prosperity advisers group

federal budget analysis

Federal Budget 2016: Living within our means...or robbing Peter to pay Paul?

Overview

In handing down his first national budget, the Federal Treasurer, Scott Morrison was quick to remind us that these are very sensitive times. According to Mr Morrison, the budget delivered on 3 May is intended to be a foundation upon which we can build a brighter and stronger economy for Australia to ensure our future prosperity. Clearly a modest budget ahead of an election year with virtually no spending cuts.

A significant component of this "brighter and stronger" economy will rely on making not inconsiderable changes to the fabric of our retirement system, while simultaneously providing a big bonus for not just small business. In fact we can say that small business isn't so small anymore!

1 July 2017 is earmarked as a major date for many reforms set to shape our economy. Many of these are bold changes! Not unsurprisingly for this government, we'll get good incentives for business owners but it comes at the expense of self-funded retirees and higher income earners.

Super

Heralding the biggest changes to superannuation since 2007, self-funded retirees and higher income earners will bear the brunt of the changes. The changes on the face of it seem contradictory to the essence of being financially independent and free of welfare support in retirement. It seems the intention of the changes is to continue to ensure the "integrity" of the superannuation system by stopping it from being a tax planning and estate planning mechanism. For the first time we'll see the purpose of superannuation enshrined in legislation as "to provide income in retirement to substantiate or supplement the Age Pension".

Business

Business reaps rewards with a 10 Year Enterprise Tax Plan, aimed at helping small and medium businesses – currently employing around 4.9 million workers – to continue to drive jobs and growth. The plan involves lowering company tax from 1 July 2016 to 27.5% and increasing the threshold for businesses who can access this from $2m up to $10m. Our traditionally defined medium enterprises are a key winner here. But the big end also wins as the company tax rate is earmarked to be progressively reduce to 25% for all companies over a 10 year period.

The $20,000 immediate deduction for asset purchases by a ‘small’ business is extended to 30 June 2017. Note the eligibility for this has expanded to include businesses with turnover up to $10m.

Beware the Tax Avoidance Taskforce! With its extra funding the taskforce is expected to recover $3.7b by targeting multi-nationals, high net worth individuals and private groups who attempt to avoid their Australian tax obligations.

Individuals

Some 500,000 tax payers will be pleased to see the threshold at which the marginal tax rate of 37% applies, increase from $80,000 to $87,000 from 1 July this year. This might just help to take some of the sting out of the application of GST to low value goods imported by consumers (yes, that online shopping basket!) due to start on 1 July 2017.

Sigh of relief...no changes to negative gearing anytime soon.

Coinciding with an official interest rate drop of 0.25% on the same day as the budget, the scene is well and truly set to put a flame under small business, making it burn brightly for our nation.

This isn’t a budget about having more money in your hip pocket, it’s about having faith in building for the future.

Individuals and Family

Personal Income Tax Relief

The big winners are middle income earners. With what the Government terms a genuine tax cut, 500,000 Australians will be able to ‘earn more without being taxed more’. For at least the next 3 years, the average full-time wage earner will not move into the 37% tax bracket.

The tax bracket at which the tax rates increases from 32.5% to 37% will change from $80,000 to $87,000 from 1 July 2016.

Medicare Levy and Medicare Levy Surcharge Thresholds to Increase

Low income earners will continue to be exempted from paying the Medicare Levy (2%) and the Medicare Levy Surcharge (1%).

The Government will increase the Medicare Levy low income thresholds for singles, families and seniors and pensioners from 2015-16 income year.

Medicare Levy Surcharge and Private Health Insurance Rebate Thresholds

To cover the cost of increases in the low income thresholds noted above, the thresholds will be paused for a further 3 years. They will not be indexed in line with CPI increases.

Other

Other changes proposed that impact families include the Child and Adult Public Dental Scheme. All children and adult concession card holders will be eligible for fully funded dental services as part of the Government’s reforms to the new Child and Adult Public Dental Scheme.

Superannuation

The Government has certainly taken a very large knife to superannuation tax concessions.

New ‘Transfer Balance Cap’

By far the biggest change to the taxation of superannuation earnings since 2007 will see a cap of $1.6m introduced from 1 July 2017 to the amount that can be tax-free during retirement phase.

Members with large balances in super that currently pay no tax on earnings that support tax-free retirement benefits to members, will see a significant change in their super funds tax position as result of the cap.

Where an individual accumulates amounts in excess of $1.6m, they will be required to maintain this excess in an accumulation account where earnings will be taxed at the concessional rate of 15%.

Members already in accumulation phase with balances above $1.6m will be required to reduce their retirement balance to $1.6m from 1 July 2017. Excess balances will need to be converted to accumulation phase accounts.

Lifetime Cap on Non-Concessional Superannuation Contributions
A life-time non concessional cap of $500,000 will replace the existing annual caps which allow annual non-concessional contributions of up to $180,000 per year or $540,000 over three years for individuals aged under 60.

