2016 Federal Budget

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2016 Federal Budget

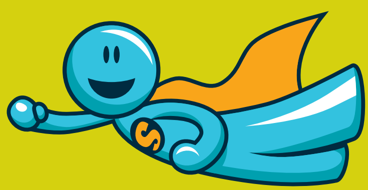
Federal Budgets are big, complicated documents and it can be difficult to figure out just how they affect you and your family. We've made it easy for you.

SUPER

Lifetime caps

A $500,000 lifetime cap on after-tax contributions headlines sweeping changes.

HEALTH



Fewer hit by levy

Fewer Australians pay the Medicare Levy as low-income thresholds increase.

WEALTH

Tax cuts for some

Small personal tax cuts raise the third income tax bracket from $80,001 to $87,001.

CAREER

Youth training

A plan to get youth into employment leads this year's budget plan.

FAMILY

Waiting for childcare

Families will have to wait another year for a promised childcare package.

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Your super and retirement

Federal Treasurer Scott Morrison introduced sweeping changes to Australia's superannuation system in the 2016 Federal Budget, targeting tax concessions that benefit high-income earners while retaining assistance for the lowest paid.

Measures include a $1.6 million cap on the amount of super that can be transferred to pension accounts, a $500,000 lifetime cap on after-tax (non-concessional) contributions and a "catch-up" clause on concessional contributions that will ensure the system is fairer, more flexible and fit for purpose.

Meanwhile the "big ticket" wealth creation values are untouched: the tax rate on concessional super contributions remains a generous 15% for most and pension drawdowns remain tax free for those aged over 60.

Tax deductible contributions more widely available

From 1 July 2017, all super members can now claim a tax deduction for personal contributions up to the concessional cap of $25,000. This was previously mainly available only to the self-employed.

What does this mean for me?

If you make a personal contribution from your take-home pay, you may be able to claim it as a tax deduction.

What could I do about it?

To take advantage of this change you need to tell your super fund that you intend to claim the contribution as a tax deduction.

$500k lifetime non-concessional cap

The government plans to introduce a $500,000 lifetime cap on contributing your own savings to super on an after tax basis. This will replace the current annual cap of $180,000.

The new cap is effective immediately and will apply retrospectively, backdated to take account of all contributions made from 1 July 2007.

What does this mean for me?

This will significantly reduce the amount that can be contributed to super for high earners.

However, if you have already breached this limit because of past contributions, no penalty will apply. Any further non-concessional contributions will be treated as excess and will need to be refunded, with deemed earnings taxable or subject to non-concessional excess contributions tax.

If you breach the cap after today, any contributions above $500,000, and associated earnings, will need to be withdrawn or they will incur a penalty tax.

What could I do about it?

This lifetime approach to contributions means people need to be more engaged in their wealth strategy earlier, rather than waiting to hit certain milestones closer to retirement.

If you're close to or in the process of planning for your retirement, you might need to revisit your strategy to ensure you're taking full advantage of, but not exceeding, the lifetime cap.

$1.6 million cap on super to pension

Retirees will no longer be able to enjoy tax-free earnings on balances higher than $1.6 million. From 1 July 2017, the government will introduce limits on the amount of superannuation that can be transferred into a pension account, or can remain in an existing pension account, where earnings are tax-free.

What does this mean for me?

The change applies to existing and future retirees and any balance you already hold in a pension on 1 July 2017 will count towards the limit.

What could I do about it?

If you have more than $1.6 million in your pension account you will either have to move some of it to an accumulation account or withdraw it by 1 July 2017 to avoid heavy tax penalties on the excess.

If you're a couple, you could consider distributing money between the two of you to bring your combined cap to a maximum of $3.2 million. You'll need to take into consideration the new lifetime cap on non-concessional contributions.

Concessional cap cut to $25k

Annual limits on before-tax contributions will be cut to $25,000 for everyone from 1 July 2017. This is reduced from the current cap of $30,000 for most workers and $35,000 for those aged over 50.

Concessional contributions are made up of all before tax contributions and include the Superannuation Guarantee from your employer, salary sacrifice contributions and any contributions that you claim as a tax deduction.

What does it mean for me?

This change will limit the amount of concessional contributions you can put into super, pre-tax, in any given year. You will need to keep a closer eye on your combined contributions, particularly if you have accounts with more than one super fund.

What could I do about it?

Consolidating your super into a single account will make it easier for you to keep track of your contributions and ensure you don't go over the cap. The new limits don't come into effect until 1 July 2017 so there's still time to take advantage of the existing, more generous limits.

Speak to a financial adviser before changing your contribution strategy.

