RVNEWS

Retirement Victoria

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# Federal Budget 2015/2016

It is often the case that we see relatively unpopular measures announced prior to the Budget. This year it was the reforms to the age pension assets test, which effectively lowers the cap at which the age pension cuts out. A popular announcement made on Budget night was the cut in the company tax rate for small business entities. We also had the announcement of no new taxes on superannuation. Keeping in mind that these proposals are yet to be passed by parliament, some of the relevant announcements are outlined below.

## Centrelink

The budget included a proposal to change the Centrelink pension assets test. At the time of writing, the following Budget measure has passed both houses of Parliament:

- To increase the lower assets test threshold below which the full age pension is payable
- To increase the taper rate at which the age pension reduces from $1.50 per fortnight to $3 per fortnight for every $1,000 of assessable assets over the lower threshold.

This change reverses the Howard Government's 2007 changes to the assets test. The table below sets out the current and proposed asset test thresholds.

The Government estimates that approximately 12% of pensioners will lose entitlement to the pension as a result of the changes. Those who lose the age pension will be issued with a Commonwealth Seniors Health Card.

| | Lower Threshold | | Upper Threshold (cut-off limit) | |
|---|---|---|---|---|
| | Current | Proposed | Current | Proposed |
| Single Homeowner | $202,000 | $250,000 | $755,500 | $547,000 |
| Single Non-Homeowner | $348,500 | $450,000 | $922,000 | $747,000 |
| Homeowner Couple | $286,500 | $375,000 | $1,151,500 | $823,000 |
| Non-Homeowner Couple | $433,000 | $575,000 | $1,298,000 | $1,023,000 |

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# 10 Year Achievement – Emma Delahey and Joan Zivchak

We have recently recognised 10 years of loyal service to RV clients from two of our staff in their roles as Personal Assistant/Customer Service Officer. In a world of constant change and staff turnover, it is a great credit to Emma and Joan to have reached the 10-year milestone. They both share a care and commitment to our clients and provide a high level of support for our Advisers. At a special function last month they were presented with certificates to mark the occasion, flowers and a thank you gift from RV CEO Hugh Dickson.

In Joan's role, it has been her attention to detail that has been obvious to management and her colleagues. Joan has always been the sort of employee who happily seeks out how she can be of most help to the business.

Throughout her time at RV, Emma has always provided management with ideas and suggestions. She is continually analysing and thinking about how processes and workflows can be improved.

For both Emma and Joan, the most important achievement is their close connection with our clients, where they personally handle many types of requests for assistance in a prompt and efficient manner.

Congratulations to Joan and Emma and a sincere thanks for your 10 years of quality service.

# Federal Budget 2015/2016 (continued)

The following tables compare the amount of age pension received under current and proposed asset test arrangements.

## Single Homeowner

| Assessable Assets | Annual Age Pension | | Difference |
|---|---|---|---|
| | Current | From 1 January 2017 | |
| $100,000 | $23,166 | $23,166 | $0 |
| $200,000 | $23,166 | $23,166 | $0 |
| $250,000 | $21,626 | $23,166 | $1,540 inc |
| $289,500 | $20,085 | $20,085 | $0 |
| $300,000 | $19,676 | $19,266 | $410 dec |
| $400,000 | $15,776 | $11,466 | $4,310 dec |
| $500,000 | $11,876 | $3,666 | $8,210 dec |
| $600,000 | $7,976 | $0 | $7,976 dec |
| $700,000 | $4,076 | $0 | $4,076 dec |
| $800,000 | $0 | $0 | $0 |

## Couple Homeowners

| Assessable Assets | Annual Age Pension | | Difference |
|---|---|---|---|
| | Current | From 1 January 2017 | |
| $100,000 | $34,923 | $34,923 | $0 |
| $200,000 | $34,923 | $34,923 | $0 |
| $300,000 | $34,865 | $34,923 | $59 inc |
| $400,000 | $30,965 | $32,973 | $2,009 inc |
| $451,500 | $28,956 | $28,956 | $0 |
| $500,000 | $27,065 | $25,173 | $1,892 dec |
| $600,000 | $23,165 | $17,373 | $5,792 dec |
| $700,000 | $19,265 | $9,573 | $9,692 dec |
| $800,000 | $15,365 | $1,773 | $13,952 dec |
| $823,000 | $14,467 | $0 | $14,467 dec |
| $900,000 | $11,465 | $0 | $11,465 dec |
| $1,000,000 | $7,565 | $0 | $7,565 dec |
| $1,100,000 | $3,655 | $0 | $3,665 dec |
| $1,200,000 | $0 | $0 | $0 |

