

# **Avant's 2016 -2017 Federal Budget Summary**

**..... and what it means to you.**



**AVANT**  
FINANCIAL SERVICES

## Overview

The Hon Scott Morrison MP handed down his first Federal Budget on the 3<sup>rd</sup> of May 2016. There were modest changes to income tax rates and Centrelink rules but significant, and largely negative, changes to superannuation.

Of most concern is that a number of the superannuation changes are retrospective and hence impact existing and established retirement plans. Normally changes apply from the date of announcement, and any existing arrangements are allowed to continue under the rules which were applicable when they started.

**Please note, all the announcements still need to pass through Parliament; until then they can be viewed as merely a statement of intent.** In addition, the devil is always in the detail, and the details aren't yet fully known.

"The trouble with the budget is that it is hard to fill up one hole  
without digging another"

- Dan Bennett

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# Superannuation & Pensions

## Concessional Contribution limits reduced

From 1 July 2017 the maximum concessional contribution limit will drop from \$30,000 to \$25,000. Those over the age of 50 will see their limit drop from \$35,000 to \$25,000. (Concessional contributions include salary sacrifice and employer SG contributions).

COMMENT: This is a significant negative for those approaching retirement. People should consider making higher contributions (salary sacrifice) earlier in their working life. In addition any existing salary sacrifice arrangements will need to be reviewed.

## Non-Concessional Contribution cap reduction

From 3 May 2016, there will be a lifetime cap of \$500,000 for non-concessional contributions. This is a significant change as previously it was \$180,000 per annum. (Non-concessional contributions are after tax contributions).

COMMENT: Worryingly this is retrospective and will take into account all non-concessional contributions made since 1 July 2007. Anyone who has already exceeded the \$500,000 won't face tax penalties, but will no longer be able to make any future contributions.

## Transition to Retirement Pensions (TTR)

From 1 July 2017 earnings in TTR's will be taxed at 15%, up from 0%. Withdrawals, if over 60, will remain tax free.

COMMENT: A significant negative for those approaching retirement, especially when the lower contribution limits are factored in. It is worrying that it will likely apply to people with existing TTR's rather than just new TTR's.

## Maximum pension limit introduced

From 1 July 2017 the maximum amount a person can transfer into pension phase will be \$1.6 million. Any super balance in excess of this amount will need to be left in accumulation phase or withdrawn and invested outside the superannuation system.

COMMENT: It is extremely worrying that existing pension accounts in excess of \$1.6 million will also be impacted. These people will need to convert the excess portion back into a superannuation accumulation account or withdraw from the superannuation system entirely.

In addition, a \$1.6 million balance, with a 3% bank interest rate only provides an income of \$48,000 per annum.

### 'Catch-up' contributions

From 1 July 2017 people with a super balance under \$500,000 will be able to make 'catch-up' concessional contributions. Any unused concessional cap amounts can be carried forward on a rolling basis over a consecutive five-year period.

COMMENT: This presents a good retirement planning opportunity for those approaching retirement and who have not been regularly making maximum concessional superannuation contributions.

### Increase in contribution tax for high income earners

From 1 July 2017 the government will increase the tax on concessional contributions from 15% to 30% for high income earners. This applies to people who have a combined income and superannuation contribution greater than \$250,000. Previously this was only applicable to those with a combined \$300,000.

### Low Income Superannuation Tax Offset (LISTO)

From 1 July 2017 the government will introduce LISTO for individuals with incomes under \$37,000. This will refund a maximum \$500 of the tax paid on concessional superannuation contributions back to the superannuation fund.

COMMENT: This is a logical and common sense decision as it ensures superannuation's contribution tax is not higher than a low income earners income tax rate.

### Spouse Tax Offset

From 1 July 2017 the income threshold will increase from \$10,800 to \$37,000. A contributing spouse will be eligible for an 18 per cent offset if they make a \$3,000 contribution to their eligible spouse's superannuation account. The maximum tax offset is \$540.

