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Financial Planning Pty Ltd

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2016-17 Federal Budget Proposals

Federal Treasurer Scott Morrison put forward a number of proposed changes, mainly around contributions to superannuation and taxation, in his budget speech.

Here's a brief roundup of what the proposals could mean for you—whether you're starting out in your career, taking care of family, on the cusp of retirement or enjoying life after work.

Remember, proposals are not set in stone and could change as legislation passes through parliament.

Superannuation

1. Lifetime cap for non-concessional superannuation contributions

Proposed effective date: 7.30pm (AEST) 3 May 2016

Currently, the non-concessional contributions cap is $180,000 per person, per financial year. If you are under age 65 at any time in the financial year, you can make a non-concessional contribution of up to $540,000 under the bring-forward provisions.

The government proposes to replace the current contributions cap with a $500,000 lifetime non-concessional contributions cap. This lifetime cap is proposed to commence at 7.30pm (AEST) on **3 May 2016**. The cap will be indexed to average weekly ordinary time earnings (AWOTE).

The lifetime cap will take into account all non-concessional contributions made on or after **1 July 2007**.

Contributions made between 1 July 2007 and 3 May 2016 will be counted towards this lifetime cap. However, contributions made before commencement of this measure, that is 7.30pm (AEST) on 3 May 2016, will **not** result in an excess.

Excess contributions made after commencement will need to be removed or be subject to penalty tax.

2. Reduction of the concessional contributions cap

Proposed effective date: 1 July 2017

Currently, the standard concessional contribution (CC) cap is $30,000 per financial year. A higher temporary concessional contributions cap of $35,000 (unindexed) applies if you are aged 49 years or over on 30 June of the previous financial year.

The government is proposing to reduce the annual cap on concessional superannuation contributions to $25,000 for everyone, irrespective of their age.

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Georgie Morris
Certified Financial Planner®

Authorised Representative
Number 237760

Diploma of Financial Planning

Diploma of Financial Services
(Financial Planning)

Certificate III Information Technology

John Mc Inerney
Certified Financial Planner®
Managing Director

Authorised Representative
Number 237758

Diploma of Financial Planning

Graduate Diploma of Computer Education

Diploma of Education Technology
TACTC, TPTC

HEAD OFFICE

PO Box 282 Bentleigh Victoria 3204

T: 03 9563 9969 F: 03 9563 9965
johnmcinerney@tifp.com.au
georgiemorris@tifp.com.au

3. Reduction to Division 293 tax threshold

Proposed effective date: 1 July 2017

From 1 July 2017, the government has proposed to lower the Division 293 threshold (the point at which high income earners pay an additional 15 per cent tax on contributions) from $300,000 to $250,000.

4. Allowing catch up concessional contributions

Proposed effective date: 1 July 2017

Currently, the concessional contributions cap is applied on a 'use it or lose it' basis. That is, the unused amount of the concessional cap cannot be carried forward.

From 1 July 2017, the government will allow eligible individuals to make additional concessional contributions where they have not reached their concessional contributions cap in previous years. This option will only be available to those individuals with a superannuation balance less than $500,000.

It is proposed that the unused amounts will be carried forward on a rolling basis for a period of five consecutive years with only unused amounts that accrue after 1 July 2017 being eligible.

The proposed measure will also apply to members of defined benefit schemes.

5. Removal of the work test to contribute to superannuation

Proposed effective date: 1 July 2017

Currently, individuals aged 65 to 75 who want to make voluntary superannuation contributions need to meet the work test. People aged 70 or over are also currently unable to receive contributions from their spouses.

The government will remove these restrictions for all individuals aged less than 75, from 1 July 2017.

6. Making it easier to claim tax deductions for personal super contributions

Proposed effective date: 1 July 2017

Currently, if you are engaged in employment activities during a financial year, a deduction for personal superannuation contributions can only be claimed where the 'less than 10% rule' is satisfied. This rule broadly requires that the income attributable to employment activities does not exceed 10% of income from all sources.