The proposal from last year's Budget to index pensions to inflation only is to be axed. This means pensions will continue to be indexed to the higher of inflation, wage growth and the pensioner and beneficiary living cost index. In addition, the proposal from last year to reduce the deeming thresholds will not proceed. There has been a lot of media attention around the family home being included in the asset test assessment. The Treasurer Joe Hockey has reassured retirees that the family home will always be excluded from the assets test under a Coalition government.

## Superannuation

ESSSuper pensions have no assessment under the Centrelink assets test but are assessable under the income test. Typically, a component of the ESSSuper pension referred to as the deductible amount is not assessable for Centrelink purposes, which can result in a significant amount of income being disregarded for the income test. From 1 January 2016, the level of income from defined benefit schemes such as ESSSuper that can be excluded from the pension income test is to be capped at 10%. The majority of RV clients who are in receipt of an ESSSuper pension would have an exempt component greater than 10% of the pension.

From 1 July 2015, the conditions under which an individual suffering from a terminal medical condition can access their superannuation will be amended. Currently, an individual cannot access their superannuation until they have reached preservation age except for certain circumstances. In the case of a terminal illness, they are required to obtain certification from two medical practitioners stating they are likely to have less than 12 months to live. This time period is proposed to be extended to 24 months.

## Taxation

There were no changes to personal marginal tax rates in this year's Budget and small increases in the Medicare levy threshold to help low income taxpayers avoid paying the Medicare Levy. For single seniors and pensioners, the threshold will increase slightly to $33,044, up from $32,279.

Employees of public benevolent institutions, health promotion charities, public and not-for-profit hospitals and public ambulance services are currently able to salary sacrifice meal entertainment benefits without being subject to fringe benefits tax and without the benefits being reportable. From 1 April 2016, a grossed-up cap of $5,000 will apply for salary sacrificed meal entertainment benefits for employees of those institutions.

## Business Taxation

Small businesses will be able to claim an immediate deduction on assets that cost less than $20,000 that they start to use or install ready for use between Budget night and 30 June 2017. The current threshold is $1,000. Generally, a business is classed as a small business where annual aggregate turnover is less than $2 million.

It is proposed that a tax cut of 1.5% will apply to small business entities from the 2015/16 financial year which would bring the company tax rate down to 28.5%. The current maximum franking credit rate of 30% will remain unchanged for all companies.

## Aged Care

Aged care residents who are renting out their former home and who pay their accommodation costs by periodic payments can receive an exemption for rental income under the aged care means test. For residents entering aged care from 1 January 2016, it is proposed that the rental income exemption will be removed. This will not affect the means test for Centrelink payments. ❍

### SEMINAR PROGRAM 2015

Held at the AEU Office, 112 Trenerry Crescent, Abbotsford

*Saturday 15 August
*Tuesday 22 September (Hols)
*Saturday 7 November

Bookings via the portal on the AEU website: www.aeuvic.asn.au/retirevic

# Australian Home Prices and Interest Rates

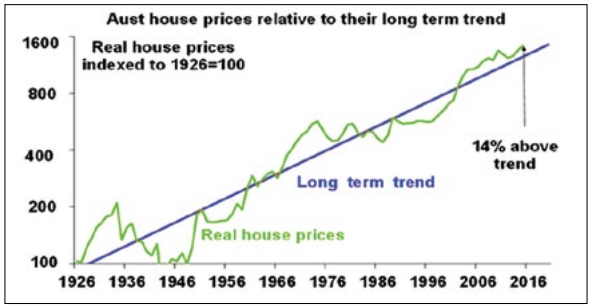
The Reserve Bank of Australia (RBA) interest rate decision in May to further cut rates, has seen the current cash rate fall to 2.0%. There has been a clear need for interest rate cuts, given falling commodity prices, the Australian dollar remaining relatively high and the outlook for business investment deteriorating.