Carry over contributions – good news for super savers

While the government will tighten limits on before-tax contributions, the proposed rules will allow most people to carry over five years' of unused caps from 1 July 2017. Anyone who doesn't make concessional contributions of $25,000 a year can make catch-up payments in following years, provided their super balance is below $500,000.

What does this mean for me?

If you're not in a position to make concessional contributions of up to $25,000 a year to your super (including your employer contributions), you may be able to take advantage of the carryover rules when your income is higher and the tax deductions are more effective.

What could I do about it?

If your super balance is below $500,000, you could consider putting a plan in place top up your super with unused contribution caps in later years.

More super tax on high-incomes

People with a taxable income of over $250,000, including any concessional contributions, will pay 30% tax on their concessional contributions from 1 July 2017.

At the moment only those with an adjustable income of more than $300,000 pay the higher rate of 30%.

What does this mean for me?

The higher tax rate will only kick in if your adjusted-income exceeds $250,000. We estimate less than 1% of the population will pay the 30% rate on super contributions.

Even at the higher rate, super still offers a discount of about 17% compared to the highest marginal tax rate.

What could I do about it?

There is a short window of opportunity for those earning $250,000-$300,000 a year to top up their super balance at the lower contributions tax rate of 15%, a discount of more than 30% to their marginal income tax rate.

Speak to a financial adviser who can help you weigh up your options.

Support for low-income earners

From 1 July 2017, a new Low-Income Superannuation Tax Offset (LISTO) will be introduced to offset tax on concessional superannuation contributions for low-income earners. Under the scheme, the offset will enable funds to refund tax paid on super contributions, up to $500, for those earning up to $37,000 a year.

The proposal is similar to the existing Low-Income Support Contribution program.

What does this mean for me?

If you earn less than $37,000 a year, the scheme is designed to ensure you don't pay more tax on your super contributions than you pay on your income. It is particularly beneficial for women, who make up the majority of low-income and part time workers, to help them save more for retirement.

What could I do about it?

You don't need to apply for the tax rebate; your fund will automatically pay it to your super account if advised by the ATO that you're eligible.
You may also be eligible for government co-contributions. Check out our website for more information about co-contributions.

An increased incentive to help out your spouse

More partners will be encouraged to make contributions to their low-income spouses' superannuation when the government raises the income threshold to $37,000 from $10,800 on July 1 2017.

What does this mean for me?

There is now greater flexibility to support your partner. If your spouse earns less than $37,000 you could benefit from a $540 per annum rebate while helping your spouse boost their retirement savings.

What could I do about it?

Consider spouse contributions as part of your overall contributions strategy.

Everyone can contribute to super up to the age of 75

From 1 July 2017, the government will allow people aged 65 to 74 to make superannuation contributions. 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.

What does this mean for me?

If you're aged between 65 and 74 you will be able to contribute to your super regardless of your circumstances.

What could I do about it?

If you'd like to make a contribution to your super account, this can generally be done via BPAY®. View your annual statement for details.

Transition To Retirement (TTR) pensions no longer tax free

From 1 July 2017, earnings generated by TTR pensions will no longer be tax free. Instead, the earnings will be taxed at 15%, the same level of tax that is paid by super accounts.

The government will also remove a rule that allows individuals to reduce their tax bills by treating some superannuation income stream payments as lump sums.

What does this mean for me?

If you're aged between 55 and 59 the potential benefits of a TTR strategy are limited. For those over the age of 60 there is still merit in exploring the tax savings of a tax free pension income.

If you have an existing TTR account, you should consider reviewing the effectiveness of your existing strategy, especially in light of the reduced contribution caps.

What could I do about it?

Specific, careful planning is required to determine the effectiveness of a TTR strategy and we recommend you speak to a financial adviser.

Your health

Public hospitals will receive an extra $2.9 billion for services from 1 July 2017, and there will be subsidised dental care for children and low-income earners.

Fewer Australians are set to pay the Medicare Levy as low-income thresholds increase for singles, families, seniors and pensioners in different ways. And to encourage people to quit smoking, there will be tax increase in tobacco excise, which means that by 2020 almost 70% of the cost of cigarettes will be government excise.

Fewer Australians to pay the Medicare Levy as low-income thresholds increase

Starting this financial year, the Medicare low-income thresholds will increase. It will affect young singles, families, seniors and pensioners in different ways.

Young singles and families

- Singles: $21,335
- Couples with no children: $36,001
- Additional threshold for each dependent child or student: $3,306

Seniors and pensioners

- Single seniors and pensioners: $33,738
- Senior and pensioner couples with no children: $46,966
- Additional threshold for each dependent child or student will be increased to $3,306.

What does this mean for me?

If you're earning less than the threshold above, you should be exempt from the Medicare Levy.