The government is proposing to abolish this test, allowing all individuals up to age 75 to claim an income tax deduction for personal superannuation contributions. If legislated, this will effectively allow all individuals, regardless of their employment circumstances, to make concessional superannuation contributions up to the concessional cap.

Observations:

– This measure assists those whose employer may not provide the ability to make salary sacrifice contributions to super. It will also assist those who are partially self-employed and partially wage and salary earners.

7. Introducing the Low Income Super Tax Offset (LISTO)

Proposed effective date: 1 July 2017

From 1 July 2012, individuals with an income of up to $37,000 automatically received a government contribution of up to $500 paid directly into their super. However, this Low Income Superannuation Contribution (LISC) will not be available in respect of concessional contributions made after 1 July 2017.

From 1 July 2017, the government is proposing to introduce a replacement – the Low Income Superannuation Tax Offset (LISTO). The LISTO will provide a non-refundable tax offset to superannuation funds, based on the tax paid on concessional contributions made on behalf of low income earners, up to an annual cap of $500.

The LISTO will apply to members with adjusted taxable income up to $37,000 who have had a concessional contribution made on their behalf.

8. Making spouse contributions more attractive

Proposed effective date: 1 July 2017

Currently, if you make contributions into your spouse's account you are entitled to a tax offset of up to $540 if certain requirements are met. One of the requirements to qualify for the maximum offset is that the receiving spouse's assessable income, reportable employer superannuation contributions and reportable fringe benefits in the financial year must be less than $10,800.

To be eligible to receive the contribution, the receiving spouse must currently be:

– under age 65, or

– aged between 65 and 70 and has met the work test for the financial year in which the contribution is made.

The government proposes to:

– remove the work test restrictions for all individuals aged up to 75, and

– increase access to the spouse superannuation tax offset by raising the lower income threshold for the receiving spouse to $37,000 (cutting out at $40,000).

9. Changes to the taxation of Transition to Retirement (TTR) income streams

Proposed effective date: 1 July 2017

The internal earnings within a superannuation account on the amount used to purchase a pension are currently tax-free. This will no longer apply to transition to retirement income streams from 1 July 2017 should the proposal go ahead.

This means that earnings on fund assets supporting a transition to retirement income stream after this date would be subject to the same maximum 15 per cent tax rate applicable to an accumulation fund.

10. Introduction of a $1.6 million superannuation transfer balance cap

Proposed effective date: 1 July 2017

From 1 July 2017, the government is proposing to introduce a $1.6 million transfer balance cap. This cap will limit the total amount of accumulated superannuation benefits that an individual will be able to transfer into the retirement income phase. Subsequent earnings on pension balances will not form part of this cap.

If you have superannuation amounts in excess of $1.6 million, you will be able to maintain this excess amount in a superannuation accumulation account (where earnings will be taxed at the concessional rate of 15 per cent).

A tax on amounts that are transferred in excess of the $1.6 million cap (including earnings on these excess transferred amounts) will be applied, similar to the tax treatment that currently applies to excess non-concessional contributions.

Fund members who are already in the retirement income phase with balances above $1.6 million will be required to reduce their retirement balance to $1.6 million by 1 July 2017 should the proposal go ahead. These excess balance amounts may be converted to a superannuation accumulation account.

Taxation - general

11. Changes to marginal tax rates

As speculated, a tax cut has been proposed at the current $80,000 taxable income threshold. As a result, marginal tax rates for resident taxpayers are proposed to change as follows:

2015–16		2016–17	
Income ($)	Marginal tax rate (%)	Income ($)	Marginal 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	47	> 180,000	47

Notes: Medicare levy may also apply, 47% tax rate includes Temporary Budget Repair Levy (TBRL, additional 2%). The TBRL is due to expire from 30 June 2017 and has not been extended in this budget.

