FEDERAL
Budget
2016

What the Federal Budget
means for individuals

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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>
<thead>
<tr>
<th>Income</th>
<th>Tax on concessional contributions made within the cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>$&lt;250,000</td>
<td>15%</td>
</tr>
<tr>
<td>$250,000 to $300,000</td>
<td>15%</td>
</tr>
<tr>
<td>$300,000+</td>
<td>30%</td>
</tr>
</tbody>
</table>

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.

Note: These changes are proposals only and may or may not be made law.
‘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 (e.g. 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 $80,001 pa will receive a tax saving. The maximum tax saving is $315 pa.

<table>
<thead>
<tr>
<th>Current tax thresholds 2015/16</th>
<th>Tax rate</th>
<th>New tax thresholds 2016/17</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0–$18,200</td>
<td>0%</td>
<td>$0–$18,200</td>
<td>0%</td>
</tr>
<tr>
<td>$18,201–$37,000</td>
<td>19%</td>
<td>$18,201–$37,000</td>
<td>19%</td>
</tr>
<tr>
<td>$37,001–$80,000</td>
<td>32.5%</td>
<td>$37,001–$87,000</td>
<td>32.5%</td>
</tr>
<tr>
<td>$80,001–$180,000</td>
<td>37%</td>
<td>$87,001–$180,000</td>
<td>37%</td>
</tr>
<tr>
<td>$180,000+</td>
<td>45%</td>
<td>$180,000+</td>
<td>45%</td>
</tr>
</tbody>
</table>

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

| Table 5: Maximum business turnover to be eligible for 27.5% company rate |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Turn over | $10m | $25m | $50m | $100m | $250m | $500m | $1b |

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

| Table 6: Further company tax rate changes |
|--------------------------|----------------|----------------|
| 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.