The Government last night released the 2016/17 Federal Budget. This Budget contains a number of proposed measures that may impact clients of financial advisers.

Highlights of the changes proposed to taxation, superannuation and social security which may impact financial advisers and their clients are outlined below. Please remember that, at this time, these measures are proposals only and require the passage of legislation to become effective. These measures may be subject to change through the implementation process.

Tax - Business

Company tax cut

A reduction in the company tax rate from 30% to 25% will be phased in over 10 years. The tax rate for all companies will be 25% by 2026/27. The reduction will apply incrementally based on aggregated turnover as shown in the table.

<table>
<tr><th>Financial year</th><th>Aggregated turnover less than:</th><th>Proposed company tax rate</th></tr>
<tr><td>2016-17</td><td>$10 million</td><td rowspan="7">27.5%</td></tr>
<tr><td>2017-18</td><td>$25 million</td></tr>
<tr><td>2018-19</td><td>$50 million</td></tr>
<tr><td>2019-20</td><td>$100 million</td></tr>
<tr><td>2020-21</td><td>$250 million</td></tr>
<tr><td>2021-22</td><td>$500 million</td></tr>
<tr><td>2022-23</td><td>$1 billion</td></tr>
<tr><td>2023-24</td><td rowspan="4">All companies</td><td>27.5%</td></tr>
<tr><td>2024-25</td><td>27%</td></tr>
<tr><td>2025-26</td><td>26%</td></tr>
<tr><td>2026-27</td><td>25%</td></tr>
</table>

Franking credits will be distributable in line with the rate of tax paid by the company making the distribution.

The corporate tax rate for small businesses (annual turnover under $2 million) is currently 28.5% (since 1 July 2015) and they are entitled to frank dividends at a maximum 30% rate.

Advice implication
A reduction in the corporate tax rate increases the disparity between the corporate rate and the highest personal marginal tax rate (currently 49%).

Small business tax discount increase and extension

The current tax discount for unincorporated small businesses (sole traders and partnerships) will be increased over 10 years from 5% to 16%. The discount will apply to individuals with business income from an unincorporated business whose aggregated annual turnover is less than $5 million.

Financial year	Proposed tax discount
1 July 2016 – 30 June 2024	8%
2024-25	10%
2025-26	13%
2026-27 onwards	16%

Individual taxpayers will still calculate their business and personal income in the same way, and then they get a discount on the tax payable on their business income. The current cap on the discount of $1,000 per individual in a financial year will be retained, and it will be delivered as a tax credit in their tax return.

This tax cut is broadly in line with the phased reduction in the corporate tax rate to 25%.

Other tax concessions for small business

Small business entity turnover threshold increase

The small business entity turnover threshold will be increased from $2 million to $10 million from1 July 2016. This will allow access to small business tax concessions including:

- simplified depreciation rules
- simplified trading stock rules
- the option to account for GST on a cash basis and pay GST instalments as calculated by the ATO
- a simplified method of paying PAYG instalments, and
- other tax concessions available to small business, including fringe benefits tax (FBT) exemptions and immediate deductibility of professional expenses.

but not the small business capital gains tax (CGT) concessions.

The CGT small business concessions will continue to be available only to small businesses with a $2 million turnover threshold or that satisfy the $6 million net asset value (NAV) test.

Small business $20,000 instant asset tax write-off extended

Small businesses (turnover less than $2 million) currently get an immediate tax deduction for every asset they buy for their business costing less than $20,000 up until 30 June 2017.

The instant asset write-off is extended to include businesses with a turnover of up to $10 million.

Small businesses with turnover less than $10 million will be able to immediately deduct assets costing less than $20,000 each, between 1 July 2016 and 30 June 2017.

The $20,000 threshold will revert back to $1,000 from 1 July 2017.

Any assets over $20,000 (which cannot be immediately deducted) can continue to be added together (pooled) and depreciated at the same rate. These assets are depreciated at 15% in the first financial year, and 30% per year thereafter. If the value of the pool is below $20,000 until the end of June 2017 it can be immediately deducted too.

