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sunsuper

4 May 2016

Federal Budget 2016 -17

The purpose of this document is to provide a summary of selected measures from the 2016-17 Federal Budget. It is not intended to communicate Sunsuper's view or opinion on the proposed changes

On Tuesday 3 May 2016, the Federal Government released its 2016-17 Budget. Announcements in regard to superannuation and other major measures are summarised below.

About this year's Federal Budget

Most of the announcements within the Budget are dependent on new legislation being drafted and passed through Parliament before they can become law.

This year's Budget is unusual in that the Prime Minister has said it will be followed by an early election on **2 July 2016**. This would have to be formalised by the Government and Governor-General no later than Wednesday 11 May 2016.

Once an election is called, Parliament can no longer pass any Bills. Hence we will know within the next week how this affects Budget proposals with a 1 July 2016 or earlier start date.

An early election is also relevant because the outcome (i.e. which party wins government and what the composition of the new Senate will be) may affect which of the Budget proposals are passed into law.

Key superannuation announcements

The key Budget announcements in regard to super are as follows. Note that although most of the announcements are proposed to take effect from 1 July 2017, as mentioned above they are all dependant on new legislation being drafted and passed through Parliament before they can become law.

- a new $1.6 million retirement income account balance transfer cap,
- concessional contributions cap reduced to $25,000,
- income threshold for Division 293 tax to be reduced from $300,000 to $250,000 per annum,
- a new $500,000 lifetime cap on non-concessional contributions, (immediate start proposed)
- a Low Income Superannuation Tax Offset (LISTO) to replace the Low Income Superannuation Contribution (LISC),
- tax deductions for personal super contributions for all Australians under 75,
- allowing catch-up concessional contributions,
- removal of the work test requirement for people aged 65 to 74 and expanding spouse contribution eligibility,
- spouse contribution tax offset income threshold increase,
- tax exemption on earnings in the retirement phase extended to other products,
- transition-to-retirement pension reforms,
- closing an income stream tax loophole for under 60s, and
- anti-detriment payments no longer permitted.

See the Superannuation announcements section below for more information.

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Announcements for employers and individuals

Changes to personal income tax thresholds for taxable incomes between $80,000 and $87,000

The most recent update to Australia's income tax thresholds was in 2012-13. These thresholds (or "brackets") are not indexed, meaning they do not automatically keep pace with inflation or wage growth. As a result, this means that people whose wages are adjusted for inflation may move into the next tax bracket, requiring them to pay more tax. This is often referred to as "bracket creep".

To address this issue, the Budget proposes to increase the $80,000 threshold to $87,000 from 1 July 2016. It is anticipated that 500,000 taxpayers will have their overall tax rate reduced.

Impact on members: This measure will affect the marginal tax rate of members whose taxable income exceeds $80,000, reducing their tax payable.

See the Further details section below for more information.

Superannuation announcements

A new $1.6 million transfer balance cap

The Budget proposes to introduce a **$1.6 million cap** (indexed in $100,000 increments line with CPI) on the total amount of superannuation that can be transferred into a tax-free retirement income account. The measure will start from 1 July 2017. Once savings are in a retirement account, subsequent earnings growth is not taken into account. Super savings in excess of the cap can remain in an accumulation superannuation account, and those already with a retirement income account with a balance greater than $1.6 million will need to transfer the excess back into an accumulation account or withdraw the amount from super.

Impact on members: Individuals who breach the cap will be subject to a tax on both the amount in excess of the cap and the earnings on the excess amount. However, very few Australian super fund members will be affected, given the average super balance for a 60 year old Australian nearing retirement is $285,000.

Concessional contributions cap reduced to $25,000

Currently, before-tax (concessional) contributions are taxed at the "concessional" rate of 15 per cent, with an annual cap of **$30,000** (or **$35,000** if aged 49 or older on 30 June of the previous financial year). Any contributions over the cap are included in a person's assessable income and taxed at their marginal income tax rate.

The Budget proposes to reduce the cap amount to **$25,000** for all individuals from 1 July 2017. The cap will index in line with wages growth.

Impact on members: The lower cap amount will reduce the amount members can contribute in before-tax "concessional" (salary sacrifice) contributions to super, noting that this cap also includes all contributions made by an employer. However, the Government estimates in 2017-18 the lower cap will only affect 3 per cent of Australian super fund members, and members still have until 30 June 2017 to take advantage of the existing higher concessional caps to contribute to their super.

