# Federal Budget

## Implications for your financial plan

The Government released the 2016/17 Federal Budget on Tuesday night. This Budget contains a number of proposed measures that may impact you.

Highlights of the changes proposed to taxation, superannuation and social security which may impact you are outlined below. Please remember that, at this time, these measures are proposals only and require the passage of legislation to become effective. These measures may be subject to change through the implementation process.

## Superannuation

The Government will enshrine in law that the **objective** for superannuation is to *provide income in retirement to substitute or supplement the age pension.*

### Contribution caps

The concessional contributions (CC) cap will be reduced to $25,000 from 1 July 2017 and a lifetime non-concessional contributions (NCC) cap of $500,000 will apply from 7.30pm on 3 May 2016 for all individuals under age 75.

| **Concessional cap** | **Current** | **Proposed** |
|---|---|---|
| Under age 49 | $30,000 pa | $25,000 pa from 1 July 2017 |
| Age 49 or over | $35,000 pa | |
| **Non-concessional cap** | | |
| Under age 65 at 1 July | $180,000 pa or $540,000 over 3 years | $500,000* lifetime cap from 7.30 pm on 3 May 2016 |
| Age 65 or over at 1 July | $180,000 pa | |

* indexed to AWOTE

NCCs already contributed on or after 1 July 2007 count towards the $500,000 lifetime NCC cap, however NCCs over the lifetime cap (before commencement) will not result in an excess. NCCs in excess of the $500k cap after commencement can be refunded and if not refunded will incur penalty tax.

The lifetime NCC cap will include after-tax contributions made to defined benefit accounts and constitutionally protected funds. Where a defined benefit member exceeds their lifetime cap, ongoing contributions can continue but the member must, on an annual basis, remove an equivalent amount (including proxy earnings) from any accumulation account they hold (limited to the amount of NCCs made since 1 July 2007). Contributions made to a defined benefit account will not be required to be removed. Members who do not have NCCs available to be removed will be treated equitably under further government consultation.

Notional (estimated) and actual employer contributions will be included in the CC cap for members of unfunded defined benefit schemes and constitutionally protected funds, from 1 July 2017. Members of these funds will have the opportunity to salary sacrifice. Existing grandfathering arrangements will continue for members of funded defined benefit schemes as at 12 May 2009.

**Catch-up concessional contributions**

Individuals with super balances under $500,000 will be able to bring forward previously unused concessional cap amounts from 1 July 2017. For example, if an individual contributes $20,000 in the 2017/18 financial year, they will be able to make an additional $5,000 CC on top of the $25,000 CC cap in 2018/19.

The unused amounts can be carried forward on a rolling basis for a period of five (5) consecutive years. It must be emphasised, this will only apply to amounts accrued from 1 July 2017.

**Tax deduction for super contributions extended**

Individuals up to age 75 will be able to claim a tax deduction for their personal superannuation contributions up to the CC cap from 1 July 2017, regardless of their employment circumstances.

**Super contributions tax – high income earners**

Individuals with adjusted taxable income (ATI) of $300,000 currently pay an additional 15% tax (total of 30%) on concessional super contributions.

The income threshold will be reduced to $250,000 from 1 July 2017.

How this will work in practice:

- If ATI is $240,000 and concessional contributions (CCs) of $25,000 are made; 30% contributions tax will apply on $15,000 of CCs and 15% will apply on the remaining $10,000 CCs.
- If ATI is over $250,000 without CCs, all CCs will be taxed at 30%.

The $250k threshold will also apply to members of defined benefit schemes and constitutionally protected funds currently covered by the additional tax. Existing exemptions (such as State higher level office holders and Commonwealth judges) will be maintained.

**Removal of work test**

The work test (40 hours in 30 consecutive days) will be scrapped for individuals aged between 65 and 74 who wish to make super contributions. Individuals age 65-74 will also be able to receive spouse contributions.

**Retirement income balance cap of $1.6m**

A $1.6 million cap will apply on the amount that can be transferred into the superannuation pension phase from 1 July 2017. There will be no restriction on earnings on the cap amount. Amounts in excess of the $1.6 million cap transferred (including earnings on the excess) will attract the same tax treatment as excess non-concessional contributions (excess unrefunded NCCs are currently taxed at 49%).

Accumulated super in excess of $1.6 million will be able to be retained in a member's accumulation account (with earnings taxed at 15%). Members already in pension phase with balances in excess of the $1.6 million cap will need to roll back the excess to accumulation by 1 July 2017.

Similar tax treatment will apply to members of defined benefit funds for pension amounts over $100,000 from 1 July 2017.

The Government will consult with industry on the implementation of this measure.

**Transition to Retirement**
The tax exemption on earning on assets supporting transition to retirement income streams will be removed from 1 July 2017. The ability to treat certain superannuation income stream payments as lump sums for tax purposes will also be removed.

