mks | wealth management

Impact of the May 2016 Federal Budget

It is likely that an election will be called for early July 2016. As such the enactment of many of these proposals will be dependent upon the outcome of that election.

Item	Description	Client Impact
Superannuation		
1. Concessional (before tax) contributions ("CC") **Effective 1 July 2017**	A reduction in the annual cap on concessional contributions to $25,000 for all individuals, regardless of age (the current concessional contribution cap is $30,000, or $35,000 for those aged 49 or above as at 30 June 2015). Extending the 30% tax rate (i.e. 15% additional tax) on concessional contributions to those earning over $250,000 pa, including super contributions. (The current income threshold is $300,000 pa). Allow anyone under age 75 to claim a tax deduction for personal super contributions up to the concessional cap.	• Individuals should consider maximising their 2015/16 and 2016/17 financial year contributions in anticipation of a fall in the cap from 1 July 2017. • Consideration should be given to other super tax incentives such as the spouse tax offset (see below). • Consider keeping personal adjusted taxable income levels under $250,000pa to avoid the extra 15% tax on concessional superannuation contributions. • The $250k limit will include concessional super contributions in the income calculation. • Those under age 75 could use this option to reduce taxable income e.g. realised capital gains.

mks | wealth management

Impact of the May 2016 Federal Budget

Item	Description	Client Impact
2. Non Concessional (after tax) contributions ("NCC") **Effective 1 July 2017 except where stated**	Introducing a lifetime cap of $500,000 (indexed in increments of $50,000) for NCC effective from 7.30pm on 3 May 2016. Excess contributions after this date will need to be removed or will be subject to penalty tax. All non-concessional contributions made from 1 July 2007 will be counted towards the lifetime cap. However, contributions made before 3 May 2016 cannot, by themselves, result in an excess amount, nor do they need to be removed from the Fund. The new lifetime cap will replace the existing annual $180,000 cap and 'bring-forward' arrangements. The threshold for the spouse tax offset will be lifted from $10,800 to $37,000. The spouse tax offset is an 18% tax offset on up to $3,000 of after tax contributions (ie maximum offset of $540) when made to a complying superannuation fund for your spouse. The age limit for spouses to receive contributions to increase to age 74.	• As the lifetime cap is per individual then there will be more incentive to place large contributions in a partner's super account especially as they may no longer need to pass a work test under age 75. • Family trusts, private companies and property will need to be considered as alternative wealth vehicles. Private companies will look more attractive with the fall in the corporate tax rate. • It is unclear how the $500,000 cap will take account of past contributions, especially those relating to small business concessions etc. • This diminishes the use of a re-contribution strategy. • Those paying tax of over $540 (and hence can utilise the offset) should consider making an after tax contribution of up to $3,000 for their spouse.

mks wealth management

Impact of the May 2016 Federal Budget

Item	Description	Client Impact
3. Low Income Super Tax Offset ("LISTO") **Effective 1 July 2017**	Introduction of the LISTO to replace the Low Income Super Contribution when it expires on 30 June 2017 so that low income earners get a refund of up to $500 of the tax on their super contributions.	• Applies to individuals with an adjusted taxable income of $37,000 or less.
4. Flexibility to contribute **Effective 1 July 2017**	Removal of the superannuation contribution work test for those aged between 65 and 74. Increased flexibility to claim a deduction such as the proposed removal of the 10% rule for those who are employed and self-employed. Allowing unused Concessional Contribution caps to be carried forward for up to 5 years for those with account balances under $500,000. (For instance, this may mean that up to $125,000 might be able to be contributed, concessionally in one year, if no prior contributions have been made and if the total superannuation balance is below $500,000),	• Significant benefit for those retirees with high taxable income or the ability to continue to contribute, after age 65 as well as those wishing to contribute larger amounts of NCCs (up to the $500,000 lifetime cap). • The removal of the 10% rule will allow everyone to claim up to the maximum cap. Individuals whose employers don't allow salary sacrifice or have problems with the timing of contributions may be able to make personal tax deductible contributions instead. • The carry forward of unused Concessional Contribution caps may be quite complex to administer but allows a fairer system.

mks wealth management

Impact of the May 2016 Federal Budget

Item	Description	Client Impact
5. Superannuation Income Streams **Effective 1 July 2017**	Introduction of a $1.6m superannuation transfer balance cap (indexed in $100,000 increments) on the total amount of super that can be transferred to the pension phase. A tax may apply to the extent that amounts transferred exceed the $1.6 million cap (including earnings on these excess transferred amounts). In short, the excess amount above the $1.6m cap, is most likely required to be transferred back to the accumulation phase and taxed on earnings at a rate of 15%. (**Please note that significant uncertainty exists in relation to the implementation of this proposal including the impact of reversionary pensions and lifetime pensions etc).** Earnings of Transition to Retirement Income Streams (TRIS) to be taxed so as to reduce the incentive for them to be used as a vehicle to minimise tax.	• The $1.6m balance is set at a level that could provide income around 4 times that of the Age Pension (although low interest rates challenge this conclusion, particularly for conservative investors). • Members already in pension phase as at 1 July 2017 with balances in excess of $1.6m will need to either transfer the excess back to accumulation, or withdraw the excess amount from their superannuation. • Strategies to ensure that both members of a couple maximise their $1.6m balances (where possible) by 1 July 2017, possibly through superannuation splitting or re-contributions (subject to the $500,000 lifetime NCC cap). • Individuals currently starting a TRIS for the tax benefits may no longer gain any tax advantage and may be disadvantaged by having to draw pension payments out of the system. • Those currently in a TRIS will need to review whether this is still appropriate come 1 July 2017.