See the further details section for more information.

Division 293 tax Income threshold to be reduced from $300,000 to $250,000 per annum

Currently, high income earners who exceed the current threshold of **$300,000** per year are taxed an additional 15 per cent on their before-tax (concessional) super contributions, including any salary sacrifice contributions. The Australian Taxation Office (ATO) refers to this as Division 293 tax.

The Budget proposes to reduce this threshold to **$250,000** with effect from 1 July 2017.

Impact on members: The threshold is defined as taxable income plus concessional super contributions. Because the threshold is not an income-only threshold, it may begin to apply to people with taxable incomes from $225,001.

As a result of this measure, it is estimated that 1 per cent of Australian super fund members will become liable for the additional 15 per cent tax.

See the Further details section below for more information.

Sunsuper will again explore the Federal Budget at our annual Member Briefing Series. From mid May we will present our thoughts on how the 2016 Federal Budget announcements will potentially impact you and your super.

Click here to register for this complimentary event.

A new $500,000 lifetime cap on non-concessional contributions

Contributions tax isn't deducted within the superannuation system from after-tax (non-concessional) contributions to super, as these contributions are considered to come from sources that have already had tax applied, such as personal savings.

Currently, an annual cap of **$180,000** applies to these contributions, with people aged under 65 able to contribute up to three times this amount in one year (i.e. **$540,000**) under the "bring-forward" provisions. Any contributions over this cap will either attract tax or can be refunded to the contributor.

The Budget proposes to overhaul the annual non-concessional contribution cap regime and replace this with a **lifetime cap** on non-concessional contributions, effective from 7.30pm on 3 May 2016, and taking into account all non-concessional contributions made since 1 July 2007. The lifetime cap applies to individuals aged up to 75, and will be indexed in $50,000 increments in line with wages.

Impact on members: If a member has exceeded the cap with contributions between 1 July 2007 and 3 May 2016, they will have used up their lifetime cap but will not be required to take the excess out of super. After 3 May 2016, if a member makes contributions that cause them to exceed the cap they will be allowed to withdraw the excess from their super account. (If they don't they will be subject to the current penalty arrangements.) The Government estimates the change will affect less than 1 per cent of Australian super fund members.

See the Further details section for more information.

A Low Income Superannuation Tax Offset (LISTO) to replace the Low Income Superannuation Contribution (LISC)

The proposed new Low Income Superannuation Tax Offset would commence on 1 July 2017, picking up after the cessation of the current Low Income Super Contribution on 30 June 2017.

This non-refundable tax offset would mean that those with an adjusted taxable income up to **$37,000** will receive a refund into their super account of the tax paid on their concessional contributions, up to a cap of **$500.**

Impact on members: In effect, this measure means that most low income earners will pay no tax on their superannuation contributions. The ATO will determine a member's eligibility for the LISTO and advise their super fund annually; the fund will then contribute the LISTO to the member's account.

Tax deductions for personal super contributions for all Australians under 75

From 1 July 2017, the Government proposes to allow all Australians **under 75** to claim an income tax deduction for any personal superannuation contribution into an eligible superannuation fund. These amounts would count towards the individual's concessional contributions cap, and be subject to 15 per cent contributions tax.

Certain untaxed and defined benefit superannuation funds would be prescribed, meaning members would not be eligible to claim a deduction for contributions to these funds. Instead, if a member wishes to claim a deduction, they may choose to make their contribution to another eligible superannuation fund.

Impact on members: This change will allow members, regardless of their employment circumstances, to make concessional superannuation 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 likely benefit from these changes.

Allowing catch-up concessional contributions

The Budget proposes to allow people with superannuation balances of **$500,000 or less** to accrue additional concessional cap amounts from 1 July 2017. Specifically, they will be able to make use of any unused portion of the concessional contributions cap (proposed to change to $25,000 on 1 July 2017) on a rolling 5-year basis. Amounts carried forward that aren't used after 5 years will expire.

Impact on members: This measure will make it easier for people with broken work patterns and varying capacity to save to add to their super and save for retirement by making salary sacrifice contributions of varying amounts over a 5-year period. It is likely to particularly benefit women who temporarily leave the workforce to raise children.

Removal of the work test requirement for people aged 65 to 74

Currently, people who are aged 65 to 74 are only able to make voluntary or non-concessional superannuation contributions if they meet a "work test". Additionally, people are only permitted to make contributions for a spouse aged 65 to 69 if that spouse meets the work test. If their spouse is aged 70 or over, no spouse contributions can be made.

