

Federal Budget 2009

On 12 May 2009 the Federal Government delivered its Budget for 2009/10. From a financial planning perspective, there are a number of new measures which will impact financial planners and their clients. This document contains a summary of those changes.

Superannuation

CONCESSIONAL CONTRIBUTIONS CAP

Date of Effect: 1 July 2009

The Concessional Contributions (CC) cap will be halved from the 2009/10 financial year, limiting the ability to Salary Sacrifice into super for high income earners.

'Transition to Retirement' pensions remain, however the strategy will be limited with the transitional cap of \$100,000 for those aged 50 or older also being halved from 2009/10 and will cut out from 1 July 2012 as originally planned.

Age as at 30 June 2010	2008/09	2009/10 (Before Budget)	2009/10 (After Budget)
Under 50 ¹	\$50,000	\$55,000	\$25,000
Over 50 ²	\$100,000	\$100,000	\$50,000

¹ These thresholds are indexed in line with movements in Average Weekly Ordinary Time Earnings (AWOTE) in increments of \$5,000 (rounded down).

² This cap is not indexed.

Grandfathering arrangements will apply to certain members with defined benefit interest as at 12 May 2009 whose notional taxed contributions would otherwise exceed the reduced cap.

NON-CONCESSIONAL CONTRIBUTIONS CAP

Date of Effect: 1 July 2009

The annual cap on Non-Concessional Contributions (NCC) remains at \$150,000 for 2009/10. In the future, the cap will be calculated as six times the level of the indexed concessional contributions cap.

	2008/09	2009/10 (Before Budget)	2009/10 (After Budget)
NCC Annual Cap	\$150,000	\$165,000	\$150,000
3 year NCC Cap	\$450,000	\$495,000	\$450,000

GOVERNMENT Co-CONTRIBUTION

Date of Effect: 1 July 2009

The Government announced a temporary reduction in the matching rate for the Government Co-Contribution measure.

The matching rate and maximum Co-Contribution payable will be reduced from 1 July 2009.

Year	Co-contribution Rate	Lower Income Threshold	Upper Income Threshold	Phase Out
2008/09	150% (max \$1,500)	\$30,342	\$60,342	Reduced by 5 cents for each dollar of income above shade out threshold
2009/10, 2010/11, 2011/12	100% (max \$1,000)	Indexed prior year's threshold	Year's lower income threshold plus \$30,000	Reduced by 3.333 cents for each dollar of income above shade out threshold
2012/13 and 2013/14	125% (max \$1,250)	Indexed prior year's threshold	Year's lower income threshold plus \$30,000	Reduced by 4.167 cents for each dollar of income above shade out threshold
2014/15	150% (max \$1,500)	Indexed prior year's threshold	Year's lower income threshold plus \$30,000	Reduced by 5 cents for each dollar of income above shade out threshold

ACCOUNT BASED PENSION

Date of Effect: 1 July 2009 – 30 June 2010

The Government announced that the reduction in minimum annual payment amounts for retirement income streams for 2008/09 will extend to 2009/10 financial year. The reduction applies to Account Based Pensions, Allocated Pensions, Term Allocated Pension (TAP) and Annuities.

Age at start of pension and each 1 July	Original percentage of account balance (p.a.)	Reduced draw down percentage for 2009/10
Under 65	4.0%	2.0%
65-74	5.0%	2.5%
75-79	6.0%	3.0%
80-84	7.0%	3.5%
85-89	9.0%	4.5%
90-94	11.0%	5.5%
95 +	14.0%	7.0%

SMALL AND INSOLUBLE LOST ACCOUNTS TO BE TRANSFERRED TO THE ATO

Date of Effect: 1 July 2010

The Government has announced that the following accounts will need to be transferred to the unclaimed monies:

- Accounts with balance under \$200 related to clients identified as 'lost', and
- Accounts that have not been active for five years (no contributions or withdrawals) where the fund cannot identify the owner.

Former members of these lost accounts will be able to reclaim their money from the ATO.

PORTABILITY OF SUPER BETWEEN AUSTRALIA AND NEW ZEALAND

Date of Effect: Unknown

The scheme aims to permit transfers of superannuation savings between certain Australian Superannuation Funds and New Zealand KiwiSaver funds, allowing the free movement of people. It will also enable individuals to streamline and consolidate their personal retirement savings split across two countries.