This rule will commence from 3 May 2016 and will take into account all non-concessional contributions made on or after 1 July 2007.

However, contributions made before 3 May 2016 cannot result in an excess. Any excess contributions made after this date will need to be removed or be subject to penalty tax.

Changes to Annual Concession Caps

From 1 July 2017 the annual cap on concessional superannuation contributions will also be reduced to $25,000. Currently the caps for those under age 50 is $30,000 and those aged 50 and over is $35,000.

Tax Exemption Supporting Transition to Retirement Income Streams Removed

Currently individuals over preservation age, i.e. 55 but not retired can commence a Transition to Retirement Income Stream. The earnings in the fund supporting the income stream are exempt from tax.

From 1 July 2017 tax exemption on earnings from assets supporting Transition to Retirement Income Streams as predicted will be removed.

Changes to Contribution Rules for People Aged 65 to 74

Currently there are minimum work requirements for individuals aged 65 to 74 who want to make superannuation contributions.

From 1 July 2017, the restrictions will be removed and individuals under the age of 75 will no longer have to satisfy the work test and will be able to receive contributions from their spouse.

Catch-up Concessional Superannuation Contributions

Aimed at increasing the super balances of women in particular, from 1 July 2017, individuals with superannuation balances of less than $500,000 due to lower contributions, interrupted work patterns or irregular capacity to make contributions, can make catch up payments to boost their superannuation balances.

Any unused amounts from 1 July 2017 can be carried forward on a rolling basis for a period of 5 consecutive years.

Restrictions for Personal Superannuation Contribution Deductions Eased

Currently, not all individuals making a personal superannuation contributions can claim an income tax deduction due to the restrictions that apply such as having no employer support or having less than 10% of assessable income being from salaries and wages.

From 1 July 2017 all individuals up to age 75 will be allowed to claim an income tax deduction for personal superannuation contributions regardless of their employment circumstances.

Division 293 Tax Income Threshold Reduced

The point at which high income earners pay additional tax on contributions will be lowered from $300,000 to $250,000 from 1 July 2017.

This lower threshold will also apply to members of defined benefit schemes and constitutionally protected funds.

Low Income Spouse Tax Offset Increased

As it stands currently, the low income spouse offset provides up to $540 per annum for the contributing spouse where the receiving spouse's income is less than $10,800. From 1 July 2017 this low income threshold will increase to $37,000.

Low Income Superannuation Tax Offset Introduced

From 1 July 2017 low income earners will get the benefit of a tax offset, reducing the tax payable by their superannuation fund on superannuation contributions made on their behalf.

A super fund would currently pay 15% tax on concessional contributions. The low income superannuation tax offset will provide a non-refundable tax offset to the fund of up to $500 per annum for members with adjusted taxable incomes up to $37,000.

Anti-Detriment Death Benefit Provision Removed

The anti-detriment as it currently applies can effectively result in a refund of a member's lifetime superannuation contributions tax payments into an estate, where the beneficiary is a dependent of the member.

This provision in respect of death benefits from superannuation will be removed from 1 July 2017.

Small Business

Increased Turnover Threshold For Certain Tax Concessions

From 1 July 2016, the small business entity turnover threshold will be $10m (previously $2m).

This is a big win for small business as it allows many more taxpayers to qualify for certain tax concessions including the:

- Lower small business company tax rate (to be reduced to 27.5% with effect from the 2016/17 year of income)
- The simplified tax depreciation regime which includes the immediate asset write off threshold of $20,000 which will operate up to 30 June 2017
- Simplified trading stock rules; and
- Other concessions including the immediate deduction of professional expenses under the "blackhole" rules and the extension of the FBT exemption for work related portable electronic devices.

This measure will not affect the current $2m turnover threshold to access the CGT small business concessions.

Unincorporated Small Business Tax Discount Increased

The tax discount for unincorporated small business entities is to be incrementally increased over 10 years from the current rate of 5% to 16%. This will coincide with the staggered corporate tax rate cuts to 25%. The current cap of $1,000 is retained.

Other Enterprises
Staggered Tax Cuts

After much speculation, the company tax rate is to be reduced to 25% on a phased in basis over 10 years. This initiative is described in the Budget Papers as the “Ten year Enterprise Tax Plan”.

Not surprisingly, the initial beneficiaries will be small businesses (i.e. companies with an aggregated turnover of less than $10m), that, commencing in FY 2016-17, will pay corporate tax at the rate of 27.5%.

This $10m threshold will be increased on a progressive basis so that by FY 2023-24 all companies, regardless of their turnover, will be subject to a corporate tax rate of 27.5%.

For those of us lucky enough to be still staggering around, it is proposed that the company tax rate will then be progressively lowered to 25% from FY 2024-25.

Targeted Amendments to Division 7A

The Government has foreshadowed targeted amendments to improve the operation and fairness of “Division 7A” i.e. private company dividend deeming rules for loans and other distributions.

This has been on the horizon for some time and is welcome news for closely held private groups.

