Budget Brief 2016-17

SUPERANNUATION REFORM PACKAGE

The Government introduced a Superannuation Reform Package which contains a number of significant changes, generally taking effect from 1 July 2017.

$500,000 lifetime cap for non-concessional superannuation contributions

The Government will introduce a $500,000 lifetime non-concessional contributions cap to improve the sustainability of the superannuation system. To ensure maximum effectiveness 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 cannot result in an excess. However, excess contributions made after commencement will need to be removed or subject to penalty tax. The cap will be indexed to average weekly ordinary time earnings.

This measure will be available to all Australians up to age 74.

$1.6 million superannuation transfer balance cap

The Government will introduce a $1.6 million transfer balance cap on the total amount of accumulated superannuation an individual can transfer into the retirement phase. Subsequent earnings on these balances will not be restricted.

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 per cent). 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 by either:

- transferring the excess back into an accumulation superannuation account; or
- withdrawing the excess amount from their superannuation.

A tax on amounts that are transferred in excess of the $1.6 million cap (including earnings on these excess transferred amounts) will be applied, similar to the tax treatment that applies to excess non-concessional contributions.

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.

This measure will apply from 1 July 2017.

Other superannuation reforms

• The Government will reform the taxation of concessional superannuation contributions by:

> • lowering the Div 293 threshold (the point at which high income earners pay addition contributions tax) from $300,000 to $250,000;
> • reducing the annual cap on concessional superannuation contributions to $25,000 (currently $30,000 under age 50 and $35,000 for ages 50 and over);
> • allowing individuals with a superannuation balance of less than $500,000 to make additional concessional contributions where they have not reached their concessional contributions cap in previous years - amounts will be carried forward on a rolling basis for a period of five consecutive years.

• The current restrictions on people aged 65 to 74 from making superannuation contributions will be removed such 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.

• The income threshold for a low income spouse for the purposes of the low income spouse superannuation tax offset will be raised to $37,000 from $10,800.

•A Low Income Superannuation Tax Offset (LISTO) will be introduced - a nonrefundable tax offset to superannuation funds, based on the tax paid on concessional contributions made on behalf of low income earners (members with adjusted taxable income up to $37,0001), up to a cap of $500.

• The anti-detriment provision in respect of death benefits from superannuation will be removed.

• The tax exemption on earnings of assets supporting Transition to Retirement Income Streams will be removed from 1 July 2017 (irrespective of when the income stream commenced).

• A rule that allows individuals to treat certain superannuation income stream payments as lump sums for tax purposes (which currently makes them tax-free up to the low rate cap of $195,000) will be removed.

• All individuals up to age 75 will be allowed to claim an income tax deduction for personal superannuation contributions. This effectively allows individuals who are partially self-employed and partially wage and salary earners, and individuals whose employers do not offer salary sacrifice arrangements to make concessional superannuation contributions up to the concessional cap.

SMALL BUSINESS ENTITIES

Increasing the small business entity turnover threshold

The Government will increase the small business entity turnover threshold from $2 million to $10 million from 1 July 2016.

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 less than $5 million.

Small business entity turnover threshold	Pre-1 July 2016	From-1 July 2016
For the purposes of accessing the small business CGT concessions	$2 million	$2 million
For the purposes of accessing the unincorporated small business tax discount	$2 million	$5 million
For all other purposes	$2 million	$10 million

From 1 July 2016, all businesses with annual turnover of less than $10 million will have access to:

- simplified depreciation rules (small business pooling), including immediate tax deductibility for asset purchases costing less than $20,000 until 30 June 2017 and then less than $1,000;

- simplified trading stock rules, giving businesses the option to avoid an end of year stocktake if the value of the stock has changed by less than $5,000;

- a simplified method of paying PAYG instalments calculated by the ATO, which removes the risk of under or over estimating PAYG instalments and the resulting penalties that may be applied;

- the option to account for GST on a cash basis and pay GST instalments as calculated by the ATO; and

- other tax concessions available to small business currently, such as the FBT concessions (from 1 April 2017) and immediate deductibility of professional expenses.

Increasing the unincorporated small business tax discount

The Government will increase the tax discount for unincorporated small businesses incrementally over ten years from five per cent to 16 per cent.

Year	Tax discount
2015-16	5%
From 2016-17 to 2023-24	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.