CLARIFICATION OF SUPERANNUATION GUARANTEE ON PARENTAL LEAVE PAYMENTS

The Australian Taxation Office (ATO) has recently advised that salary paid whilst on parental leave, and other ancillary payments, are treated as ordinary time earnings. This ATO view is yet to be formalised and the Government will not provide any further clarification until has completed a comprehensive review on paid parental leave in 2013.

EXTENSION OF CAPITAL LOSS ROLLOVER FOR COMPLYING SUPERANNUATION FUND

The Government further announced enhancements to the optional capital gain tax loss rollover complying superannuation fund mergers where the continuing fund has at least 5 members. The rollover provisions will be extended to 30 June 2011 to ensure funds have sufficient time to utilise the provisions.

Under the proposed measures, merging superannuation entities in a net capital loss position will be able to elect to rollover assets with accrued capital gains as well as accrued capital loss. The measures will also include pooled superannuation trusts and complying superannuation businesses of life insurance companies.

Taxation

PERSONAL INCOME TAX RATE AND THRESHOLD CHANGES CONFIRMED

Date of Effect: 1 July 2009

Previously announced changes to the personal income tax rates and thresholds have been confirmed. These changes are highlighted in bold below:

Current Threshold (2008/09)	Tax Rate ¹	Thresholds in 2009/10	Tax Rate ¹	Thresholds in 20010/11	Tax Rate ¹
\$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%
\$180,001 +	45%	\$180,001 +	45%	\$180,001 +	45%

¹ Does not include the Medicare Levy.

LOW INCOME TAX OFFSET

Date of Effect: 1 July 2009

The Government has confirmed the maximum low income tax offset will continue to increase progressively to reach \$1,500 per year from 1 July 2010. As a result, the amount of tax-free income low-income earners can receive each year (and the upper limit to which a partial offset can be claimed) will gradually increase.

	2008/09	2009/10	2010/11 (and thereafter)
Maximum offset	\$1,200	\$1,350	\$1,500
Upper income threshold ¹	\$60,000	\$63,750	\$67,500
Maximum tax-free income	\$14,000	\$15,000	\$16,000

¹ The lower income threshold will remain at \$30,000 for all years.

MINORS UNEARNED INCOME

Date of Effect: 1 July 2009

Due to the increase in the low income tax offset, minors will be able to earn more in unearned income before facing tax on their earnings. The amount of unearned income minors can generate before paying tax is as follows:

Year	Unearned Income
2008/09	\$2,667
2009/10	\$3,000
2010/11	\$3,333

TAX FREE INCOMES FOR OLDER AUSTRALIANS

Date of Effect: 1 July 2009

People aged 60 or over will still be able to receive unlimited tax-free incomes from pension investments commenced from a taxed super fund. The table below shows the amount of taxable income that can be received tax-free by older Australians in other circumstances.

People Who Are	Tax Free Incomes ¹		
	2008/09	2009/10	2010/11
Aged 55 to 59 using pension investments ²			
• Single	\$44,211	\$45,789	\$48,158
• Per member of a couple	\$44,211	\$45,789	\$48,158
Eligible for SATO not using pension investments			
• Single	\$28,867	\$29,867	\$30,685
• Per member of a couple	\$24,680	\$25,680	\$26,680

¹ Does not include the Medicare Levy, but includes the low income tax offset and SATO, where applicable.

² Assumes no income from other sources is received.

MEDICARE LEVY THRESHOLD

Date of Effect: 1 July 2008

The Medicare levy thresholds are also proposed to change for low income earners and pensioners of less than age pension age. The Medicare levy is based on taxable income (excluding any lump sum super payments that count toward an individual's low rate cap). Medicare levy will not be payable until the following income thresholds are breached:

Single Income	2007/08	2008/09
Standard Tax Payer	\$17,309	\$17,794
Pensioner *	\$22,922	\$25,299
Family Income	2007/08	2008/09
Standard Tax Payer	\$29,207	\$30,025
Pensioner *	\$29,207	\$30,025
Add each dependent child	\$2,682	\$2,757

* Below pension age

PRIVATE HEALTH INSURANCE REBATE

Date of Effect: 1 July 2010

From 1 July 2010 the current 30% private health insurance rebate will be means tested. The Medicare Levy Surcharge will also increase to try and prevent middle and high income earners abandoning their private health insurance. The new tiered structure is summarised below:

