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2016–17 Federal Budget …
… at a glance

Earlier this evening the Treasurer, Mr Scott Morrison, delivered his first Budget saying it was an "economic plan", not just another budget.

The Budget delivers the Government's economic plan in three key ways:
1. By sticking to their plan for jobs and growth;
2. By fixing specific problems in the tax system; and
3. By continuing to ensure the Government lives within its means, to balance the budget and reduce the burden of long term debt.

The Government remains committed to its strategy of returning the budget to surplus by maintaining strong fiscal discipline, strengthening the Government's balance sheet and redirecting government spending to boost productivity and workforce participation.

The 2016-17 Budget maintains a steady trajectory towards surplus. The deficit is expected to fall from $37.1 billion in 2016-17 (2.2 per cent of GDP) to $6 billion in 2019-20 (0.3 per cent of GDP).

Highlights

Earnings tax exemption to be extended to retirement income products and group self-annuitisation products.

The Government will remove barriers to innovation in the creation of retirement income products. From 1 July 2017, the tax exemption on earnings in the retirement phase will be extended to products such as deferred lifetime annuities and group self-annuitisation products.

The Government will consult on how these products will be treated under the Age Pension means test.

Executive summary

Superannuation Reform Package

- Introduction of a non-concessional lifetime cap of $500,000, taking into account all non-concessional contributions made on or after 1 July 2007, and will commence at 7:30pm (AEST) on 3 May 2016. Contributions made before the commencement cannot result in an excess.
- Introduction of a $1.6m transfer balance cap on the total amount of accumulated superannuation that can be transferred into the retirement phase with effect from 1 July 2017. Excess amounts can remain in a superannuation accumulation phase account.
- From 1 July 2017, the threshold at which high income earners pay additional contributions tax will be reduced from $300,000 to $250,000.
- The annual cap on concessional contributions will be reduced to $25,000 from 1 July 2017.
- Effective 1 July 2017, individuals with a superannuation balance of less than $500,000, can carry forward unused concessional contribution caps into future years, on a rolling basis for up to 5 years.
- Individuals aged between 65 and 74 will no longer need to satisfy the work-test in order to make superannuation contributions with effect 1 July 2017.
- Access to the low income spouse superannuation tax offset will be increased by raising the income threshold for the low income spouse from $10,800 to $37,000 with effect 1 July 2017.
- The Low Income Superannuation Tax Offset (LISTO) will be introduced effective 1 July 2017 to replace the Low Income Super Contribution (LISC).
- The anti-detriment provisions will be removed from 1 July 2017.
- The current tax exemption on earnings of assets supporting Transition to Retirement (TTR) income streams will be removed from 1 July 2017.
- Individuals up to age 75 can claim a tax deduction for personal superannuation contributions, regardless of their employment situation, with effect 1 July 2017.
- From 1 July 2017, the tax exemption on earnings in the retirement phase will be extended to products such as deferred lifetime annuities and group self-annuitisation products.

Executive summary cont.

Ten Year Enterprise Tax Plan

- The Government will reduce the company tax rate to 25 per cent over 10 years.
- With effect 1 July 2016, the 32.5 per cent personal income tax threshold will be increased from $80,000 to $87,000.
- Tax and regulatory frameworks will be introduced for two new types of collective investment vehicles (CIVs). A corporate CIV will be introduced for income years starting on or after 1 July 2017, and limited partnership CIVs to follow on or after 1 July 2018.
- The Taxation of Financial Arrangement Rules (TOFA) will be reformed, with the new simplified rules to apply to income years on or after 1 January 2018.

Other measures

- Funding will be provided to ASIC to implement a regulatory framework for Australia's participation in the Asia Region Funds Passport.
- The Government will provide additional funding to ASIC and the Department of Treasury from 2016-17 to combat misconduct in Australia's financial services industry and bolster consumer confidence in the sector. Funding will also support ASIC and the Department of the Treasury in accelerating the implementation of law reforms recommended by the Financial System Inquiry.
- The Superannuation Complaints Tribunal (SCT) will receive additional funding to improve processes, and to reduce the backlog of complaints.
- The Government will establish the National Disability Insurance Scheme Savings Fund Special Account to assist in meeting the future costs of the National Disability Insurance Scheme (NDIS).
- 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.
- GST will be extended to low value goods imported by consumers from 1 July 2017.
- The tobacco excise and excise equivalent customs duties will be increased through four annual increases of 12.5 per cent from September 2017. And the duty free allowance on tobacco will be limited to 25 cigarettes from 1 July 2017.
- The Special Duty on imported used vehicles will be removed from 1 January 2018.