From 1 July 2017, the Government proposes to:

- remove the requirement that an individual aged 65 to 74 must meet a work test before making voluntary or non-concessional contributions to superannuation, and
- allow individuals to make contributions to a spouse aged under 75 without the need for the spouse to meet a work test.

Impact on members: This measure will allow older Australians to continue to build their own or their spouse's super savings leading up to retirement.

Spouse contribution tax offset income threshold increase

Taxpayers who make contributions to their spouse's (including defacto spouses) super accounts can currently claim a tax offset if the spouse's income is less than **$13,800**.

The Budget proposes to change the eligibility rules from 1 July 2017. Under the proposal, the current full 18 per cent tax offset of up to **$540** will be available where the receiving spouse's income is up to **$37,000** (currently **$10,800**). As is currently the case, the offset would gradually be reduced for higher incomes, and would completely phase out at incomes of $40,000 (currently $13,800).

Impact on members: This measure may allow couples to receive a tax offset for boosting the super savings of their low-income earning spouse, in cases, for example, where one partner is working part time, out of work or has "lumpy" income.

Tax exemption on earnings in the retirement phase extended to other products

From 1 July 2017, the Government proposes to extend the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self-annuitisation products, which are offered by life offices. These products seek to provide individuals with income throughout their retirement regardless of how long they live.

The Government has announced they will consult on how these new products are treated under the Age Pension means test.

Transition-to-retirement pension reforms

In July 2005, the Government introduced the transition-to-retirement (TTR) pension to facilitate workers who had reached preservation age (currently age 56) to reduce their working hours while at the same time supplementing their take-home pay with income paid from a TTR pension as they approached full retirement.

However, a large proportion of TTR pensioners are in fact still working full-time and have instead used a TTR pension as a strategy to boost their superannuation savings and manage their tax.

From 1 July 2017, the Government proposes to introduce a **15 per cent tax on investment earnings** on transition to retirement income streams. This change will apply regardless of when the income stream commenced.

Impact on members: The Government proposes this measure will ensure access to transition to retirement income streams is primarily for the purpose of substituting work income rather than tax minimisation.

Removing income stream tax loophole

It's also proposed that individuals aged under 60 would no longer be able to treat certain superannuation income stream payments as lump sums for tax purposes, which currently makes them tax-free up to the low rate cap (currently $195,000). It's expected this measure would commence from 1 July 2017.

Anti-detriment payments no longer permitted

The anti-detriment measure has been in place since 1988 in response to the introduction of the new 15 per cent tax on before-tax (concessional) contributions that year. Broadly, an anti-detriment payment reverses the 15 per cent contributions tax when funds make a death benefit lump sum payment to a member's dependant. This is to recognise that such death benefits had been totally tax-free before 1988 and should not incur the 15 per cent contributions tax.

The Budget proposes to withdraw the tax deduction afforded to funds making anti-detriment payments from 1 July 2017, effectively putting an end to such payments.

Impact on a deceased member's lump sum benefit payment to a dependant: This measure can reduce the total lump sum benefit payment significantly. For example, a $100,000 lump sum payment could currently be increased by an additional $17,647 anti-detriment payment subject to certain conditions being met. Not all funds provide anti-detriment payments; however, Sunsuper does.

Current arrangements that are not affected by this year's Federal Budget

Over the past few months, there has been much media speculation about what may or may not be in the Budget. Below are a number of key superannuation arrangements that the Budget was silent about and therefore remain in place.

- **Tax on earnings:** The tax rate on superannuation earnings during the accumulation stage (i.e. pre-pension) will remain at 15 per cent.
- **Tax-free super from age 60:** For members aged 60 years or older, all superannuation benefits (i.e. withdrawals from super, including lump sum and income stream payments) will remain tax free.
- **Expand conditions of release:** It had been suggested the Budget may announce that early release of super would be permitted to repay a HELP debt (previously called HECS) or be used for some other new purposes. This is not the case and the current scope of conditions for early release remain unchanged.
- **SG coverage:** There was speculation that employer Superannuation Guarantee contributions might become payable on certain income replacement payments (workers' compensation, paid parental leave, salary continuance) but there is no change to the current SG coverage.
- **The $450 SG threshold:** The current arrangement that employers do not have to make contributions if an employee earned less than $450 in a calendar month remains in place.
- **TBRL:** The Temporary Budget Repair Levy is legislated to cease after 30 June 2017. The Budget made no change to this end date.
- **Age pension qualifying age:** There has been speculation for a number of years that the qualifying age for the government age pension may be raised to 70. However, the Budget announced no change to this and so the following remains in place: from 1 July 2017, the qualifying age will increase from 65 years to 65 years and 6 months and will then increase by 6 months every 2 years, reaching 67 years by 1 July 2023.
- **The backpackers tax.** Last year's Budget proposed to scrap the $18,200 tax-free threshold for temporary residents and tax them 32.5 cents for every dollar they earn from 1 July 2016. This was the so-called "backpackers tax". The Budget did not mention this and it is understood this tax is still set to continue.

