



# 2016-17 Federal Budget Wrap

The Federal Treasurer Scott Morrison presented a number of proposed changes on the recent Budget night, with a major focus on superannuation and small business taxation. It should be noted that nothing is completely definite at this stage. Consultation has been invited on some proposals. With an election likely to be held on the 2<sup>nd</sup> July some of these proposals may not even proceed into legislation depending on what the overall result is!

We have noted some of the more important and major proposals below in a brief summary. Some are positive and some are potentially negative. If you want more detail please feel free to contact your advisor at BMO if you are concerned about how these proposals may affect you.

## Superannuation

### 1. Lifetime cap for non-concessional superannuation contributions ☹️

**Proposed effective date: 7.30pm (AEST) 3 May 2016**

Currently, the non-concessional contributions cap is \$180,000 per person, per financial year. If you are under age 65 at any time in the financial year, you can make a non-concessional contribution of up to \$540,000 under the bring-forward provisions.

The government proposes to replace the current contribution cap with a \$500,000 lifetime non-concessional contribution cap. Contributions made between 1 July 2007 and 3 May 2016 will be counted towards this lifetime cap, but **these** contributions will not result in any excess tax to pay.

### 2. Reduction of the concessional contribution cap ☹️

**Proposed effective date: 1 July 2017**

The Government is proposing to reduce the annual cap on concessional superannuation contributions to \$25,000 for everyone, irrespective of their age.

### 3. Making it easier to claim tax deductions for personal super contributions 😊

**Proposed effective date: 1 July 2017**

Currently, if you are engaged in employment activities during a financial year, it is generally not possible to claim any personal superannuation contributions that you make unless you pass the 'less than 10% rule'. Basically income from employment must not exceed 10% of income from all sources.

The government is proposing to abolish this very restrictive test, allowing **all** individuals up to age 75 to claim an income tax deduction for personal superannuation contributions up to the prescribed limit. We see this as a positive step.

### 4. Changes to the taxation of Transition to Retirement (TTR) income streams ☹️

**Proposed effective date: 1 July 2017**

The internal earnings within a superannuation account on the amount used to purchase a pension are currently tax free. This will no longer apply to **transition to retirement income streams** from 1 July 2017 should the proposal go ahead, with earnings on these types of pension to be taxed at 15%.

# Taxation – general

## Changes to marginal tax rates 😊

**Proposed effective date: 2016- 2017 tax year**

A tax cut has been proposed at the current \$80,000 taxable income threshold. As a result, the 32.5 cent rate currently applying to the \$37,000 to \$80,000 bracket will be extended to \$87,000. Someone with a taxable income of \$87,000 stands to save just \$315.

# Taxation – small business

## 1. Increase in small business entity turnover thresholds 😊

**Proposed effective date: 1 July 2016**

Starting from 1 July 2016, the government proposes to **increase the small business annual aggregated turnover threshold from \$2 million to \$10 million** for certain small business concessions. Please note that this increase in threshold is **not** proposed for the purposes of the Small Business Capital Gains Tax concessions.

From 1 July 2016 these small business concessions include:

- The lowering of the small business corporate tax rate (see below),
- For all businesses with annual aggregated turnover of less than \$10 million simplified asset depreciation rules, including immediate tax deductibility for asset purchases costing less than \$20,000 until 30 June 2017.

## 2. Lowering the company tax rate. 😊

**Proposed effective date: 1 July 2016**

The government proposes to reduce the company tax rate to 25 per cent by 2026-27.

**Initially, the tax rate for companies with an annual aggregated turnover of less than \$10 million will be reduced to 27.5 per cent from 1 July 2016.**

It should be noted that Labor has said they support the reduction to 27.5 cents but **not** the increase in the turnover threshold to \$10 million.

## 3. Unincorporated small business tax discount 😊

**Proposed effective date: 1 July 2016**

Not every small business operates as a company, so the government proposes to extend the unincorporated small business tax discount. From 2016-17, the discount will be available to business with aggregated **annual turnover of less than \$5 million**, up from the current threshold of \$2 million. The discount on tax payable on business **income will be increased to 8 per cent**, up from the current 5 per cent, **but the maximum discount available will remain at \$1,000 per annum per individual.**