Superannuation Reform Package

Introduction of a lifetime cap for non-concessional superannuation contributions

The Government will introduce a $500,000 lifetime non-concessional contributions cap to improve the sustainability of the superannuation system. To ensure maximum effectiveness the lifetime cap will take into account all non-concessional contributions made on or after 1 July 2007, from which time the Australian Taxation Office has reliable contributions records, and **will commence at 7.30 pm (AEST) on 3 May 2016**. Contributions made before commencement cannot result in an excess. However, excess contributions made after commencement will need to be removed or subject to penalty tax. The cap will be indexed to average weekly ordinary time earnings.

The lifetime non-concessional cap will replace the existing annual caps which allow annual non-concessional contributions of up to $180,000 per year (or $540,000 every three years for individuals aged under 65).

This change will improve the sustainability of the superannuation system, whilst continuing to provide support for the majority of Australians who make non-concessional contributions well below $500,000. This measure will also provide Australians with flexibility around when they choose to contribute to their superannuation and will be available to all Australians up to age 74.

After-tax contributions made into defined benefit accounts and constitutionally protected funds will be included in an individual's lifetime non-concessional cap.

Introduction of a $1.6 million superannuation transfer balance cap

From **1 July 2017**, the Government will introduce a $1.6 million transfer balance cap on the total amount of accumulated superannuation an individual can transfer into the retirement phase. Subsequent earnings on these balances will not be restricted. This will limit the extent to which the tax-free benefits of retirement phase accounts can be used by high wealth individuals.

Introducing a transfer balance cap will improve sustainability and fairness in the superannuation system. Where an individual accumulates amounts in excess of $1.6 million, they will be able to maintain this excess amount in an accumulation phase account (where earnings will be taxed at the concessional rate of 15 per cent).

Members already in the retirement phase with balances above $1.6 million will be required to reduce their retirement balance to $1.6 million by 1 July 2017. Excess balances for these members may be converted to superannuation accumulation phase accounts.

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 applies to excess non-concessional contributions.

The amount of cap space remaining for a member seeking to make more than one transfer into a retirement phase account will be determined by apportionment.

Commensurate treatment for members of defined benefit schemes will be achieved through changes to the tax arrangements for pension amounts over $100,000 from 1 July 2017.

Consultation will be undertaken on the implementation of this measure for members of both accumulation and defined benefits schemes.

Taxation of concessional superannuation contributions

From **1 July 2017**, the Government will lower the Division 293 threshold (the point at which high income earners pay addition contributions tax) from $300,000 to $250,000. The Government will also reduce the annual cap on concessional superannuation contributions to $25,000 (currently $30,000 under age 50; $35,000 for ages 50 and over).

Reducing the Division 293 tax income threshold will improve sustainability and fairness in the superannuation system by limiting the effective tax concessions provided to high income individuals. Capping concessional contributions at $25,000 per year will still allow individuals to accumulate significant amounts of tax advantaged concessional superannuation.

The lower Division 293 income threshold will also apply to members of defined benefit schemes and constitutionally protected funds currently covered by the tax. Existing exemptions (such as State higher level office holders and Commonwealth judges) for Division 293 tax will be maintained.

From 1 July 2017, the Government will include notional (estimated) and actual employer contributions in the concessional contributions cap for members of unfunded defined benefit schemes and constitutionally protected funds. Members of these funds will have opportunities to salary sacrifice commensurate with members of accumulation funds. For individuals who were members of a funded defined benefit scheme as at 12 May 2009, the existing grandfathering arrangements will continue.

