DHIR ASSOCIATES
PUBLIC ACCOUNTANT

BUDGET INSIGHT 2016-2017

PERSONAL TAXATION

The Government announced in the Budget that it will increase the 32.5% personal income tax threshold from $80,000 to $87,000 from 1 July 2016.

The currently legislated rates for 2015-16 and proposed new personal tax rates and thresholds for 2016-17 (Including the 2% temporary budget deficit levy, but excluding the 2% Medicare levy) are as follows:

Personal income tax rates and thresholds

	2015-16		***2016-17***	
	Threshold	***Rate***	***Threshold***	***Rate***
1st rate	$0 - $18,200	0%	$0 - $18,200	0%
2nd rate	$18,201 - $37,000	19.0%	$18,201 - $37,000	19.0%
3rd rate	$37,001 - $80,000	32.5%	$37,001 - $87,000	32.5%
4th rate	$80,001 - $180,000	37.0%	$87,001 - $180,000	37.0%
5th rate	$180,001	47.0%	$180,001	47.0%

With Medicare levy included, the top marginal rate is 49% from 1 July 2014 to 30 June 2017.

Source: Budget.gov.au. (n.d.). Retrieved May 04, 2016, from http://budget.gov.au/2016-17/content/glossies/tax_super/html/

SUPERANNUATION

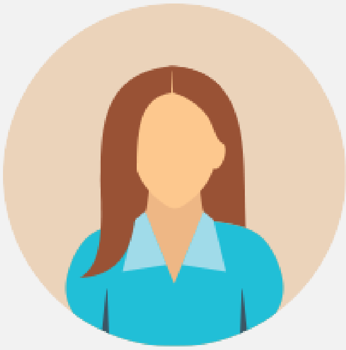
- Combined incomes and superannuation contributions **greater than $250,000 to pay 30 per cent tax on their concessional contributions**, up from 15 per cent. This extends the current treatment of people with combined incomes and superannuation contributions over $300,000. These individuals will still have significant incentives to save for their retirement. This change will only affect around one per cent of superannuation fund members.

- Lowering the **superannuation concessional contributions[1] cap to $25,000** per annum. This level still enables individuals to make enough contributions over their working life to be self-sufficient in retirement. Lower caps on concessional contributions also make it feasible to allow more flexibility across the system to accommodate modern working arrangements.

- Introducing a **$500,000 lifetime cap for non-concessional contributions**. The lifetime cap will limit the extent to which the superannuation system can be used for tax minimization and estate planning.
- Introduce the **Low Income Superannuation Tax Offset** to replace the Low Income Superannuation Contribution when it expires on 30 June 2017. This will continue to support the accumulation of superannuation for low income earners.
- This will 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.
- The Low Income Superannuation Tax Offset will, in particular, assist women to build their superannuation savings.

Source: Budget.gov.au. (n.d.). Retrieved May 04, 2016, from http://budget.gov.au/2016-17/content/glossies/tax_super/html/

Taken together, these changes will better target the concessional taxation of superannuation and help to ensure that the superannuation system remains sustainable for the benefit and retirement security of all Australians.



LOW INCOME EARNER

Bronwyn is a part-time worker who earns $20,000 in the 2017-18 income year. Her employer makes compulsory Superannuation Guarantee payments of 9.5 per cent ($1,900 per year) into Bronwyn's superannuation account. Once in the superannuation account Bronwyn's contributions are taxed at 15 per cent ($285 per year). At the end of the year Bronwyn will be eligible for a Low Income Superannuation Tax Offset of $285. Bronwyn now effectively pays zero tax on her superannuation contributions.

MIDDLE INCOME EARNER

In 2017-18, Jamie earns an average full-time wage of $80,000 per year. His employer makes compulsory Superannuation Guarantee payments of 9.5 per cent of his salary ($7,600 per year) into his superannuation account. Jamie makes no additional contributions to superannuation and is not affected by the changes. Jamie can still make additional concessional superannuation contributions of $17,400 either through salary sacrifice or by making a deductible personal contribution. If Jamie inherited some money, he could also put this in his superannuation (subject to the new $500,000 lifetime cap for non-concessional contributions).

Source: Budget.gov.au. (n.d.). Retrieved May 04, 2016, from http://budget.gov.au/2016-17/content/glossies/tax_super/html/

Individuals will not be adversely affected by the changes unless they:

MAKE CONCESSIONAL CONTRIBUTIONS	HAVE INCOME (INC. SUPER CONTRIBUTIONS)	HAVE A SUPERANNUATION BALANCE	MAKE OR PLAN TO MAKE
>$25,000 PER YEAR	>$250,000 PER YEAR	>$1.6m	>$500,000 NON-CONCESSIONAL CONTRIBUTIONS

From 1 July 2017, the Government will lift current restrictions and allow individuals under **the age of 75 to claim tax deductions for personal superannuation contributions** to eligible superannuation funds.

