefits like the age pension are subject to means testing. Currently both income and assets are taken into account when assessing eligibility for the age pension. The Review has suggested there may be the need to simplify the

present means testing regime and introduce a single income test rather than separate income and assets tests. As part of a reformed income test it is conceivable that a wider range of assets could be included with income deemed to be derived from those assets. One asset that may be included is the family home which is presently exempt from means testing for the age pension. The Report suggests that high value principal residences (or at least amounts that exceed a threshold value) may have part of their value included under a deemed income arrangement.

Superannuation preservation age

Preservation age, that is the age at which people can access their preserved superannuation benefits, currently ranges from 55 (for those born prior to 1st July 1960) to 60 (for those born after 30th June 1964). The Review suggests the introduction, over time, of an increase in preservation age to match the age pension age. More information on this proposal is expected in the final report.



Did you know?

During the 2008 calendar year, the Australian share market (S&P/ASX 300) delivered a negative return of 38.92%. Since 1985, there have only been six calendar years that have experienced a negative return.

They were 1987 (-7.86%), 1990 (-17.52%), 1992 (-2.31%), 1994 (-8.67%), 2002 (-8.64%), and 2008.

Source | IOOF | *The Journey of a \$1000 Investment*

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Longevity risk

One of the dilemmas facing many retirees is the risk of outliving their money. This is referred to as longevity risk. With continual improvements in life expectancy longevity risk is expected to become an increasingly important issue.

The report speaks in broad terms of a range of potential solutions to managing longevity risk including the introduction of "longevity insurance", whether it should be compulsory or voluntary, and whether it should be provided by Government or the private sector.

Longevity risk is a serious issue and one we are sure will receive increasing attention over the years to come.

Taxation of super

One of the recommendations related to the tax concessions available to participants in superannuation and, in particular the current caps applying to tax deductible contributions. The Government has already acted on this recommendation by halving the caps applying to concessional (i.e. tax deductible) contributions effective from 1st July 2009.

Conclusion

A cynic might suggest that the May 2009 report on strategic issues affecting the Australian retirement income system simply confirmed what the Government wanted to hear.

There were many submissions by a wide cross section of both the private and professional sectors. We are continuing to monitor developments and optimistically live in hope that the final report and subsequent Government policy delivers fair and equitable reforms that reward those who make provision for their own financial wellbeing while, at the same

time, providing a safety net for those who through circumstances often beyond their control, find themselves having to rely on the public purse for their financial support.

Source | Peter Kelly | Professional Investment Services | June 2009

Time to Review Salary Sacrifice Arrangements



Salary sacrificing is an arrangement whereby a wage or salary earner enters an agreement with their employer to forego all or a part of their salary in exchange for benefits of another form. Salary sacrifice is a very popular strategy for people wishing to add to their superannuation savings.

Contributions made under a salary sacrifice arrangement are treated as an "employer" contribution and as such, are assessed under the employee's concessional contribution cap.

In the May 2009 Federal Budget the Government announced that effective from 1st July 2009, the concessional contribution caps would be half what they were in the 2008/09 financial year.

This means that the concessional contribution cap for a person aged under 50, for the 2009/10 financial year will be \$25,000. For those aged

50 and older, their "transitional" concessional contribution cap is \$50,000.

Where a concessional contribution exceeds the relevant contribution cap, two things happen. Firstly, the excess contribution is taxed at a rate of 31½% (the fund has already paid 15% tax on the contribution), and the excess contribution is counted against the member's non-concessional contribution cap.

For those employees that have a current salary sacrifice arrangement in place, it is important to review the current level of salary sacrificed contribution so as to ensure the concessional contribution cap is not inadvertently exceeded.

When considering salary sacrificed contributions, it is also important to consider contributions that are also being made under the superannuation guarantee system. SG contributions are also treated as concessional contributions which count towards the concessional contribution cap. Importantly, as an employer is obligated to make SG contributions, an employee can't voluntarily opt out simply because they may have breached their concessional contribution cap.

With the reduction in concessional contribution caps to take effect from 1st July 2009, it is important that current salary sacrifice arrangements be reviewed now. A financial planner can assist in this process.



Source | Peter Kelly | Professional Investment Services | June 2009

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