ALDER & PARTNERS
Private Wealth Management

Federal Budget Summary 2016

Last night the Federal Government handed down the Budget for the 2016-17 year that includes some of the biggest changes to the superannuation system since 1 July 2007.

Some of the major announcements include:

- changes to contributions caps, including the introduction of a lifetime non-concessional cap
- limits to how much can be transferred into pension phase
- removal of work tests for contributions between age 65 and 74
- extending eligibility to claim deductions for personal contributions
- restricting tax-concessions associated with transition-to-retirement pensions.

The Budget also included a number of changes to company tax rates and concessions.

It is important to note that the Budget announcements are still only proposals at this stage and will depend on the outcome of the upcoming election and on the proposals being legislated.

Please contact us if you would like to discuss any aspect of the Budget and how it may impact you.

Alder & Partners Private Wealth Management

Superannuation

Concessional contributions cap reduced to $25,000 (effective 1 July 2017)
The concessional contributions cap will reduce to $25,000 per annum for everyone regardless of age from 1 July 2017. Currently the concessional contributions cap is $30,000 for people under age 50 and $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. These funds include West State, Gold State, PSS and CSS.

The reduced concessional contributions cap of $25,000 does not apply until 2017-18. People may consider taking advantage of the current higher concessional cap of $30,000 (under age 50) and $35,000 (age 50 and over) in the current and 2016-17 financial years. People may need to drip-feed contributions over a longer period in order to meet retirement goals as a result of the reduced concessional cap.

Catch-up concessional contributions (effective 1 July 2017)
Unused concessional contribution cap amounts will be able to be carried forward on a rolling basis over 5 consecutive years. This applies to unused cap amounts from 1 July 2017. Access to unused cap amounts will be limited to individuals with a superannuation balance less than $500,000. The Government states this measure will allow those who take breaks from the workforce the opportunity to 'catch-up' if they have the capacity and choose to do so.

Remove contribution eligibility requirements for those aged 65 to 74 (effective 1 July 2017)
The current work test that applies for people making voluntary contributions between age 65 and 74 will be removed. This change will also allow individuals to make contributions for a spouse aged under 75 without requiring the spouse to satisfy a work test. The Government says this will simplify the superannuation system for older Australians and allow them to increase their retirement savings, especially from sources that may not have been available to them before retirement, including downsizing their home.

Lifetime cap for non-concessional contributions (effective now)
A lifetime non-concessional contributions cap of $500,000 will be introduced effective Budget night, 7.30 pm (AEST) on 3 May 2016. The $500,000 lifetime cap will take into account all non-concessional contributions made on or after 1 July 2007.

Contributions made before commencement (7.30pm AEST on 3 May 2016) cannot result in an excess of the lifetime cap, however those who have exceeded the cap prior to commencement will be taken to have used up their lifetime cap.

Non-concessional contributions made after Budget night that exceed the cap (taking into account all non-concessional contributions since 1 July 2007) will need to be removed or be subject to the current penalty tax arrangements.

The lifetime non-concessional cap will replace the existing annual non-concessional contributions cap of up to $180,000 per year (or $540,000 every 3-years under the bring-forward rule for individuals aged under 65). Those aged 65 to 74 who are currently limited to $180,000 per year will have access to the $500,000 cap without having to meet a work test.

Non-concessional contributions made into defined benefit accounts and constitutionally protected funds will be included in an individual's lifetime non-concessional cap. If a member of a defined benefit fund exceeds their lifetime cap, ongoing contributions to the defined benefit account can continue but the member will be required to remove, on an annual basis, an equivalent amount (including proxy earnings) from any accumulation account they hold.

The lifetime cap will be indexed in $50,000 increments in line with AWOTE.

To determine how much of the lifetime non-concessional cap has been utilised with prior non-concessional contributions, people will need to add their non-concessional contributions since 1 July 2007 from all funds to determine how much counts towards their lifetime non-concessional cap. While the Government states the ATO has reliable contribution records since 1 July 2007, it is not clear whether people will be able to access this information.

Introduce a $1.6 million superannuation transfer balance cap (effective 1 July 2017)
A transfer balance cap will be introduced to restrict the total amount of superannuation that can be transferred from accumulation to pension phase to $1.6 million. Where an individual accumulates amounts in excess of $1.6 million, they will be able to maintain this excess in accumulation phase (where earnings will be taxed at the concessional rate of 15 per cent).

The cap will be indexed in $100,000 increments in line with the consumer price index. A proportionate method which measures the percentage of the cap previously utilised will determine how much cap an individual has available at any point in time. For example, if an individual has previously used up 75 per cent of their cap they will have access to 25 per cent of the current (indexed) cap. Subsequent fluctuations in retirement accounts due to earnings growth or pension payments will not be considered when calculating the remaining cap.

