

### **Being Responsible can be boring!**

From a superannuation and investment perspective there were no big surprises in this year's Budget. The faster than expected return of the Budget to surplus, three years ahead of schedule in 2012-13, is good news for all investors. However, there are other pleasing aspects in the Government's announcements.

For superannuation funds in particular, it was good to hear that no further significant changes were foreshadowed following those announced with the release of the Henry Review last week.

Superannuation funds need a period of stability to build confidence in what is a world leading superannuation system. Some of these changes (and commitments to previously announced changes) include:



#### **Government Co-Contributions capped at \$1,000**

In 2009 the Government announced that the co-contribution matching rate would be reduced to \$1,000 for the 2010-11 and 2011-12 financial years. This was to increase to \$1,250 for the 2012-13 and 2013-14 years and then back to \$1,500 for the 2014-15 financial years.

The Government announced that the co-contribution amount of \$1,000 will be retained permanently. Further to this, indexation of the income thresholds, which determine eligibility for the co-contribution and the co-contribution amount, will be frozen for the next two financial years (2010-11 and 2011-12).

#### **Re-confirmed commitment to some previously announced superannuation measures**

The Government has confirmed in the Budget a number of superannuation changes previously announced:

- Increasing the Superannuation Guarantee rate from 9% to 12% by small increments from 1 July 2013 to 1 July 2019.
- Raising the Superannuation Guarantee age limit from 70 to 75 from 1 July 2013, providing an extra incentive for mature workers to remain in the workforce.
- The Government will pay an extra contribution, up to a maximum of \$500, for low-income earners to offset contributions tax on concessional contributions from 1 July 2012. It is worth noting however that the first contribution from the Government, in relation to the 2012-13 year will not be paid until 2013-14.
- Individuals aged 50 or over with total superannuation balances of less than \$500,000 will be eligible for a higher concessional contribution cap of \$50,000 (indexed) from 1 July 2012.
- There were amendments made to the treatment of income from qualifying instalment warrants with effect from 1 July 2007. This measure will ensure that the opportunity for non-recourse borrowing by trustees within superannuation funds and SMSF's is not undermined by its tax treatment.

#### **Further amendments to superannuation**

The Government also announced some minor amendments in relation to superannuation:

- Extension of loss relief for merging funds to those involving a new complying fund to remove tax impediments to fund mergers until 30 June 2011.
- Additional funding for the Superannuation Complaints Tribunal.

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## Budget Update (continued)

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- Allowing the Commissioner of Taxation to exercise discretion for the purposes of excess contributions tax before an assessment is issued.
- Permanently allowing a claim for a deduction for eligible contributions to be made to successor superannuation funds.
- Increasing the time limit for deductible employer contributions made for former employees.
- Clarifying the due date of the shortfall interest charge for the purposes of the excess contributions tax.

We also note that the Government is proposing changes to First Home Savers Accounts (FHSA). The current rules require that savings in a FHSA are held for four financial years before they can be used to buy a home. If an account holder buys a home before the end of that four-year period, the balance of their FHSA must be transferred to their superannuation. The Government proposes that savings in an FHSA can now be paid into an approved mortgage after the end of a minimum qualifying period, rather than to a superannuation account.

### Clearer Tax Treatment of Managed Investment Trusts

The Budget reiterated measures announced last Friday to clarify the tax treatment of investments held through Managed Investment Trusts (MITs). Without going into the fine print, these largely amount to an update of, and improvement to, the MIT tax rules without fundamental change.

This Budget also clarified elements of last year's Budget announcement to ensure investors can qualify for capital gains tax (CGT) discount concessions when investing via MITs.

The announcements will be welcomed, in the Assistant Treasurer's words, by the "many millions of Australians [who] are investors in MITs, either directly or indirectly through their retirement savings". The announcements implement most of the recommendations made to the Government by the Board of Taxation last year and will positively impact a large majority of clients invested via platforms such as Navigator, MLC, IOOF etc

Most of the announced changes address areas where tax laws have failed to keep up with industry practice. In this sense, most changes are "behind the scenes", although investors are likely to see minor changes to MIT marketing documents and distribution/tax statements. Investors exposed to potential double taxation from taxable income which is not distributed by a MIT – an issue for many property trust investors - will also welcome the Government's undertaking to provide a tax cost base uplift to prevent this result.

However, it is the broad tenor of the Government's announcements, both on Friday and in last night's Budget, which is most encouraging for investors: with the laws updated and expressed in a simpler, coherent way to support the modern function of a MIT as "a very important part of our economic architecture in Australia".

The rules to allow MITs to qualify for and pass on CGT concessions are currently passing through the Senate and will apply retrospectively – industry has been aware of this change since last year's Budget and MITs will have anticipated this change. The remaining MIT measures are intended to apply from 1 July 2011.

### 50% tax concession for interest earned on savings

The Federal Government has announced a new 50% tax concession for interest earned on savings accounts with banks and other financial institutions. The tax concession will apply to the first \$1,000 of interest earned in a financial year. The new concession, which takes up a Henry Report recommendation (albeit in more limited form), will operate in similar fashion to the current capital gains tax (CGT) discount which taxes only 50% of most capital gains made by individuals directly or via managed funds.

The new savings tax concession will apply to interest earned from 1 July 2011. The concession is designed to encourage savings and "level the playing field" for lower income and older investors who hold their savings in bank accounts and similar investments which are fully taxed, rather than CGT assets which attract the CGT discount tax concession. The Budget papers estimate that the account balance for a middle income taxpayer with \$17,000 invested at 6% p.a. (reinvested) would be almost \$1,000 higher after five years as a result of the concession.

The Government expects about 5.7 million investors to benefit from the new tax concession. This includes investors who earn interest income by way of distributions from cash management trusts and other managed funds.



## Budget Update (continued)

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### Lower borrowing costs for financial institutions

Last night's Budget also announced reductions in the rate of withholding tax applying to banks and other financial institutions which source funds by borrowing from overseas related parties. The withholding tax rate – generally 10%, will gradually decrease from 2013-14, with the Government saying it is "favourably disposed to reducing this rate to zero".

This announcement implements a Henry Report recommendation and is designed to increase competition in the Australian lending market by providing lenders access to cheaper (offshore) sources of funds.

### In conclusion

Despite the hype, the 2010 Federal Budget and the Government's response to the Henry Tax Review have resulted in few significant structural changes to the tax, super and social security systems in Australia.

As always, to find out how these changes may impact you, or to investigate how you may be able to take advantage of any opportunities, please contact Securinvest Financial Planners on 9574 8300.

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