Observations:

– The Low Income Tax Offset (LITO) remains unchanged which gives resident taxpayers an effective tax-free threshold of $20,542 in 2016–17.

– Indicative tax cuts: If you earn $87,000 or more per year, you would get a maximum tax cut of $315 under this measure. If you earned less than $80,000 there will be no change to your tax calculation.

Taxation - small business

12. Increase in small business entity turnover thresholds

Proposed effective date: 1 July 2016

Starting from 1 July 2016, the government proposes to increase the small business annual aggregated turnover threshold from $2 million to $10 million for certain small business concessions.

From 1 July 2016 these small business concessions include:

– the lowering of the small business corporate tax rate (see below)

– for all businesses with annual aggregated turnover of less than $10 million simplified asset depreciation rules, including immediate tax deductibility for asset purchases costing less than $20,000 until 30 June 2017, and

– other tax concessions such as the extension of the FBT exemption for work-related portable electronic devices and the immediate deduction of professional expenses.

Observation:

– The current $2 million turnover threshold, or alternative $6 million net asset value test, will be retained for access to the small business Capital Gains Tax concessions.

13. Lowering the company tax rate to 25 per cent

Proposed effective date: 1 July 2016

The government proposes to reduce the company tax rate to 25 per cent by 2026–27.

Initially, the tax rate for companies with an annual aggregated turnover of less than $10 million will be reduced to 27.5 per cent from 1 July 2016.

Families and social security

14. Deferral of reforms to child care payments

Proposed effective date: 1 July 2018

As part of the May 2015 Federal Budget it was proposed that a new single Child Care Subsidy (CCS) would replace the Child Care Benefit, the Child Care Rebate and the Jobs, Education and Training Child Care Fee Assistance from 1 July 2017.

This measure has not yet been legislated and the proposed start date will now be deferred until 1 July 2018.

New Financial Year. New Financial Attitude.

As Winston Churchill said "Attitude is a little thing that makes a big difference." So this financial year, take a fresh approach to your finances.

1. Use that budget you made

You've probably made budgets before — but do you stick to them?

Don't look at your budget as a deprivation, but as a tool to help you get what you want. Set it up so it's easy to use. For instance, create direct debits from your savings account to automatically pay your regular bills.

Make sure you budget for entertainment purposes too, like dining out or going to the cinema. And don't be afraid to tweak it as your circumstances change.

If you would like a budget planner emailed to you please contact us.

2. Do your paperwork each week

The worst thing about tax time is dealing with the paperwork. So if your attitude is 'I'll get to it later', change it to 'There's no time like the present'.

Spend a short amount of time each week organising your paperwork. Set up a spreadsheet to record and add up your deductions, and buy some folders to store your receipts, or scan and store them electronically. (Make sure you back up your files though, just in case).

3. Boost your super every payday

Not sure how much super you'll need? Worried you won't have enough?

Don't get anxious — get proactive. For instance, you should consider reviewing whether it is beneficial to ask your employer to salary sacrifice into your super from your pre-tax income. This may be an effective way to boost your super and with compound interest, it can really add up over time.

What's more, as it comes from your pre-tax salary, it could also help reduce your assessable income, which means you could pay less tax. And anything you earn on your super savings only gets taxed at 15%, making it potentially more tax effective than investing outside super.

4. Review your estate planning arrangements

It is easy to overlook estate planning but it is extremely important to review your will periodically to ensure it continues to meet your requirements. If you don't have a will, making one should be your priority.

5. Establish an Enduring and Medical Power of Attorney

Many of us have good intentions to set up Enduring and Medical Powers of Attorney however never seem to get around to it. If this is you, make this year the one to get it done. You never know what is around the corner and having these set up will give you peace of mind someone you trust can act on your behalf if necessary.

Ask for help

We can help you with every area of your finances — from creating a budget to investing tax effectively. Getting on track could be as easy as contacting us.