Allow catch-up concessional superannuation contributions

From **1 July 2017**, the Government will allow individuals to make additional concessional contributions where they have not reached their concessional contributions cap in previous years. Access to these unused cap amounts will be limited to those individuals with a superannuation balance less than $500,000. Amounts are carried forward on a rolling basis for a period of five consecutive

years, and only unused amounts accrued from 1 July 2017 can be carried forward.

Annual concessional caps can limit the ability of people with interrupted work patterns — for example women or carers — to accumulate superannuation balances commensurate with those who do not take breaks from the workforce. Allowing people to carry forward their unused concessional cap provides them with the opportunity to 'catch-up' if they have the capacity and choose to do so.

The measure will also apply to members of defined benefit schemes and consultation will be undertaken to minimise additional compliance impacts for these schemes.

Harmonising contribution rules for those aged 65 to 74

From **1 July 2017**, the Government will improve the flexibility of the superannuation system by removing the current restrictions on people aged 65 to 74 from making superannuation contributions for their retirement. People under the age of 75 will no longer have to satisfy a work test and will be able to receive contributions from their spouse.

This will simplify the superannuation system for older Australians and allow them to increase their retirement savings, especially from sources that may not have been available to them before retirement, including from downsizing their home.

Improve superannuation balances of low income spouses

From **1 July 2017**, the Government will increase access to the low income spouse superannuation tax offset by raising the income threshold for the low income spouse to $37,000 from $10,800. The low income spouse tax offset provides up to $540 per annum for the contributing spouse and builds on the Government's co-contribution and superannuation splitting policies to boost retirement savings, particularly of women.

Tax deductions for personal superannuation contributions

From **1 July 2017**, the Government will improve flexibility and choice in superannuation by allowing all individuals up to age 75 to claim an income tax deduction for personal superannuation contributions. This effectively allows all individuals, 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 benefit from these changed arrangements.

Individuals that are members of certain prescribed funds would not be entitled to deduct contributions to those schemes. Prescribed funds will include all untaxed funds, all Commonwealth defined benefit schemes, and any State, Territory or corporate defined benefit schemes that choose to be prescribed.

Low Income Superannuation Tax Offset (LISTO)

From **1 July 2017**, the Government will introduce a Low Income Superannuation Tax Offset (LISTO) to reduce tax on superannuation contributions for low income earners. 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 a cap of $500. Provision will be made to ensure the measure can be implemented to achieve the outcomes as intended. The LISTO will apply to members with adjusted taxable income up to $37,000 that have had a concessional contribution made on their behalf.

This will effectively avoid the situation in which low income earners would pay more tax on savings placed into superannuation than on income earned outside of superannuation.

Remove the anti-detriment provision in respect of death benefits from superannuation

From **1 July 2017**, the Government will improve the integrity and fairness of the system by removing the outdated anti-detriment provision.

The anti-detriment provision can effectively result in a refund of a member's lifetime superannuation contributions tax payments into an estate, where the beneficiary is the dependant of the member (spouse, former spouse or child). Currently, this provision is inconsistently applied by superannuation funds.

Removing the anti-detriment provision will better align the treatment of lump sum death benefits across all superannuation funds and the treatment of bequests outside of superannuation. Lump sum death benefits to dependants remain tax free.

Removal of tax exemption on earnings of assets for TTR income streams

The Government will improve integrity in the superannuation system by removing the tax exemption on earnings of assets supporting Transition to Retirement Income Streams from **1 July 2017** (income streams of individuals over preservation age but not retired). It will also remove a rule that allows individuals to treat certain superannuation income stream payments as lump sums for tax purposes.

Earnings tax exemption to be extended to retirement income products and group self-annuitisation products.

The Government will remove barriers to innovation in the creation of retirement income products. From **1 July 2017**, the tax exemption on earnings in the retirement phase will be extended to products such as deferred lifetime annuities and group self-annuitisation products.

The Government will consult on how these products will be treated under the Age Pension means test.

Ten Year Enterprise Tax Plan

Reducing the company tax rate to 25 per cent

The Government will reduce the company tax rate to 25 per cent over 10 years.