## Age limit for contributions

From 1 July 2017 people aged between 65 and 74 will no longer need to meet the 'work test' in order to be eligible to contribute to superannuation.

COMMENT: This provides an opportunity to get more money into superannuation for retirees between the ages of 65 and 74.

## Personal deductible contributions

From 1 July 2017 anyone will be able to claim a tax deduction on their concessional contributions.

COMMENT: This could be especially useful for those who earn a significant portion of their income from investments. In conjunction with the abolition of the 'work test', retirees aged between 65 and 74 who have investments outside of superannuation can now effectively 'salary sacrifice' these earnings into super. The \$25,000 contributions cap still applies.

# Taxation

## Tax Rate Changes

From 1 July 2016, a modest tax rate change will occur.

Personal Income Tax Rates				
	2015-2016		2016-2017	
	Amount	Rate	Amount	Rate
1 <sup>st</sup> Tier	\$0 - \$18,201	0%	\$0 - \$18,201	0%
2 <sup>nd</sup> Tier	\$18,201 - \$37,000	19.0%	\$18,201 - \$37,000	19.0%
3 <sup>rd</sup> Tier	\$37,001 - \$80,000	32.5%	\$37,001 - <del>\$87,000</del>	32.5%
4 <sup>th</sup> Tier	\$80,001 - \$180,000	37.0%	<del>\$87,001</del> - \$180,000	37.0%
5 <sup>th</sup> Tier	\$180,001 +	47.0%*	\$180,001 +	47.0%*

\* 47% tax rate includes the 'Temporary Budget Repair Levy' of 2%. This is due to expire from the 30<sup>th</sup> June 2017.

COMMENT: The maximum benefit will be for those earning over \$87,001, and it will only amount to \$315 p/a.

## Low Income Tax Offset

This remains unchanged and gives taxpayers an effective tax-free income of \$20,542 in 2016-17.

## Company Tax Rate

From 1 July 2016 the government will commence lowering the company tax rate to 25 per cent by 2026-27. Initially the small business company tax rate will reduce from 28.5 per cent to 27.5 per cent. The annual turnover limits will be progressively increased thereafter until 2023 when all companies will receive further annual reductions in the tax rate till 25% is reached.

Company Tax Rates		
Year	Turnover Threshold	Rate
1/7/16 – 30/6/17	\$10 million	27.5%
1/7/17 – 30/6/18	\$25 million	27.5%
1/7/18 – 30/6/19	\$50 million	27.5%
1/7/19 – 30/6/20	\$10 million	27.5%
1/7/20 – 30/6/21	\$250 million	27.5%

## Small Business

### Increase in turnover thresholds

From 1 July 2016 businesses with turnover of up to \$10million, up from \$2 million, will be eligible for certain concessions. These include:

1. The lowering of the small business corporate tax rate (see taxation section above)
2. Simplified asset depreciation rules. Until June 2017 this includes an immediate tax deduction for asset purchases costing less than \$20,000.

COMMENT: The current \$2 million turnover threshold will be retained for small business Capital Gains Tax concessions.

### Unincorporated businesses

To complement the company tax rate reductions, the tax discount (or tax offset) for unincorporated small businesses (eg sole traders and partners in a partnership) will


increase over a 10-year period from 5% to 10%. The maximum value of the discount will remain at \$1,000.


## Social Security


### Deferral of child care payment reforms


It was previously proposed that a new single Child Care Subsidy (CCS) would replace the Child Care Benefit, the Child Care Rebate and the Jobs, Education and Training Child Care Fee Assistance from 1 July 2017. This has now been deferred to 1 July 2018.





 Suite 6, 37-39 Railway Parade,  
Mount Lawley, WA 6050

 PO Box 585, Maylands, WA 6931

 08 6143 3792

 08 6555 8181

 admin@avantfinancial.com.au

 www.avantfinancial.com.au

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#### Investment Performance:

Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.

#### Disclosure:

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