ACCURIUM

Accurium Federal Budget Report 2016-17

This report was originally produced May 2016.

On 3 May the Treasurer, Scott Morrison, released the Government's 2016/17 Budget - the Government's economic plan for Australia's transition from mining boom to a more diverse economy.

This Report focusses on the impact of the Budget on you and your clients from a retirement planning perspective. This includes significant changes to superannuation, retirement income streams and taxation, both personal and corporate.

Before any of these announcements can be implemented, they will require passage of legislation and they may be subject to change.

Superannuation

Objective of superannuation
The Government has announced that it will legislate the objective of superannuation as 'to provide income in retirement to substitute or supplement the Age Pension'.

The Government says that this objective has guided the other reforms announced and a legislated objective will enhance stability in the superannuation system.

A $500,000 lifetime non-concessional cap will replace the existing non-concessional contributions cap

Reduction in concessional contributions cap
From 1 July 2017, the concessional contributions cap will reduce to $25,000 per year. Currently the concessional contributions cap is $30,000 per year if under age 50 and $35,000 per year if aged 50 and over.

From 1 July 2017, notional (estimated) and actual employer contributions for members of unfunded defined benefit schemes and constitutionally protected funds will be included in the concessional contributions cap.

From 1 July 2017, all individuals up to age 75 will be able to claim an income tax deduction for personal superannuation contributions.

Tax deductions for personal superannuation contributions
From 1 July 2017, all individuals up to age 75 will be able to claim an income tax deduction for personal superannuation contributions. In doing so, all individuals will, regardless of their employment circumstances, be able to make superannuation contributions up to the concessional cap. These amounts will count towards the concessional contributions cap and will be subject to contributions tax.

Similar to the current arrangements to claim the tax deduction, individuals will need to lodge a notice of their intention to claim the deduction before they lodge their income tax return for the relevant year.

Certain untaxed and defined benefit superannuation funds will be prescribed, meaning members will not be eligible to claim a deduction for contributions to these funds however, they may choose to make their contribution to another eligible superannuation fund.

Allowing catch-up concessional contributions
From 1 July 2017, individuals with superannuation balances of $500,000 or less will be able to accrue unused concessional contribution cap amounts.

Unused amounts can be carried forward on a rolling basis for a period of five years. Amounts carried forward that have not been used after five years will expire.

Carrying forward unused concessional contributions cap will make it easier for individuals with varying capacity to make contributions to superannuation.

More tax on contributions for more high earners

From 1 July 2017, the 'Division 293' threshold will reduce from $300,000 to $250,000 per year meaning individuals earning over this amount will have to pay an additional 15% tax on concessional contributions.

The existing administration process for levying this tax will remain unchanged, but a larger number of people will be drawn into it. Individuals will still have the ability to pay the additional 15% tax liability from their superannuation fund if they choose to.

Similar measures will apply to high earning members of defined benefit funds.

Lifetime cap for non-concessional superannuation contributions introduced

From 7:30 pm (AEST) on 3 May 2016, a $500,000 lifetime cap on non-concessional contributions will be introduced. The cap will take into consideration all non-concessional contributions made since 1 July 2007. In addition the cap will apply to individuals aged up to 75, and will be indexed in $50,000 increments in line with average weekly ordinary time earnings.

In cases where the individual exceeded the cap prior to commencement of the new rules, they will be taken to have used up their lifetime cap but will not be required to take the excess out of the superannuation system. Where the excess occurs after commencement, they will be notified by the Australian Tax Office to withdraw the excess from their superannuation account, or be subject to the penalty arrangements.

The lifetime non-concessional cap will replace the existing non-concessional contributions cap which allows an individual to contribute up to $180,000 per year (or $540,000 under the bring-forward provision for those aged under 65).

Non-concessional contributions made into defined benefit and constitutionally protected funds will also be included in an individual's lifetime non-concessional cap. If the member of a defined benefit fund exceeds their lifetime cap, contributions going into the defined benefit account can continue. However they will be required to remove an equivalent amount (including earnings) annually, from any accumulation interest they hold where it contains non-concessional contributions made after 1 July 2007. In cases where no post-1 July 2007 non-concessional contributions exist, the Government will consult to determine the appropriate treatment.