Although light on detail, the amendments include:

- A self-correction mechanism for inadvertent breaches of Division 7A (a positive initiative given the complex nature of these provisions and the practical every day compliance difficulties for taxpayers)
- Appropriate safe harbour rules to provide certainty
- Simplified Division 7A loan arrangements; and
- A number of technical adjustments to improve the operation of Division 7A and provide greater certainty.

Broadening of Tax Incentives For Early Stage Investors

As part of its National Innovation and Science Agenda, the Government had introduced legislation giving effect to a range of concessional tax measures to encourage investment in emerging/start up innovation companies.

Subject to various requirements being met, these concessions included:

- A 20% non-refundable tax offset capped at $200,000 per investor per year; and
- A CGT exemption, provided investments are held for at least 3 years.

The progress of this legislation was suspended following the announcement by Prime Minister Turnbull to recall Parliament in April which in turn set the scene for a Federal election.

It’s encouraging that this initiative is still very much on the agenda and that, following further consultation with stakeholders, the Government has decided that the tax incentives will be amended for angel investors to:

- reduce the holding period from three years to 12 months for investors to access the 10 year capital gains tax exemption;
- include in the definition of eligible startups, a time limit on incorporation and criteria for determining if the startup is an innovation company;
- require that the investor and innovation company are non-affiliates; and
- limit the investment amount for non-sophisticated investors to $50,000 or less per income year in order to receive

a tax offset.

Proposed Expansion of Funding Arrangements for Venture Capital Investment

The Government has amended the National Innovation and Science Agenda — new arrangement for venture capital investment to introduce measures that are designed to improve access to venture capital investment.

Modifications to Tax Consolidation Tax Cost Setting Measures

Technical amendments will be made to legislation governing tax consolidated groups to address tax benefits (i.e. step ups in the tax cost of assets) arising in the entry tax cost setting process and also to improve the integrity of the tax consolidation regime.

The start date for the tax cost setting adjustments will be deferred from 14 May 2013 to 1 July 2016.

GST and Other Indirect Taxes

GST on Low Value Goods

The powerful retail lobby group appears to have finally got their way....with effect from 1 July 2017, GST will be imposed on low value goods imported by Australian consumers i.e. products costing less than $1,000.

Under this measure, overseas suppliers with turnover in Australia exceeding $75,000 will be required to register for, collect and remit GST for low value goods supplied to consumers in Australia.

Bad News for Smokers

The price of cigarettes is set to increase significantly with tobacco excise and excise-equivalent customs duties to be subject to 4 annual increases of 12.5% from 2017 to 2020.

Wine Equalisation Tax Rebate Cap Reduced

Due to perceived integrity concerns, the Government is proposing to water down entitlements to the Wine Equalisation Tax rebate. It is hoped that this measure will better target assistance and reduce distortions in the wine industry.

Tax Administration

The ATO will receive $679m over 4 years to fund a Tax Avoidance Taskforce to enhance the ATO's current compliance activities. The Taskforce has been tasked with the objective of recovering $3.7b in tax liabilities.

The Government says that it will also provide "whistleblowers" with improved protection under the law.

Multinationals and Profit Shifting Measures

The Government intends to hit non law abiding multinationals with a 40% diverted profits tax (DPT). Broadly, the DPT will be levied on profits deemed to have been artificially diverted from the Australian tax system.

The Australian DPT regime will apply for income years commencing on or after 1 July 2017 to significant global entities (entities and their associates with global revenue of at least $1b) that are Australian tax residents or have a permanent establishment in Australia.

The Australian transfer pricing rules are also to be strengthened with emphasis to controlled transactions relating to intangibles and hybrid mismatch arrangements.

Health Sector Specific

Some of the key measures aimed at the Health Sector include:

Medicare Benefits Schedule Paused

There will be an extension on the pause on indexation of Medicare Benefits Schedule fees for all services provided by general practitioners, medical specialists, allied health and other health practitioners until 30 June 2020.

The Government is set to achieve $925.3m over 2 years from 1 July 2018 with this measure.

Healthier Medicare

The Government intends to introduce an advanced data analytics capability to better target providers who make Medicare claims that are inconsistent with existing rules.

The estimated $66.2m in savings are intended to be directed to fund the Governments other health policy priorities.

Support for Rural and Remote Registrars

The Government intends to provide $8m over 4 years from 1 November 2016 to enable general practice registrars training on the Australian of Rural and Remote Medicine Independent Pathway to claim a higher level of Medicare benefit rebate for the services they provide while training.

Rural General Practice Grants

The Government intends to redesign the Rural and Regional Training Infrastructure Grants Program to provide a broader range of infrastructure grants to increase opportunities to teach and train health practitioners in rural, regional and remote areas across Australia.

Find Out More

We are available to discuss your circumstances with you and to assist with any decisions you might be considering. Don't hesitate to get in touch with your Prosperity contact today or give us a call on **1800 855 844.**

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