The following were the key take-outs on the economy

The 2016-17 Budget isn't likely to dramatically change the outlook for the economy over the next year or two. The economic forecasts underpinning the Budget forecasts are reasonable. The Treasury is forecasting a modest acceleration in growth over the forecast horizon, despite continuing uncertainty internationally. In the next year or so, economic activity is expected to be supported by household consumption, dwelling investment and exports. Falling mining investment is expected to continue to detract from growth over the forecast period, but the Treasury is expecting business investment outside of mining to post modest growth over the coming years.

The bottom line is that fiscal policy is being tightened over the forward estimates; modestly in 2016-17, but a little more aggressively in the three years beyond. This is sensible: there is no budget emergency that would require aggressive fiscal tightening, but the Government did need to demonstrate at least some progress towards reining in the budget deficit, and stabilising Australia's net public debt.

The underlying budget deficit, which excludes the earnings from the Future Fund from total receipts, is forecast to decline both in dollar terms and (crucially) as a percentage of GDP. Spending, at 25.8 per cent of GDP in 2015-16, is historically very high by Australian standards, and is forecast to drift lower. Tax receipts are forecast to rise as a share of GDP over the forward estimates, even if we exclude GST receipts, which are classed as a state tax for Federal Budget purposes.

Impact on members: The Federal Budget rarely makes any difference to the way Sunsuper, or indeed any other major superannuation fund, invests members' money. From an investment perspective, it's the medium to long-term outlook for the Australian and world economies, inflation, interest rates and corporate earnings that are critical in determining what kind of investment returns our members will achieve, and the 2016-17 Budget, like virtually all of its predecessors, has very little impact on those factors.

Further details on proposed changes

Further details on the company tax rate for small business entities cut to 27.5 per cent

From the 2016-17 income year, the Budget proposes to reduce the company tax rate to 27.5 per cent for businesses with aggregated turnover of less than $10 million. The aggregated turnover threshold for access to the 27.5 per cent company tax rate will be progressively increased so that it includes all companies irrespective of aggregated turnover.

The aggregated turnover thresholds for access to the 27.5 per cent company tax rate will increase as follows:

Income year	Annual aggregated turnover threshold
2017-2018	$25 million
2018-2019	$50 million
2019-2020	$100 million
2020-2021	$250 million
2021-2022	$500 million
2022-2023	$1 billion
2023-2024	None

From the 2024-2025 income year, the company tax rate will be further reduced progressively until it reaches 25 per cent as follows:

Income year	Company tax rate
2024-2025	27 per cent
2025-2026	26 per cent
2026-2027	25 per cent

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

Further details about the changes to personal income tax thresholds

The table below shows the current and new tax details.

People earning between $80,000 and $87,000 per year will gain an annual tax reduction of up to $315, and all people earning $87,000 or more will gain the full income tax reduction of $315.

Calculation for income portions between $80,000 and $87,000: Current tax is 37c x $7,000 = $2,590. Proposed tax is 32.5c x $7,000 = $2,275. Difference is $315.

People earning $80,000 or less will gain no tax benefit from this measure.

Taxable income thresholds for 2015-16	Taxable income thresholds from 1 July 2016	Tax on this income
$0 - $18,200	$0 - $18,200	Nil
$18,201 - $37,000	$18,201 - $37,000	19c for each $1 over $18,200
$37,001 - $80,000	$37,001 - **$87,000**	$3,572 plus 32.5c for each $1 over $37,000
$80,001 - $180,000	**$87,001** - $180,000	Current: $17,547 plus 37c for each $1 over $80,000 Proposed: $19,822 plus 37c for each $1 over **$87,000**
$180,001 and over	$180,001 and over	Current: $54,547 plus 45c for each $1 over $180,000 Proposed: $54,232 plus 45c for each $1 over $180,000

Further details about the concessional contributions cap changes

The Budget proposes to reduce the cap amount to **$25,000** for all individuals from 1 July 2017, as shown in the table below.