Contributions will not be required to be removed from the defined benefit account.

Extending the spouse contributions tax offset

From 1 July 2017, the 18% tax offset of up to $540 will be available for any individual contributing to a recipient spouse's superannuation whose income is up to $37,000. Currently, the 18% tax offset of up to $540 is available for any individual contributing to a recipient spouse whose income is up to $10,800.

The tax offset will be calculated as 18% of the lesser of:

- $3,000 reduced by every dollar over $37,000 or
- the amount of spouse contributions.

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Low Income Superannuation Tax Offset (LISTO)
From 1 July 2017, a Low Income Superannuation Tax Offset (LISTO) will be introduced to replace the Low Income Superannuation Contribution (LISC). The LISTO will provide a non-refundable tax offset to superannuation funds, based on the tax paid on concessional contributions made on behalf of low income earners, 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.

Contribution rules for those aged 65 to 74
Currently, individuals aged 65 to 74 must meet a work test to be eligible to make contributions to superannuation. From 1 July 2017 this requirement will be removed, increasing the ability of older Australians to contribute to their superannuation.

From 1 July 2017, individuals will also be able to make contributions to a spouse up to age 74. Currently, individuals can make contributions to a spouse up to age 69. From 1 July 2017, individuals will no longer have to satisfy a work test to receive contributions from their spouse.

Removal of anti-detriment payments
From 1 July 2017, superannuation funds will no longer be able to make anti-detriment payments.

The anti-detriment provision allows superannuation funds to refund a lump sum to a member's estate on death, in compensation for the 15% contributions tax deducted from contributions over that member's working life. This 'anti detriment payment' is paid as a top-up to the member's superannuation death benefit, applying only when eligible dependants exist.

Retirement

Government response to retirement income streams review
The Government has announced that it will remove barriers to innovation in retirement income stream products by extending the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self annuitisation products.

This change will enhance both choice and flexibility for Australian retirees and help provide clients with retirement income throughout their lives, regardless of how long they live.

These products will help Australians better manage consumption and risk in retirement, including longevity risk.

In conjunction with the Federal Budget, the Government also released the final report of the review of retirement income stream regulation.

The Report recommends that current annual minimum drawdown requirements are consistent with the objective of the superannuation system to provide income in retirement.

However, the Australian Government Actuary should review the annual minimum drawdown rates every five years to ensure they remain appropriate in light of increasing life expectancies. Any other changes to the minimum drawdown rates should only be considered in the event of significant economic shocks.

The Report also recommended that an additional set of income stream rules should be developed which would allow lifetime products to qualify for the earnings tax exemption provided they meet a declining capital access schedule.

Transition to retirement income streams
From 1 July 2017, the tax exempt status of income from assets supporting transition to retirement (TTR) pensions will be removed.

Transition to retirement pensions allow individuals to access their superannuation whilst still working between preservation age (currently 56) and age 65. Under the new rules, people can continue existing TTR pensions and start new ones; however, the earnings on these assets will be taxed at 15% in line with accumulation assets.

The ATO has recently clarified that a member can elect to make a lump sum payment from a TTR pension and it will be treated as such for tax purposes allowing tax-free withdrawals for the under 60s up to the low rate cap (currently $195,000). The Government will also move to close this loophole.

From 1 July 2017, the tax exempt status of income from assets supporting transition to retirement (TTR) pensions will be removed.

Transfers to pension accounts capped at $1.6 million
From 1 July 2017, a $1.6 million cap on the total amount of superannuation that can be used to commence a pension will be introduced. New rules will limit the amount that individuals can transfer into a tax-free retirement account.

For those entering retirement after 1 July 2017, any superannuation in excess of the cap can remain in accumulation, where earnings are taxed at 15%. Subsequent earnings on these balances will not be restricted. A proportionate method which crystallises a percentage of the cap each time a pension is commenced will be used to keep track of unutilised caps.

For those with existing pensions on 1 July 2017, amounts in excess of the cap on this date will need to be rolled back into an accumulation account or withdrawn.