This effectively allows all individuals, regardless of their employment circumstances, to make concessional super contributions up to the concessional cap. Individuals who are partially self-employed and partially wage and salary earners and individuals whose employers do not offer salary sacrifice arrangements will benefit from these changed arrangements.

In addition, the Government will improve the superannuation balances of low income spouses by extending the current spouse tax offset to assist more families to support each other in accumulating superannuation. The current income threshold for the receiving spouse (whether married or de facto) will be lifted from $10,800 to $37,000.

A contributing spouse will be eligible for an 18 per cent offset worth up to $540 for contributions made to an eligible spouse's superannuation account.

The Government will also introduce **catch-up concessional superannuation contributions** by allowing unused concessional contribution caps to be carried forward on a rolling basis for up to five years for those with account balances of $500,000 or less. This

Source: Budget.gov.au. (n.d.). Retrieved May 04, 2016, from http://budget.gov.au/2016-17/content/glossies/tax_super/html/

will allow those with lower contributions, interrupted work patterns or irregular capacity to make contributions to make ‘catch-up’ payments to boost their superannuation savings.

CHANGES IN CONTRIBUTION RULES FOR OLDER AUSTRALIANS

To assist older Australians prepare for their retirement by boosting their superannuation account balances, the Government is lifting restrictions on their ability to contribute.

Currently, there are minimum work requirements for Australians aged 65 to 74 who want to make voluntary superannuation contributions. Restrictions also apply to the bring-forward of non-concessional contributions. In addition, spouses aged over 70 cannot receive contributions. None of these restrictions apply to individuals aged under 65.

The Government will remove these restrictions and instead apply the **same contribution acceptance rules for all individuals aged up to 75**, from 1 July 2017.

These changes will provide better incentives and more flexibility to all Australians to make superannuation contributions appropriate to their circumstances.

Source: Budget.gov.au. (n.d.). Retrieved May 04, 2016, from http://budget.gov.au/2016-17/content/glossies/tax_super/html/

SMALL BUSINESS

Last year the Government made it easier for small businesses to operate, grow and employ more Australians by lowering their costs and reducing red tape. This was driven by a reduction in their tax rate of 1.5 percentage points for small companies, a 5 per cent tax discount for unincorporated small businesses and immediate deductibility of assets that cost less than $20,000.

This year the Government will go even further and introduce new measures to help small businesses invest in and grow their business.

The small business entity annual turnover threshold will be increased from $2 million to $10 million from 1 July 2016. This will provide over 90,000 additional small businesses with access to tax concessions including the reduced corporate tax rate and the instant asset write-off provisions**.**

****Please note that the Instant asset write off threshold currently at $20,000 will be revert back to $1,000 from 1 July 2017****

The Government will reduce the corporate tax rate for businesses with turnover less than $10 million per year to 27.5 per cent from 1 July 2016. This lower rate will be extended to other businesses over time through a schedule of phased reductions.

An 8 per cent unincorporated tax discount will be provided to unincorporated businesses with turnover less than $5 million per annum, capped at $1,000 per year from 1 July 2016 for the following eight years. The discount will increase to 16 per cent in increments from 2024 to 2026 to coincide with the staggered reductions in the corporate rate.

The Government will reduce the corporate tax rate for businesses with turnover less than $10 million per year to 27.5 per cent from 1 July 2016.

Source: Budget.gov.au. (n.d.). Retrieved May 04, 2016, from http://budget.gov.au/2016-17/content/glossies/tax_super/html/

2015-2016 BUDGET COMPARISION

2015 BUDGET	2016 BUDGET
• Tax changes for businesses with turnover below $2 million: • Company tax rate for small business cut to 28.5 per cent. • 5 per cent unincorporated tax discount. • Immediate tax deductibility on each asset costing less than $20,000.	• Small business entity turnover threshold increased to $10 million per annum for most small business concessions. • Company tax rate for small business cut to 27.5 per cent. • Unincorporated tax discount increased to 8 per cent for businesses with turnover below $5 million. • Access to tax concessions increased to over 90,000 additional small businesses

Source: Budget.gov.au. (n.d.). Retrieved May 04, 2016, from http://budget.gov.au/2016-17/content/glossies/tax_super/html/