Federal Budget - 2016-2017 Brief

Welcome to the KSR edition of the Federal Budget overview.

The Federal Government handed down its pre-election budget last night and in contrast to recent budgets, this budget seems to have delivered on the government's promise to promote jobs and growth in a transitioning economy, with an emphasis on small business. Scott Morrison has promised to fix the problems in the tax system by combating tax avoidance by multinational companies. A range of measures have been announced to make superannuation a more equitable bona fide retirement vehicle.

The main message from this year's budget is the introduction of the ten year enterprise tax plan and superannuation reforms.

The key changes announced are:

- Eligibility turnover threshold for small business concessions increased from $2M to $10M
- Corporate tax rate for small business decreases to 27.5 per cent from 1 July 2016
- 32.5 per cent individual tax threshold increased from $80,000 to $87,000
- Temporary budget repair levy of 2 per cent applying to individuals earning over $180,000 will cease on 30 June 2017 as intended
- Limit of superannuation pension balances to $1.6M
- Tax exemption on earnings from transition to retirement pensions removed
- Lifetime non-concessional contribution limit of $500,000
- The income threshold above which the additional 15% contributions tax kicks in will be reduced from $300,000 to $250,000 from 1 July 2017

Ten year enterprise tax plan

Small Business

The turnover threshold to determine eligibility for a range of small business concessions (unfortunately excluding the Small Business CGT concessions) has been increased from $2M to $10M. For small businesses with annual turnover of less than $10M, the measures announced include:

- Reducing the corporate tax rate from 30 per cent to 27.5 per cent from 1 July 2016 for companies that have an annual turnover of between $2M to $10M.
- Reducing the corporate tax rate from 28.5 per cent to 27.5 per cent from 1 July 2016 for companies that have an annual of turnover less than $2M.

- Access to the simplified depreciation rules currently available to businesses with an annual turnover of less than $2M, including immediate tax deductibility for asset purchases costing less than $20,000 until 30 June 2017 and depreciation pooling provisions
- simplified trading stock rules, giving them the option to avoid end of year stocktake if the value of their 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;
- other tax concessions currently available to small businesses, such as fringe benefits tax (FBT) exemptions (from 1 April 2017 to align with the FBT year);
- a trial of simpler business activity statements (BAS), reducing GST compliance costs, with a full roll-out from 1 July 2017.
- Extend the unincorporated small business tax discount from 1 July 2016 to businesses with annual turnover of less than $5 million, up from the current threshold of $2 million, and will be increased to 8 per cent. The maximum discount available will remain at $1,000. The tax discount applies to the income tax payable on the business income received from an unincorporated small business entity

These threshold changes will not affect eligibility for the small business capital gains tax concessions, which will remain available for businesses with annual turnover of less than $2 million or that satisfy the maximum net asset value test.

Corporate Tax Rate

The Government will reduce the company tax rate to 25 per cent over 10 years. The turnover threshold will be progressively increased to ultimately have all companies taxed at 27.5 per cent in the 2023-24 income year in line with small business companies that access this rate from 1 July 2016. The annual aggregated turnover thresholds for companies facing a tax rate of 27.5 per cent will be:

- $25.0 million in the 2017-18 income year;
- $50.0 million in the 2018-19 income year;
- $100.0 million in the 2019-20 income year;
- $250.0 million in the 2020-21 income year;
- $500.0 million in the 2021-22 income year; and
- $1 billion in the 2022-23 income year.

In the 2024-25 income year the company tax rate will be reduced to 27 per cent and then be reduced progressively by 1 percentage point per year until it reaches 25 per cent in the 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.

Division 7A

The Government will make targeted amendments to improve the operation and administration of Division 7A of the Income Tax Assessment Act 1936 (an integrity rule for closely held groups). These changes will provide clearer rules for taxpayers and assist in easing their compliance burden while maintaining the overall integrity and policy intent of Division 7A. It includes a self-correction mechanism for inadvertent breaches of Division 7A, appropriate safe-harbour rules to provide certainty, simplified Division 7A loan arrangements and a number of technical adjustments to improve the operation of Division 7A and provide increased certainty for taxpayers.

Incentives for youth employment

From 1 January 2017, Australian employers will be eligible for a Youth Bonus wage subsidy if they hire a young job seeker who has been in employment services for six months or more.

The most job ready job seekers will attract a wage subsidy of $6,500. A larger $10,000 wage subsidy will be available to businesses that employ job seekers classified as 'less job' ready by *jobactive* providers. Businesses will have the flexibility to employ young job seekers either directly, through labour hire arrangements, or combined with an apprenticeship or traineeship.