Income – Single	\$0 - \$75,000	\$75,001 - \$90,000	\$90,001 - \$120,000	\$120,000 +
Income – Family	\$0 - \$150,000	\$150,000 - \$180,000	\$180,001 - \$240,000	\$240,000 +
Medicare Levy Surcharge	0.00%	1.00%	1.25%	1.50%
Insurance Rebate				
• Age 65 & Below	30.0%	20.0%	10.0%	0.0%
• Age 65 to 69	35.0%	25.0%	15.0%	0.0%
• 70 & Over	40.0%	30.0%	20.0%	0.0%

EXTENSION OF THE FIRST HOME OWNERS BOOST FOR SIX MONTHS

For eligible first home buyers entering into contracts between 1 July 2009 and 30 September 2009 the First Home Owners Boost will continue to provide \$7,000 for the purchase of established homes and \$14,000 for the purchase of new homes. This means that first home owners will receive a total of \$14,000 for established homes and \$21,000 for new homes.

For eligible first home owners entering into contracts between 1 October 2009 and 31 December 2009 the boost will provide \$3,500 (making a total of \$10,500) for the purchase of established homes and \$7,000 (making a total of \$14,000) for the purchase of new homes.

EMPLOYEE SHARE SCHEMES (ESS)

Date of Effect: Shares or Options acquired after 7.30 pm, 12 May 2009

Until the Budget was handed down (7.30pm on 12 May 2009), an employee could choose between two tax concessions available in relation to shares or rights acquired under a qualifying ESS:

- A tax-upfront concession where a taxpayer is assessed on any discount provided by an employer on the shares or rights in the income year the shares or rights are acquired that is in excess of \$1,000. If an employee elects to be taxed upfront they receive a tax exemption of up to \$1,000 on the discount; or
- A tax-deferred concession where a taxpayer can defer taxation which generally is the earlier of 10 years or when any restrictions or conditions placed on the shares or rights are lifted.

The existing election will be removed effective from the Budget announcement and discounts provided on shares or rights will be assessed in the income year the shares or rights are acquired. There will no longer be a tax deferral option.

In addition, the upfront concession of \$1,000 will be only available to employees with an adjusted taxable income of less than \$60,000.

NON-COMMERCIAL BUSINESS LOSSES

Date of Effect: 1 July 2009

From the 2009/10 year, the application of the rules on the use of non-commercial losses will be tightened to prevent high income earners from offsetting excess deductions from non-commercial business activities against salary and other income.

Taxpayers with an adjusted taxable income of over \$250,000 will have excess deductions quarantined to the business activity, restricting the ability to claim losses for non-commercial activities that are more likely to be in the nature of lifestyle choices or hobbies. The existing rules continue to apply to those with ATI of \$250,000 or less.

Taxpayers will be able to apply to the ATO for relief if there are exceptional circumstances or because the nature of the activities means that the taxpayer is temporarily carrying on an uncommercial business but the activities they are undertaking are nonetheless independently assessed as commercially viable.

SMALL BUSINESS TAX RELIEF

Date of Effect: Eligible Assets Acquired between 13 December 2008 and 31 December 2009

As part of previous fiscal stimulus packages, the Government had announced that small business (those with a turnover of less than \$2million) would be able to claim a bonus tax deduction for the acquisition of eligible assets, in addition to the usual capital allowance deduction. Initially set as a 10% bonus deduction, then 30%, the bonus has again been lifted to 50%.

To be an eligible asset for this bonus, the asset must:

- Cost more than \$1,000 (although substantially similar assets may be aggregated in order to reach this threshold),
- Be purchased between 13 December 2008 and 31 December 2009,
- Be used or installed ready for use by 31 December 2010.

As an example of the benefit this provides, for a small business being conducted through a corporate structure, for every \$1,000 of eligible asset acquired, the total tax deduction will be \$1,500. A \$1,500 tax deduction provides a tax saving of \$450. Therefore the overall after tax cost of \$1,000 acquisition would be \$550.

The increase in the level of bonus deduction and extension of time, from 30 June 2009, for asset acquisition provides some relief for small business taxpayers who may have struggled to acquire these assets due to cash flow constraints.