The tax rate for businesses with an annual aggregated turnover of less than $10.0 million will be 27.5 per cent from the 2016-17 income year. The threshold will then be progressively increased to ultimately have all companies at 27.5 per cent in the 2023-24 income year. The annual aggregated turnover thresholds for companies facing a tax rate of 27.5 per cent will be:

- $25.0 million in the 2017-18 income year;
- $50.0 million in the 2018-19 income year;
- $100.0 million in the 2019-20 income year;
- $250.0 million in the 2020-21 income year;
- $500.0 million in the 2021-22 income year; and
- $1 billion in the 2022-23 income year.

In the 2024-25 income year the company tax rate will be reduced to 27 per cent and then be reduced progressively by 1 percentage point per year until it reaches 25 per cent in the 2026-27 income year. Franking credits will be able to be distributed in line with the rate of tax paid by the company making the distribution.

Targeted personal income tax relief

The Government will increase the 32.5 per cent personal income tax threshold from $80,000 to $87,000 from **1 July 2016**.

This measure will reduce the marginal rate of tax on incomes between $80,000 and $87,000 from 37 per cent to 32.5 per cent, preventing around 500,000 taxpayers facing the 37 per cent marginal tax rate. This will ensure that the average full-time wage earner will not move into the second highest tax bracket in the next three years. In the absence of this action, they would move into the second highest tax bracket in 2016-17.

Implementing a new suite of collective investment vehicles

The Government will introduce a new tax and regulatory framework for two new types of collective investment vehicles (CIVs). CIVs allow investors to pool their funds and have them managed by a professional funds manager. A corporate CIV will be introduced for income years starting on or after 1 July 2017. This will be followed by a limited partnership CIV for income years starting on or after 1 July 2018.

These reforms will enhance the international competitiveness of the Australian managed funds industry by allowing fund managers to offer investment products using vehicles that are commonly in use overseas. This will also maximise the effectiveness of related Government initiatives aimed at increasing access to overseas markets, including the Asia Region Funds Passport.

The new CIVs will be required to meet similar eligibility criteria as managed investment trusts, such as being widely held and engaging in primarily passive investment. Investors in these new CIVs will generally be taxed as if they had invested directly.

Business simplification — taxation of financial arrangements — regulation reform

The Government will reform the taxation of financial arrangements (TOFA) rules to reduce the scope, decrease compliance costs and increase certainty through the redesign of the TOFA framework. The new simplified rules will apply to income years on or after 1 January 2018.

The current TOFA rules calculate the amount and timing of gains and losses on financial arrangements, and were designed for the largest taxpayers. However, in practice, these rules apply to a significant group of smaller taxpayers and TOFA has not delivered the envisaged compliance cost savings and simplification benefits to these taxpayers.

Other measures

Asia Region Funds Passport

The Government will provide additional funding over four years from 2016-17 to the Australian Securities and Investments Commission to implement a regulatory framework for Australia's participation in the Asia Region Funds Passport.

The Asia Region Funds Passport initiative aims to increase access for Australian fund managers to growing Asian markets by creating a regulatory arrangement for the cross border offer of collective investment vehicles.

The cost of this measure will be partially offset by a registration fee, which will be paid by Australian and foreign funds using the Asia Region Funds Passport.

Australian Securities and Investments Commission — improving outcomes in financial services

The Government will provide additional funding over four years from 2016-17 to the Australian Securities and Investments Commission (ASIC) and over three years from 2016-17 to the Department of the Treasury to combat misconduct in Australia's financial services industry and bolster consumer confidence in the sector. This follows consideration of the findings of the Capability Review of the Australian Securities and Investments Commission. The funding to ASIC will be ongoing.

The additional funding will support increased surveillance and enforcement activities in areas such as financial advice, responsible lending, life insurance, and breach reporting, and enhancements to ASIC's data analytics.

The funding for ASIC includes $39.2 million in capital over three years from 2016-17, which will support improvements to ASIC's technology systems to ensure that ASIC is better equipped to detect financial sector misconduct and to improve information management systems to support other work.

Funding will also support ASIC and the Department of the Treasury in accelerating the implementation of law reforms recommended by the Financial System Inquiry.

The cost of this measure will initially be offset in 2016-17 by an increase in the Financial Institutions Supervisory Levies collected by the Australian Prudential Regulation Authority. However an industry funding model for ASIC will commence in the second half of 2017 and thereafter this additional funding for ASIC may instead be collected as part of that model.

