factsheet

your guide to the Federal Budget 2016/17

catholic super

Federal Budget 2016/2017

The Budget for 2016/17 was handed down on 3 May 2016, and contains some of the biggest changes to the superannuation system since 1 July 2007.

Note: the Budget announcements are still only proposals as at the time of publication, and will depend on the outcome of the upcoming election and on the proposals being legislated.

Some of the major announcements include:

- changes to concessional contribution (pre-tax) caps
- introduction of a lifetime non-concessional contribution (after-tax) cap
- a new Low Income Superannuation Tax Offset
- eligibility for the low income spouse superannuation tax offset expanded
- removal of work tests for individuals between age 65 and 74
- deductibility of personal contributions will be extended from 1 July 2017
- removal of earnings tax exemptions for pre-retirement pensions
- limits to how much can be transferred into pension phase
- more tax on contributions for higher earners
- changes to personal income tax thresholds

Reduction in superannuation concessional contribution cap to $25,000 effective 1 July 2017

The concessional contribution cap will reduce to $25,000 per annum for everyone regardless of age from 1 July 2017. Currently the concessional contribution cap is $30,000 for individuals under age 50 and $35,000 for ages 50 and over.

Concessional contributions include employer SG contributions and salary sacrifice contributions. Members should review salary sacrifice arrangements and personal deductible super contributions to ensure they comply with the reduced concessional cap.

Catch-up concessional contributions effective 1 July 2017

Unused concessional contribution cap amounts will be able to be carried forward on a rolling basis over 5 consecutive years. This applies to unused cap amounts from 1 July 2017. Access to unused cap amounts will be limited to individuals with a superannuation balance less than $500,000. It is unclear at this stage how the $500,000 threshold will be calculated and whether it will include previous withdrawals.

Lifetime cap for non-concessional contributions effective 3 May 2016

Effective immediately (that is, from 7.30pm (AEST) on 3 May 2016), the Government will introduce a $500,000 lifetime non-concessional contribution cap for all Australians under the age of 75.

This will replace the current arrangements, which allow individuals to make non-concessional contributions of up to $180,000 per year (or $540,000 every three years if aged under 65).

The new lifetime cap will take into account all non-concessional contributions made on or after 1 July 2007 (from which time the Australian Tax Office (ATO) has reliable contributions records). It will be indexed to average weekly ordinary time earnings.

If, after commencement, an individual makes contributions that cause them to exceed their cap they will be notified by the ATO to withdraw the excess from their superannuation account. Individuals who choose not to withdraw will be subject to the current penalty arrangements for excess non-concessional contributions. If an individual has exceeded the cap prior to 7.30pm (AEST) on 3 May 2016, they will be taken to have used up their lifetime cap but will not be required to take the excess out of the superannuation system.

Introduction of the Low Income Superannuation Tax Offset (LISTO)

From 1 July 2017, the Government will introduce a Low Income Superannuation Tax Offset (LISTO) to reduce tax on superannuation contributions for low income earners, replacing the Low Income Superannuation Contribution (LISC).

LISTO will be capped at $500 and will apply to individuals with adjusted taxable income up to $37,000 that have had a concessional contribution made on their behalf.

LISTO will provide a non-refundable tax offset to superannuation funds which will then be contributed to the member's account. This payment effectively reimburses the amount of tax paid on a member's concessional contributions.

Expansion of eligibility for the low income spouse superannuation tax offset

From 1 July 2017, access to the low income spouse superannuation tax offset will be expanded, by increasing the income threshold for the low income spouse to $37,000.

Currently, the offset is available to any individual who contributes for a recipient whose income is up to $10,800.

The offset will continue to be set at 18% of the amount of eligible contributions, capped at $540 per year. The offset will be gradually reduced for income above $37,000 and will completely phase out at income above $40,000.

Removal of the contribution eligibility requirements for those aged 65 to 74

From 1 July 2017, the Government will remove the 'work test' which currently limits the ability of individuals aged 65 to 74 to make superannuation contributions.

The current rules that limit the ability of working Australians aged under 75 to make contributions to their own or their spouse's superannuation will also change. The contributions acceptance rules will be amended to:

- remove the requirement that an individual aged 65 to 74 must meet a work test before making voluntary or non-concessional contributions to superannuation
- allow individuals to make contributions to a spouse aged under 75 without the need for the spouse to meet a work test.

This proposal will make it easier for older individuals to contribute to super. When combined with the life-time non-concessional cap this proposal could allow non-working individuals aged between 65 and 74 who were previously ineligible to contribute to make non-concessional contributions of up to $500,000 after 1 July 2017.

Changes to the tax deductibility of personal superannuation contributions

From 1 July 2017, all individuals up to the age of 75 will be able to claim an income tax deduction for personal superannuation contributions.

Currently, an income tax deduction for personal superannuation contributions is only available to people who earn less than 10% of their income from salary or wages.

From 1 July 2017, all individuals, regardless of their employment circumstances, will be allowed to make concessional superannuation contributions up to the concessional cap. Amounts contributed under this rule will count towards the individual's concessional contribution cap, and will be subject to 15% contributions tax.

Introduction of a $1.6 million superannuation transfer balance cap effective 1 July 2017

A transfer balance cap will be introduced to restrict the total amount of superannuation that can be transferred from accumulation to pension phase to $1.6 million. Where an individual accumulates amounts in excess of $1.6 million, they will be able to maintain this excess in accumulation phase.

The cap will be indexed in $100,000 increments in line with the consumer price index. The requirement for member's with balances already in excess of $1.6 million to either withdraw or transfer the amount in excess of the cap back to superannuation means that people with pension account balances in excess of $1.6 million have not been grandfathered from these changes.

Removal of the earnings tax exemption on pre-retirement pensions

The tax exempt status of income from assets supporting pre-retirement pensions will be removed from 1 July 2017. Earnings will then be taxed up to 15%, the same way that superannuation in the accumulation phase is taxed. This change applies irrespective of when the pre-retirement pension commenced.

Pre-retirement pensions can still provide benefits to members as they allow access to superannuation monies to supplement other income and provide the ability to implement tax effective strategies of combining salary sacrifice contributions with pension payments.

The taxation of earnings in pension phase will only apply to 'pre- retirement' income streams where an individual has reached preservation age but not yet retired. Income streams where the member has met a full condition of release such as retirement will continue to have the earnings tax exemption apply.

More tax on contributions for higher earners

Division 293 tax, which is an additional 15% contributions tax payable by high income earners with income exceeding $300,000, will apply to those with income exceeding $250,000 from 1 July 2017. 'Income' for this purpose includes an individual's taxable income, plus their concessional contributions and some other adjustments.

An individual would need to have at least $250,000 in combined income and concessional superannuation contributions for the 30% tax rate to apply.

Changes to personal income tax thresholds

Personal income tax relief will reduce the marginal tax rate on taxable incomes between $80,000 and $87,000 from 37% to 32.5% from 1 July 2016. A taxpayer earning $87,000 will save $315 per annum as a result of these changes.

Personal tax rates from 1 July 2016

Taxable income threshold (2015-2016)	Tax payable (2015-2016)	Proposed taxable income threshold (2016-2017)	Tax payable (2016-2017)
$18,200	Nil	$18,200	Nil
$37,000	$3,572	$37,000	$3,572
$80,000	$17,547	$87,000	$19,822
$180,000	$54,547	$180,000	$54,232

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