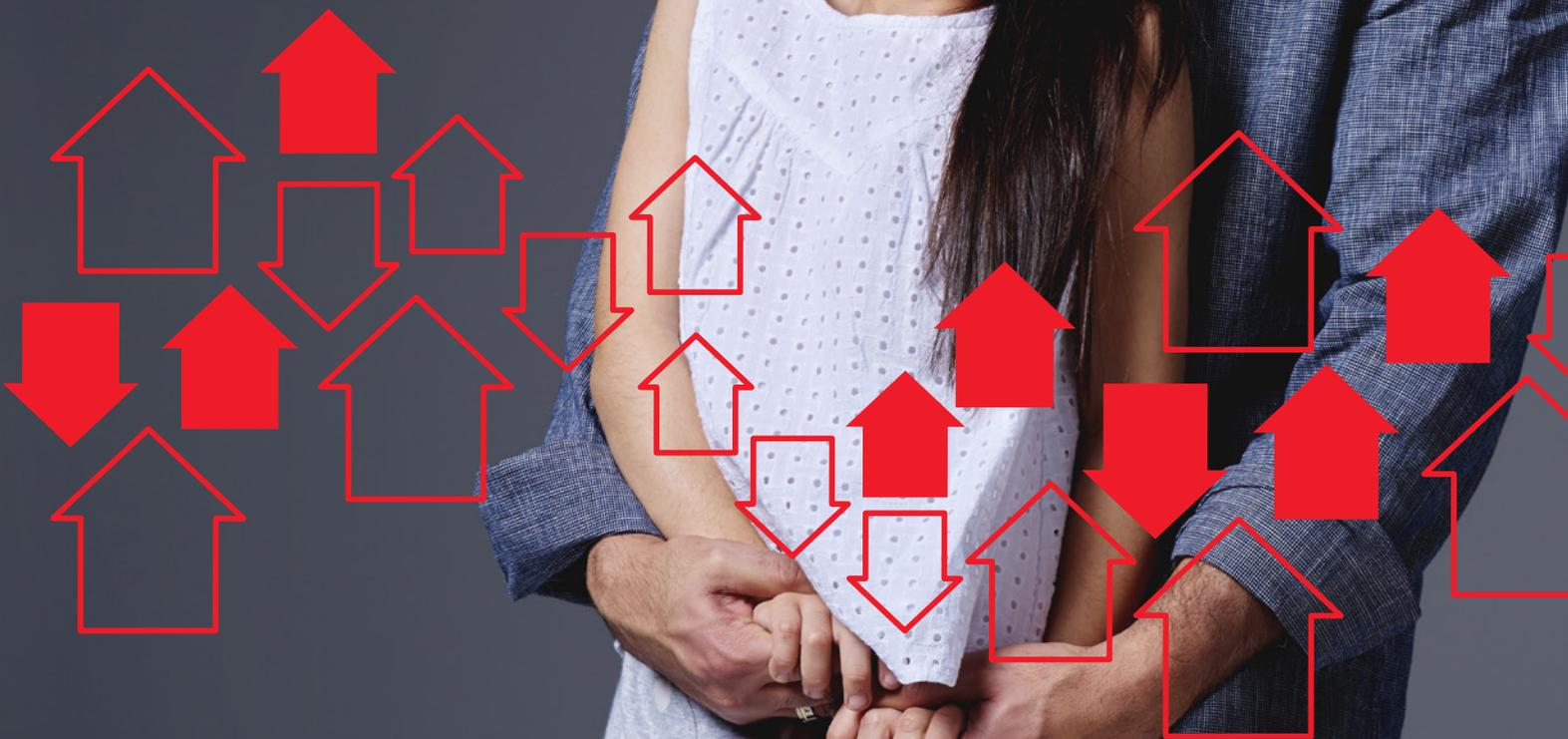




FEDERAL *Budget* 2016

What the Federal Budget
means for individuals





Personal Finances in conjunction with NAB's Wealth Management business, MLC



Treasurer Scott Morrison has handed down his first Federal Budget – the Coalition Government's third. The winners are low and middle income earners, unemployed youth and small business, and there are significant changes to superannuation.

Peter Hogan, Senior Technical Manager, MLC

Note: These changes are proposals only and may or may not be made law.

