PALMER
& ASSOCIATES

CERTIFIED PRACTISING ACCOUNTANTS

Special Edition
2016/2017 Federal Budget Update

May, 2016

In this newsletter we have compiled some general information in relation to the recent Federal Budget to help keep you up to date with all of the changes. Please do not hesitate to contact us if you require further information regarding the content of this newsletter and how it may impact you.

Federal Budget – Superannuation

Are you sick of changes to Superannuation?

A dozen superannuation reforms were announced in this year's budget and we have analysed all the changes.

Although superannuation can help fund your retirement and is a good investment vehicle, most people are fed up with the complex changes and the winding back of superannuation benefits.

We have a simple solution – investing in your own investment vehicle, away from the changing rules of super and the complex regulations.

If you believe your circumstances may benefit from this opportunity, please contact our office to arrange an appointment to discuss your situation in more detail.

Concessional contributions cap reduced

Date of effect: 1 July 2017

The current concessional contributions cap will reduce to $25,000 from 1 July 2017.

Age	Current concessional cap	From 1 July 2017
Under 50	$30,000	$25,000
50 and over	$35,000	$25,000

Tax deductions on Personal Super Contributions expanded

Date of effect: 1 July 2017

All individuals up to age 75 will be able to claim an income tax deduction for personal superannuation contributions from 1 July 2017. This effectively allows all individuals, regardless of their employment circumstances, to make concessional superannuation contributions up to the concessional cap – partially self-employed, employees whose employers don't offer salary sacrifice arrangements, etc.

Removing contribution restrictions for those 65 to 74

Date of effect: 1 July 2017

Currently, people aged 65 to 74 have a number of restrictions inhibiting their capacity to contribute to superannuation, including a work test. The Government is changing this so that people under the age of 75 will no longer have to satisfy a work test and will be able to receive contributions from their spouse.   In some circumstances it will be an opportunity to boost retirement savings from sources other than work, such as downsizing the family home.

Lifetime cap on non-concessional contributions

Date of effect: NOW… 7.30 pm (AEST) on 3 May 2016.

Applies to all non−concessional contributions made on or after 1 July 2007.

A lifetime $500,000 non-concessional (Personal) contributions cap has been introduced.

The current system of annual non-concessional contributions of up to $180,000 per year (or $540,000 every three years for individuals aged under 65), will be replaced with this new lifetime cap.

The lifetime cap will take into account all non-concessional contributions made on or after 1 July 2007 and will commence at 7.30 pm (AEST) on 3 May 2016.

Contributions made before commencement will not result in an excess. They will be taken to have used up their lifetime cap but will not be required to take the excess out of the superannuation fund.

However, excess contributions made after commencement will need to be removed or will be subject to penalty tax. You will be notified by the ATO if you have exceeded the cap.

The lifetime cap is available up to age 74.

Tax Exemption on Transition to Retirement Income Stream Earnings removed

Date of effect: 1 July 2017

The tax exemption on the earnings of assets supporting Transition to Retirement Income Streams will be removed from 1 July 2017. Earnings will now be taxed at 15%.

This rule will apply irrespective of when TRIS commenced.

'Catch-up' concessional contributions

Date of effect: 1 July 2017

If your superannuation balance is less than $500,000, you will be able to make additional concessional contributions if you have not reached your concessional contributions cap in previous years.

Amounts are carried forward on a rolling basis for a period of five consecutive years, and only unused amounts accrued from 1 July 2017 can be carried forward.

The measure will also apply to members of defined benefit schemes.

Tax free super balances capped at $1.6m

Date of effect: 1 July 2017

A new $1.6 million cap will apply to how much can be transferred into a retirement phase account. Earnings on amounts within the pension account will continue to be tax-free. Transfers in excess of this $1.6 million cap (including earnings on these excess transferred amounts) will be taxed in a similar way to the tax treatment that applies to excess non-concessional contributions.

Where an individual accumulates amounts in excess of $1.6 million, they will be able to maintain this excess amount in an accumulation phase account (where earnings will be taxed at the concessional rate of 15%).

Members already in the retirement phase with balances above $1.6 million will be required to reduce their retirement balance to $1.6 million by 1 July 2017. Excess balances for these members may be converted to superannuation accumulation phase accounts or withdrawn.

The amount of cap space remaining for a member seeking to make more than one transfer into a retirement phase account will be determined by apportionment.

30% tax on super for high income earners

Date of effect: 1 July 2017

At present, individuals with combined income and superannuation contributions of more than $300,000 pay an *additional* contributions tax of 15% on concessional contributions. From 1 July 2017, this income threshold will reduce to $250,000.

The lower Div. 293 'income' threshold will also apply to members of defined benefit schemes and constitutionally protected funds currently covered by the tax.