COMPANIES

Reducing the company tax rate to 25 percent

The Government will reduce the company tax rate to 25 per cent over ten years.

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 threshold will then be progressively increased to ultimately have all companies at 27.5 per cent in the 202324 income year.

The annual aggregated turnover thresholds for companies facing a tax rate of 27.5 per cent will be:

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

Franking credits will be able to be distributed in line with the rate of tax paid by the company making the distribution.

Making targeted amendments to Div 7A

The Government will make targeted amendments to improve the operation and administration of Div 7A. These amendments include:

- A self-correction mechanism providing taxpayers whose arrangements have inadvertently triggered Division 7A with the opportunity to voluntarily correct their arrangements without penalty;

- new safe harbour rules, such as for use of assets, to provide certainty and simplify compliance for taxpayers;

- amended rules, with appropriate transitional arrangements, regarding complying Division 7A loans, including having a single compliant loan duration of ten years and better aligning calculation of the minimum interest rate with commercial transactions; and

- technical amendments to improve the overall operation of Division 7A.

These changes draw on a number of recommendations from the Board of Taxation's Post-implementation Review into Division 7A and will apply from 1 July 2018.

INDIVIDUALS

The Government will increase the 32.5 per cent personal income tax threshold from $80,000 to $87,000 from 1 July 2016.

Taxable income	Old rates	New rates (from 2016-17)
0 - $18,200	Nil	Nil
$18,201 - $37,000	19 cents for each $1 over $18,200	19 cents for each $1 over $18,200
$37,001 - $80,000	$3,572 plus 32.5 cents for each $1 over $37,000	$3,572 plus 32.5c for each $1 over $37,000
$80,001 - $87,000	$17,547 plus 37 cents for each $1 over $80,000	$17,547 plus 32.5 cents for each $1 over $80,000
$87,001 - $180,000	$20,137 plus 37 cents for each $1 over $87,000	$19,822 plus 37c for each $1 over $87,000
$180,000 and over	$54,547 plus 45c for each $1 over $180,000	$54,232 plus 45c for each $1 over $180,000

* It can be seen from the above table that there is an ultimate saving of up to $315 to be had from this change (the difference between tax payable on $180,000, being $54,547 and $54,232). $315 is 4.5% of $7,000, being the additional income taxable at the 4.5% lower rate of 32.5% (as compared to 37%).

Increasing the Medicare levy low-income thresholds and phase-in limits

The Government will increase the Medicare levy low-income thresholds and phase-in limits for singles, families, and seniors and pensioners from the 2015-16 income year.

Medicare levy low-income thresholds		
	2015-16	2014-15
Singles	$21,335	$20,896
Couples	$36,001 (plus $3,306 for each dependent child or student)	$35,261 (plus $3,238 for each dependent child or student)
Single eligible for the Seniors and Pensioners Tax Offset	$33,738	$33,044
Families eligible for the Seniors and Pensioners Tax Offset	$46,966 (plus $3,306 for each dependent child or student)	$46,000 (plus $3,238 for each dependent child or student)
Medicare levy phase-in limits		
	2015-16	2014-15
Singles	$26,668	$26,120
Singles eligible for the Seniors and Pensioners Tax Offset	$42,172	$41,305

Pausing Indexation of the Medicare Levy Surcharge and

Private Health Insurance Rebate Thresholds — extension

The Government will continue the pause on indexation of the income thresholds for theMedicare Levy Surcharge and Private Health Insurance Rebate for a further three years.

WHAT OTHER THINGS WERE ANNOUNCED?

• Announcement of a tax integrity package including a new diverted profits tax, establishing a Tax Avoidance Taskforce, increasing administrative penalties for companies with global revenue of $1 billion or more and strengthening of transfer pricing rules.

• The Government will reduce the WET rebate cap from $500,000 to $350,000 on 1 July 2017 and to $290,000 on 1 July 2018 and introduce tightened eligibility criteria which will apply from 1 July 2019.

• The Government will reform the taxation of financial arrangements (TOFA) rules in such a way as to remove the majority of taxpayers from the TOFA rules. The measure includes, among other things, simplified rules for the taxation of gains and losses on foreign currency to preserve the current tax outcomes but streamline the legislation. The new simplified rules will apply to income years on or after 1 January 2018,