RV Client NEWS

Retirement Victoria

WINTER 2006

Reshaping the Tax System

A year has rolled by since the first Winter Edition of *RV Client News*. Time passes so incredibly quickly. The focus of that edition was on the 2005 Federal Budget in an article titled *A Year of Major Changes*. If we thought the changes proposed in 2005 were major then we hadn't counted on Federal Budget 2006.

This year's proposed changes in the areas of superannuation, tax and age pension supersede and supplant core policy from 2005. The superannuation and tax changes if legislated in the form set out in the 2006 budget papers will have far reaching implications for the tax system in Australia over the medium and longer term.

In the following pages we take a first summary look at key budget proposals in terms of their potential significance and relevance to client strategy, structure and retirement decision making.

No Legislation Yet

It is of course important to draw a distinction between proposals in the budget papers and the enactment of legislation. Many of the major superannuation proposals are intended to take effect from July 2007 and are subject to a period of community consultation prior to the formulation of legislation. There will undoubtedly be some modification and some massaging of proposals.

We have time on our side and it is important to await the substance of legislation rather than implement a course of action which may turn out to have been precipitate.

For a lot of clients the proposed changes will require no strategic adjustment at all. For others opportunities will arise to tune their models to improve income and capital efficiency over time.

At RV we will monitor developments in terms of the strategic implications for clients and will keep you informed via *RV Client News* and the Continuing Care process.

Staffing at RV

We are privileged to enjoy the strong support of our clients, both in their continuing personal support for us and in the strong stream of new clients they refer to RV. As a consequence RV continues to grow strongly. We are conscious of the need to maintain the quality and reliability of our services.

To ensure that the rate of growth is controlled we limit the wider marketing of our services. And most importantly we add and train high quality staff on a progressive basis.

Rob Jowett has joined RV as an Adviser. Rob worked closely with Alan and Geoff several years ago and is fully trained in the area of Public Sector Superannuation. He has outstanding qualifications, skills and personal qualities. We are delighted to have obtained his services.

We have two recent additions to our Support Team. Jenny Hoyle has joined us as a PA working primarily with Adviser Ed Paterson. Tegan White has joined us as Receptionist.

Maria Beltran has been an outstanding Receptionist for the past three years and is now moving into a PA role.

One of the pleasures of building RV as a client service organisation is in the satisfaction we get from the growth and development of our staff over time. Young people have enormous capability. Given proper training and encouragement they bring great vibrancy and spirit to the workplace which manifests itself in their commitment to client service and to teamwork. In the world of 'workchoices' we need to remember that those employers who respect and appreciate their staff will benefit. The business, the clients and the staff will all gain.

Thank you as clients for your continuing support.

We look forward to working with you in the period ahead.

Best Wishes

Alan and Geoff - on behalf of our team -

Alan Cooper	Melanie Brown	Geoff Allen
Maria Beltran	Joan Zivchak	Emma Delahey
Denis Cleary	Chris Harris	Kristi Badgery
Ed Paterson	Susan Heath	Jenny Hoyle
Marnie Ewinger	Ray Wilkinson	Rob Jowett
Tegan White		

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Age Pension Rules to Change

Over the years the integration of age pension income with superannuation and other income has become an important plank of effective retirement planning. An income model friendly to the inclusion of age pension helps to reduce the pressure placed on your own capital to provide all income, thus releasing some capital which can then be used for other purposes as desired. This year's Budget changes the rules relating to asset testing for age pension in a way which will provide age pension opportunity for many retirees.

Age Pension Tests

Age pension entitlement is subject to means testing under an income test and an assets test. The test which produces the lower pension is the one which determines a person's entitlement.

The pension income test is not based on taxable income. Some types of investment, in particular certain types of superannuation investment, receive friendly treatment for income test purposes. The pension assets test is not a test which includes all assets. Some assets are exempt, some are partially counted and some are fully counted.

The way in which retirees structure income and assets can thus significantly effect their entitlement to age pension and their overall income efficiency.

Over time the assets test has been seen as more onerous in terms of entitlement to age pension than the income test. Often people who would have a significant age pension entitlement under the income test have been knocked out by the assets test.

Assets Test to be Relaxed

The Budget has proposed significant relaxation of the assets test. At present, for example, a couple lose entitlement to any age pension income once countable assets reach $503,500. From 20 September 2007 the proposed threshold at which age pension would cut out is increased to $778,500.

The table below compares the current assets test thresholds with the proposed thresholds.

