2016-17 Federal Budget

Delivered by Treasurer Scott Morrison on Tuesday, 3 May 2016.

In summary, we can expect; small tax cuts to address bracket creep, a major tax help for SMEs, phased company tax cuts, major super tax changes, MNEs targeted, 10-year tax plan and an increased tobacco tax.

The Budget speech delivered by the Treasurer repeatedly emphasised the need for Australia to "live within its means" and that the Government had to carefully examine its expenditures. And of course, with an expected double dissolution election to be held just 2 months after the Budget, on 2 July 2016, the 2016 Budget assumes a greater importance and context than normal.

The Treasurer said the Budget is designed to essentially do 3 things:

- to grow the economy and to support growth in jobs;
- to ensure the tax system is better targeted so it can support investment that drives jobs and growth; and
- to ensure that "we continue on our strong path to Budget balance by keeping our expenditure under control, by living within our means".

Road to surplus

- The Budget deficit is estimated at $37.1 billion, or 2.2% of Australia's GDP in 2016-17, slightly worse than the last estimate of $33.7 billion deficit.
- A credible path to budget surpluses is important for Australia to maintain its top notch triple-A credit rating. Rating agencies have warned the inability of the government to balance its finances will lead to higher debt issuance, which in turn will threaten its highly coveted rating.
- On economic growth, the government sees real GDP at 2.5% in 2016-17, then strengthening to 3.0% through to 2019-20. Nominal GDP growth is forecast to speed up to 4.25% in 2016-17, from 2.5% for the current fiscal year, then climbing to 5.0% through 2019-20.

An outline of the major revenue-related announcements in the budget is given below.

Revenue measures announced

The major revenue measures announced in the Budget included:

- increasing the tax bracket at which the 37% tax rate starts from $80,001 to $87,001, to start from 1 July 2016;
- a phased reduction in the company tax rate over 10 years;
- major SME tax changes - small business threshold to be increased to $10 million, reduced tax rates for small business;
- significant new measures directed at MNE tax avoidance e.g. a diverted profits tax, hybrid mismatch measures, strengthened transfer pricing rules, significant increase in administrative penalties;
- superannuation e.g.:
  - $1.6m transfer balance cap for retirement accounts;
  - Non-concessional contributions: $500,000 lifetime cap from Budget night;
  - Concessional contributions cap cut to $25,000 from 1 July 2017;
  - Concessional contributions catch-up for account balances less than $500,000;
  - Superannuation contributions tax (extra 15%) for incomes $250,001+;
  - Transition to retirement income streams - integrity proposal.
- The Government is to impose GST on goods imported by consumers regardless of value.
"Ten Year Enterprise Tax Plan"
As part of the 2016-17 Federal Budget, the Government announced a number of significant "tax reform" measures as part of what it called its "Ten Year Enterprise Tax Plan". These include:

- Increase the small business entity turnover threshold to $10 million from 1 July 2016
- Increase the unincorporated small business tax discount incrementally over 10 years from 5% to 16%
- Reduce the company tax rate to 25% over 10 years
- Targeted personal tax relief - increase the 32.5% tax threshold from $80,000 to $87,000 from 1 July 2016
- Targeted amendments to Div 7A
- Better targeting the deductible liabilities measure - addresses double counting of deductible liabilities under the consolidation regime
- Enhancing access to asset backed financing
- Introduce a new tax and regulatory framework for 2 new types of collective investment vehicles (CIVs)
- Reform of the TOFA rules to reduce the scope, decrease compliance costs and increase certainty
- Extend brewery refund scheme to domestic distillers and producers of low strength beverages
- Reduce WET rebate cap and tighten eligibility criteria.

PERSONAL TAXATION

Personal tax rates: small tax cut from 1 July 2016; Budget deficit levy not to be extended
The Government announced in the Budget that it will increase the 32.5% personal income tax threshold from $80,000 to $87,000 from 1 July 2016 in an attempt to go some way to addressing tax bracket creep. The Government expects this will stop around 500,000 taxpayers facing the 37% marginal tax rate. The Government considers this will prevent average full-time wage earners from moving into the second top tax bracket until 2019-20.

