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The Budget 2016/17

The Federal Treasurer, Scott Morrison handed down his 1st budget for 2016/2017. The Budget sets out the government's economic plan for Australia's transition from its reliance on the declining mining boom to a new economy that is stronger and more diversified. It plans to do this by introducing a 10 year tax plan, fixing the current taxation system, by controlling spending and ensuring the government lives within its means.

Please find below the main highlights of the changes.

Superannuation

Superannuation is 'to provide income in retirement to supplement the Age Pension' and this will look to be enshrined in legislation. The new measures are intended to support this objective.

Below is a detailed summary of the superannuation changes. Please refer to the Appendix for a simple explanation.

Div 293 income tax threshold reduced

The point at which individuals pay additional 15% contributions tax (total of 30%) will be lowered from $300,000 from $250,000 from 1 July 2017. The annual cap on concessional contributions will also be reduced from $30,000 for under age 50 and $35,000 for ages 50 and above, to $25,000.

The government will also introduce 'notional' (estimated) and actual contributions for members of unfunded defined benefit schemes and constitutionally protected funds. Members of these funds will now be able to salary sacrifice just like members of accumulation funds. For individuals who were members of a funded defined benefit scheme as at 12 May 2009, the existing grandfathering arrangements will continue.

Superannuation income streams earnings exemptions removed

The tax exemption of assets in 'transition to retirement' income streams (will be removed from 1 July 2017), ie pensions of persons of retirement age but not retired individuals. The rule that allows some superannuation pension payments as lump sums will also be removed. This will ensure that the strategy still remains fit for purpose and not focussed on the tax advantage so that they remain in the workforce.

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Lifetime cap for non-concessional superannuation contributions

A lifetime non-concessional cap will replace the existing annual caps of $180,000 each year or $540,000 every 3 years for individuals under 65. The new lifetime non concessional cap will apply from 7:30 (AEST) on 3 May 2016 and will be an amount of $500,000. It will take into account all non-concessional contributions made on or after 1 July 2017 (from the time the ATO has record of it). Excess contributions will need to be removed or they will be subject to a penalty tax. Non concessional contributions made before this date cannot result in an excess amount.

After-tax contributions made into defined benefit funds and constitutional protected funds will be counted towards their lifetime non concessional caps. If a member exceeds their lifetime cap, ongoing contributions to the defined benefits account can continue but the member have to ensure they are removed on an annual basis. An equivalent amount (including proxy earnings) from any accumulation account they hold.

The amount that could be removed from any accumulation accounts will be limited to the amount of non-concessional contributions made into those accounts since 1 July 2007. Contributions made to a defined benefits account will not be required to be removed.

The measure which will be available to all Australians up to age 74 will provide support for the majority of Australians who make non-concessional contributions well below $500,000 and flexibility around when they choose to contribute to their superannuation.

Does this sound confusing? We understand. Please contact us if you would like to discuss how this affects you.

Contribution rules for people 65 -74

The current minimum work requirements for Australians aged 65 to 74 who want to make voluntary superannuation contributions will be removed from 1 July 2017. Individuals under 75 will no longer have to satisfy a work test and will be able to make voluntary contributions and receive contributions from their spouse. The measure will allow people aged 65 to 74 to increase their retirement savings, especially from sources that may not have been available to them before retirement, including from downsizing their home.

Catch-up concessional superannuation contributions

From 1 July 2017, individuals with a superannuation balance less than $500,000 will be allowed to make additional concessional contributions where they have not reached their concessional contributions cap in previous years. Unused amounts are carried forward on a rolling basis for five consecutive years only if accrued from 1 July 2017.

Tax deductions for personal contributions

Individuals up to age 75 will be able to claim an income tax deduction for personal superannuation contributions from 1 July 2017. This will apply regardless of employment status (i.e., wholly employed, self-employed or a partially employed/self-employed. However, individuals that are members of certain prescribed funds would not be entitled to deduct contributions to those schemes. Prescribed funds will include all untaxed funds, all commonwealth defined benefits schemes, and any state, territory or corporate defined benefits schemes that choose to be prescribed.

