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Federal Budget Update 2016–17

Federal Budget Summary

2016–17

The first Budget from the Turnbull government revealed a $39.9 billion deficit for 2015/16 moving to a $37.1 billion deficit for 2016/17 and forecasting a drop to $6 billion by 2019/20.

On Tuesday night, Treasurer Scott Morrison unveiled an economic plan designed to "build a brighter, more secure future in a stronger, new economy with more jobs". The Budget centrepiece was a 10-year enterprise plan to boost new investment, create jobs and deliver wage growth, starting with income tax concessions for small and medium-sized enterprises.

Under proposed changes, the small business entity turnover threshold will increase from $2 million to $10 million from 1 July, 2016, seeing SMEs with an annual turnover of up to $10 million qualify for small business income tax concessions including a lower corporate tax rate of 27.5 per cent and generous equipment write-offs.

Over the next 10 years, the company tax rate will gradually fall to 25 per cent.

The Budget also revealed further investment in innovation and start-ups, initiatives to help young people into jobs and measures to combat tax avoidance.

Middle income earners were among the winners, benefiting from a modest tax cut, however, many of the super tax concessions for higher income earners will be scaled back.

The summary pages below are designed to help provide some additional information on how the budget may affect you from a financial planning perspective.

Please note that these changes are yet to be legislated and may be subject to change.

How the Budget may affect you

Federal Budget Update 2016–17

Summary: What's in and what's out

- Lowering of the corporate tax rate to 27.5% for small business with an annual turnover of less than $10 million, from 1 July 2016, and further reductions and changes to thresholds in future years.
- No material changes to the Age Pension
- No material changes to Aged Care
- No changes to negative gearing or capital gains tax
- Sweeping super changes designed to increase the retirement savings of low-to-middle income earners, including women
- Scaling back superannuation concessions to high income earners
- Capping annual concessional super contributions at $25,000 – down from $30,000 for individuals under age 50 and $35,000 for individuals aged 50 and over
- Tax concessions to encourage workers with broken employment patterns, such as women and carers, to make "catch-up" contributions to boost their super
- Removal of tax exemption on earnings of assets supporting Transition-to-Retirement Income Streams
- Introduction of a lifetime cap of $500,000 on non-concessional (after-tax) contributions
- Increasing the number of people subject to a higher tax (up to 30%) on concessional (pre-tax) super contributions. This applies where income is above $250,000, down from the current threshold of $300,000
- Introduction of a super transfer balance cap of $1.6 million to limit the amount of accumulated savings an individual can transfer into the tax-free retirement phase
- Removal of restrictions on people aged 65 to 74 to make super contributions
- Any person under age 75 will be allowed to claim an income tax deduction for personal super contributions
- Removal of anti-detriment death benefit provisions
- A new Low Income Super Tax Offset targeted at workers earning less than $37,000
- A Youth Jobs Path program to help young job seekers
- Tax relief for workers earning over $80,000, effective from 1 July, 2016
- No tax relief for people earning under $80,000

Overview

Unlike last year's Budget which contained very few super changes, the Turnbull government has introduced broad super changes.

Super changes contained in the Budget include a $25,000 annual cap on concessional super contributions; a new lifetime cap of $500,000 on non-concessional contributions; and the removal of the 10 per cent test for personal tax deductible super contributions which will allow all individuals up to age 75, regardless of their employment situation, to make concessional super contributions. As well as many other changes.

Medium and high income earners stand to benefit from a modest tax cut for workers earning over $80,000. To prevent approximately 300,000 middle income earners from creeping into the second highest tax bracket due to wage inflation, the threshold over which income is taxed at 37c in the dollar will increase from $80,000 to $87,000 from 2016/17. There will be no personal tax relief for people earning under $80,000.

Income tax table for residents 2016/17

Taxable income	Tax payable
$0 – $18,200	0%
$18,201 – $37,000	19% > $18,200
$37,001 – $87,000	$3,572 + 32.5% > $37,000
$87,001 – $180,000	$19,822 + 37% > $87,000
$180,000+	$54,232 + 47% > $180,000

Super changes in more detail

From July 1, 2017, the concessional contributions cap will reduce to $25,000 from the current $30,000 cap for people under age 50 and $35,000 for those aged 50 and over, reducing the effectiveness of concessional contributions as a strategy to boost retirement savings.

However, individuals with under $500,000 in super will be able to make additional concessional contributions where they have not used up their caps in previous years. Unused amounts accrued from 1 July 2017 can be carried forward on a rolling basis for a period of five consecutive years.

Women, who commonly take time out from paid work to care for children and are more likely to return to lower-paid, casual or part-time work, will be a key beneficiary of the catch-up scheme given they typically retire with significantly less super than men. Women will also be key beneficiaries of a planned increase in the threshold for the Low Income Spouse Tax Offset from 1 July 2017 to $37,000 from $10,800.

The Low Income Spouse Tax Offset provides up to $540 per annum for the contributing spouse, and is designed to boost the super balances of low income spouses, particularly women. The Budget also introduced a Low Income Super Tax Offset (LISTO) to effectively replace the Low Income Super Contribution (LISC).

The LISTO will reduce the tax on super contributions paid by workers who earn less than $37,000 a year by providing a refund to super funds from 1 July 2017, based on the tax paid on concessional contributions up to the value of $500.

Furthermore, the government will introduce a new lifetime cap of $500,000 on non-concessional contributions, replacing the current cap of $180,000 per year or $540,000 over three years under the bring-forward arrangements.

This new cap applies from 7:30pm AEST 3 May 2016 for contributions made on or after 1 July 2007. Contributions made before this time cannot result in an excess.

Other super changes include a balance cap of $1.6 million on the total amount of accumulated super a person can transfer into the tax-free environment and in line with pre-Budget speculation the government also made changes to Transition-to-Retirement (TTR) income streams by removing the current tax exemption on earnings from July 1, 2017.

That won't impact on a worker's ability, once they have reached age 60, to draw a tax free retirement income stream while continuing to work and contribute to super.

However, the Budget will axe the anti-detriment payment on super death benefits from July 1, 2017.

The anti-detriment payment, which represented a refund of a member's lifetime super contributions tax payments paid to their spouse or child upon their death, was approximately between 13 per cent and 17 per cent of the taxable component of a super death benefit.

Other measures include a 30 per cent tax on concessional contributions for individuals who earn over $250,000.

Incentives to encourage mature Australians to contribute to super

It will be simpler for mature Australians aged 65 to 74 to make voluntary super contributions with current restrictions requiring them to meet minimum work requirements to be lifted from July 1, 2017.

They'll also be able to receive contributions from their spouse, under proposed changes.

This measure will allow older Australians to boost their retirement savings using sources such as the sale of shares or property.

What's next?

The vast majority of changes must be legislated and passed through Parliament before they apply.

The government's top priority is to see the proposed company tax cuts and personal income tax cuts start on 1 July, 2016, which will put pressure on Parliament to pass legislation quickly.

Anyone who believes they may be negatively affected by the Budget changes shouldn't panic but should consider seeking professional advice.

At TurnKey Financial Consultants, we can give you a clear understanding of where you stand and how you can manage your cashflow, super and investments in light of proposed changes. An adviser can also ensure you're not missing out any new benefits you may be entitled to.

If any of these proposals raise questions, concerns or potential opportunities for you, please contact us for a discussion today.