The Budget deficit levy (tax) on incomes over $180,000 is due to cease at the end of the 2016-17 financial year.

Personal tax rates
The currently legislated rates for 2015-16 and proposed new personal tax rates and thresholds for 2016-17 (including the 2% temporary budget deficit levy, but excluding the 2% Medicare levy) are as follows:

<table>
<thead>
<tr>
<th>Personal income tax rates and thresholds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
</tr>
<tr>
<td>Threshold</td>
</tr>
<tr>
<td>1st rate</td>
</tr>
<tr>
<td>2nd rate</td>
</tr>
<tr>
<td>3rd rate</td>
</tr>
<tr>
<td>4th rate</td>
</tr>
<tr>
<td>5th rate</td>
</tr>
</tbody>
</table>

With Medicare levy included, the top marginal rate is 49% from 1 July 2014 to 30 June 2017.
**Tax rates and thresholds summarised**

The current 2015-16 tax rates (including the 2% temporary budget deficit levy, but excluding the 2% Medicare levy) are as follows:

<table>
<thead>
<tr>
<th>2015-16 income year</th>
<th>Taxable income $</th>
<th>Tax payable $</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 18,200</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>18,201 - 37,000</td>
<td>Nil + 19% of excess over 18,200</td>
<td></td>
</tr>
<tr>
<td>37,001 - 80,000</td>
<td>3,572 + 32.5% of excess over 37,000</td>
<td></td>
</tr>
<tr>
<td>80,001 - 180,000</td>
<td>17,547 + 37% of excess over 80,000</td>
<td></td>
</tr>
<tr>
<td>180,001+</td>
<td>54,547 + 47% of excess over $180,000</td>
<td></td>
</tr>
</tbody>
</table>

The proposed rates for the 2016-17 year (including the 2% temporary budget deficit levy, but excluding the 2% Medicare levy) are:

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<td></td>
</tr>
<tr>
<td>37,001 - 87,000</td>
<td>3,572 + 32.5% of excess over 37,000</td>
<td></td>
</tr>
<tr>
<td>87,001 - 180,000</td>
<td>19,822 + 37% of excess over 87,000</td>
<td></td>
</tr>
<tr>
<td>180,001+</td>
<td>54,232 + 47% of excess over $180,000</td>
<td></td>
</tr>
</tbody>
</table>

**Medicare levy low-income thresholds for 2015-16**

From the 2015-16 income year, the Medicare levy low-income threshold for singles will be increased to $21,335 (up from $20,896 for 2014-15). The individual phase-in limit is $26,668 for 2015-16 (up from $26,120).

For couples with no children, the family income threshold will be increased to $36,001 (up from $35,261 for 2014-15). The additional amount of threshold for each dependent child or student will be increased to $3,306 (up from $3,238).

For single seniors and pensioners eligible for the SAPTO, the Medicare levy low-income threshold will be increased to $33,738 (up from $33,044 for 2014-15). The phase-in limit for taxpayers eligible for the SAPTO is $42,172 for 2015-16 (up from $41,305). The threshold for families eligible for SAPTO will be increased to $46,966 for 2015-16 (up from $46,000).

**Date of effect**

The increased thresholds will apply to the 2015-16 and later income years, as introduced in the House of Reps on 2 May 2016 and passed without amendment. It now moves to the Senate.

**“Backpacker tax” to proceed, it seems?**

Despite some pressure being exerted on the Government in recent times, the Budget did not announce any changes concerning the Government’s proposed so-called “backpacker tax”, i.e. removing the tax-free threshold for overseas working holidaymakers in Australia. The changes are proposed to apply from 1 July 2016 and, pending any direct announcement by the Government, seem set to proceed even though they had been criticised by farmers’ federations and others on the ground that it would adversely affect the agriculture workforce.
BUSINESS TAXATION

Small business threshold to increase to $10m
The Budget announced that the small business entity threshold will increase from $2m to $10m from 1 July 2016.