Family Situation	Maximum Assets for Full Pension (Lower Threshold)	No Pension Above These Levels (Upper Threshold)	
		Current	Proposed from 20 Sep 2007
Single homeowner	Up to $157,000	$325,500	$490,500
Single non-homeowner	Up to $270,500	$439,000	$604,000
Couple homeowners	Up to $223,000	$503,500	$778,500
Couple non-homeowners	Up to $336,500	$617,000	$892,000

Currently, a person loses $3 of age pension per fortnight for every $1,000 of assessable assets above the lower threshold. The Budget proposals reduce the rate of pension loss to $1.50 per fortnight for every $1,000 of assets above the lower threshold.

Other Changes to Asset Testing Rules

At present certain superannuation income streams (complying annuities and term allocated pensions) are eligible for an exemption of 50% of the assets used to buy the income stream. If $100,000 is used to buy the income stream only $50,000 then counts towards the assets test.

From 20 September 2007, the 50% assets test exemption will cease for new complying income streams. Current complying income streams will not be affected by the changes.

Importantly, complying income streams purchased between now and 19 September 2007 will remain eligible for the 50% assets test exemption. This combined with the relaxation of the upper assets test threshold will present a planning opportunity for some clients.

Opportunities for Clients

Opportunities will thus arise to include part age pension in the retirement income model for many retirees currently excluded by the assets test but eligible under the income test. Other retirees currently constrained by the assets test and receiving part age pension will be eligible to receive a higher level of age pension.

We will work with Continuing Care clients over the next fifteen months in the tuning of portfolios to take advantage of the changes. In the short term it makes sense to await the legislation.

Budget Brief
Federal Budget 2006

When a Government announces that it is simplifying the rules we know that things are likely to get more complex. So it is with Federal Budget 2006. The Budget includes changes to marginal tax rates and thresholds and radical changes to the taxation rules to apply to superannuation benefits in retirement. The following provides a snapshot of key changes.

Budget Summary

Major Superannuation Changes

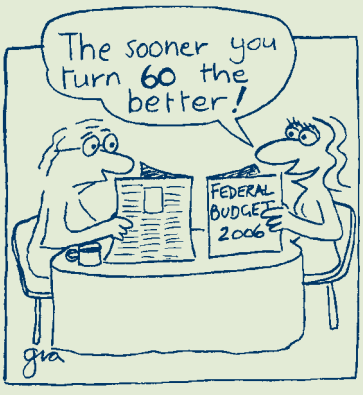
The Budget proposes major changes to Superannuation to take effect from 1 July 2007. The proposals likely to have the most radical long term effect on the Australian tax system are those relating to taxation of superannuation benefits for retirees from age 60.

In summary it is proposed to –

- Abolish tax on superannuation pensions and lump sums for people aged 60 and over and exempt superannuation income from taxable income.
- Abolish Reasonable Benefit Limits which limit the amount people can have in superannuation and still benefit from superannuation tax concessions.
- Alter the rules relating to tax exempt components and tax offset components for superannuation incomes between ages 55 and 60.
- Alter the tax rules for lump sums withdrawn from the superannuation world prior to age 60.
- Increase the flexibility for those wishing to make contributions to superannuation by way of tax deductible contributions or salary sacrifice.
- Increase the opportunities for people to make personal contributions to superannuation but limit the amount which can be contributed in a financial year.
- Permit retirees to leave capital in superannuation growth funds after age 65 without their having to commence a retirement income stream.
- Extend the availability of co-contribution to superannuation to self employed people.

The proposed changes are subject to community and industry consultation and legislation is not expected before the first half of 2007.

Those relating to exemption of superannuation from the tax system for retirees aged 60 and over along with the abolition of Reasonable Benefit Limits have the capacity to radically skew the tax system in Australia by creating a massive tax haven.



They also have the capacity to reduce tax on taxable income from non-superannuation sources such as employment income, interest, rental and dividend income. If the proposals are legislated in the form announced in the Budget then these sources of income will no longer sit on top of superannuation income (exempt) and the effective marginal tax rates and thus tax payable on other income will reduce accordingly.

We will await the legislation with interest but it is likely there will be some modification of the proposals.

New Tax Scales

The Budget reduces the tax payable on most incomes with the biggest cuts going to the highest income earners. For those who already have efficient retirement income structures involving little or no net tax there will be little or no net benefit.

The following table compares the old and the new scales.

2005/06 Rates		2006/07 – Rates from 1 July 2006	
Tax Rate	Income Range ($)	Tax Rate	Income Range ($)
Nil	0 – 6,000	Nil	0 – 6,000
15%	6,000 – 21,600	15%	6,000 – 25,000
30%	21,601 – 63,000	30%	25,001 – 75,000
42%	63,001 – 95,000	40%	75,001 – 150,000
47%	95,001 +	45%	150,001 +

In addition the Low Income Tax Offset is to be raised from $235 to $600, with the Offset phasing out across the income range $25,000 to $40,000. A person with taxable income of $10,000 p.a. will thus pay no tax. A person with a taxable income of $25,000 p.a. will pay $2,250 tax, a reduction of ~$1,100 relative to the 2005/6 rates.