For non-small business taxpayers, the minimum asset threshold to qualify for a bonus is \$10,000 (subject to similar aggregation rules) and the bonus conditions are set out in the following table.

Bonus Deduction	Asset Purchased between	First used by or installed ready for use by
30%	13 December 2008 and 30 June 2009	31 December 2010
10%	1 July 2009 and 31 December 2009	31 December 2010

SMALL BUSINESS CGT RELIEF

Date of Effect: CGT Events happening in the 2006/07 and later income years

Changes have previously been made to ensure that the beneficiary of an asset from a deceased estate (or the estate itself) is eligible to claim small business CGT relief in certain circumstances where the deceased would have been eligible for the relief if they had sold the asset immediately prior to their death.

This form of extended relief is to be made available in situations where the asset has passed through to a testamentary trust.

It will be important to review any asset disposals from these testamentary trusts in the 2006/07 or later income years to ensure the maximum CGT relief has been claimed.

LIMITED CGT ROLLOVER RELIEF FOR FIXED TRUSTS

With effect from 1 November 2008, there will be a limited CGT roll-over for assets transferred between fixed trusts that have the same beneficiaries with the same entitlements and no material discretionary elements (typically referred to as fixed trusts).

Trustees of eligible trusts will be able to defer the CGT consequences of the asset transfer until the receiving trust subsequently deals with the asset, allowing eligible trusts to restructure without immediate CGT consequences.

FRINGE BENEFIT TAX RELIEF FOR DONATIONS

Date of Effect: 1 April 2008

Donations made by employees to registered charities (referred to as 'deductible gift recipients') under salary sacrifice arrangements will not give rise to an FBT liability.

DISTRIBUTIONS FROM CLOSELY-HELD TRUSTS

Date of Effect: 1 July 2010

Withholding tax arrangements are proposed to apply to closely-held trusts (including family trusts). This will generally require tax to be withheld from distributions to beneficiaries.

Income on which the trustee(s) themselves pay tax (eg income assessable to minors) will not need to have further tax withheld when distributed.

SPECIAL DISABILITY TRUST

Date of Effect: 1 July 2009

This measure ensures the unexpended income of a Special Disability Trust is taxed at the relevant beneficiary's personal income tax rates rather than at the highest marginal rate.

The CGT main residence exemption will be extended to include a residence that is owned by a Special Disability Trust and used by the relevant beneficiary as their main residence from 1 July 2009.

MANAGED INVESTMENT TRUSTS (MITs) – MAINTAINING THE STATUS QUO ON CGT

Date of Effect: 1 July 2009

The Government will introduce capital gains tax (CGT) rules for managed investment trusts (MITs) to ensure profits on the sale of assets receive concessional CGT treatment and are not taxed as income. This applies primarily to the disposal of shares in a company, units in a unit trust and real property investments.

The Government will allow MITs to make an irrevocable election to apply the CGT rules to calculate their taxable income on the disposal of such assets. MITs will be able to make the election in their first income year that commences on or after 1 July 2008, subject to appropriate integrity rules.

REMOVAL OF TAX EXEMPT STATUS FOR FOREIGN EMPLOYMENT INCOME

Date of Effect: 1 July 2009

Currently, Australian residents who work overseas for 91 consecutive days receive an exemption from taxation for that foreign employment income.

The proposal is to abolish this exemption unless the individual employment falls within one of the following categories:

- An aid or charitable worker employed by a recognized non-government organization.
- A government aid worker.
- A specified government employee (for example defence or police force personal).

A tax offset will be provided for any foreign tax paid on foreign employment income.

PRIVATE COMPANY BENEFITS

Date of Effect: 1 July 2009

Arrangements between private companies and their shareholders (or associates of shareholders) providing licence or rights to use real property or chattels at less than arm's length values are proposed to trigger tax consequences. The non-commercial loan rules will be extended to capture these situations.

ENTREPRENEURS' TAX OFFSET INCOME TEST DEFERRED

Date of Effect: 1 July 2009

The current entrepreneur's tax offset can reduce up to 25% of tax payable by a small business that has an annual aggregated turnover of less than \$50,000. This offset will phase out when the business reaches an aggregated turnover of \$75,000.