Simpler Business Activity Statements (BAS)

Business activity statements (BAS) will be simplified for small businesses (with turnover of less than $10 million) from 1 July 2017. A trial of the new simpler reporting arrangements will commence on 1 July 2016 and continue over the first two quarters of the 2016/17 financial year.

Other tax measures

- A 40% tax on the profits of multinational corporations that are artificially diverted from Australia will be introduced from 1 July 2017.
- GST will be extended to low value goods imported by consumers from 1 July 2017.
- Tobacco excise and excise-equivalent customs duties will be subject to four annual increases of 12.5% from 1 September 2017.
- The wine equalisation tax (WET) rebate cap will be reduced to $350,000 on 1 July 2017and to $290,000 on 1 July 2018.

Targeted amendments to Division 7A

Targeted amendments will be made to improve the operation and administration of integrity rules for closely-held groups contained in Division 7A (loans by private companies), from 1 July 2018.

The amendments (drawn from Board of Taxation review) will include:

- a self-correction mechanism for inadvertent breaches of Division 7A
- appropriate safe-harbour rules to provide certainty
- simplified Div 7A loan arrangements, and
- a number of technical adjustments to improve the operation of Div 7A and provide greater certainty.

Tax - Personal

Change to income tax thresholds

The current $80,000 threshold above which each $1 earned is taxed at 37 cents will be increased to $87,000 from 1 July 2016. The higher income cut-in means tax payable by middle income earners will be reduced from 37 cents to 32.5 cents for all income earned between $80,001 and the new threshold of $87,000.

This equates to a tax saving of around $315 a year (ignoring Medicare levy) for those on incomes between $80,000 and $180,000.

Taxable income (current)	**Tax payable* (current)**	**Taxable income (proposed)**	**Tax payable* (proposed)**
0 - $18,200	**Nil**	0 - $18,200	**Nil**
$18,201 - $37,000	19c for each $1 over $18,200	$18,201 - $37,000	19c for each $1 over $18,200
$37,001 - $80,000	$3,572 plus 32.5c for each $1 over $37,000	$37,001 - **$87,000**	$3,572 + 32.5c for each $1 over $37,000
$80,001 - $180,000	$17,547 plus 37c for each $1 over $80,000	**$87,001** - $180,000	$19,822 + 37c for each $1 over $87,000
$180,001 and over	$54,547 plus 45c for each $1 over $180,000	$180,001 and over	$54,232 + 45c for each $1 over $180,000

***** The above rates do not include the 2% Medicare levy or the 2% temporary budget repair levy (expires on 30 June 2017)

Advice implications
Middle to high income earners will effectively get a tax cut under these measures, however low-income earners miss out.

Increased Medicare low income thresholds

The Medicare levy low-income thresholds for singles, families and single seniors and pensioners will be increased from the 2015/16 financial year, to take account of movements in the Consumer Price Index (CPI) so that low-income taxpayers generally continue to be exempted from paying the Medicare levy.

Family situation	**No Medicare levy payable in 2015/16 if taxable income is below:**
Individuals	$21,335
Couples (no children)	$36,001
Single seniors and pensioners	$33,738
Senior and pensioner couples (no children)	$46,966
Additional amount for each dependent child or student	$3,306

Medicare levy income threshold and rebate pause extended

The Government will continue the pause on indexation of the income thresholds for the Medicare Levy Surcharge and Private Health Insurance Rebate for a further three years from 1 July 2018.

For the period of 1 July 2015 to 30 June 2021, the income* tiers will be paused at the 2014/15 threshold levels as follows.

		Tier 1	**Tier 2**	**Tier 3**
Singles	Up to $90,000	$90,001 - $105,000	$105,001 - $140,000	$140,001 +
Families	Up to $180,000	$180,001 - $210,000	$210,001 - $280,000	$280,001 +
Surcharge	0%	1%	1.25%	1.5%

The family thresholds increase by $1,500 for each dependent child after the first.

* Taxable income + reportable fringe benefits + total net investment losses + reportable super contributions less the taxed element of a super lump sum within the low-rate cap.

Social Security and Family Assistance

Childcare subsidy delayed

The implementation of the proposed child care subsidies (contingent on the passage of family tax benefit reforms) will be delayed by one year to 1 July 2018.