Federal Budget – Superannuation

Tax back for low income earners contributing to super

Date of effect: 1 July 2017

A Low Income Superannuation Tax Offset (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 applies to members with adjusted taxable income up to $37,000 that have had a concessional contribution made on their behalf.

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.

Boosting the super balance of your spouse

Date of effect: 1 July 2017

The low-income spouse superannuation tax offset income threshold will increase to $37,000 (from $10,800) from 1 July 2017.

The offset provides up to $540 per annum for the contributing spouse.

Removing Election to treat Pension Payments as Lump-Sum payments

The rule that allows individuals to treat certain superannuation income stream payments as lump sums for tax purposes will also be removed.

Currently the taxable component of certain superannuation lump sum payments for a person who has reached their preservation age, but is under the age of 60, can be tax free (up to the amount of $195,000). This will no longer be the case.

Are you following us on [Facebook??]

Federal Budget – Business

Business Tax Cuts

The Budget introduces a series of tax cuts progressively applied to business. Significantly, the threshold for accessing some of the small business entity concessions will increase dramatically from the current $2 million threshold to $10 million.

Reducing the company tax rate to 25%

Date of effect: Progressively from 2016-17

The company tax rate will be reduced to 25% over 10 years. The reduction will initially target companies with a turnover less than $10 million, then gradually increase access:

Year	Company annual aggregated turnover	Tax rate
2016-17	Less than $10 million	27.5%
	$10 million or more	30%
2017-18	Less than $25 million	27.5%
	$25 million or more	30%
2018-19	Less than $50 million	27.5%
	$50 million or more	30%
2019-20	Less than $100 million	27.5%
	$100 million or more	30%
2020-21	Less than $250 million	27.5%
	$250 million or more	30%
2021-22	Less than $500 million	27.5%
	$500 million or more	30%
2022-23	Less than $1 billion	27.5%
	$1 billion or more	30%
2023-24	All	27.5%
2024-25	All	27%
2025-26	All	26%
2026-27	All	25%

Franking credits will still be calculated with reference to the amount of tax paid by the company paying the dividends.

Tax discount for unincorporated small business entities – trusts, partnerships etc.

Date of effect: Progressively from 1 July 2016

The tax discount for unincorporated small businesses will increase incrementally 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 increase to 10% in 2024-25, 13% in 2025-26 and reach a new permanent discount of 16% in 2026-27. The measure coincides with staggered cuts in the corporate tax rate to 25%.

Year	Tax Discount
1 July 2016 – 30 June 2024	8%
2024-25	10%
2025-26	13%
2026-27	16%

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

The tax discount applies to the income tax payable on the business income received from an unincorporated small business entity. 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.

Small business entity threshold jumps to $10m

Date of effect: 1 July 2016

In a significant win for business, the small business entity turnover threshold will increase from $2 million to $10 million from 1 July 2016. The reform will give a greater number of businesses access to a range of tax concessions such as:

- The lower small business corporate tax rate (27.5%);
- Simplified depreciation rules including an immediate write-off for assets costing less than $20,000 that are acquired by 30 June 2017 and depreciation pooling provisions;
- Simplified trading stock rules;
- A different method of calculating PAYG instalments;
- The option of accounting for GST on a cash basis;
- FBT exemptions (this would start from 1 April 2017); and
- A trial system of using a simpler business activity statement.

The current $2 million turnover threshold will be retained for access to the small business CGT concessions and access to the unincorporated small business tax discount will be limited to entities with turnover of less than $5 million.

Personal tax cuts for middle income earners

Date of effect: 1 July 2016

The 32.5% personal income tax threshold will increase from $80,000 to $87,000 from 1 July 2016. The new tax rates from 1 July 2016 would be as follows:

Taxable income	Tax rate from 1 July 2016
$0 - $18,200	0%
$18,201 - $37,000	19%
$37,001 - $87,000	32.5%
$87,001 - $180,000	37%
$180,001 and over	45%

These tax rates exclude the Medicare Levy and the 2% debt tax on high-income earners over $180,000 which will come to an end on 30 June 2017.

Low-income earners

Increase in the Medicare low-income threshold

Date of effect: 2015-16 income year

The Medicare low-income threshold for singles, families and seniors and pensioners will increase.

	2015-16 income year threshold
Singles	$21,335
Couples (no children)	$36,001
Additional amount of threshold for each dependent child or student	$3,306
Single seniors and pensioners	$33,738
Senior and pensioner couples with no children	$46,966

Pause on Indexation of Medicare Levy Surcharge and Private Health Insurance Rebate Thresholds extended

The current pause in indexation of the income thresholds for the Medicare Levy Surcharge and Private Health Insurance Rebate will be extended for a further three years. The continued pause from 1 July 2018 is expected to achieve efficiencies of $744.2 million over three years.