Existing pension balances
Members already in pension phase as at 1 July 2017 with balances in excess of $1.6 million will need to either:

- transfer the excess back into an accumulation account; or
- withdraw the excess amount from their superannuation.

Individuals who breach the cap will be subject to a tax on both the amount in excess of the cap and the earnings on the excess amount similar to the tax treatment that applies to excess non-concessional contributions. The Government has also confirmed commensurate treatment for members of defined benefit schemes will be achieved through changes to the tax arrangements for pension amounts over $100,000 from 1 July 2017.

This proposal will allow couples to have a combined pension balance of up to $3.2 million. However, where most of a couple’s superannuation savings are in one spouse’s name the $500,000 lifetime non-concessional cap will restrict a couple’s ability to equalise their benefits to take full advantage of the transfer balance cap.

Additional 15% contributions tax: threshold reduces to $250,000 (effective 1 July 2017)
Division 293 tax, which is an additional 15% contributions tax payable by high income earners with income exceeding $300,000, will apply to those with income exceeding $250,000 from 1 July 2017. The Government claims reducing the Division 293 tax income threshold will improve sustainability and fairness in the superannuation system by limiting the effective tax concessions provided to high income individuals.

Income	Marginal Rate *	Contributions Tax	Tax Concession
$18,201 - $37,000	21%	15%	6%
$37,001 - $87,000	34.5%	15%	19.5%
$87,001 - $180,000	39%	15%	24%
$180,001 - $250,000	49%	15%	34%
Above $250,001	49%	^30%	19%

* Including Medicare Levy and Temporary Budget Repair Levy
^ Includes additional 15% contributions tax (Division 293)

People affected will not receive a Division 293 notice from the ATO until up to 18 months after making the concessional contribution which may come as a surprise to those unaware that they have exceeded the threshold. The tax can be paid personally or via a release authority from their superannuation fund.

Transition to retirement pensions: removal of earnings tax exemption (effective 1 July 2017)
The tax exempt status of income from assets supporting transition to retirement (TTR) income streams will be removed from 1 July 2017. Earnings will then be taxed at 15 per cent. This change applies irrespective of when the TTR income stream commenced, i.e. no grandfathering applies. The Government states that reducing the tax concessional nature of transition to retirement income streams will ensure they are fit for purpose and not primarily accessed for tax minimisation purposes. Further, individuals will no longer be able to treat certain superannuation income stream payments as lump sums for tax purposes, which currently makes them tax-free up to the low rate cap of $195,000. Taxing earnings on TTR income streams significantly reduces the tax effectiveness of strategies such as TTR and salary sacrifice. For people aged 60 or over, TTR strategies may still be worthwhile as pension payments are tax free and allow tax effective salary sacrifice contributions. However for people under age 60, the tax benefits are minimal.

Increased access to spouse superannuation tax offset (effective 1 July 2017)
The current spouse superannuation tax offset will be available to more people due to an increase in the spouse income threshold from 1 July 2017. The income threshold for the spouse superannuation tax offset is increasing from $10,800 to $37,000. A contributing spouse will be eligible for an 18 per cent offset worth up to $540 for contributions made to an eligible spouse's superannuation account. Currently the spouse superannuation tax offset reduces where the spouse's income exceeds $10,800 and cuts out altogether when their income reaches $13,800. If the same methodology applies, the tax offset would reduce where the spouse's income exceeds $37,000 and cut out altogether at $40,000.

Low income superannuation tax offset (effective 1 July 2017)
A Low Income Superannuation Tax Offset (LISTO) will be introduced from 1 July 2017 to reduce tax on superannuation contributions for low income earners. The LISTO will provide a non-refundable tax offset to superannuation funds, based on the tax paid on concessional contributions up to a cap of $500. The LISTO will apply to members with adjusted taxable income up to $37,000 that have had a concessional contribution made on their behalf.

The ATO will determine a person's eligibility for the LISTO and advise their superannuation fund annually. The fund will contribute the LISTO to the member's account.

Anti-detriment payments abolished (effective 1 July 2017)
Anti-detriment provisions will be abolished from 1 July 2017, effectively removing the ability of superannuation funds to increase lump sum superannuation death benefits when paid to eligible beneficiaries. The anti-detriment provisions allow a superannuation fund to claim a corresponding tax deduction where it is able to increase the amount of a member's death benefit paid to certain eligible beneficiaries to compensate for the impact of tax on contributions. The Government says removing the anti-detriment provision will better align the treatment of lump sum death benefits across all superannuation funds and the treatment of bequests outside of superannuation.