Summary



Date of effect: Immediate

- A lifetime cap on non-concessional (after-tax) superannuation contributions of \$500,000 will apply from 7.30 pm on 3 May 2016.

Date of effect: 1 July 2016

- The income tax threshold at which the 37% tax applies will increase to \$87,001 pa, from the current \$80,001 pa.
- The tax rate that applies to small business companies will reduce to 27.5% for businesses with a turnover up to \$10 million in 2016/17.
- Further tax concessions will apply in future financial years.

Date of effect: 1 July 2017

- The annual cap on concessional (pre-tax) super contributions will reduce to \$25,000, regardless of age.
- Concessional super contributions may exceed the annual cap if certain conditions are met.
- Those aged between 65 and 74 will be able to make super contributions regardless of whether they work or not.
- Tax deductions will be able to be claimed for personal contributions regardless of employment status.
- A lifetime limit of \$1.6m will be placed on the amount of superannuation that can be transferred to start pensions.
- Earnings on investments held in 'transition to retirement' pensions will be taxed at 15% (currently 0%).

Measures not announced or affected

- Negative gearing
- Age pension and other social security benefits

Superannuation

Changes effective 1 July 2017

The following superannuation reforms are proposed to apply from 1 July 2017.

Cap on concessional contributions

The annual cap on concessional super contributions will reduce to \$25,000, regardless of age. This change will reduce the amount of concessional contributions that can be made each year without a tax penalty. There will, however, also be the opportunity for certain people to contribute more if they haven't fully utilised the cap in previous financial years—see below.

Concessional contributions include:

- salary sacrifice
- superannuation guarantee
- personal contributions claimed as a tax deduction, and certain other amounts.
- Currently the cap on concessional contributions depends on age—see table below.

Table 1: Concessional contribution caps

Age	Annual cap amount	
	In 2015/16 and 2016/17	From 2017/18
48 or under	\$30,000	\$25,000
49 or over	\$35,000	\$25,000

Additional tax on concessional contributions

Broadly, an additional 15% tax on concessional contributions will be payable by those earning more than \$250,000 pa. Currently this additional tax, which is, broadly speaking payable on top of the standard maximum tax rate of 15% on concessional contributions, only applies to those earning more than \$300,000 pa.

Table 2: Tax on concessional contributions

Income ¹	Tax on concessional contributions made within the cap	
	In 2015/16 and 2016/17	From 2017/18
<\$250,000	15%	15%
\$250,000 to \$300,000	15%	30%
\$300,000+	30%	30%

¹ Including concessional contributions.

'Catch-up' concessional contributions

Concessional super contributions may exceed the annual cap if:

- the annual cap in previous financial years is not fully utilised, and
- the superannuation balance is less than \$500,000.

Only cap amounts unused from 1 July 2017 can be carried forward for up to five years.

This measure will help eligible individuals who have not been able to utilise the caps due to broken work patterns or competing financial commitments, to make additional or 'catch-up' super contributions.

Contributions between ages 65 and 74

Those aged between 65 and 74 will be able to make super contributions regardless of whether they work or not. Currently, you need to work 40 hours in 30 days in the relevant financial year to make super contributions in this age bracket.

Tax deduction for super contributions

Tax deductions will be able to be claimed for personal contributions regardless of employment status. Currently only self-employed people (eg sole traders) and those who earn less than 10% of total income from employment sources are eligible to claim a tax deduction.

Superannuation pension limits

A lifetime limit of \$1.6m will be placed on the amount of superannuation that can be transferred to start pensions. This limit will be called the 'transfer balance cap'.

Earnings on investments held in pensions (other than transition to retirement pensions—see below) will continue to be taxed at 0%. Earnings on any balance that needs to remain in superannuation will continue to be taxed at 15%.

People with existing pensions over \$1.6 million will need to reduce the balance below this limit by 1 July 2017 to avoid penalties.

Transition to retirement pensions

Earnings on investments held in 'transition to retirement' pensions will be taxed at 15% (currently 0%). A transition to retirement pension is a pension that is started with superannuation money when you have reached your preservation age, which is between 55 and 60 depending on date of birth. Once permanently retired (or another condition of release is met), it is expected that the underlying earnings will then be taxed at 0%.

