2016-17 Federal Budget Report highlights

What it means for you

On Tuesday 3 May the Treasurer, Scott Morrison, released the Government's 2016/17 Budget - the Government's economic plan for Australia's transition from mining boom to a more diverse economy.

The budget contained a number of important changes to the superannuation system, including retirement income streams and tax changes. As some of these changes are significant, it is important that you discuss your particular situation with your financial adviser and how these changes may affect you.

Note: These measures are proposals only and will need passage of legislation to become law.

The key superannuation changes announced include:

- Reducing the concessional contributions cap
- New lifetime non-concessional contributions cap
- $1.6 million cap on the amount that can be transferred into a tax-free retirement income stream
- Increasing flexibility for contributions made after age 65
- Change to the taxation of transition to retirement income streams

Superannuation

Concessional contribution changes

From 1 July 2017:

- The concessional contributions cap will reduce to $25,000 per year (down from $30,000 per year for those under age 50 and $35,000 per year for those aged 50 and above). This will also apply to members of defined benefit schemes.

- Individuals with superannuation balances of $500,000 or less will be able to accrue unused concessional contributions cap amounts (up to 5 years) and carry them forward for use in later years.

- Individuals with income and concessional contributions above $250,000 per year (reduced from $300,000 per year) will have to pay an additional tax of up to 15 percent on concessional contributions, which is in addition to contribution tax of 15 percent paid. Similar measures will apply to high earning members of defined benefit funds.

- All individuals up to the age of 75, regardless of their employment status, will be able to claim an income tax deduction for personal superannuation contributions made in an income year. These amounts will count towards the concessional contributions cap and will be subject to contributions tax.

Non-concessional contributions

From 7:30 pm (AEST) on 3 May 2016, non-concessional contributions will be capped at a lifetime amount of $500,000 (indexed). The lifetime cap will replace the existing annual non-concessional contributions caps ($180,000 per annum and the $540,000 'bring-forward' rule) and will include non-concessional contributions made since 1 July 2007.

If the new lifetime cap has been exceeded prior to 7:30 pm (AEST) on 3 May 2016, those amounts can be retained in super however no further non-concessional contributions can be made. Where the lifetime cap is exceeded after this date, any excess will need to be withdrawn, or penalty arrangements will apply.

Similar measures will apply to members of defined benefit and constitutionally protected funds with excess non concessional amounts (plus earnings) being deducted from non-concessional contributions within any accumulation account they have.

Retirement income streams

From 1 July 2017:

- The government will limit the amount of superannuation that can be transferred to tax-free retirement income streams to $1.6 million. Individuals with more than $1.6 million in tax-free retirement income streams on 1 July 2017 will be required to either withdraw the excess amount or transfer the excess back to an accumulation account. However, where the retirement income stream exceeds $1.6 million because of future earnings, the excess will not be required to be withdrawn or transferred.

- Existing and new transition to retirement (TTR) pensions will have investment earnings taxed at up to 15 percent, in line with superannuation in accumulation accounts.

- Remove barriers to innovation in retirement income stream products by extending the tax exemption on earnings to products such as deferred lifetime annuities and group self annuitisation products. This will allow product providers to offer new retirement income products that can help individuals achieve a broader range of retirement goals.

Other superannuation measures:

From 1 July 2017:

- Individuals aged 65 to 74 will no longer need to meet a work test to make a personal contribution or to receive a spouse contribution.

- The spouse contribution tax offset of up to $540 will be available to individuals contributing to their spouse's superannuation fund who can earn up to $37,000 per annum (up from $10,800 per annum).

- A Low Income Superannuation Tax Offset (LISTO) of up to $500 will be available to those with adjusted taxable income below $37,000 per annum.

- Superannuation funds will no longer be able to pay an anti-detriment payment to an eligible dependant after the death of a member.

- The Government will enshrine into legislation the objective of superannuation which is 'to provide income in retirement to substitute or supplement the Age Pension'.

Taxation

Increase to Medicare levy low-income thresholds

From the 2015-16 financial year, the Medicare levy low-income threshold will be indexed for individuals and families to take into account movements in the CPI.

	Medicare Levy threshold (2015-16)	**Medicare Levy threshold (2014-15)**
Single	$21,335	$20,896
Single eligible for SAPTO	$33,738	$33,044
Couple	$36,001	$35,261
Couple eligible for SAPTO	$46,966	$46,000
Additional threshold for each dependent child	$3,306	$3,238

Changing the income tax thresholds

From 1 July 2016, the income threshold where the 37% marginal tax rate starts to apply will increase from $80,001 to $87,001. The income threshold and marginal tax rates from 1 July 2016 are as follows:

Taxable income threshold	Tax payable (excluding Medicare levy)	% tax on excess
$18,200	Nil	19.0%
$37,000	$3,572	32.5%
$87,000	$19,822	37.0%
$180,000	$54,232	47.0%

Temporary Budget repair levy

The three year Temporary Budget Repair Levy on high income individuals will cease from 1 July 2017. Up until then the temporary levy will continue to apply at a rate of two percent on individuals' taxable income in excess of $180,000 per annum. This will mean that the top marginal tax rate will reduce from 47% to 45% (excluding Medicare Levy) from 1 July 2017.

Negative gearing

The Government has announced officially that they will not remove or limit negative gearing because it would increase the tax burden on Australians trying to invest for their future.

Extending the existing freeze on the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds

From 1 July 2018, the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds will remain paused for three more years.

Company tax changes

From 1 July 2016:

- The small business entity turnover threshold will increase to $10 million (from $2 million) for an incorporated entity, allowing eligible businesses to access the lower company tax rate of 27.5%.

- The Government will progressively reduce the company tax rate to 25 per cent over 10 years.