Extend deductions for personal contributions (effective 1 July 2017)
Australians under 75 will be able to claim an income tax deduction for any personal superannuation contributions made to a complying superannuation fund up to their concessional cap. This effectively allows all individuals, regardless of their employment circumstances, to claim a deduction for their personal contributions up to the value of the concessional cap. To access the tax deduction, individuals will need to lodge a notice of their intention to claim the deduction with their superannuation fund or retirement savings provider prior to lodging their tax return. These amounts will count towards the individual's concessional contributions cap, and be subject to 15 per cent contributions tax.

Individuals can choose how much of their contributions to deduct however if they end up exceeding their concessional cap the deduction claimed on the excess contributions will have no effect as these amounts will be included back into the member's assessable income. 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 benefit schemes, and any State, Territory or corporate defined benefit schemes that choose to be prescribed.

Defined benefit scheme changes (effective 1 July 2017)
The Government has announced a range of reforms to the taxation of benefits paid from defined benefit schemes and constitutionally protected funds to ensure equitable treatment of members in these funds and accumulation.

To broadly replicate the effect of the proposed $1.6 million transfer balance cap, the Government has announced that pension payments over $100,000 per annum paid to members of unfunded defined benefit schemes and constitutionally protected funds providing defined benefit pensions, will continue to be taxed at full marginal rates, however the 10 per cent tax offset will be capped at $10,000 from 1 July 2017. For members of funded defined benefit schemes, 50 per cent of pension amounts over $100,000 per annum will now be taxed at the individual's marginal tax rate.

Taxation

Personal income tax reduction (effective 1 July 2016)
The Government will increase the 32.5 per cent personal income tax threshold from $80,000 to $87,000 from 1 July 2016. This measure will reduce the marginal rate of tax on income between $80,000 and $87,000 from 37 per cent to 32.5 per cent. This will ensure that the average full-time wage earner will not move into the second highest tax bracket in the next three years. A taxpayer earning $87,000 will save $315 per annum as a result of the change to the personal income tax threshold.

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 45% for each $1 over $180,000

** Excludes Medicare Levy and Temporary Budget Repair Levy*

Pausing indexation of the Medicare Levy Surcharge and Private Health Insurance Rebate Thresholds (effective 1 July 2018)
The Government will continue the pause on indexation of the income thresholds for the Medicare Levy Surcharge and Private Health Insurance Rebate for a further three years from 1 July 2018.

Reducing the company tax rate to 25 per cent (effective 1 July 2016)
The company tax rate will be reduced to 25 per cent over 10 years.

Currently, small business companies with aggregated turnover less than $2 million pay tax at rate of 28.5%. From 1 July 2016, the tax rate for businesses with 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. In the 2024-25 income year the company tax rate will be reduced to 27%. Each income year, it will be reduced by a further 1% until it reaches 25% 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.

Small business entity aggregated turnover threshold increased (effective 1 July 2016)
The small business entity turnover threshold will be increased from $2m to $10m for the purposes of accessing certain existing income tax concessions.

This will allow more business entities to gain access to the small business concessions, such as:

- simplified depreciation rules, including immediate tax deductibility for asset purchases costing less than $20,000 until 30 June 2017 and then less than $1,000;
- simplified trading stock rules, giving businesses the option to avoid an end of year stocktake if the value of the stock has changed by less than $5,000;
- a simplified method of paying PAYG instalments calculated by the ATO, which removes the risk of under or over estimating PAYG instalments and the resulting penalties that may be applied;
- the option to account for GST on a cash basis and pay GST instalments as calculated by the ATO; and
- other tax concessions available to small business currently, such as the Fringe Benefits Tax concessions (from 1 April 2017, the beginning of the next fringe benefit tax year)

The increased threshold will not apply for the purpose of accessing existing small business capital gains tax concessions. Access to the unincorporated small business tax discount will be limited to entities with turnover less than $5m.

Social Security

Simplifying student payments (effective 1 January 2017)
Means testing arrangements for students and other payment recipients will be simplified from 1 January 2017. The changes include aligning the:

- assets test for all Youth Allowance and Austudy recipients, including those partnered to a Social Security or Veterans' Affairs income support recipient;
- means test rules used to assess interests in trusts and private companies for all student payment recipients, including independent Youth Allowance and ABSTUDY recipients;
- social security benefit and ABSTUDY income test treatment of gift payments from immediate family members with existing pension rules; and
- Family Tax Benefit (FTB) income test and youth Parental Income Test, and authorising the use of FTB income details for the youth Parental Income Test

Student income support recipients will be automatically issued with a Health Care Card from 1 January 2019. This change will allow Youth Allowance (student), Austudy and ABSTUDY recipients to be automatically issued a Health Care Card at the same time as their grant of payment.