Punitive taxes will be applied to pension commencements in excess of the cap including the earnings on the excess. The $1.6 million cap will increase in $100,000 increments in line with the Consumer Price Index (CPI). Similar measures will be applied to defined pension schemes by changing the tax treatment of pension amounts over $100,000. The Government will undertake a consultation on the implementation of these changes for both accumulation and defined benefit funds.

From 1 July 2017, a $1.6 million cap on the total amount will limit the amount that individuals can transfer into a tax-free retirement account.

Personal income tax

Increase to Medicare levy low-income thresholds
From the 2015-16 financial year, the Medicare levy low-income threshold will be indexed for individuals and families. The threshold for singles will increase to $21,335 per annum and for couples with no children will increase to $36,001 per annum. For those individuals and couples who are eligible for Seniors and Pensioners Tax Offset (SAPTO) the thresholds will increase to $33,738 per annum and $46,966 per annum respectively. The additional threshold amount for each dependent child or student will increase to $3,306 per annum.

The increase in these thresholds takes into account movements in the CPI.

	Medicare Levy threshold (2015-16)	Medicare Levy threshold (2014-15)
Single	$21,335	$20,896
Single eligible for SAPTO	$33,738	$33,044
Couple	$36,001	$35,261
Couple eligible for SAPTO	$46,966	$46,000
Additional threshold for each dependent child	$3,306	$3,238

The Tax and Superannuation Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2016 which proposes the increase has passed both houses of government as of 3 May 2016, but is still yet to receive Royal Assent.

From 1 July 2016, the income threshold where the 37% marginal tax rate starts to apply will increase from $80,001 to $87,001.

Changing the income tax thresholds

From 1 July 2016, the income threshold where the 37% marginal tax rate starts to apply will increase from $80,001 to $87,001.

Taxable income threshold (2015-2016)	Tax payable (2015-16)	Proposed taxable income threshold (2016-2017)	Tax payable (2016-17)	% tax on excess
$18,200	Nil	$18,200	Nil	19.0%
$37,000	$3,572	$37,000	$3,572	32.5%
$80,000	$17,547	$87,000	$19,822	37.0%
$180,000	$54,547	$180,000	$54,232	47.0%[1]

[1] Including the 2% temporary budget repair levy.

Extending the existing freeze on the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds

From 1 July 2018, the Medicare Levy Surcharge and Private Health Insurance Rebate will remain paused for three more years.

The rebate and surcharge levels applicable from 1 April 2016 to 31 March 2017 are:

Singles Families	<$90,000 <$180,000	$90,001-105,000 $180,001-210,000	$105,001-140,000 $210,001-280,000	>$140,001 >$280,001
Rebate (1 April 2016 to 31 March 2017)				
	Standard	Tier 1	Tier 2	Tier 3
< age 65	26.791%	17.861%	8.930%	0%
Age 65-69	31.256%	22.326%	13.395%	0%
Age 70+	35.722%	26.791%	17.861%	0%
Medicare Levy Surcharge				
All ages	0.0%	1.0%	1.25%	1.5%

Currently these thresholds are legislated to be paused from the 2014-15 tax year through to the 2017-18 tax year. As a result of this proposal, the thresholds would remain frozen until 30 June 2021. This means that clients earning near or above $90,000 for a single or $180,000 for a family, may expect to pay higher private health insurance premiums or a higher Medicare Levy Surcharge where no approved private health insurance is held.

Negative gearing

The Government has announced officially that they will not remove or limit negative gearing because it would increase the tax burden on Australians trying to invest for their future.

Budget repair levy
On 30 June 2017, the three year Temporary Budget Repair Levy on high income individuals will cease. Up until then the temporary levy will continue to apply at a rate of two percent on individuals' taxable income in excess of $180,000 per annum. This will mean that the top marginal tax rate will reduce from 49% to 47% from 1 July 2017.

Company tax

Reducing the company tax rate to 25%
From 1 July 2016, the company tax rate will be progressively reduced to 25 per cent over 10 years.

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The tax rate for businesses with an annual aggregated turnover of less than $10 million will be 27.5 per cent from the 2016-17 income year. The annual aggregated turnover threshold will then be progressively increased to ultimately have all companies at 27.5 per cent in the 2023-24 income year.