**Low Income superannuation tax offset (LISTO)**
The LISTO will provide a non-refundable tax offset to superannuation funds, based on concessional contributions tax paid up to a cap of $500, from 1 July 2017. The LISTO will apply to concessional contributions made on behalf of low-income earners with adjusted taxable income up to $37,000.

The LISTO replaces the existing low-income super contribution (LISC) which will be abolished for concessional contributions made from 1 July 2017.

**Low Income tax offset spouse threshold**
The income threshold of a low income spouse for the purposes of the spouse contribution tax offset will increase from $10,800 to $37,000, from 1 July 2017.

To be entitled to the maximum tax offset of $540 from 1 July 2017, the eligible spouse contributions must be made on behalf of a spouse whose assessable income, reportable fringe benefits and reportable employer super contributions in a financial year is less than $37,000.

**Anti-detriment**
The anti-detriment payment (essentially a refund of contributions tax) will be removed from 1 July

# Tax - Personal

## Change to income tax thresholds

The current $80,000 threshold above which each $1 earned is taxed at 37 cents will be increased to $87,000 from 1 July 2016.  The higher income cut-in means tax payable by middle income earners will be reduced from 37 cents to 32.5 cents for all income earned between $80,001 and the new threshold of $87,000.

This equates to a tax saving of around $315 a year (ignoring Medicare levy) for those on incomes between $80,000 and $180,000.

| Taxable income (current) | Tax payable* (current) | Taxable income (proposed) | Tax payable* (proposed) |
|---|---|---|---|
| 0 - $18,200 | **Nil** | 0 - $18,200 | **Nil** |
| $18,201 - $37,000 | 19c for each $1 over $18,200 | $18,201 - $37,000 | 19c for each $1 over $18,200 |
| $37,001 - $80,000 | $3,572 plus 32.5c for each $1 over $37,000 | $37,001 - **$87,000** | $3,572 + 32.5c for each $1 over $37,000 |
| $80,001 - $180,000 | $17,547 plus 37c for each $1 over $80,000 | **$87,001** - $180,000 | $19,822 + 37c for each $1 over $87,000 |
| $180,001 and over | $54,547 plus 45c for each $1 over $180,000 | $180,001 and over | $54,232 + 45c for each $1 over $180,000 |

***** The above rates do not include the 2% Medicare levy or the 2% temporary budget repair levy (expires on 30 June 2017)

## Increased Medicare low income thresholds

The Medicare levy low-income thresholds for singles, families and single seniors and pensioners will be increased from the 2015/16 financial year, to take account of movements in the Consumer Price Index (CPI) so that low-income taxpayers generally continue to be exempted from paying the Medicare levy.

| Family situation | No Medicare levy payable in 2015/16 if taxable income is below: |
|---|---|
| Individuals | $21,335 |
| Couples (no children) | $36,001 |
| Single seniors and pensioners | $33,738 |
| Senior and pensioner couples (no children) | $46,966 |
| Additional amount for each dependent child or student | $3,306 |

## Medicare levy income threshold and rebate pause extended

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.

For the period of 1 July 2015 to 30 June 2021, the income* tiers will be paused at the 2014/15 threshold levels as follows.

| | | Tier 1 | Tier 2 | Tier 3 |
|---|---|---|---|---|
| **Singles** | Up to $90,000 | $90,001 - $105,000 | $105,001 - $140,000 | $140,001 + |
| **Families** | Up to $180,000 | $180,001 - $210,000 | $210,001 - $280,000 | $280,001 + |
| **Surcharge** | 0% | 1% | 1.25% | 1.5% |

The family thresholds increase by $1,500 for each dependent child after the first.

* Taxable income + reportable fringe benefits + total net investment losses + reportable super contributions less the taxed element of a super lump sum within the low-rate cap. 2017.

# Social Security and Family Assistance

**Childcare subsidy delayed**
The implementation of the proposed child care subsidies (contingent on the passage of family tax benefit reforms) will be delayed by one year to 1 July 2018.

It is proposed that the following 3 payments:

- child care benefit (CCB)
- child care rebate (CCR), and
- jobs, education and training child care fee assistance (for parents who qualify for the maximum rate of CCB)

will be combined into a single means-tested child care subsidy (CCS), paid directly to providers, from 1 July 2018.

The nanny pilot programme (commenced on 1 January 2016), which subsidises care provided by a nanny in a child's home, will be extended for six months to 30 June 2018. The hourly fee cap will be increased from $7 to $10 from 1 June 2016.

# Other

## HECS
The Government will delay the implementation of the higher education reforms announced in the 2014/15 Budget and the 2014/15 MYEFO by an additional year to undertake further consultation. Higher education funding arrangements for 2017 will be in line with currently legislated arrangements. The Government will also not proceed with the deregulation of university fees announced in the 2014/15 Budget.