

BUDGET WRAP

2016



FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

Overview

Tonight, the Treasurer handed down his first Federal Budget. As expected, superannuation tax concessions have been heavily tightened, with existing limits reduced and new caps introduced.

In particular, there will be a:

- \$1.6 million superannuation transfer balance cap, limiting the amount that can be transferred to retirement phase
- lowering of the concessional contributions cap to \$25,000
- limiting of the non-concessional contributions through a lifetime cap for non-concessional contributions of \$500,000
- the tax exemption for earnings on assets supporting 'transition to retirement' income streams will be removed, and the anti-detriment payment will be abolished; and
- a reduction in the threshold from which an extra 15% tax applies on contribution to super, from \$300,000 to \$250,000.

On the other hand, there are measures to help low-income earners and those with low superannuation balances. For example, a Low Income Superannuation Tax Offset (LISTO) will be introduced to reduce the effective tax rates on concessional contributions to super for individuals with incomes under \$37,000. And individuals with superannuation balances under \$500,000 will be able to rollover their unused concessional contributions cap from previous years.

An unexpected change is that individuals will be able to claim a deduction for personal contributions to superannuation, regardless of their employment status. Currently, the deduction is limited to the unemployed, self-employed or 'substantially self-employed'.

On the personal tax front, as expected, the \$80,000 threshold will be raised to \$87,000.

There were also big changes for small and medium business, with the thresholds to access certain concessions raised substantially.

Beyond just small and medium businesses, all companies will eventually face a reduced company tax rate, with the rate gliding down to 25% over ten years.

Personal Income Tax

The tax rates for 2016-17

| 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 2015-16 income year, the Medicare low-income threshold for singles will be increased to \$21,335. For couples with no children, the threshold will be increased to \$36,001 and the additional amount of threshold for each dependent child or student will be increased to \$3,306.

For single seniors and pensioners, the threshold will be increased to \$33,738. For senior and pensioner couples with no children, the threshold will be increased to \$46,966 and the additional amount of threshold for each dependent child or student will be increased to \$3,306.

Medicare Levy Surcharge and Private Health Insurance Rebate Thresholds

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 current \$2.0 million turnover threshold will be retained for access to the small business capital gains tax concessions, and access to the unincorporated small business tax discount will be limited to entities with turnover less than \$5.0 million.

Unincorporated small business tax discount

The tax discount for unincorporated small businesses will increase incrementally over 10 years from 5 per cent to 16 per cent. The tax discount will increase to 8 per cent on 1 July 2016, remain constant at 8 per cent for eight years, then increase to 10 per cent in 2024-25, 13 per cent in 2025-26 and reach a new permanent discount of 16 per cent 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 businesses with an annual aggregated turnover of less than \$10 million will be 27.5 per cent. The threshold will then be progressively increased such that all companies are taxed at 27.5 per cent in the 2023-24 income year.

The annual aggregated turnover thresholds for companies facing a tax rate of 27.5 per cent will be:

- \$25.0 million in the 2017-18 income year;
- \$50.0 million in the 2018-19 income year;
- \$100.0 million in the 2019-20 income year;
- \$250.0 million in the 2020-21 income year;
- \$500.0 million in the 2021-22 income year; and
- \$1 billion in the 2022-23 income year.

In the 2024-25 income year the company tax rate will be reduced to 27 per cent. Each income year, it will be reduced by a further 1 percentage point until it reaches 25 per cent in 2026-27 income year.

Franking credits will be able to be distributed in line with the rate of tax paid by the company making the distribution.

Superannuation

For the first time, the objective of superannuation, which is ‘to provide income in retirement to substitute or supplement the Age Pension’ - will be enshrined in legislation. Measures to be introduced to support this objective and to ensure superannuation tax arrangements are fiscally sustainable include:

- limiting the total amount of superannuation that an individual can transfer into retirement phase accounts, through a **superannuation transfer balance cap of \$1.6 million**. This measure does not limit the amount an individual can accumulate in superannuation.
- removing the tax exemption for earnings on assets supporting **‘transition to retirement’ income streams** will be removed.
- requiring those with combined incomes and superannuation contributions **greater than \$250,000 to pay 30 per cent tax on their concessional contributions**, up from 15 per cent. This change involves reducing the threshold from its current level of \$300,000.
- lowering the **superannuation concessional contributions cap to \$25,000** per annum.
- limiting non-concessional contributions through a lifetime cap for non-concessional contributions of \$500,000.

The treatment for defined benefit arrangements will be broadly commensurate.

The Government will also introduce the **Low Income Superannuation Tax Offset** to replace the Low Income Superannuation Contribution when it expires on 30 June 2017. This will allow individuals with an adjusted taxable income of \$37,000 or less to receive an effective refund of the tax paid on their concessional contributions, up to a cap of \$500.

Please refer to Appendix A for a one page summary fact sheet on the superannuation changes

\$1.6 million superannuation transfer balance cap

The cap will apply from 1 July 2017. Subsequent earnings on balances transferred to retirement phase will not be counted towards the cap.

A tax will apply to the extent amounts transferred exceed the \$1.6 million cap (including earnings on these excess transferred amounts).

Changes to tax arrangements for pension amounts over \$100,000, from defined benefit schemes from 1 July 2017 will achieve commensurate treatment for those schemes.