The main opposition to further rate cuts has been that the housing market is too hot and further rate cuts will only push home prices higher. While it's generally agreed Australian property prices are high, the reasons for it are subject to much debate. Although much discussion has circulated about the impact of negative gearing, foreign buyer interest and Self Managed Super Fund investment pushing up house prices, the fall in interest rates since the early 1990s has clearly had a significant impact. With high house prices when compared to rents and income combined with relatively high household debt, Australia is vulnerable should something threaten the ability of households to service their mortgages, such as rising unemployment.

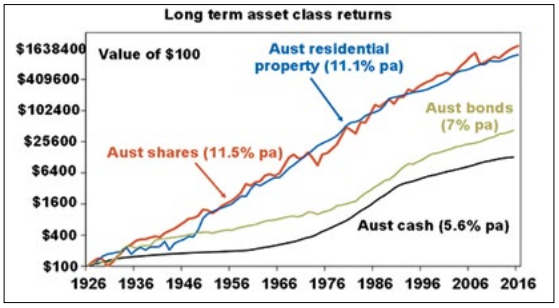
Interestingly enough over the very long term, residential property adjusted for costs has provided a similar return for investors as Australian Shares. Since the 1920s housing has returned 11.1% pa compared to 11.5% pa for shares.

In the short term, low interest rates point to further gains in home prices. In the longer term, however, housing is expensive and offers very low rental yields compared to most other assets. The gross rental yield on housing is around 2.9% pa (after costs around 1%), compared to yields of 5.7% pa for Australian shares (with franking credits). This means that the income generated from housing is very low compared to shares, so a housing investor is more dependent on capital growth to generate a decent return. For an investor, shares are likely to represent better value.

As for the direction of interest rates, expect a further rate cut later this year!




Source: ABS, AMP Capital




Source: ABS, REIA, Global Financial Data, AMP Capital Investors.

# Grandfathering of Account-Based Pensions

Prior to 1 January 2015, account-based pensions received favourable treatment under the Centrelink income test. Depending on the level of pension received, little if any income is assessable for Centrelink purposes.

The deeming rules that apply to financial investments now apply to:

- Account based pensions with a commencement date of 1 January 2015 or later, or
- Account-based pensions commenced prior to 1 January 2015 where the individual was not receiving a Centrelink income support payment such as an Age Pension at 1 January 2015.

The deeming rules assume financial investments are earning a certain amount of income at the deeming rate, regardless of the income they actually earn.

As a result, we now have two categories of account-based pensions: those that are grandfathered whereby favourable income test assessment continues; and those that are subject to deeming.

If the grandfathered status is lost, then the account-based pension will become subject to deeming. Once lost, the grandfathering status cannot be reinstated.

There are two major reasons why grandfathering will be lost. Firstly, due to the loss of a Centrelink income support payment. This would come about if assessable income or assets exceed the relevant cut-off threshold. There are many reasons why this could happen, such as:

- The receipt of a lump sum inheritance or where downsizing the family home results in an additional lump sum which increases assessable assets above the upper threshold
- Undertaking employment could result in the upper income test threshold being exceeded
- Temporarily vacating the family home, such as going on an extended holiday, could lead to a change in homeowner status after a 12-month period. This would mean the family home becomes assessable under the assets test.

Secondly, grandfathered status will be lost if the account-based pension is rolled over to another pension provider or if it is rolled back to the accumulation phase.

Loss of grandfathering status could lead to a reduction or loss of a Centrelink income support payment. There will be circumstances where the loss of grandfathering is unavoidable. However, care must be taken to ensure that grandfathering status is not inadvertently lost and it is important that you speak to your adviser about potential changes to your situation.

There are situations where deeming can be preferable to grandfathering, such as where a large pension is drawn, although future increases in the deeming rate could change this. Where grandfathering is lost, an alternative to an account-based pension that is worth considering is purchasing a long-term annuity. Last summer's edition of *RV Client News* included an article on annuities and, in particular, their use for Centrelink efficiency.