As a result, a business with an aggregated annual turnover of less than $10m will be able to access a number of small business tax concessions from 1 July 2016, including:

- the simplified depreciation rules, including immediate tax deductibility for asset purchases costing less than $20,000 until 30 June 2017 and then less than $1,000;
- 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, which removes the risk of under or over estimating PAYG instalments and the resulting penalties that may be applied;
- 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 (e.g. professional fees and government charges);
- a 12-month prepayment rule; and
- the more generous FBT exemption for work-related portable electronic devices (e.g. mobile phones, laptops and tablets) – the FBT car parking exemption for small business already applies to entities with "annual gross income" of less than $10m.

CGT concessions
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
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. These company tax rate changes are explained below.

Company tax rate to reduce to 25% by 2026-27
The Government intends to reduce the company tax rate to 25% over the next 11 income years.

The measure will be phased in, depending on the company's annual turnover. The phase-in for all companies will be completed in the 2026-27 income year. The timetable is summarised in the table below.

<table>
<thead>
<tr>
<th>Income year</th>
<th>Threshold (&lt; $)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16 (current year)</td>
<td>2m</td>
<td>28.5</td>
</tr>
<tr>
<td>2016-17</td>
<td>10m</td>
<td>27.5</td>
</tr>
<tr>
<td>2017-18</td>
<td>25m</td>
<td>27.5</td>
</tr>
<tr>
<td>2018-19</td>
<td>50m</td>
<td>27.5</td>
</tr>
<tr>
<td>2019-20</td>
<td>100m</td>
<td>27.5</td>
</tr>
<tr>
<td>2020-21</td>
<td>250m</td>
<td>27.5</td>
</tr>
<tr>
<td>2021-22</td>
<td>500m</td>
<td>27.5</td>
</tr>
<tr>
<td>2022-23</td>
<td>1bn</td>
<td>27.5</td>
</tr>
<tr>
<td>2023-24</td>
<td>all companies</td>
<td>27.5</td>
</tr>
<tr>
<td>2024-25</td>
<td>all companies</td>
<td>27</td>
</tr>
<tr>
<td>2025-26</td>
<td>all companies</td>
<td>26</td>
</tr>
<tr>
<td>2026-27</td>
<td>all companies</td>
<td>25</td>
</tr>
</tbody>
</table>

Date of effect
The measure will phase-in from 1 July 2016.
SUPERANNUATION

Retirement account cap - $1.6m
Where an individual accumulates amounts in excess of $1.6m, they will be able to maintain this excess amount in an accumulation phase account (where earnings will be taxed at the existing concessional rate of 15%). The $1.6m cap will be indexed in $100,000 increments in line with CPI (the same as the Age Pension assets threshold does).

Individuals who breach the cap will be subject to a tax on both the amount in excess of the cap and the earnings on the excess amount.

Existing pension balances
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.

Defined benefit schemes
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. The Government said it will provide funding for required systems changes to its defined benefits superannuation schemes.

Date of effect
This measure will apply from 1 July 2017.

Transition to retirement pensions - tax concessions to be reduced
The Government said it will remove the tax exemption on earnings for pension assets supporting Transition to Retirement Income Streams (TRISs), also known as transition to retirement pensions (TTRs). Under the changes, earnings from assets supporting TRISs will be taxed at 15% (instead of the current 0%). The change will apply from 1 July 2017 irrespective of when the TRIS commenced.

Date of effect
These measures will apply from 1 July 2017 (irrespective of when the TRIS commenced).

Non-concessional contributions: $500,000 lifetime cap from Budget night
The Government has introduced a lifetime non-concessional contributions cap $500,000 effective from Budget night, i.e. 7.30 pm (AEST) on 3 May 2016. 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 under 65).

Contributions made before commencement (i.e. 7.30 pm AEST on 3 May 2016) cannot result in an excess of the lifetime cap. However, excess non-concessional contributions made after 7.30 pm AEST on 3 May 2016 will need to be removed or subject to penalty tax. The cap will be indexed to average weekly ordinary time earnings (AWOTE).