In the 2008 Federal Budget, the Government announced 'income tests' that would apply and restrict access to the offset for business' with high alternate sources of income. In the 2009 Federal Budget, the Government announced it will defer this income test for another 12 months and will consult on what form it takes at that time.

Social Security

INCREASE IN PENSION PAYMENTS

Date of Effect: 20 September 2009

The Government has announced the following changes from 20 September 2009:

- An increase to the base rate for single age pensioners of \$30 per week.
- A combining of the four separate allowances (GST, Utilities, Telephone/Internet and Pharmaceuticals) into one 'pension supplement' that will be paid fortnightly; and
- An increase to the pensioner supplement of \$2.49 per week for singles and \$10.14 per week (combined) for couples.

These increases will apply to recipients of the Age Pension, Service Pension, Disability Support Pension, Carer Payment, Bereavement Allowance, Widow B Pension, Wife Pension, Income Support Supplement and to War Widows.

TOTAL INCREASE IN AGE PENSION ENTITLEMENTS

Single Age Pension Entitlement	20 March 2009	From 20 September 2009	Increase
Per Fortnight	\$575.80	\$640.78	\$64.98
Per Annum	\$14,970.80	\$16,660.28	\$1,689.48
Couple Age Pension Entitlement (Combined)	20 March 2009	From 20 September 2009	Increase
Per Fortnight	\$957.80	\$978.08	\$20.28
Per Annum	\$24,902.80	\$25,430.08	\$527.28

The new Pension Supplement will be indexed twice a year in line with CPI.

CHANGES TO INCOME TEST TAPER RATE

Date of Effect: 20 September 2009

From 20 September, the income test taper will increase from 40 to 50 cents in the dollar for a single pensioner and from 20 to 25 cents for each member of a couple, for income above the relevant income free threshold. The threshold is currently \$138 per fortnight for single pensioners and \$240 per fortnight for pensioner couples (combined).

The income test cut off threshold will reduce down from \$47,444 to \$38,693 for singles and from \$72,423 to \$59,228 for couples combined.

Existing part pensioners affected by the income test will have a transitional safety net apply allowing them to keep existing entitlements, maintained in real terms, plus an increase of \$10.14 per week for singles or couples combined.

They will continue to receive these existing entitlements, including the increase, until they are better off under the new pension rules.

The asset test taper rate is unchanged at \$1.50 per \$1,000 of assets above threshold.

INCREASE TO AGE PENSION AGE

Date of Effect: 20 September 2009

The qualifying age for the Age Pension and Commonwealth Seniors Health card will increase for both men and women to 67 from 2023. The transition will not commence until July 2017, when the qualifying age will increase by 6 months every 2 years.

Commencement Date	Qualifying Age	Affects People Born	Reach New Age Pension Age
Until 1 July 2017	65 years	Before 1 July 1952	
1 July 2017	65.5 years	1 July 1952 to 31 December 1953	1 January 2018 to 30 June 2019
1 July 2019	66 years	1 January 1954 to 30 June 1955	1 January 2020 to 30 June 2021
1 July 2021	66.5 years	1 July 1955 to 31 December 1956	1 January 2022 to 30 June 2023
1 July 2023	67 years	From 1 January 1957	From 1 January 2024

The qualifying age for the Veterans' Service Pension will remain at 60.

CHANGES IN THE ASSET TEST HARDSHIP RULES

Date of Effect: 1 July 2009

Effective from 1 July 2009 the asset test hardship rules will be amended. The changes increase the amount of readily available funds applicants can have when seeking to have an unrealisable asset disregarded.

The new limits (based on payment rates as at 20 March 2009) will be:

Applicant	Limit
Single person with no children	\$11,785.80
Single person with dependent child or children, or aged over 60 years with none months on income support	\$12,750.40
Couple	\$21,268.00
Parenting payment single	\$14,814.80

The limits will be indexed at the same rate as payments, ensuring the limits maintain their real value.

INCENTIVES FOR PENSION AGE AUSTRALIAN TO REMAIN IN THE WORKFORCE

Date of Effect: 20 September 2009

PENSION BONUS SCHEME

The Pension Bonus Scheme will be closed from 20 September 2009 to new entrants. There will be no change to existing members of the scheme, and they will continue to accrue entitlements under the current rules. The new 'Work Bonus' will replace the Pension Bonus Scheme.

