Insight

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Budget 2016-17 – what it means for you

The following are the main points of the May 2016-17 Federal Budget that, if legislated, may affect you.

To ensure you're prepared, please seek advice from your financial planner.

- amount that can be transferred into a tax-free retirement income stream is capped at $1.6 million cap
- concessional contributions cap is lowered
- taxation of transition to retirement income streams changes
- non-concessional contributions caps now exist for a lifetime
- contributions made after age 65 are more flexible

Personal tax

Personal income tax threshold increases

Effective 1 July 2016

The 32.5% personal income tax threshold rises from $80,000 to $87,000.

IMPACT: *If you earn between $80,000 and $87,000 you will pay less tax.*

Threshold for Medicare levy low-income rises

Effective 1 July 2015

IMPACT: *Low-income taxpayers will generally continue to be exempted from the Medicare levy.*

Medicare levy surcharge and private health insurance rebate thresholds

Indexation of the applicable income thresholds pauses for another three more years.

IMPACT: *The current surcharge and rebate remain the same.*

Income tax relief for Australian Defence Force personnel deployed overseas

Effective 1 January 2016-31 December 2016

ADF personnel on Operation PALATE II in Afghanistan will have a full income-tax exemption from 1 January to 31 December 2016. Coordinates for Operation MANITOU in international waters will be updated from 14 May 2015 to reflect the operation's actual areas, as will Operation OKRA in the Middle East from 9 September 2015.

Superannuation

New super transfer balance cap: $1.6 million limit for transfers into pension phase

The amount you can have in a superannuation pension will be capped at $1.6 million from 1 July 2017.

IMPACT: *Amounts over $1.6 million can be kept in an accumulation-phase account (earnings taxed at 15% concessional rate). Pension balances above $1.6 million will have to reduce by 1 July 2017. Excess balances must be either withdrawn or converted back to accumulation.*

Work test removal

Effective 1 July 2017

People under 75 will not have to satisfy a work test and will be able to receive contributions from their spouse.

IMPACT: *This simplifies the rules enabling members to contribute to super up to age 75, whether or not they're working.*

Contributions tax – Div 293 tax income threshold reduced to $250K

The high-income earners Division 293 threshold will decrease from $300,000 to $250,000.

IMPACT: *Members earning more than $250,000 will pay 15% more on their super contributions.*

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Concessional contributions cap reduced

Effective 1 July 2017

The annual cap on concessional super contributions will fall to $25,000 for everyone.

IMPACT: *This restricts the amount that members can contribute to super and receive a tax deduction.*

Carry forward of unused concessional caps – 'Catch-up cap' for super balances < $500,000

IMPACT: *Members with a super balance less than $500,000, who don't fully use their concessional contributions cap, can from 1 July 2017 carry forward the unused balance on a rolling basis for five consecutive years.*

Tax deduction for contributions

Effective 1 July 2017

All individuals up to 75, regardless of their employment, can claim a tax deduction for personal super contributions.

IMPACT: *This helps members maximise their deductible contributions.*

Lifetime non-concessional contribution cap of $500,000

The lifetime cap will take into account all non-concessional contributions made on or after 1 July 2007 and will be indexed to average weekly ordinary-time earnings.

Contributions made before Budget night cannot result in an excess that's deemed to have used the lifetime cap already. But, excess contributions made after commencement will need to be removed or subject to penalty tax.

IMPACT: *This reduces contributions into super and needs management by your financial planner.*

Anti-detriment provision removed

Effective 1 July 2017

Beneficiaries of a member's estate will not be eligible for a refund of the super contributions tax payments made.

IMPACT: *This reduces the superannuation death benefit an estate can receive.*

Transition-to-retirement (TTR) income streams – removal of 0% tax on pension assets earnings

Effective 1 July 2017

The tax exemption on earnings within a TTR pension account will be removed for recipients who have not yet retired.

IMPACT: *The earnings will be taxed at 15%.*

Low-income superannuation tax offset (LISTO)

Effective 1 July 2017

LISTO will replace the existing low-income super contribution (LISC).

The new LISTO will reduce tax on super contributions for low-income earners.

IMPACT: *Members with adjusted taxable income up to $37,000 will receive an offset up to $500 for Concessional Contributions.*

Spouse superannuation offset

Effective 1 July 2017

The income threshold for the low-income spouse will rise from $10,800 to $37,000.

IMPACT: *This increases the eligibility to make a spouse contribution and receive a tax offset up to $540.*

The 2016-17 Budget is yet to be legislated. Underlying detail will be confirmed in future legislation.

If you have any queries, please contact your Fiducian financial planner.