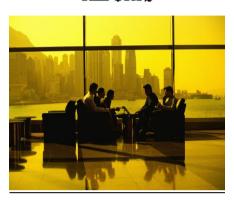


"Making Your Business Count"

REPORTS



2016 Federal Budget

Overview

The Federal Budget for the coming year was handed down on Tuesday 3rd May 2016. With an election due to be held on 2 July 2016, the 2016 Budget assumes a greater importance than normal. The treasurer says the budget is designed to grow the economy and jobs.

From a taxation and superannuation point of view, the Budget contained a number of significant announcements. These included the following changes. A change of the tax brackets to address tax bracket creep by increasing the \$80,000 tax bracket threshold to \$87,000. It included major superannuation changes such as \$1.6 million transfer balance cap for retirement accounts, lifetime non-concessional contributions cap of \$500,000, transitional to retirement change, concessional contributions cap cut to \$25,000 and Superannuation contributions tax (extra 15%) for incomes greater than \$250,001.

On the business side a further crackdown on multinational enterprise (MNE) tax avoidance eg diverted profits tax, GST changes on the importation of low-value goods, a phased reduction in the company tax rate over 10 years to 25%, small business threshold to be increased to \$10 million, and targeted amendments to Div 7A.

INDIVIDUAL TAXATION

The currently legislated are outlined below and include the temporary debt levy. The rates are as follows:



Personal income tax rates and thresholds						
	2	2015-16		2	2016-17	
1st rate	\$	18,201	19%	\$	19,401	19%
2nd rate	\$	37,001	32.5%	\$	37,001	33%
3rd rate	\$	80,001	37%	\$	87,001	37%
4th rate	\$	180,001	47%	\$	180,001	47%

The above rates do not include the Medicare levy – 2% of taxable income.

The Government announced that it will increase the 32.5% personal income tax threshold from \$80,000 to \$87,000 to reduce tax bracket creep.

Personal tax changes announced include:

Tax deductions for personal super contributions extended from 1 July 2017	 All individuals up to age 75 will be allowed to claim an income tax deduction for personal super contributions regardless of their employment circumstances, up to the concessional cap limit (\$25K). Previously only self-employed and those who earn < 10% income from employment sources could claim.
Superannuation pension phase - \$1.6m transfer balance cap for retirement accounts from 1 July 2017	 The Government has proposed to introduce a transfer balance cap of \$1.6m on the total amount of accumulated superannuation an individual can transfer into a tax-free pension phase. Subsequent earnings on these pension transfer balances will not be restricted.
	 Members already in the retirement phase as at 1 July 2017 with balances in excess of \$1.6m will be required to either: transfer the excess back into an accumulation superannuation account to reduce their retirement account balance to \$1.6m by 1 July 2017; or withdraw the excess amount from their superannuation.
Transition to retirement pensions - tax concessions to be reduced from 1 July 2017	 The Government will remove the tax exemption on earnings for pension assets supporting Transition to Retirement Income Streams (TRISs). Under the changes, earnings from assets supporting TRISs will be taxed at 15% (instead of the current 0%). The change will apply irrespective of when the TRIS commenced.





Non-
concessional
contributions:
\$500,000
lifetime cap
from Budget
night 3 May 16

- The Government has introduced a lifetime non-concessional (non-deductible) contributions cap \$500,000. The lifetime non-concessional cap (indexed) will replace the existing annual non-concessional contributions cap of up to \$180,000 per year (or \$540,000 every 3-years under the bring-forward rule for individuals aged < 65).
- The \$500,000 lifetime cap will take into account all nonconcessional contributions made on or after 1 July 2007.
 Impact on recontribution strategies
- The introduction of a \$500,000 lifetime cap on nonconcessional contributions will limit the ability of some taxpayers to implement withdrawal and re-contribution strategies for tax and estate planning purposes.

Superannuation contributions tax (extra 15%) for incomes \$250,001+from 1 July 2017

- The income threshold above which additional 15% Division 293 tax applies for concessional contributions will be reduced from \$300,000 to \$250,000.
- Currently, only individuals above the income threshold of \$300,000 are subject to an additional 15% tax on their concessional contributions.
- This reduction in threshold means tax doubles the contributions tax rate for super contributions from 15% to 30% for those taxpayers earning over \$250K.
- Even though effective tax reduced (19% compared to 47%) affected taxpayers may wish to consider reducing their superannuation contributions to only the mandatory 9.5% superannuation guarantee contributions (which are still subject to the Div 293 tax).
- taxpayers may need to reconsider making additional superannuation contributions for a financial year if they are also expecting a large one-off amount of taxable income during the income year. The extra income may may push their taxable income above the \$250,000 threshold and trigger the Div 293 tax on their concessional contributions for that income year.

Superannuation contribution rules - work test to be removed for age 65 to 74 from 1 July 2017

 The work test for making superannuation contributions for people aged 65 to 74 will be removed and taxpayer will be able to receive contributions from their spouse.