In the 2024-25 income year the company tax rate will be reduced to 27 per cent and then be reduced progressively by 1 percentage point per year until it reaches 25 per cent in the 2026-27 income year. The reduction in the company tax rate for businesses with various levels of annual aggregated turnover is summarised in the table below.

Company tax rates	Annual aggregated turnover threshold							
Financial year	<$2mil	<$10mil	<$25mil	<$50mil	<$100mil	<$250mil	<$500mil	<$1 bil	$1 bil+
2015/16	28.5%	30%	30%	30%	30%	30%	30%	30%	30%
2016/17	27.5%	27.5%	30%	30%	30%	30%	30%	30%	30%
2017/18	27.5%	27.5%	27.5%	30%	30%	30%	30%	30%	30%
2018/19	27.5%	27.5%	27.5%	27.5%	30%	30%	30%	30%	30%
2019/20	27.5%	27.5%	27.5%	27.5%	27.5%	30%	30%	30%	30%
2020/21	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	30%	30%	30%
2021/22	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	30%	30%
2022/23	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	30%
2023/24	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%
2024/25	27%	27%	27%	27%	27%	27%	27%	27%	27%
2025/26	26%	26%	26%	26%	26%	26%	26%	26%	26%
2026/27	25%	25%	25%	25%	25%	25%	25%	25%	25%

Franking credits will be based on the rate of tax paid by the company making the distribution.

Increasing the small business entity turnover threshold to $10 million
From 1 July 2016, the small business entity turnover threshold will be increased from $2 million to $10 million.

From 1 July 2016, the small business entity turnover threshold will be increased from $2 million to $10 million.

This will allow eligible incorporated businesses to gain access to small business concessions such as the lower small business company tax rate of 27.5 per cent from 1 July 2016, the ability to claim an immediate deduction for assets they start to use or install ready for use that costs less than $20,000, and access the depreciation pooling provisions implemented as part of last year's budget measures.

The current $2.0 million turnover threshold will be retained for access to the small business capital gains tax concessions.

Increasing the unincorporated small business tax discount
Currently, individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than $2 million, are eligible for a small business tax discount of five per cent of the income tax payable. The discount is capped at $1,000 per individual per income year.

From 1 July 2016, the tax discount for unincorporated small businesses will be increased incrementally over 10 years to 16 per cent as summarised in the following table.

Financial year	Small business tax discount
2015/16	5%
2016/17	8%
2017/18	8%
2018/19	8%
2019/20	8%
2020/21	8%
2021/22	8%
2022/23	8%
2023/24	8%
2024/25	10%
2025/26	13%
2026/27	16%

Additionally, access to the discount will be extended to individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than $5 million.

The current cap of $1,000 per individual for each income year will be retained.

Other

New collective investment vehicles
1 July 2017 will see the introduction of two new types of collective investment vehicle (CIV), a corporate CIV allowing investors to pool funds for management by a professional funds manager and from 1 July 2018, limited partnership CIVs.

CIVs will be required to meet similar eligibility criteria as managed investment trusts and investors in these products will generally be taxed as if they had invested directly.

Internationally recognised and easy to use, these structures will make managed funds based in Australia a more attractive place for foreigners to invest.

Improved outcomes in financial services
From 2016-17, the Australian Securities and Investments Commission (ASIC) and Department of the Treasury will see greater funding to increase 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 additional funding aims to combat misconduct in Australia's financial services industry and bolster consumer confidence in the sector. Funding will also support ASIC and the Department of the Treasury in accelerating the implementation of law reforms recommended by the Financial System Inquiry.

Financial assistance for NSW Police
From 2017-18, the Federal Government will provide transitional funding to the NSW Government to help mitigate the impact of the reduced concessional contribution caps, as NSW Police officers are currently required to pay insurance premiums that count towards their caps.

Additional funding provided to Superannuation Complaints tribunal
In 2016-17, the Government will provide an additional $5 million funding to the Superannuation Complaints Tribunal to reduce the backlog of lodged complaints.

Small businesses can immediately claim a tax deduction for assets valued less than $20,000.

Phone: 1800 203 123
act@accurium.com.au
www.accurium.com.au