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SIRA VIEWS

2006/07 Budget

Since the announcement last night of the Governments 2006/07 Budget, you will have seen a number of articles either in the daily papers or on the television outlining the basics, benefits and drawbacks of the Treasurers proposals.

Rather than repeat what has been amply covered in the press, we have prepared a small overview of the financial/investment/retirement planning key points that we believe are most relevant to our business and our clients.

We hope you find the following summary beneficial.

Superannuation Benefits

As of July 1, 2007 the Government proposes that **tax will not be payable on superannuation benefits from a taxed fund for recipients aged 60 or over** i.e. payments from superannuation will not be reported in tax returns.

Note: Self managed Superannuation funds and public offer funds are taxed funds.

This effectively makes deductible amounts and rebates for current taxable pension payments irrelevant.

People under age 60 will still be subject to tax, but the payment system is to be simplified.

Lump sum benefits would be split into two components, the exempt component and taxable component

The exempt component would be tax free and the taxable component would be tax free up to the low tax threshold (currently $129,751) and then taxed at 15% above that level (for under 55's that component would be taxed at 20%).

Pension payments would generally continue to be taxed as per current arrangements (taking into account the simplification rules).

The full 15% rebate would continue to apply to pensions paid from a taxed fund for recipients between ages 55 to 59. At age 60 they would become tax free.

Reasonable Benefit Limits (RBLs) are to be abolished.

The combination of no tax and no RBLs effectively wipe out the need (from a tax point of view) for Market Linked Pensions (commonly referred to as TAPs) or other forms of complying pensions.

As of 20 September, 2007 complying pensions including TAPs will **no longer have a 50% exemption** for assets testing purposes with Centrelink, making the need for these pensions totally removed.

The Government also proposes to **abolish the current requirements to cash in superannuation at age 65** (or to meet specific work test rules), meaning that retirees can set their own time frames.

Whilst the above would seem to negate the need to move into 'Pension Phase' from that date, the current budget announcement does not remove the exemption from tax for earnings on segregated pension assets. Also, pension income will continue to be favourably treated for recipients of Centrelink benefits. Therefore moving into pension phase of superannuation still holds favourable benefits for both funds and members alike.

In This Issue

Special Budget Edition

Special points of interest:

- *No tax on super benefits after age 60*
- *RBLs to be abolished*
- *MDCs change*
- *New tax scales from July 2006*

Superannuation
Investment and
Retirement Advisers

Level 1
530 Little Collins Street
MELBOURNE VIC 3000

Phone (03) 9909 7018
Fax (03) 9909 7788
Email info@siragroup.com.au

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Superannuation Contributions

The age based Maximum Deductible Contribution (MDC) limits are to be abolished as of 1 July, 2007 and replaced with a **$50,000 annual contribution limit** across all ages.

People currently over age 50 who have a MDC of $100,587 under the current rules will have a transitional period to make larger contributions over the next few years, allowing for current retirement planning to be carried out.

Self-employed (and other unsupported people able to claim a deduction for contributions to superannuation) will **no longer be restricted by the $5,000 + 75% rule and will be able to claim 100% of deductible contributions**. Also, **co-contributions will be extended to include the self-employed**.

The ability to make **deductible contributions will be extended to age 75**, up from the current age 70.

Undeducted contributions are to be capped at $150,000 a year. The Government will consider whether this should be averaged over a three year period to allow for larger one-off payments

Assets Test

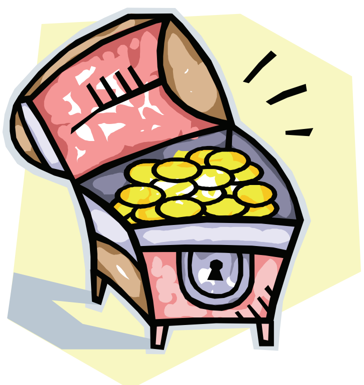
The current assets test taper rate is a reduction in pension of $3.00 for every $1,000 of assets over the threshold.

From 20 September, 2007 **this rate will reduce to $1.50**. This will effectively increase the amount of assets an Aged Pensioner can have without loosing the pension, benefiting the asset rich but income poor.

Income Tax

From 1 July 2006, new tax scales will apply as follows:

Taxable Income	2006 + Tax on this income
$0 - $6,000	Nil
$6,001 – $25,000	15c for each $1 over $6,000
$25,001 - $75,000	30c for each $1 over $25,000
$75,001 – $150,000	40c for each $1 over $75,000
Over $150,001	45c for each $1 over $150,000



Budget Update: David Bannister

Also from 1 July 2006, the **Low Income Tax Offset will increase from $235 to $600** and the reduction threshold at which the offset begins to reduce will increase from $21,600 to $25,000.

The Senior Australian Tax Offset has effectively been increased due to the tax changes. The current levels at which eligible tax payers pay no tax are $21,968 for singles and $36,494 for couples (combined). **This will increase to $24,867 and $41,360 respectively**.

There are a host of other changes and benefits proposed in the Budget announcement, many of which we are sure you will find interesting and/or beneficial. Unfortunately it is not within our scope to discuss them all.

Should you wish to discuss how these changes affect you or your families, please contact us and we can explore any opportunities that may be available.