It is proposed that the following 3 payments:

- child care benefit (CCB)
- child care rebate (CCR), and
- jobs, education and training child care fee assistance (for parents who qualify for the maximum rate of CCB)

will be combined into a single means-tested child care subsidy (CCS), paid directly to providers, from 1 July 2018.

The nanny pilot programme (commenced on 1 January 2016), which subsidises care provided by a nanny in a child's home, will be extended for six months to 30 June 2018. The hourly fee cap will be increased from $7 to $10 from 1 June 2016.

Reversal of decision to remove backdating of veterans' disability pension claims

Reverse the 2014-15 Budget measure titled Veterans' Disability Pensions commencement of payments from date of claim that removed the backdating of payments to veterans under the Veterans' Disability Pension.

Other

HECS

The Government will delay the implementation of the higher education reforms announced in the 2014/15 Budget and the 2014/15 MYEFO by an additional year to undertake further consultation. Higher education funding arrangements for 2017 will be in line with currently legislated arrangements. The Government will also not proceed with the deregulation of university fees announced in the 2014/15 Budget.

Increased funding for ASIC and SCT

The Government will provide additional ongoing funding over 4 years from 2016/17 to the Australian Securities and Investments Commission (ASIC) to combat misconduct in Australia's financial services industry and boost consumer confidence.
The cost of this measure will initially be offset in 2016/17 by an increase in the Financial Institutions Supervisory Levies. Industry charging arrangements will commence from 2017/18.

The Government will provide additional funding to the Superannuation Complaints Tribunal (SCT) to improve processes, and to reduce the backlog of complaints.

The cost of this measure will be offset by an increase in the Financial Institutions Supervisory Levies.

Superannuation

The Government will enshrine in law that the ***objective for superannuation*** is "**to *provide income in retirement to substitute or supplement the Age Pension."***

Contribution caps

The concessional contributions (CC) cap will be reduced to $25,000 from 1 July 2017 and a lifetime non-concessional contributions (NCC) cap of $500,000 will apply from 7.30pm on 3 May 2016 for all individuals under age 75.

Concessional cap	**Current**	**Proposed**
Under age 49	$30,000 pa	$25,000 pa from 1 July 2017
Age 49 or over	$35,000 pa	
Non-concessional cap		
Under age 65 at 1 July	$180,000 pa or $540,000 over 3 years	$500,000 lifetime cap from7.30 pm on 3 May 2016
Age 65 or over at 1 July	$180,000 pa	

NCCs already contributed on or after 1 July 2007 count towards the $500,000 lifetime NCC cap, however NCCs over the lifetime cap (before commencement) will not result in an excess. NCCs in excess of the $500k cap after commencement can be refunded and if not refunded will incur penalty tax.

The lifetime NCC cap will include after-tax contributions made to defined benefit accounts and constitutionally protected funds. Where a defined benefit member exceeds their lifetime cap, ongoing contributions can continue but the member must, on an annual basis, remove an equivalent amount (including proxy earnings) from any accumulation account they hold (limited to the amount of NCCs made since 1 July 2007). Contributions made to a defined benefit account will not be required to be removed. Members who do not have NCCs available to be removed will be treated equitably under further government consultation.

Notional (estimated) and actual employer contributions will be included in the CC cap for members of unfunded defined benefit schemes and constitutionally protected funds, from 1 July 2017. Members of these funds will have the opportunity to salary sacrifice. Existing grandfathering arrangements will continue for members of funded defined benefit schemes as at 12 May 2009.

Catch-up concessional contributions

Individuals with super balances under $500,000 will be able to bring forward previously unused concessional cap amounts from 1 July 2017. For example, if an individual contributes $20,000 in the 2016/17 financial year, they will be able to make an additional $5,000 CC on top of the $25,000 CC cap in 2017/18.

The unused amounts can be carried forward on a rolling basis for a period of five (5) consecutive years. It must be emphasised, this will only apply to amounts accrued from 1 July 2017.

