Federal Budget Analysis 2016

On the 3rd May 2016, Scott Morrison handed down his first Federal Budget as Treasurer. As expected, superannuation taxation concessions have been heavily tightened with existing limits and some new caps introduced. Further business tax cuts and income tax relief for those earning over $80,000 per annum were announced along with various tax avoidance measures aimed at multinational companies and a new work for the dole scheme.

Please note, the announcements outlined in the Federal Budget are still only proposals at this stage. Only 67% of the measures outlined in last year's Federal Budget have passed through the Senate and with many of the measures outlined not planned to take effect until the 1st July 2017, we have plenty to time to react to any changes that are passed into legislation.

Summary

- Lowering of the concessional superannuation contributions cap to $25,000
- Introduction of a lifetime limit cap of $500,000 for after tax superannuation contributions
- The company tax rate for eligible small businesses will be reduced by a further 1.0% to 27.5% with plans to reduce this to 25% over 10 years
- Removal of the tax exemption for earnings on allocated pensions whilst in a transition to retirement phase
- Limits of $1.6m that can be held in an allocated pension with increments of $100,000 per annum
- Small business will continue to be able to fully deduct capital expenses of up to $20,000 per annum
- Personal tax cuts, with $80,000 threshold being raised to $87,000

Centrelink age pension

Pension changes

No substantive changes were announced in this year's Federal Budget to the age pension given the range of measures announced last year. Many of the announcements in last year's Budget such as the reduction in the age pension assets test are due to take effect from 1st January 2017.

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.

Government measures to be introduced to support this objective include:

Cap on concessional superannuation contributions

The Government will reduce the annual cap on concessional superannuation contributions to $25,000 on the 1st July 2017 (currently $30,000 for individuals aged under 50 and $35,000 for those aged 50 and over).

Taxation of concessional superannuation contributions

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

Super contribution rules for those aged 65 to 74

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

$1.6 million superannuation balance cap

A tax will apply on amounts which exceed a new $1.6m super and allocated pension cap. This cap will apply from 1st July 2017. Earnings on investments held in pensions up to the $1.6m cap (other than transition to retirement pensions) will continue to be taxed at 0%. Earnings on any balance that remains in superannuation will continue to be taxed at 15%.

Lifetime cap for non-concessional superannuation contributions

From last night, a $500,000 lifetime non-concessional contributions cap (indexed to ordinary times earnings) will apply. Excess contributions will be subject to penalty tax.

All non-concessional contributions made from 1st 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 super contributions.

Superannuation income streams

Earnings on investments held in transition to retirement allocated pensions will be taxed at 15% from 1st July 2017 (currently 0%). A transition to retirement pension is a pension that is started with superannuation money when you have reached your preservation age, which is between 55 and 60 depending on an individual's date of birth.

Once permanently retired (or another condition of release is met), it is expected that the underlying earnings will then be taxed at 0%.

Low income Superannuation income streams

From 1st 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 superannuation contributions

From 1st 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 1st July 2017 can be carried forward.

Superannuation balances of low income spouses

From 1st 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. This offset will apply where the low income spouse's income is up to $37,000 (increased from the current $10,800).

Tax deductions for personal superannuation contributions

From 1st 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.

Social Security and Family Payments

Work for the Dole

From 1st October 2016, the most job ready job seekers will enter the Work for the Dole phase after 12 months participating in job active, rather than the current six months.

Families Package

Child Care Subsidy, Additional Child Care Subsidy and Community Child Care Fund will now apply from 1st July 2018, (rather than the previously announced 1st 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 30th June 2018.

The Interim Home Based Carer Subsidy Pilot Programme (Nanny Pilot Programme), which commenced on 1st January 2016 and subsidises care provided by a nanny in a child's home, will also be extended for six months to 30th June 2018. 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.

Medicare

The Budget is also proposing an overhaul of the Medicare Benefits Scheme in order to save $50 million including a proposed freeze on the Medicare rebate until 2019-20. This will result in higher costs to patients if doctors pass on their increased costs. There are also proposals for new out-of-pocket costs including a $5 rise in the co-payment for prescribed medicines and cutting of the $630 million in bulk-billing incentives to pathologists and radiologists.

Business Announcements

The Government announced a range of tax concessions to further assist small business entities.

Company tax rate for small businesses

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 turnover threshold will then be progressively increased such that all companies are taxed 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. 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.

Small business entity turnover threshold

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

Strengthening of multinational anti-avoidance laws

The Government has announced it will strengthen the multinational anti-avoidance tax laws in an attempt to stop large multinational companies diverting profits earned in Australia away from Australia by using contrived or artificial tax arrangements.

It is proposed that the Commissioner of Taxation will enforce a 40 per cent penalty tax on profits shifted offshore with 1,000 new Australian Tax Office staff to focus on anti-avoidance.

For MLC investors

Depending on where your current portfolio is invested, you may receive correspondence in the next few weeks outlining the appointment of a new trustee. Last year MLC announced a plan to sell 80% of its insurance business to Nippon Life Insurance Company. In order for the sale of the insurance business to complete in the second half of this year, it is proposed some existing investment, superannuation and allocated pension products will be moved to a new trustee called NULIS Nominees (Australia) Limited. This proposal if approved, will take place between 1st July and 30th September this year.

Portfolios will continue to be managed in the same manner with the same investment managers and all account details will remain the same. The only proposed change to allow the sale of the insurance business, is investments being held under a new trustee. There is no action you need to take if the proposal proceeds. We just want to keep you informed and advise that you may receive some correspondence about the changed trustee which is dependent on where your current investments are held.

Any questions?

We hope you have found this useful. We will continue to keep you informed as to whether these proposed changes are actually adopted from the 1st July 2017. If you have any questions, or wish to discuss anything please call us on 03 9544 1004.

All the best,

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