Income year	Concessional contributions cap	
	Aged under 49	Aged 49 or older
2016-17	$30,000	$35,000
2017-18	$25,000	$25,000

Treatment of excess concessional contributions:

- If the ATO determines there are excess concessional contributions, it will include the excess amount in the taxpayer's assessable income and tax this at their marginal tax rate. Taxpayers may instruct their superannuation fund to release up to 85 per cent of their excess concessional contributions and to pay this to the ATO in respect of their tax liability. The excess concessional contributions charge will also be applied.
- Since the 2013-14 income year, excess concessional contributions are no longer subject to the excess concessional contributions tax. They are also not subject to the Division 293 tax that high income earners may incur.

Further details about the Division 293 tax income threshold reduction

The income threshold for high income earners' contributions tax (referred to as Division 293 tax) has been in place since the 2012-13 financial year. It imposes an additional 15 per cent tax on concessional superannuation contributions for high income earners, i.e. those who exceed the current threshold of **$300,000.**

The Budget proposes to reduce this threshold to **$250,000** with effect from 1 July 2017. It is estimated 1 per cent of Australian super fund members will become liable for the additional 15 per cent tax.

How does the Division 293 tax operate?

The threshold:

- The threshold is not a person's taxable income. Instead, it is defined as the sum of a person's taxable income and **concessional super contributions.**
- So the Division 293 tax actually kicks in before a taxable income of $250,000.
- Concessional contributions: Concessional contributions include a person's Superannuation Guarantee contributions made by their employer, salary sacrifice contributions and personal contributions for which a tax deduction is claimed.
- Concessional contributions are taxed at 15 per cent.
- Since 2012-13, the Division 293 tax has imposed an additional 15 per cent tax on these contributions for high income earners who exceed the threshold, but only up to the **concessional contributions cap amount.**

Concessional contributions cap amounts for the 2015-16 financial year:

- The annual cap amount is $30,000 if aged under 49.
- The annual cap amount is $35,000 if aged 49 or older on 30 June of the previous financial year.

The Budget proposes to reduce the concessional contributions cap to $25,000 per year from 1 July 2017.

The Division 293 tax does not apply to temporary residents (e.g. highly paid senior executives posted to Australia). Special rules also apply to defined benefit interests.

Further details about the non-concessional contributions cap changes

The Budget proposes to overhaul the annual non-concessional contribution cap regime and replace this with a **lifetime cap** on non-concessional contributions, effective from 7.30pm on 3 May 2016, as shown in the table below. It will take into account all non-concessional contributions made since 1 July 2007. The lifetime cap applies to individuals aged up to 75 (as this is the maximum age for making non-concessional contributions), and will be indexed in $50,000 increments in line with wages.

Income year	Non-concessional contributions cap	
	Any age	Aged under 65 (At the time the contribution is made)
Up to 3 May 2016	$180,000	The three-year "bring forward" rule applies
From 3 May 2016	$500,000 lifetime cap	$500,000 lifetime cap

Treatment of excess non-concessional contributions:

- If the ATO determines there are excess non-concessional contributions, it will send a notice to the taxpayer who may then elect to have the excess amount refunded to them by their superannuation fund.
- Since the 2013-14 income year, no excess non-concessional contributions tax is payable if a refund is elected.

Definitions of concessional and non-concessional contributions

Concessional contributions are made from pre-tax salary. They can include:

- compulsory SG payments made by an employer,
- salary sacrifice amounts,
- additional super payments an employer may make,
- payments made by an employer to cover expenses such as insurance premiums and/or fees,
- contributions for which a tax deduction is claimed (mainly self-employed persons), and
- notional taxed contributions for defined benefit members.

Non-concessional contributions are made from after-tax salary. They can include:

- personal contributions for which no tax deduction is claimed,
- spouse contributions, and
- government co-contributions.

[1]Simple advice about super is provided at no additional cost. More detailed advice may incur a fee. Sunsuper employees provide advice as representatives of Sunsuper Financial Services Pty Ltd (ABN 50 087 154 818, AFSL No. 227867), a wholly owned subsidiary of Sunsuper