PENSIONER 'WORK BONUS'

This bonus will allow pensioners to get a maximum of \$125 per fortnight in additional pension payments. This will be achieved by disregarding half of the first \$500 per fortnight of employment income under the income test.

COMMONWEALTH SENIORS HEALTH CARD (CSHC) – INCOME TEST

It was announced as part of the 2008-2009 Federal Budget that gross tax-free superannuation lump sum and pension income was to be included in the adjusted taxable income test for the Commonwealth Seniors Health Care Card. The Government has decided not to proceed with this measure.

Income that is salary sacrificed to superannuation, however, will be included in the income assessment with effect from 1 July 2009 as announced in the 2008/09 budget.

SENIORS SUPPLEMENT FOR CSHC AND GOLD CARD HOLDERS

Date of Effect: 20 September 2009

Holders of the Commonwealth Seniors Health Card and DVA Gold Card who receive the Seniors Concession Allowance are proposed to receive the Seniors Supplement. The Seniors Concession Allowance and Telephone Allowance will be incorporated into the new supplement.

The Seniors Supplement for these recipients is to be \$749.40 a year for singles and \$1,190.80 a year for couples (combined). Payments will be made quarterly.

NEW CARER SUPPLEMENT

Date of Effect: 30 June 2009

The Government will introduce a new carer supplement which will be ongoing and non-taxable. The first payment will be made by 30 June 2009 with subsequent payments starting from 1 July 2010.

The new supplement will provide:

- \$600 per annum to all Carer Allowance recipients for each person being cared for; and
- \$600 per annum to all Carer Payment recipients.

Those who receive the Carer Allowance and Carer Payments will be eligible for both payments (\$1,200 every year).

The existing Child Disability Assistance Payment of \$1,000 per annum for carers who are paid Carer Allowance (child) will continue.

CHANGES TO RESIDENTIAL AGED CARE

As a result of an increase in the Age Pension from 20 September 2009, the maximum daily care fee paid by the majority of residents in an aged care facility will increase from \$233.87 per week (\$33.41 per day) to \$256.27 per week (\$36.61).

Non pensioners who are in an aged facility on 19 September 2009 will have their fee levels fixed at the current level until they leave care. Non pensioners who enter care after 19 September 2009, will initially pay the same level of fees as is currently paid by residents. Over 4 years, their fees will gradually increase to be consistent with residents who are in receipt of the Age Pension.

Additionally, the income test (that applies to calculate the income tested fee) will apply from the date of entry removing the current 28-day delay.

INCREASED ASSISTANCE FOR VETERANS

For veterans who do not receive the Service Pension or Income Support Supplement, the Government will simplify the payment of allowances by incorporating the Pharmaceutical Allowance and Telephone Allowance into a new Veterans' Health Care Supplement.

The Veterans' Health Care Supplement will be paid fortnightly from 20 September 2009. There will be two rates of payment – \$156 per year where only one of either the Pharmaceutical Allowance or Telephone Allowance is received; or \$312 per year to replace both allowances.

The Service Pension qualifying age will remain at the current level (60 for men, and progressively increasing to 60 for women).

INDEXATION OF FAMILY TAX PAYMENTS

Date of Effect: 1 July 2009

Family Tax Benefit Part A payment rates will be indexed by Consumer Price Index (CPI). This is consistent with other family payments such as Family Tax Benefit Part B and the Baby Bonus.

Currently, the maximum rates of FTB-A for children under 16 are benchmarked to a proportion of the combined couple rate of pension payments or adjusted by CPI, whichever is higher.

FAMILY TAX PAYMENT THRESHOLDS FROZEN

Date of Effect: 1 July 2009

The higher income thresholds for the following payments will remain fixed until July 2012:

- The FTB-B primary earner income threshold will remain fixed at \$150,000;
- The income thresholds for receiving the dependency tax offsets will remain at \$150,000;
- The Baby Bonus eligibility thresholds will remain at \$75,000 of family income in the six months following birth or adoption (equivalent to \$150,000 a year); and
- The higher income-free area of FTB-A will remain at \$94,316 of family income (plus \$3,796 for each child after the first).

These thresholds would normally be indexed by CPI.

MATERNITY IMMUNISATION ALLOWANCE

Date of Effect: 1 July 2010

The Government will change the timing of the indexation of the maternity immunisation allowance from twice a year to once a year. The first annual indexation will occur on 1 July 2010.