Smokers cough up more tax

Smokers will pay more tax on cigarettes after the government announced a 12.5% annual increase in tobacco excise across the next four years.

The tax hike will bring the amount of tax on cigarettes to nearly 70% of the overall price; the amount recommended by the World Health Organisation.

What does this mean for me?

Smokers will start feeling the heat come 1 September 2017 as the cost rise is staggered over a four-year period to 2020. Duty free allowances will be halved.

Subsidised dental care for children and low-income earners

The government has proposed changes to dental policy it says will provide more than 10 million Australians with access to public dental health care. The $1.7 billion plan extends eligibility to all children aged under 18 and adults with a health care card from 1 July 2016.

What does this mean for me?

If you hold a health care card or are under 18 years old you will have access to subsidised public dental health treatment.

Your wealth

Bold changes are set to hit high-income earners but leave 96% of Australians untouched. Small to medium enterprises are tipped for a company tax rate reduction, with unincorporated small businesses to receive an increased tax discount across 10 years.

Small personal tax cuts that raise the third income tax bracket from $80,001 to a new threshold of $87,001 would deliver about $315 per year to people at the top end of the bracket.

The fundamentals of creating wealth are untouched, including 15% tax on your super, franking credits from direct shares and negative gearing.

Company tax break for small business

The government has provided a tax break for small and medium-sized businesses with their company tax rate falling to 27.5% from 1 July this year.

The move represents an additional 1% reduction for small businesses with annual turnover of less than $2 million, and a 2.5% tax reduction for firms with annual turnover between $2 million and $10 million.

What does this mean for me?

If you're a small business owner you will retain more profit to reinvest in your business. It's also a win if you're an investor because shareholders will still receive the full tax rebate (franking credit rate) which stays at 30% for all companies.

Unincorporated small business discount

The tax discount for unincorporated small businesses will increase incrementally over 10 years from 5% to 16%. The tax discount will increase to 8% on 1 July 2016.

What does this mean for me?

If you qualify, you'll automatically get this tax discount and it will be reflected in your financial statements. If you have any questions about it, it's a good idea to speak to your accountant.

Some tax relief for middle income earners

From 1 July this year, the government will lift the second-highest income tax threshold from $80,001 to $87,001 over which each dollar is taxed at 37 cents.

What does this mean for me?

If you earn $87,000 or more and receive the full tax cut, it could be worth $6 a week or $315 a year.

Consider what you could do with your tax savings. You wouldn't have had this money before and it could be helpful to boost your super or pay off some of your mortgage.

Budget repair tax scrapped

High-income earners will get an effective tax break after the government confirmed the temporary "budget repair levy", which taxes people earning more than $180,000 at an additional 2%, would end on July 1, 2017.

What does this mean for me?

If you have an annual income of $250,000 you'll keep an extra $26.85 per week after the levy is abolished.

Your career

A plan to get young people into viable employment options leads this year's budget. An internship is planned for up to 100,000 people aged under 25 with incentives for them and businesses to make it happen. Expansion to the New Enterprise Incentive Scheme is planned to encourage self-employment and entrepreneurship, with the number of NEIS places to rise.

Helping young job seekers get in to the workforce

The government will introduce an internship program to help young people who have been out of work for six months or more to gain practical work experience.

The program will provide an intensive six weeks of "pre-employment skills training", followed by a workplace internship of up to 12 weeks.

It will provide 100,000 job seekers across four years access to a 4 to 12 week placement in an industry of their choice. Both businesses and job seekers will be rewarded for participating.

What does this mean for me?

From 1 October 2016, the most job-ready job seekers will enter the Work for the Dole phase after 12 months participating in Job Active, rather than the current six months.

If you're in the hunt for a job and are eligible, you could receive a $200 fortnightly incentive payment to participate.

If your business takes on an intern, you'll receive a $1,000 up front payment. If they subsequently hire a young job-seeker, they'll receive a wage subsidy of up to $10,000 paid across 6 months.

Your family

There's some joy for families in the super reforms announced in last night's Federal Budget – spouse contribution reforms and catch-up contributions will aid working parents. Other than that, families will have to wait another year for a promised childcare package; a highlight of last year's budget.

Childcare package put on hold

The government has held off implementing the childcare subsidies, announced in last year's budget for another year.

The proposed Child Care Subsidy, Additional Child Care Subsidy and Community Child Care Fund will now apply from 1 July 2018 rather than the previously announced 1 July 2017.

What does this mean for me?

Child care fee assistance will continue to be provided under the existing programs until 30 June 2018. The so-called 'Nanny Pilot Programme', which started on 1 January 2016 and subsidises care provided by a nanny in a child's home, will also be extended for six months to 30 June 2018.

The hourly fee cap will be increased from $7 to $10 from 1 June 2016.

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