Defined benefit schemes
If a member of a defined benefit fund exceeds their lifetime cap, ongoing contributions to the defined benefit account can continue but the member will be required to remove, on an annual basis, an equivalent amount (including proxy earnings) from any accumulation account they hold.
**Date of effect**
The lifetime non-concessional contributions cap will commence from 7.30 pm (AEST) on 3 May 2016.

**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 from 1 July 2017. The cap will be indexed in line with wages growth.

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.

**Date of effect**
This measure will apply from 1 July 2017.

**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. Only unused amounts accrued from 1 July 2017 will be available to be carried forward.

**Date of effect**
This measure will apply from 1 July 2017.

**Superannuation contribution rules - work test to be removed for age 65 to 74**
The work test for making superannuation contributions for people aged 65 to 74 will be removed from 1 July 2017. Instead, 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.

**Date of effect**
This measure will apply from 1 July 2017.

**Low income super tax offset (LISTO) to be introduced**
From 1 July 2017, the Government will introduce a Low Income Superannuation Tax Offset (LISTO) to reduce tax on super contributions for low income earners. The LISTO will provide a non-refundable tax offset to super funds, based on the tax paid on concessional contributions made on behalf of low income earners, up to a cap of $500.

**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 $10,800. The offset will gradually reduce for income above $37,000 and will phase out at income above $40,000. The low income spouse tax offset provides up to $540pa for the contributing spouse. The Government noted the proposed changes build on its co-contribution and superannuation splitting policies to boost retirement savings, particularly of women.

**GST MEASURES**

**GST measures in 2016-17 Federal Budget**
There were three GST measures announced in the Federal Budget on 3 May 2016. The measure concerning the imposition of GST on low-value imported goods implements a vendor registration scheme, similar to what has been adopted as part of the Netflix tax measures.
Two other measures affecting GST were directed at small businesses:

- extending the option to account for GST on a cash basis and pay instalments calculated by the ATO; and
- the BAS will be simplified to allow small businesses to "easily classify transactions" and thus facilitate an easier lodgment process.

**Date of effect**
The measure will apply from 1 July 2017.

**GST small business taxpayers: election to use cash basis**
The Government is proposing to extend the option for taxpayers to use the cash basis of accounting for GST to small businesses with an annual turnover of less than $10m. Such entities will be able to account for GST on a cash basis and pay GST instalments as calculated by the ATO.

**Date of effect**
The measure will apply from 1 July 2016.

**BAS reporting for GST small businesses**
The Government is proposing to simplify BAS reporting requirements involving GST for small businesses, i.e. entities with less than $10m turnover. The Treasurer’s press release states that the aim is that such entities "will be able to easily classify transactions, and prepare and lodge their BAS". Unfortunately, there are no details as to how this will be achieved.

**Date of effect**
The measure will apply from 1 July 2017.

**OTHER MEASURES**

**Youth Jobs PaTH (Prepare, Trial, Hire) scheme – helping SMEs**
The Government announced in the Budget what it said was a new attempt to get vulnerable young people into jobs called Youth Jobs PaTH – Prepare, Trial, Hire.

From 1 April 2017, young job seekers, who need to boost their job-readiness, will participate in intensive pre-employment skills training within 5 months of registering with jobactive.

**In stage 2**, the Government will introduce an internship programme with up to 120,000 placements over 4 years to help young job seekers who have been in employment services for 6 months or more to gain valuable work experience within a real business.

In addition to gaining valuable hands on experience in a workplace, job seekers will receive $200 per fortnight on top of their regular income support payment while participating in the internship. "This is real work for the dole", the Treasurer said. Businesses that take on interns will receive an upfront payment of $1,000.

**In 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.

**How do I find out more?**
More information on the tax and related announcements is also contained in a number of Budget press releases on the Treasurer’s website at http://sjm.ministers.treasury.gov.au/.