Superannuation Complaints Tribunal — sustaining and modernising functions

The Government will provide additional funding in 2016-17 to the Superannuation Complaints Tribunal (SCT) to improve processes, and to reduce the backlog of complaints lodged with the SCT.

The cost of this measure will be offset by an increase in the Financial Institutions Supervisory Levies collected by the Australian Prudential Regulation Authority.

Australian Prudential Regulation Authority — modernising data capabilities

The Government will provide additional funding over three years from 2016-17 to modernise the Australian Prudential Regulation Authority's (APRA) data collection and dissemination systems. The cost of this element of the measure will be met from within the existing resources of APRA.

The Government will also provide funding over four years from 2016-17 to support the maintenance and operation of the new systems. The cost of this element of the measure will be offset by an $11.2 million increase over four years from 2016-17 in the Financial Institutions Supervisory Levies collected by APRA.

Offering Choice in Public Sector Superannuation Accumulation Plan

The Government will extend PSSap membership eligibility to allow PSSap members to choose to remain contributory members when they move to non-Commonwealth employment.

This will align PSSap arrangements with superannuation arrangements available in the broader industry and is consistent with the Government's wider reforms and initiatives to lower administrative costs borne by members.

National Disability Insurance Scheme Savings Fund

The Government will establish the National Disability Insurance Scheme Savings Fund Special Account to assist in meeting the future costs of the National Disability Insurance Scheme (NDIS). In the 2016-17 Budget, the Government will credit $2.1 billion to the fund.

Revised Social Security Agreement with New Zealand

The Government is negotiating with the New Zealand Government to amend elements of the existing Social Security Agreement (the Agreement) between both countries to reflect changes that have occurred in the domestic law of both countries since the Agreement commenced in July 2002.

Pausing Indexation of the Medicare Levy Surcharge and Private Health Insurance Rebate Thresholds — extension

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.

Jobs for Families Package — deferred implementation

The Government will defer implementation of the Child Care Subsidy, Additional Child Care Subsidy and Community Child Care Fund by one year to 1 July 2018 due to the Family Tax Benefit reforms required to fund the child care package not being passed by the Senate.

Child care fee assistance will continue to be provided under the Child Care Benefit, Child Care Rebate, Jobs, Education and Training Child Care Fee Assistance, Community Support Program and Budget Based Funded Program until 30 June 2018.

The Interim Home Based Carer Subsidy Pilot Programme (Nanny Pilot Programme), which commenced on 1 January 2016 and subsidises care provided by a nanny in a child's home, will also be extended for six months to 30 June 2018. The hourly fee cap will be increased from $7 to $10 from 1 June 2016. The cost of this increase will be met from within the existing resources allocated to the programme.

Applying GST to Low Value Goods Imported by Consumers

The GST will be extended to low value goods imported by consumers from 1 July 2017. The intent of this measure is that low value goods imported by consumers will face the same tax regime as goods that are sourced domestically.

Overseas suppliers that have an Australian turnover of $75,000 or more will be required to register for, collect and remit GST for low value goods supplied to consumers in Australia, using a vendor registration model.

These arrangements will be reviewed after two years to ensure they are operating as intended and take account of any international developments.

Tobacco Excise

The Government will increase tobacco excise and excise equivalent customs duties through four annual increases of 12.5 per cent per year from 2017 until 2020. The increases will take place on 1 September each year and will be in addition to existing indexation to average weekly ordinary time earnings.

In addition, the Government will also limit, from 1 July 2017, the duty free tobacco allowance to 25 cigarettes or equivalent from the current allowance of 50 cigarettes.

Removal of the Special Duty on Imported Used Vehicles

The Government will remove the $12,000 special tariff on imported used vehicles from 1 January 2018. This measure is estimated to have negligible cost to revenue over the forward estimates period.

The special tariff is rarely applied in practice as importers can claim an exemption if they have a Vehicle Import Approval issued by the vehicle safety standards regulator.

Further information?

Copies of Mr. Morrison's speech together with supporting Budget papers can be found online at www.budget.gov.au

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