# SMALL CHANGE

## Concessional Contributions to Superannuation

As discussed in our Budget Brief, there were no major proposed changes to superannuation. Employer and salary sacrifice contributions are limited to a 'concessional contributions' cap, which from 1 July is still:

- $35,000 per financial year for those age 49 or over on the June 30
- $30,000 per financial year for those under age 49 on June 30.

Care needs to be taken to ensure contributions stay below the relevant cap and to be aware of possible increases in employer contributions for example through salary increases – consult with your Adviser if you are unsure.

## Age Pension Age

Last year's Federal Budget proposed an increase in the pension age from 67 to 70. This proposal has yet to be legislated and men and women are currently eligible at age 65. For both men and women born on or after 1 July 1952, age pension age is as follows.

| People Born Between | Eligible for Age Pension at Age |
|---|---|
| 1 July 1952 and 31 December 1953 | 65.5 |
| 1 January 1954 and 30 June 1955 | 66 |
| 1 July 1955 and 31 December 1956 | 66.5 |
| 1 January 1957 and later | 67 |

## Deeming Rates

To determine assessment under the income test for financial investments, such as account-based pensions not subject to grandfathering, listed shares and bank deposits, Centrelink apply a deeming rate. The Federal Budget proposal from last year to reduce deeming thresholds will not proceed. The current deeming thresholds are:

| Status | Deeming Threshold | Rate Below Threshold | Rate Above Threshold |
|---|---|---|---|
| Single | $48,000 | 1.75% | 3.25% |
| Couple | $79,600 | 1.75% | 3.25% |

## Tax Time

As many of our clients already know, we refer enquires about taxation and accounting issues to Dean Matchett.

Dean is the Tax Principal of Matchett Partners Pty Ltd, which is a Taxation and Business Services accounting firm that provides a broad range of tax advice, accounting and compliance services. He is also an author of tax technical publications and is a regular speaker on tax matters at various professional body seminars and conferences.

Dean's services for RV clients include financial accounts and income tax returns; preparation and lodgement of ATO private ruling requests; set up of businesses and investment structures. He is directly available to all clients on **03 9809 4469** or by email at matchett@netspace.net.au. ❍

## Appointments

**To arrange an appointment with a RV adviser, phone (03) 9820 8088.**

# Harnessing the River Murray: Stories of the people who built Locks 1 to 9, 1915–1935 by Helen Stagg.

Helen is the grand-daughter of one of the hundreds of men who worked on the mammoth engineering scheme to control the waters of the Murray River with a series of locks and weirs. This scheme was part of the River Murray Waters Agreement, 7 April 1914.

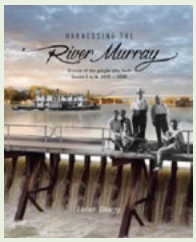
It was said by the Federal Liberal Opposition Leader Joseph Cook to be perhaps 'the biggest scheme of development yet projected in Australia'.

As a child, Helen was told stories by her mother of her own childhood at the lock construction sites and Helen's dream has been to further explore the stories of the workmen and their families. Over the past five years, Helen has undertaken extensive archival research and captured the oral history of some of the few remaining 'lock children' for her book *Harnessing the River Murray: Stories of the people who built Locks 1 to 9, 1915–1935,* which was released in June 2015.

The book's focus is on the first nine locks and weirs, which were built by South Australia and tells the story from the viewpoint of the ordinary people, the workers and the women and children who lived with them in the camps which popped up along the river at each construction site.

2015 marks exactly 100 years since the foundation stone was laid for the first Lock at Blanchetown in South Australia. At 11am on June 5 2015 at Lock 1 Blanchetown, there was a commemoration of the day's events from a century ago. Just as in 1915, the PS Marion conveyed dignitaries to the site and a re-enactment of the stone laying took place before the official launch of Helen Stagg's book.

Helen's book, with a foreword by Professor Geoffrey Blainey, has 258 pages and over 150 photographs. Information about the launch or purchase of the book can be made via Helen's webpage 'Contact Me' tab at historybyhelen.com.au.




Helen is an RV client of adviser Ed Paterson and has kindly provided us with three signed copies of her book to present to the first three clients who call our reception and ask for it. ❍