

# Federal Budget Update

## How the Budget may affect workers, wealth builders, women and families

### Federal Budget Update 2016–17

#### Summary: What's in and what's out

- Tax relief for workers earning over \$80,000, effective from 1 July, 2016
- Increasing the number of members subject to a higher tax (up to 30%) on concessional (pre-tax) super contributions. This applies where income is above \$250,000, down from the current threshold of \$300,000
- Capping annual concessional super contributions at \$25,000, down from \$30,000 for workers under age 50 and \$35,000 for workers aged 50 and over
- A new Low Income Super Tax Offset targeted at workers earning less than \$37,000
- Tax concessions to encourage workers with broken employment patterns, such as women and carers, to make “catch-up” contributions to boost their super
- Introduction of a super transfer balance cap of \$1.6 million to limit the amount a person can transfer into the tax-free retirement environment
- Removal of anti-detriment death provisions
- A Youth Jobs Path program to help young job seekers
- No changes to negative gearing or capital gains tax
- No tax relief for people earning under \$80,000

#### Overview

While medium and high income earners stand to benefit from a modest tax cut for workers earning over \$80,000, many of the super tax concessions for higher income earners will be scaled back. To prevent approximately 300,000 middle income earners from creeping into the second highest tax bracket due to wage inflation, the threshold over which income is taxed at 37c in the dollar will increase from \$80,000 to \$87,000 from 2016/17. There will be no personal tax relief for people earning under \$80,000.

## Income tax table for residents 2016/17

Taxable income	Tax payable
\$0 – \$18,200	0%
\$18,201 – \$37,000	19% > \$18,200
\$37,001 – \$87,000	\$3,572 + 32.5% > \$37,000
\$87,001 – \$180,000	\$19,822 + 37% > \$87,000
\$180,000+	\$54,232 + 47% > \$180,000

### Super changes

Unlike last year's Budget which contained very few super changes, the Turnbull government has introduced broad super changes. They include lowering the threshold at which high income earners pay additional tax on concessional super contributions and capping concessional super contributions at \$25,000 per year, down from \$30,000 for workers under age 50 and \$35,000 for workers aged 50 and over (effective 1 July 2017).

Currently, workers with income of \$300,000 and above are subject to an additional 15 per cent tax on concessional contributions (applies to 'low tax contributions' to the extent that they exceed the income threshold). From 2017/18, the 30 per cent tax on concessional super contributions will extend to workers with income above \$250,000.

The government will also impose a lifetime cap of \$500,000 on non-concessional contributions, replacing the current cap of \$180,000 per annum or \$540,000 every three years for individuals under age 65, under the bring forward rule.

This new cap applies from 7:30pm AEST 3 May 2016 for contributions made on or after 1 July 2007. Contributions made before this time cannot result in an excess.

The key benefit of making after-tax contributions is that any earnings a super fund derives are usually taxed at a lower rate than earnings outside super, depending on an individual's personal taxable income. Super fund earnings are taxed at up to 15 per cent compared to marginal tax rates of up to 47 per cent plus 2 per cent Medicare levy on earnings outside super.

If legislated, the move will primarily affect high income earners and self-managed super fund (SMSF) members, who tend to make the largest after-tax contributions.

#### Women and lower income earners

Included in the Budget is a "catch-up" super contributions scheme, targeted at workers with relatively low account balances as a result of broken work patterns due to taking time out from paid work to care for children or due to sickness.

Individuals with under \$500,000 in super will be able to make additional concessional contributions where they have not used up their caps in previous years. Unused amounts accrued from 1 July 2017 can be carried forward on a rolling basis for a period of five consecutive years.

Women, who commonly take time out from paid work to care for children and are more likely to return to lower-paid, casual or part-time work, will be a key beneficiary of the catch-up scheme given they typically retire with significantly less super than men. Women will also be key beneficiaries of a planned increase in the threshold for the Low Income Spouse Tax Offset from 1 July 2017 to \$37,000 from \$10,800.

The Low Income Spouse Tax Offset provides up to \$540 per annum for the contributing spouse, and is designed to boost the super balances of low income spouses, particularly women. The Budget also introduced a Low Income Super Tax Offset (LISTO) to effectively replace the Low Income Super Contribution (LISC).

The LISTO will reduce the tax on super contributions paid by workers who earn less than \$37,000 a year by providing a refund to super funds from 1 July 2017, based on the tax paid on concessional contributions up to the value of \$500.

Other super changes include a balance cap of \$1.6 million on the total amount of accumulated super a person can transfer into the tax-free environment and the removal of anti-detriment payment on lump sum super death benefits (represents a refund of a member's lifetime super contributions tax payments).

## **What's next?**

The vast majority of changes must be legislated and passed through Parliament before they apply. If you think you may be negatively affected by some of the Budget's proposed changes, you should consider seeking professional advice. A financial adviser can give you a clear understanding of where you stand and how you can manage your cashflow, super and investments in light of proposed changes. A financial adviser can also ensure you're not missing out any new benefits you may be entitled to.

**If any of these proposals raise questions, concerns or potential opportunities for you, contact us today.**