Change effective immediately

Changes to non-concessional contributions

A lifetime non-concessional contribution (NCC) cap of \$500,000 will apply from 7:30 pm on 3 May 2016. All NCCs made on or after 1 July 2007 will count towards this lifetime cap.

NCCs include personal contributions made where no tax deduction is claimed, contributions made on behalf of a spouse and certain other amounts.

Any contributions made after commencement exceeding the lifetime limit (as well as assumed earnings on these amounts), will be subject to penalty tax if not withdrawn.

These measures will replace the current NCC cap of \$180,000 pa, or \$540,000 over a three year period if certain conditions are met.

Taxation

Personal tax rate changes

Date of effect: 1 July 2016

The income tax threshold at which the 37% tax applies will increase to \$87,001 pa, from the current \$80,001 pa. There are no other changes to marginal tax rates. Individual taxpayers with an income below the new threshold will not receive any tax cut. Those currently receiving above \$80,000 pa will receive a tax saving. The maximum tax saving is \$315 pa.

Table 3: Comparison of tax rates and thresholds

Current tax thresholds 2015/16	Tax rate	New tax thresholds 2016/17	Tax rate
\$0–\$18,200	0%	\$0–\$18,200	0%
\$18,201–\$37,000	19%	\$18,201–\$37,000	19%
\$37,001–\$80,000	32.5%	\$37,001–\$87,000	32.5%
\$80,001–\$180,000	37%	\$87,001–\$180,000	37%
\$180,000+	45%	\$180,000+	45%

Note: These tax rates do not include the Medicare levy and Temporary Budget Repair Levy

Other personal tax matters

The table below summarises some other personal tax issues raised and their implementation dates.

Table 4: Other personal tax matters

Date of effect	Measures	Detail
1 July 2017	Spouse superannuation tax offset	The spouse income threshold will increase from \$10,800 pa to \$37,000 pa The maximum tax offset will remain at \$540
1 July 2017	Temporary Budget Repair Levy	This levy, which is 2% of taxable income in excess of \$180,000 will expire on 30 June 2017, as legislated.

Company tax rate

Date of effect: 1 July 2016 and beyond

The tax rate that applies to small business companies will reduce to 27.5% for businesses with a turnover up to \$10 million in 2016/17 and will be extended to larger business thereafter.

Tax year	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Turn over	\$10m	\$25m	\$50m	\$100m	\$250m	\$500m	\$1b

From 1 July 2024, the company tax rate will progressively reduce to 25%.

Tax year	2024/25	2025/26	2026/27
All companies	27%	26%	25%

Measures not announced or affected

- Negative gearing
- No changes will be made to negative gearing.

Age pension

No changes were announced that effect age pension eligibility or payment rates. Some important changes to the aged pension assets test have, however, already been legislated that take effect on 1 January 2017. These changes could impact benefits.

Important MLC information

This document was prepared by MLC Limited ABN 90 000 000 402 (AFSL number 230694) without taking into account any particular person's objectives, financial situation or needs. It is not guaranteed as accurate or complete and should not be relied upon as such. MLC Limited does not accept any responsibility for the opinions, comments and analysis contained in this document, all of which are intended to be of a general nature.

Accordingly, reliance should not be placed by anyone on this document as the basis for making any investment, financial or other decision. Investors should, before acting on this information, consider the appropriateness of this information having regard to their personal objectives, financial situation or needs.

We recommend investors obtain financial advice specific to their situation before making any financial, investment or insurance decision. MLC Limited, 105-153 Miller Street, North Sydney, NSW 2060, is a member of the National Australia Bank Group of Companies. If you wish to rely on the general tax information contained in this document to determine your personal tax obligations, we recommend that you seek advice from a registered tax agent. MLC companies are subsidiaries of National Australia Bank Limited ABN 12 0004 044 937. An investment with MLC is not a deposit or liability of, and is not guaranteed by, National Australia Bank Limited.

Important NAB information

This publication has been prepared by National Australia Bank Limited ABN 12 004 044 937, AFSL and Australian Credit Licence 230686. It is for information purposes only and has been prepared without taking into account any particular person's objectives, financial situation or needs. Accordingly, reliance should not be placed by anyone on this document as the basis for making any investment, financial or other decision. Please seek professional financial and taxation advice prior to acting on this information.