Impact of the May 2016 Federal Budget

Item	Description	Client Impact
	Individuals will no longer be able to elect to receive a tax free lump sum as part of the minimum pension drawdown.	• The restrictions on lump sum withdrawals will mean that many individuals under 60 will be disadvantaged by starting a pension.
6. Other superannuation issues	1. The above superannuation changes will be applied to members of defined benefit funds and constitutionally protected funds. 2. Extending the tax exemption on earnings in the retirement phase for products such as deferred lifetime annuities. 3. Review of how any new retirement income products will be treated under the Age Pension means test. 4. Removal of the anti-detriment provisions on death benefit payments effective from 1 July 2017. 5. Reconfirmed that the objective of superannuation is to be enshrined in legislation. The objective is "to provide income in retirement to substitute or supplement the Age Pension".	

mks wealth management

Impact of the May 2016 Federal Budget

<table>
<tr><th>Item</th><th>Description</th><th>Client Impact</th></tr>
<tr><td>Taxation</td><td></td><td></td></tr>
<tr><td>1. Personal tax rates

Effective 1 July 2016</td><td>Income tax rates (no changes from what has previously been legislated with the exception of an increase in the 32.5% upper limit from $80,000 to $87,000).
<table>
<tr><th>Income</th><th>2015/16</th><th>2016/17</th></tr>
<tr><td>$0 to $18,200</td><td>Nil</td><td>Nil</td></tr>
<tr><td>$18,201 to $37,000</td><td>19%</td><td>19%</td></tr>
<tr><td>$37,001 to $80,000</td><td>32.5%</td><td></td></tr>
<tr><td>$37,001 to $87,000</td><td></td><td>32.5%</td></tr>
<tr><td>$80,001 to $180,000</td><td>37%</td><td></td></tr>
<tr><td>$87,001 to $180,000</td><td></td><td>37%</td></tr>
<tr><td>$180,001 +</td><td>45%</td><td>45%</td></tr>
</table></td><td>• The change in the tax band provides a tax saving of $315 p.a. for those earning over $87,000.
• The “Deficit Tax” adds another 2% to the top marginal tax rate for a further year (ending 30 June 2017). Labor have stated that they will keep this tax past 2017.
• Medicare is an additional 2% subject to rebates for those on low incomes.</td></tr>
<tr><td>2. Small Business Tax

Effective 1 July 2016</td><td>The rate of tax to decrease by 1% down to 27.5% (currently 28.5%) for Small Business. The definition of Small Business will be extended to those with annual turnover under $10m (currently $2m).

The rate of tax will then be decreased to 25% over the next 10 years (this will also to apply to large companies).

Unincorporated business will get an 8% discount (up from 5%) of up to $1k p.a. per individual. Business turnover must be less than $5m (currently $2m). The discount will be increase to 16% over the next decade.</td><td>• This is an attempt to help boost business activity to counter the slowing economy.
• Improved cashflow for small and medium sized business.
• Imputation credits will still be allowed up to the rate of 30%.
• Encourages capital expenditure up to 30 June 2017 especially where the cost is under $20k. After that date, it will revert back to the existing rules.
• Experience from the UK indicates that the lower tax rate for Small Business has little impact on the economy as a whole.</td></tr>
</table>

mks wealth management

Impact of the May 2016 Federal Budget

Item	Description	Client Impact
	From 1 July 2016, all businesses with annual turnovers of less than $10m will have access to benefits such as simplified depreciation rules, $20k instant write offs, simplified PAYG instalments etc.	• Small business capital gains tax concessions will still only be available for those with annual turnover of up to $2m or who satisfy the maximum net asset test.
3. Other tax issues	1. Introduction of a new Diverted Profits Tax that will impose a 40% penalty rate on large multinationals that attempt to divert their profits offshore to avoid paying tax. 2. A new Tax Avoidance Taskforce that will strengthen the ATO's audit and compliance activities. This will focus on multinationals and high net wealth individuals. 3. The Government will make it easier to comply with complex integrity rules to ensure appropriate tax is paid on funds extracted from private companies. 4. The taxation of financial arrangement regime (TOFA) will be narrowed to apply to a smaller group of taxpayers. 5. A further 4 years of 12.5% p.a. increases in the tobacco excise tax with the last increase effective 1 September 2020.	

mks | wealth management

Impact of the May 2016 Federal Budget

Item	Description	Client Impact
Social Security		
1. Sundry social security announcements.	1. Establishment of a $96.1m Try, Test and Learn Fund to help the Government identify groups at risk of long term welfare dependency and move them off welfare into employment. 2. Introduction of the Youth Jobs PaTH (Prepare-Trial-Hire) to maximise the chance of job seekers under 25 getting a job. 3. Better ensure that the Commonwealth is able to meet future National Disability Insurance Scheme costs through the deposit of $2.1 billion of Budget savings into the NDIS Savings Fund Special Account once it is established. 4. Continued vigilance regarding the Disability Support Pension with up to 90,000 current DSP recipients to be reviewed to assess their capacity to work.	

Contact details: **Phone**: (03) 9899-2671 **Email:** contact@mkswealth.com.au Website: www.mkswealth.com.au