Taxation of concessional superannuation contributions

Currently those who earn over \$300,000 (taxable income plus superannuation contribution) are required to pay an additional 15% contribution tax on their concessional super contributions (i.e. total of 30% contribution tax). From 1 July 2017, this threshold will reduce to \$250,000.

The lower threshold will also apply to members of defined benefit schemes and constitutionally protected funds currently covered by the tax. Existing exemptions (such as State higher level office holders and Commonwealth judges) will stay.

The Government will also reduce the annual cap on concessional superannuation contributions to \$25,000 (currently \$30,000 under age 50; \$35,000 for ages 50 and over).

From 1 July 2017, the Government will include notional (estimated) and actual employer contributions in the concessional contributions cap for members of unfunded defined benefit schemes and constitutionally protected funds. For individuals who were members of a funded defined benefit scheme as at 12 May 2009, the existing grandfathering arrangements will continue.

Lifetime cap for non-concessional superannuation contributions

From 7:30 pm (AEST) on 3 May 2016, a \$500,000 lifetime non-concessional contributions cap (indexed to ordinary times earnings) will apply. Excess contributions will need to be removed or will be subject to penalty tax. 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.

All non-concessional contributions made from 1 July 2007 will be counted towards the lifetime cap. However, contributions made before this measure cannot, by themselves, result in an excess amount.

The lifetime cap will replace the annual caps (and 'bring forward' arrangements), which currently apply. The new cap will allow Australians up to age 74 to make non-concessional contributions.

Different arrangements will apply for defined benefit funds. After-tax contributions to these funds are counted towards the lifetime cap. However, excess contributions don't have to be removed (and further excess contributions can be made). Instead, the member will be required to remove, on an annual basis, an equivalent amount (including proxy earnings) from any accumulation accounts they hold.

Superannuation income streams

From 1 July 2017, the tax exemption for earnings on assets supporting 'transition to retirement' income streams will be removed. These are income streams where the member has reached preservation age but not yet retired.

In addition, the rule allowing individuals to treat certain superannuation income stream payments as lump sums for tax purposes, will be abolished.

The Government has also confirmed that they will remove tax barriers to the development of new retirement income products by extending the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self-annuitisation products.

These products can provide more flexibility and choice for Australian retirees, and help them to better manage consumption and risk in retirement.

This change was recommended by the Retirement Income Streams Review. The Government has released the Review and agreed all its recommendations. The announcement also states that they will consult on how the new retirement income products will be treated under the Age Pension means test.

Low Income Superannuation Tax Offset (LISTO)

From 1 July 2017, a Low Income Superannuation Tax Offset (LISTO) will apply to reduce tax on superannuation contributions for low-income earners. The LISTO is 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.

Catch-up concessional superannuation contributions

From 1 July 2017, individuals who have not reached their concessional contributions cap in previous years will be allowed to make additional concessional contributions. The measure is limited to those whose superannuation balance is less than \$500,000.

Unused amounts are carried forward on a rolling basis for five consecutive years. Only amounts accrued from 1 July 2017 can be carried forward.

The measure will also apply to defined benefit scheme members.

Contribution rules for those aged 65 to 74

From 1 July 2017, individuals under the age of 75 will no longer have to satisfy a work test and will be able to receive contributions from their spouse.

Superannuation balances of low-income spouses

From 1 July 2017, the Government will increase access to the low-income spouse tax offset – 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).

Anti-detriment payments

From 1 July 2017, 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.

Tax deductions for personal superannuation contributions

From 1 July 2017, individuals up to age 75 will be able to claim an income tax deduction for personal superannuation contributions. This will apply regardless of employment status (i.e., wholly employed, self-employed or a partially employed/self-employed).

Social Security and Family Payments

Work for the Dole

From 1 October 2016, the most job ready job seekers will enter the Work for the Dole phase after 12 months participating in jobactive, 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.

Other

ASIC Registry

The Government will provide \$3.1 million in 2016-17 for completion of the final bid phase of a competitive tender to market test the private provider capacity to upgrade and operate the AISC Registry and develop value-added products.

ASIC — outcomes in financial services

As already announced, the Government will provide \$127.2 million over four years to fight against misconduct in the financial services industry. The figure is made up of \$121.3 million to ASIC over four years from 2016-17 and \$5.9 million to Treasury over three years from 2016-17. The funding to ASIC will be ongoing.

The additional funding will support increased surveillance and enforcement activities in areas such as financial advice, responsible lending, life insurance, and breach reporting, and enhancements to ASIC's data analytics.

The funding for ASIC includes \$39.2 million in capital over three years from 2016-17. This amount will support ASIC in improving technology systems to help better detect misconduct and to improve information management systems to support other work.

ASIC— industry charging arrangements





The Government will provide \$6.2 million in 2016-17 to build a levy calculator and modify billing and time recording systems in preparation for the implementation of industry charging arrangements for ASIC from 2017-18.

The Government has made a provision of \$144.5 million over three years from 2017-18 pending the development of industry charging arrangements for ASIC.

For further information on the 2016 Federal Budget measures, please visit www.budget.gov.au

Appendix A

Superannuation Reforms At a Glance

| | BEFORE | | | AFTER | | |
|--|--|--|--|---|---|--|
| | TAX | LIMIT | OTHER | TAX | LIMIT | OTHER |
| CONCESSIONAL (BEFORE-TAX) CONTRIBUTIONS Include: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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. |

Source: Budget 2016 Superannuation Fact Sheet 01



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