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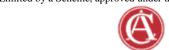


Low income spouse super tax offset to be extended	• From 1 July 2017, the Government will increase access to the low income spouse superannuation tax offset by raising the income threshold for the low income spouse to \$37,000 from current \$10,800.
Concessional contributions cap cut to \$25,000 from 1 July 2017	 The annual concessional contributions cap will be reduced to \$25,000 for all individuals regardless of age. The concessional cap is currently set at \$30,000 for those under age 49 on 30 June for the previous income year (or \$35,000 for those aged 49 or over on 30 June for the previous income year) for the 2015-16 and 2016-17 income years.
Concessional contributions catch-up for account balances less than \$500,000 from 1 July 2017	• Individuals with a superannuation balance less than \$500,000 will be allowed to make additional concessional contributions for "unused cap amounts" where they have not reached their concessional contributions cap in previous years. Unused cap amounts will be carried forward on a rolling basis for a period of 5 consecutive years.

CORPORATE TAXATION CHANGES:

Diverted profits tax ("Google tax") at 40% to be introduced from 1 July 2017	• The new tax will target companies with global revenue > \$1 Billion that shift profits offshore through certain arrangements involving related parties.	
	 The DPT will apply a 40% tax on diverted profits to ensure that large multinationals are paying sufficient tax in Australia. (Note if company earns < \$25 million turnover from all Australian entities DPT will not apply, unless artificially booked income offshore). 	
	This measure will apply to large companies with global revenue of \$1 billion or more.	
Tax Avoidance Taskforce on MNEs to be established	The government intends to establish a new Tax Avoidance Taskforce to enable the ATO to undertake compliance activities targeting multinationals (MNEs), large public and private groups and high wealth individuals.	
within the ATO	The Taskforce, with a team of over 1,000 experts, will pursue tax avoidance by multinationals and high wealth individuals.	
Small business	Small businesses able to access following concessions:	
threshold to		
increase from	the simplified depreciation rules, including immediate tax	
\$2m to \$10m from 1 July	deductibility for asset purchases costing less than \$20,000 until 30 June 2017 and then less than \$1,000;	
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2016	
	 the simplified trading stock rules, which give businesses the option to avoid an end of year stocktake if the value of the stock has changed by less than \$5,000;
	a simplified method of paying PAYG instalments calculated by the ATO;
	 the option to account for GST on a cash basis and pay GST instalments as calculated by the ATO;
	 immediate deductibility for various start-up costs (eg professional fees and government charges);
	 a 12-month prepayment rule; and FBT exemption for work-related portable electronic devices (eg mobile phones, laptops and tablets)
	 The threshold changes will NOT affect eligibility for the small business CGT concessions, which will only remain available for businesses with annual turnover of less than \$2m or that satisfy the maximum net asset value test (and other relevant conditions such as the active asset test).
Reduced tax rates for small business from 2016 - 17 income year	• The company tax rate for small business entities will reduce to 27.5% (from 28.5%) from the 2016-17 income year. The rate is set to reduce further to 27% in 2024-25 and then by 1 percentage point per year until it reaches 25% in 2026-27.
	• The tax offset for unincorporated small businesses (eg sole traders and partners in a partnership) will increase over a 10-year period from 5% to 10%.
Large Company tax	• Companies with a turnover of \$10m or more will not get any reduction in tax until 2017-18.
rate to reduce to 25% by 2026-27 from 1 July 2016	Franking credits will continue to be calculated in the usual manner, ie by reference to the amount of tax paid by the company making the distribution.
Changes to Div 7A flagged from 1 July	 a self-correction tool providing taxpayers who have inadvertently triggered Div 7A with the opportunity to correct their arrangements without penalty;
2018	 new safe harbour rules, such as for use of assets, to provide certainty and simplify compliance for taxpayers;

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	 amended rules, regarding complying Div 7A loans, including having a single compliant loan duration of 10 years and better aligning calculation of the minimum interest rate with commercial transactions.
GST and the importation of low-value goods from 1	 The Government is to impose GST on goods imported by consumers regardless of value. Currently, there is a GST threshold exemption of \$1,000
July 2017	that applies to purchases of imported goods (relevant for online purchases). The challenge in lowering the threshold is to do it in a cost-effective manner that encourages compliance and is enforceable
Tobacco excise increases	• The Government will increase tobacco excise and excise equivalent customs duties through 4 annual increases of 12.5% per year from 2017 until 2020.
Youth Jobs PaTH (Prepare, Trial, Hire)	 Young job seekers, will be able participate in intensive pre- employment skills training within 5 months of registering with jobactive.
scheme – helping SMEs from 1 April 2017	• Stage 2 - the Government will introduce an internship programme of 4 to 12 weeks duration, during which the job seeker will work 15 to 25 hours per week.
	 Job seekers will receive \$200 per fortnight on top of their regular income support payment while participating in the internship.
	 Businesses that take on interns will receive an upfront payment of \$1,000. They can see what a young worker can do and how they fit in to the team before deciding whether to offer them ongoing employment.
	 Stage 3 - Australian employers will be eligible for a Youth Bonus wage subsidy of between \$6,500 and \$10,000, paid over 6 months, depending on the young person's job readiness.