Other tax changes increase Medicare Levy thresholds, adjust Fringe Benefit Tax rates and amend small business CGT concessions.

Social Security (Centrelink) Benefits

Multiple changes have been made in the areas of Age Pension Benefits, Family Tax Benefit rules, Aged Care Asset Testing Rules, Asset Exemptions for Land Surrounding Principal Residences (curtilage) and Asset Exemptions for Rural Properties. The article on Page 2 addresses the core changes to age pension rules.

Planning for and in Retirement

Needless to say the Budget will not simplify the options for those in retirement or those approaching retirement. The integration of existing rules with new rules and the transition from old rules to new will be complex. And a new planning period will be introduced for all – the period from age 60 to age 65.

Clients in retirement or approaching retirement will face the same set of issues as they always have – how to plan effectively to integrate tax rules, superannuation rules, social security/age pension rules and investment to efficiently meet retirement objectives over the short, medium and longer terms. The need for appropriate planning has never been greater. It remains central to improving income and capital flexibility in retirement.

Offcuts

Topical Bits and Pieces

No Point in Deferring Retirement

Two common questions:

Q1. Given the Budget announcements would I be better to defer my retirement until after 1 July 2007?

There is no point in deferring a planned retirement until after 1 July 2007.

It will have no impact on the tax arrangements which members can access over time. Members retiring and utilising the superannuation environment to generate income and growth on their assets pay no tax on lump sums at the point of retirement.

The proposed tax rules for superannuation lump sums and superannuation pension payments for ages 55 to 60 vary little from those in operation now in terms of the net levels of tax to be paid.

For those members of the Victorian Public Sector intending to access the benefits of 54.11 resignation before July 2007 deferring resignation could be significantly detrimental.

Q2: Given the Budget announcements about superannuation income and superannuation withdrawals being tax exempt from age 60 should I defer retirement to age 60?

Again there is no point in deferring retirement to age 60. Benefits arising from retirement earlier than age 60 and retained in the superannuation environment will be exempt from tax from age 60.

Age 55 remains a critical age. Provided an efficient strategy is used little or no tax is payable on most retirement incomes and lump sum withdrawals from superannuation from age 55. And no tax is payable on superannuation capital rolled over in the superannuation environment. If you are thinking of retiring come in and get the appropriate planning done.

Retirement Victoria Website

The RV Website has been developed and will be in operation from August 2006.

It is not intended as a site to market RV Services to the wider community but as a reference point and an information resource for existing clients and for prospective clients.

The web address will be www.retirevic.com.au

Adviser Snapshot

Edward Paterson – RV Looks Ahead

We often make the point that our capacity to provide quality advice and service over the long term is fundamental to us. RV Advisers must fit comfortably into our culture and service model while having the technical skills and understanding of clients needs in the special areas in which we work.

We knew Ed Paterson four years ago when he was working elsewhere in the financial services industry and had identified him as a person with the personal qualities and technical abilities to fit nicely into our operation. When the opportunity arose to recruit him a little over two years ago we jumped at the chance.

Ed is part of the incoming generation of RV Advisers who will be able to provide long term continuity of service for clients retiring now and in the years ahead.

He has a Bachelor of Economics degree, a Graduate Diploma in Applied Finance & Investment and a Foundation Diploma of Financial Planning.

Ed spent several years in Brisbane in the 1990's where his wife Marnie was completing a degree in medicine. During that time he worked as a business analyst and in customer service management. They returned to Melbourne in 2001 enabling Ed to establish his career as a financial adviser.

Those who know Ed will attest to his unwavering capacity to be cheerful, helpful, friendly and to work hard and effectively. Ed is also a very tall man and played for several years as a ruckman in the high standard Eastern Districts F. L. He had the wisdom to retire early, before the inevitable injuries from ruck collisions could impact on his long term welfare.

Ed has quickly been recognised as an excellent Adviser with a fine understanding of public sector superannuation and retirement issues and a strong commitment to his clients.

Away from work Ed particularly enjoys time with family and friends. He comes from a large and close family. Ed and Marnie have one son, Lachlan and are expecting their second child later this year.

About RV Client NEWS

RV Client News is written and published by Retirement Victoria as a service to clients.

Retirement Victoria are specialists in public sector retirement strategy and are the Australian Education Union's preferred provider of financial and retirement planning services to members.

The information in *RV Client News* is of a general and summary nature only and is neither represented as, nor intended to be, personal advice on any matter. No person should act on the basis of the information contained herein but should seek appropriate professional advice based upon their own personal circumstances.

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