Tax deduction for super contributions extended

Individuals up to age 75 will be able to claim a tax deduction for their personal superannuation contributions up to the CC cap from 1 July 2017, regardless of their employment circumstances.

Advice implications

Whilst the cuts to concessional contributions were not as harsh as speculated, advisers will need to revisit contribution strategies, especially for those over 50 years of age. Withdrawal and recontribution strategies will now be limited to a maximum of $500,000.

Individuals who may wish to increase superannuation contributions, yet not enter into a salary sacrifice arrangement, will be able to make a personal contribution to super up to the $25,000 cap (less SG contributions) enabling them to assess their cash flow needs throughout the year.
Clients no longer need to be wholly or substantially self-employed to get a tax deduction for personal super contributions. For example, a full-time employee will be able to get a tax deduction for personal super contributions.

Advisers may consider reviewing insurance strategies for any cover held in superannuation, in particular for those clients nearing retirement and looking to maximise their contributions. Consideration may be given to holding life insurance outside of superannuation and use of insurance bonds as a “next best” investment option once contribution caps are exhausted.

Super contributions tax - high income earners

Individuals with adjusted taxable income (ATI) of $300,000 currently pay an additional 15% tax (total of 30%) on concessional super contributions.

The income threshold will be reduced to $250,000 from 1 July 2017.

How this works in practice:

- If ATI is $240,000 and concessional contributions (CCs) of $25,000 are made; 30% contributions tax will apply on $15,000 of CCs and 15% will apply on the remaining $10,000 CCs.
- If ATI is over $250,000 without CCs, all CCs will be taxed at 30%.

The $250k threshold will also apply to members of defined benefit schemes and constitutionally protected funds currently covered by the additional tax. Existing exemptions (such as State higher level office holders and Commonwealth judges) will be maintained.

Advice implications
The tax concession on concessional contributions will be effectively diluted to 19% for those with income over $250,000 on a MTR of 49%.

Removal of work test

The work test (40 hours in 30 consecutive days) will be scrapped for individuals aged between 65 and 74 who wish to make super contributions. Individuals age 65-74 will also be able to receive spouse contributions.

Advice implication
Older individuals will have greater opportunities to boost retirement savings.

Retirement income balance cap of $1.6m

A $1.6 million cap will apply on the amount that can be transferred into the superannuation pension phase from 1 July 2017. There will be no restriction on earnings on the cap amount. Amounts in excess of the $1.6 million cap transferred (including earnings on the excess) will attract the same tax treatment as excess non-concessional contributions (excess unrefunded NCCs are currently taxed at 49%).

Accumulated super in excess of $1.6 million will be able to be retained in a member’s accumulation account (with earnings taxed at 15%). Members already in pension phase with balances in excess of the $1.6 million cap will need to roll back the excess to accumulation by 1 July 2017.

Similar tax treatment will apply to members of defined benefit funds for pension amounts over $100,000 from 1 July 2017.

The Government will consult with industry on the implementation of this measure.

Transition to Retirement

The tax exemption on earning on assets supporting transition to retirement income streams will be removed from 1 July 2017. The ability to treat certain superannuation income stream payments as lump sums for tax purposes will also be removed.

Advice implications
TRIS strategies will still be tax-effective, albeit at a reduced rate from 1 July 2017.

Low Income superannuation tax offset (LISTO)

The LISTO will provide a non-refundable tax offset to superannuation funds, based on concessional contributions tax paid up to a cap of $500, from 1 July 2017. The LISTO will apply to concessional contributions made on behalf of low-income earners with adjusted taxable income up to $37,000.

The LISTO replaces the existing low-income super contribution (LISC) which will be abolished for concessional contributions made from 1 July 2017.

Low Income tax offset spouse threshold

The income threshold of a low income spouse for the purposes of the spouse contribution tax offset will increase from $10,800 to $37,000, from 1 July 2017.

To be entitled to the maximum tax offset of $540 from 1 July 2017, the eligible spouse contributions must be made on behalf of a spouse whose assessable income, reportable fringe benefits and reportable employer super contributions in a financial year is less than $37,000.

Anti-detriment

The anti-detriment payment (essentially a refund of contributions tax) will be removed from 1 July 2017.