Tax Cut for middle wage earners

The Government is increasing the 32.5 per cent tax threshold from $80,000 to $87,000 from 1 July 2016 for individuals.

Personal Income Tax — increasing the Medicare levy low-income thresholds

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

The threshold for singles will be increased to $21,335. For couples with no children, the threshold will be increased to $36,001 and the additional amount of threshold for each dependent child or student will be increased to $3,306. For single seniors and pensioners, the threshold will be increased to $33,738. For senior and pensioner couples with no children, the threshold will be increased to $46,966 and the additional amount of threshold for each dependent child or student will be increased to $3,306.

Superannuation Reform

Superannuation pension account:

- The Government has announced that they will be introducing a **$1.6 million** superannuation transfer balance cap on the total amount of superannuation that an individual can transfer into a pension account.

- Amounts in excess of $1.6 million can be maintained in accumulation phase account where earnings will be taxed at the concessional rate of 15 per cent.
- Members already in pension phase with balances above $1.6 million will be required to reduce their retirement balance to $1.6 million by 1 July 2017.
- Although the legislation has not been issued, it appears that retirees will have to roll-back their pensions to accumulation and start a new pension with a value of up to $1.6 million. The excess will remain in accumulation and be taxed at the current rate of 15 per cent.
- A tax will be levied on pensions that are established with a value in excess of the $1.6 million cap (including earnings on these excess transferred amounts), similar to the tax treatment that applies to excess non-concessional contributions.
- The amounts in the accumulation phase will be able to be drawn as lump sum payments pursuant to current conditions of release and tax treatment.

Transition to retirement income stream

- The government will remove the tax exemption on earnings of assets supporting Transition to Retirement Income Stream (income stream of individuals over preservation age but not retired) from 1 July 2017.
- A transition to retirement pension is generally a pension where the member has not “retired” and the member is under age 65.
- It will also remove a rule that allows individuals to treat certain superannuation income stream payments as lump sum for tax purposes.

Tax on concessional contributions:

- The Government will lower the Division 293 threshold from $300,000 to $250,000.
- Individuals who earned combined incomes and superannuation contributions greater than $250,000 will have to pay 30 per cent tax on their concessional contributions, up from 15 per cent.

Superannuation concessional contributions cap:

- The government will reduce the annual cap on concessional superannuation contributions to $25,000.
- Currently the annual cap is $30,000 for those under age of 50 and $35,000 for ages 50 and over.

Superannuation non-concessional contributions cap:

- A lifetime non-concessional cap of $500,000 will replace the existing annual caps which allow annual non-concessional contributions of up to $180,000 per year (or $540,000 every three years for individuals aged under 65)
- This lifetime cap will take into account all non-concessional contributions made on or after 1 July 2007 and will commence on 3 May 2016.
- Contributions made before commencement cannot result in an excess.

Improving access to contributions

- The government will allow all individuals up to age of 75 to claim an income tax deduction for personal superannuation contributions.
- This effectively removes the “10 per cent” and “work test” rule, whereby all individuals regardless of employment circumstances can make concessional contributions up to the concessional cap.
- All current restriction that applies to Australians aged 65 to 74 will be removed. This will result in the same contribution acceptance rules for all individual aged up to 75.

Catch-up concessional superannuation contributions

- The government will allow unused concessional contribution caps to be carried forward on a rolling basis for up to 5 years for individuals with account balances of $500,000 or less.

Low income superannuation tax offset

- A tax offset will be introduced to allow individuals with an adjusted taxable income of $37,000 or less to receive an effective refund of the tax paid on their concessional contributions up to a cap of $500.
- This will effectively avoid the situation in which low income earners would pay more tax on savings placed into superannuation than on income earned outside of superannuation.

Superannuation for low income spouses

- The current spouse tax offset income threshold will be lifted from $10,800 to $37,000.
- The contributing spouse will be eligible for an 18 per cent offset worth up to $540 for contributions made to a spouse’s superannuation account.

Anti-detriment provision in superannuation

- The government has proposed to remove the anti-detriment provision from 1 July 2017.
- Currently the anti-detriment provision can result in a refund of a member’s lifetime superannuation contributions tax payments into an estate where the beneficiary is the dependent of the member.
- This additional anti-detriment payment paid as part of the death benefit claim will result in a deduction for the superannuation fund.

Please do not hesitate to contact the team here at KSR if you have any questions.

The Team at KSR