Low Income Superannuation Tax Offset

A Low Income Superannuation Tax Offset (LISTO) will apply to reduce tax on superannuation contributions for low-income earners from 1 July 2017. This offset will be a non-refundable tax offset to superannuation funds, based on the tax paid on concessional contributions made on behalf of low income earners. The offset is capped at $500 and will apply to members with adjusted taxable income up to $37,000. The measure will effectively avoid the situation in which low income earners would pay more tax on savings placed into superannuation than on income earned outside of superannuation.

Low income spouse tax offset threshold increased

The Government will increase access to the low-income spouse tax offset from 1 July 2017 – which provides up to $540 per annum for the contributing spouse – will apply where the low-income spouse's income is up to $37,000 (increased from the current $10,800).

1.6 million superannuation transfer balance cap

A balance cap of $1.6m on the total amount of accumulated superannuation an individual can transfer into the tax-free retirement phase will be introduced from 1 July 2017. Subsequent earnings on these balances will not be restricted. This will limit the extent to which the tax-free benefits of retirement phase accounts can be used by high wealth individuals. A tax will apply to the extent amounts transferred exceed the $1.6 million cap (including earnings on these excess transferred amounts) and may be converted to superannuation accumulation phase accounts. Changes to tax arrangements for pension amounts over $100,000, from defined benefit schemes from 1 July 2017 will ensure similar treatment for those schemes.

Anti-detriment death benefit provision removed

The anti-detriment payment (which, broadly speaking, compensates certain beneficiaries of superannuation benefits paid because of the death of a member, for the effect of tax on contributions) will be abolished from 1 July 2017.

Personal Income Tax

Personal tax rates for 2016-17

The threshold of the 37% marginal tax rate for individuals will increase from $80,000 to $87,000 from 1 July 2016. This measure reduces the marginal income tax rate on incomes between $80,000 and $87,000 from 37% to 32.5%.

Taxable income	Tax on this income
0 – $18,200	**Nil**
$18,201 – $37,000	**19c for each $1 over $18,200**
$37,001 - $87,000	**$3,572 plus 32.5c for each $1 over $37,000**
$87,001 - $180,000	**$19,822 plus 37c for each $1 over $87,000**
$180,001 and over	**$54,232 plus 45c for each $1 over $180,000**

Medicare Levy low-income threshold for families

For the 2015-16 income year, the Medicare low-income threshold for singles will be increased to $21,335 (up from $20,896). For couples with no children, the threshold will be increased to $36,001 (up from $35,261) and the additional amount for each dependent child or student will be increased to $3,306 (up from $3,238).

For single seniors and pensioners, the threshold will be increased to $33,378 (up from $33,044). For senior and pensioners couples with no children, the threshold will be increased to $46,966 (up from $46,000) and the additional amount for each dependent child or student will be increased to $3,306.

Medicare Levy low-income threshold for families

The indexation of the income thresholds for the Medicare Levy Surcharge and Private Health Insurance Rebate will continue to be paused for a further three years from 1 July 2018

Small Business

Small business entity turnover threshold

(From 1 July 2016), the small business entity turnover threshold will be increased from $2 million to $10 million. However, the increased $10 million threshold will not be applicable for accessing the small business capital gains tax concessions. These concessions will only be available for small businesses earning less than $2 million, and to the unincorporated small business tax discount will be limited to entities with turnover less than $5 million.

Unincorporated small business tax discount

The tax discount for unincorporated small business entity will increase in phases over 10 years from 5% to 16%. The tax discount will increase to 8% on 1 July 2016, remain constant at 8% for eight years, then will increase to 10% in 2024-25, 13% in 2025-26 and reach a new permanent discount of 16% in 2026-27.

Company tax rate

The company tax rate will reduce to 25% over 10 years. From 2016-17 income year, the tax rate for business will an annual aggregated turnover of less than $10 million will be 27.5%. The threshold will then be progressively increased such that all companies are taxed at 27.5% in the 2023-24 income year.