PAID PARENTAL LEAVE

Date of Effect: 1 January 2011

The Government announced it will introduce a paid parental leave scheme. The scheme will be funded by the Government and is intended to commence on 1 January 2011. Parents will be able to lodge claims from 1 October 2010.

Payments under the scheme will be paid to the primary carer at the adult federal minimum wage (currently \$543.78 per week) for a period of up to 18 weeks. Payments made under the paid parental leave scheme will be treated as taxable income and will affect entitlement to family assistance payments, but will not be counted as income for income support payments.

Primary carers (such as stay at home mums) who do not qualify for the scheme or those people who elect not receive paid parental leave can still access the baby bonus or Family Tax Benefit Part B where they meet the eligibility requirements for those benefits.

Primary carers will be eligible for the scheme if they:

- Earned less than \$150,000 in the full financial year prior to the birth or adoption of a child;
- Have worked at least 330 hours over the 10 months (equivalent to around one full day of work each week) preceding the birth or adoption of a child; and
- Have also worked continuously with one or more employers for at least 10 of the 13 months before the expected date of birth or adoption.

Paid parental leave also will be available to contractors, casual workers and the self employed.

EMPLOYER FUNDED LEAVE

Parents who are eligible for the scheme will be able to continue to access employer funded leave around the time of the birth or adoption of the child. This includes employer provided maternity and recreation leave. Government funded paid parental leave can be taken in conjunction with, or in addition to, employer provided paid leave.

EFFECT ON BABY BONUS AND OTHER FAMILY BENEFITS

Parents who choose to receive paid parental leave will not be eligible to receive the baby bonus, except in the cases of multiple births where parents will not receive the baby bonus for the first child only.

Parents who choose to receive paid parental leave will not be entitled to the following benefits for the 18 weeks whilst in receipt of paid parental leave:

- Family Tax Benefit Part B
- Dependent spouse
- Child-housekeeper
- Housekeeper tax offs

OPERATION OF THE SCHEME

Employers will make the paid parental leave payments for most employees. The Government will provide employers with funds in advance of the payments they make to employees.

PAID PATERNITY LEAVE & SUPERANNUATION PAYMENTS

Paid paternity leave will be considered as part of a comprehensive review of the system, which is intended to take place in 2013. Superannuation payments will not be initially introduced with the paid parental leave. The introduction will be considered as part of a comprehensive review of the scheme.

YOUTH ALLOWANCE & AUSTUDY

INCREASE IN INCOME THRESHOLDS

The income free threshold (i.e. income level at which Youth Allowance or Austudy begins to reduce) will substantially increase from \$236 to \$400 per fortnight. Payments will reduce by \$0.50 for every dollar of income earned between \$400 and \$480 per fortnight and by \$0.60 for every dollar earned in excess of \$480 per fortnight.

The thresholds will be indexed annually to movements in the Consumer Price Index.

AGE OF INDEPENDENCE REDUCED

Date of Effect: From 2009

The age of independence for Youth Allowance will be reduced from 25 to 22 years over 4 years as follows:

Year	Age of Independence
2009	25
2010	24
2011	23
2012	22

Independent students are not subject to the parental income and assets test.

From 1 January 2010

A young person is considered independent for Youth Allowance, if they have supported themselves through paid work consisting of:

- Employment of at least 30 hours per week (i.e. fulltime employment) for at least 18 months during any period of 2 years; or
- Employment of at least 15 hours per week (i.e. part-time employment) for at least 2 years since the person last left school, or
- Employment in an 18 month period since leaving school, with cumulative earnings totaling at least 75% of the appropriate maximum National Training Wage Award rate (\$19,532 in 2009).

From 1 January 2010, criteria 2 and 3 will be removed, making it harder for a young person to establish independence under Youth Allowance. The changes will not apply to students who have already satisfied the workforce participation criteria and are already independent.

STRICTER PARTICIPATION REQUIREMENTS

Date of Effect: From 1 July 2009 for new Youth Allowance claimants

From 1 January 2010 for existing Youth Allowance & all FTB (Part A) recipients

Unemployed 15-20 year olds without a Year 12 or equivalent qualification will be required to undertake fulltime education or training in order to receive Youth Allowance (Other) or for their families to receive Family Tax Benefit Part A for that child.

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