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Update

2016 Federal Budget Edition

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BUDGET 2016

Last week (Tues May 3) the Federal Treasurer, the Hon. Scott Morrison MP, delivered his first Federal Budget. With the Commonwealth election now locked in for July 2, this Budget was always going to be a pre-election sales pitch to voters and key constituents.

In keeping with past years, there are likely to be the usual mix of **winners** and **losers**, with some obvious good news in the residential housing sector seeing policies unchanged; negative gearing lives for another year—at least.

However, the superannuation system didn't fair so well, with a range of announcements set to affect those approaching retirement looking to boost their fund balances and those already in retirement with large accounts.

Not to be out done, the RBA (Reserve Bank) also cut interest rates by 0.25% to 1.75%, which is **good news** if you still have a mortgage, but **not so good** if you rely on income from term deposits or interest bearing investments.

For more in-depth analysis, or a summary of how specific budget changes might affect you, feel free to call the office. In the meantime, the key takeouts as we see them, are included here ...

Building up your super?

The amount you can contribute into super via "non-concessional" contributions has been capped at a lifetime limit of $500,000. This is a sharp decrease from the current cap of $180,000 per annum or $540,000 under the bring forward provision, and came into effect from Budget night 3/5/16. From 1 July 2017, annual concessional contributions will now be capped at $25,000 for all ages, which is a significant drop especially of you were over 50.

And if you earn more than $250,000 per annum you will now have to pay 30% contributions tax (The salary limit was previously $300,000pa).

Transitioning to retirement (TTR)

If you have a transition to retirement pension, or are considering one, be aware that the earnings tax exemption on your account will be removed from 1 July 2017—meaning that your fund will pay tax of 15%, thereby reducing your annual returns.

Already Retired ?

The amount of superannuation you can now transition into the "Pension Phase" is capped at $1.6 million. If you have over $1.6m in the pension phase you will need to move the excess back to accumulation phase before 1 July 2017; or there will be tax implications.

It is further proposed that a tax will apply to amounts transferred to the pension phase in excess of the $1.6 million limit.

Defined benefit pensions in excess of $100,000pa will also have similar implications

The tax rule that allows a portion of an income stream pension to be treated as a lumpsum will also be removed.

Some Good News

No more work test …
If you are 65 to 74 (inclusive) you no longer need to satisfy a work test to make Concessional or Non-Concessional superannuation contributions

Tax deductible contributions for all
Tax deductions for personal superannuation contributions will be available to everyone under age 75 regardless of your employment circumstances.

Tax offset for Spouse Contribution
You can now claim a spouse contribution tax offset if you spouse earns less than $40,000. Previously this phased out at $13,800.

Low Income Tax Offset
A Low Income Superannuation Tax Offset (LISTO) has been introduced to reduce tax on superannuation contributions for low-income earners. This measure replaces the current Low Income Super Contribution (LISC) from 1 July 2017 and effectively avoids the situation in which low-income earners pay more tax on savings in superannuation than on income earned outside of superannuation.

Lifting personal tax threshold
The 32.5% marginal tax threshold has been increased from $80,000 to $87,000 from 1 July 2016, resulting in a small tax saving before the 37% rate cuts in.

Accumulate past un-used concessional contributions
Whilst $25,000 per annum will become the new maximum Concessional Contribution after 1 July 2017, it is proposed that where you are not able to make full use of this annual threshold in any one year then un-used contributions can be accumulated for up to 5 years and utilised in the future; ie up to $125,000 as a once-off tax deduction every 5 years. This could be a useful way to mitigate the effects of capital gains tax on the sale of an asset down the track.

If you want to discuss how these changes may affect your particular circumstances please call us.

Unintended Consequences??

Naturally, not everyone is happy with the Federal Government's proposed changes to superannuation, in particular the Institute for Public Affairs (IPA), who have recently described certain members as, *"disappointed, devastated, white hot with anger."*

Treasurer Scott Morrison

The Government, on the other hand, is adamant the measures announced on Tuesday night would not be retrospective and would only affect about 4 per cent of superannuants.

In response, IPA executive director John Roskam is preparing to launch a campaign against the changes, with the next 12 months viewed as a "consultation period" according to Foreign Affairs Minister Julie Bishop—a time to work through the final legislation and iron out any "unintended consequences".

Given the nature of the changes, whereby super fund members with existing Income Streams (eg allocated pensions) balances over $1.6mil will be compelled to effectively un-wind their arrangements (established under the current and past Superannuation Regulations) the starting point in *this* debate must surely be the definition of "retrospectivity".

Like trying to argue that a "levy" is **NOT** a "tax", experience suggests that anything that walks like a duck, quacks like a duck and looks like a duck—is generally, in the end ... a duck!

Tips for a Bigger nest Egg

Whilst the devil is often in the detail ... at this early stage it would seem the latest Federal Budget is likely to favour the following strategy:

Investment Ownership & Reduced Personal Tax
With the making of tax deductible (ie Concessional) personal super contributions being opened to all—up to age 75 and with NO "work test" requirements—it means:

- Retirees (in particular) with high taxable incomes (eg from rent, dividends, interest and trust distributions) can reduce their personal tax significantly each year through the making of a Concessional Contribution; where tax of just 15% is imposed (compared with a personal tax rate of 19% on income over $18,200 and 32.5% on income over $37,000pa (+ Medicare levy of 2%pa.)
- Cumulating your un-used Concessional Contributions, (maximum five years) and making larger concessional contributions at an appropriate time in the future, e.g. when you dispose of a large asset like a property and incur a capital gains tax bill. Again, this has the potential to keep your tax rate to 15%, rather than a personal tax rate of up to 47%.

Being able to make personal tax deductible (ie Concessional) Contributions of up to $25,000 per year, [and cumulate up to five years worth of un-used contributions for future use] - to age 74, without having to pass the "Work Test", should also be taken into account when determining the ownership of growth assets and the timing of their disposal.