Social Security and Family Payments

Work for the Dole

From 1 October 2016, the most job ready seekers will enter the Work for the Dole phase after 12 months participating in job active, rather than the current six months.

Jobs for Families Package

Child Care Subsidy, Additional Child Care Subsidy and Community Child Care Fund will now apply 1 July 2018, (rather than the previously announced 1 July 2017). Child care fee assistance will continue to be provided under the Child Care Benefit, Child Care Rebate, Jobs, Education and Training Child Care Fee Assistance, Community Support Program and Budget Based Funded Program until 30 June 2018.

The Interim Home Based Carer Subsidy Pilot Programme (Nanny Pilot Programme), which commenced on 1 January 2016 and subsidises care provided by a nanny in a child's home, will also be extended for six months to 30 June 2018. The hourly fee cap will be increased from $7 to $10 from 1 June 2016. The cost of this increase will be met from within the existing resources allocated to the programme.

Aged Care

My Aged Care – Consumer access

The Government will provide $136.6 million over four years from 2016-17 to support the operation of the My Aged Care contact centre. The funding will assist the contact centre to meet the significant increase in demand for assistance from customers interacting with the aged care system.

More information

If you would like to discuss with us further how this budget may impact you specifically, please contact our office as noted below.

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Appendix A

Superannuation Reforms At a Glance

	BEFORE			AFTER		
	TAX	LIMIT	OTHER	TAX	LIMIT	OTHER
CONCESSIONAL (BEFORE-TAX) CONTRIBUTIONS Include: • compulsory Super Guarantee contributions; • voluntary salary sacrificed contributions; and • voluntary personal contributions where a tax deduction is claimed.	15% 30% if income and super >$300K refund tax if income <$37,000 **Low Income Super Contribution**	$30,000 p.a ($35,000 for people 50 and over)	Only the self-employed whose salary wage is less than 10% of their income can make deductible contributions. People over 65 cannot make voluntary contributions if not working.	15% 30% if income and super >$250K refund tax if income <$37,000 Low Income Super Tax Offset	$25,000 p.a for everyone and allowing catch-up contributions of unused caps over 5 years for people with balances $500,000 or less.	Everyone is able to claim a tax deduction for super contributions to eligible super accounts up to the cap. People aged between 65-74 can continue to contribute without meeting the work test.
NON-CONCESSIONAL (AFTER-TAX) CONTRIBUTIONS Include: • contributions from take home pay; • inheritances; • spouse contributions; • proceeds from sales of assets; and • contributions above the concession limit.	After-tax income no tax in fund	$180,000 p.a 3 yr bring forward for people under 65.	$1.4 million additional CGT cap for eligible small business owners. Tax offset for spouse contributions only where recipient income is less than $10,800	After-tax income no tax in fund	$500,000 lifetime cap for everyone.	$1.4 million additional CGT cap for eligible small business owners. Tax offset for spouse contributions where spouse income is less than $37,000
EARNINGS TAX IN THE ACCUMULATION ACCOUNTS	15% (10% on capital gains)			15% (10% on capital gains)		
EARNINGS TAX IN RETIREMENT ACCOUNTS	TAX FREE	no limit No limit on the size of retirement phase accounts	People who have reached preservation age but are under 65 and not retired can access a transitional super income stream (TRIS) with tax free earnings. Only income streams that pay a regular income are eligible for the earnings tax exemption.	TAX FREE	$1.6m transfer balance limit Excess balances can be held in an accumulation account.	People who have reached preservation age but are under 65 and not retired can still access a transitional super income stream (TRIS) but earnings on the amount supporting it will be taxed at 15%. Innovative new retirement income stream products will become eligible for the earnings tax exemption.
BENEFITS	TAX FREE	Minimum draw down requirements for retirement account based pensions.	People can elect to treat certain income streams (including TRIS) as lump sum payments to reduce their tax liability.	TAX FREE	Minimum draw down requirements for retirement account based pensions.	People will no longer be able to treat super income streams (including TRIS) as lump sum payments to reduce their tax.