Federal Budget 2016-17

3 May 2016

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Federal Budget summary 2016–17

On 3 May 2016, the Treasurer, Scott Morrison, delivered his first Federal Budget and the first budget of the Turnbull government.

Background

The changing pace of tax reform

Three years ago, in May 2013[1], the former Prime Minister Tony Abbott — while he was still the Leader of the Opposition — promised that the Coalition Party would, if elected, within two years consult the community to produce a comprehensive white paper on tax reform. He promised that a Coalition government would finish the job that the Henry Review started. The aim was to make taxes lower, simpler and fairer.

The Government's reform agenda started with the abolition of the carbon tax and the mining tax. A discussion paper titled *Re:think* (the Discussion Paper) was released in March 2015 as a means of inviting submissions from the public. The Discussion Paper set out various aspects of the current tax system, identified its challenges, weaknesses and defects as well as opportunities for reform and posed questions on which it sought submissions.

The intention was that, having regard to the submissions received, the Government would prepare a Green Paper which would contain the policy options for dealing with the problems identified in the course of the consultation. The Discussion Paper was not prescriptive and it seemed that the Government was open to considering most options, ruling out only such things as changes to the treatment of the family home[2] and possible financial transactions taxes.[3] Changes to the GST base or rate were presented as being difficult because such changes would require unanimous consent by all state and territory governments as well as both Houses of the Australian Parliament.[4]

However, Malcom Turnbull in deposing Tony Abbott as Prime Minister on 14 September 2015 supervened to stall and ultimately halt the tax reform process. The policy options for reform which were floated from time to time — e.g. increasing the GST rate and reducing the personal rates of tax; limiting the availability of negative gearing for investment properties; reducing the 50 per cent CGT discount; and taxing superannuation at progressive rates — were all ruled out.

The new Prime Minister seemed to run out of steam, time and possibly ideas to deliver the promised Green paper. But, mostly, it seemed that Australia could not afford tax reform.

The proposed cut in the company tax rate was also beginning to look doubtful in the light of the public outrage at revelations from the leaked Panama Papers[5] about the extent of corporates and individuals using offshore havens to avoid tax and the figures provided by the ATO showing that 98 of the 321 companies with earnings over $200 million did not pay any company income tax in the 2013–14 income year.

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1 This was 121 days before the election which the Coalition won with Tony Abbott as leader. The occasion was Tony Abbott's Budget Reply, Parliament House on 16 May 2013. The transcript is available here: www.liberal.org.au/latest-news/2013/05/16/tony-abbott-budget-reply-parliament-house-canberra

2 Page 67 of *Re:think*.

3 Page 165 of *Re:think*.

4 Page 129 of *Re:think*.

5 Leaked on 3 April 2016.

The Prime Minister's radical proposal[6] that states and territories would be provided with independent income taxing powers so that they could better control the raising of the revenue they needed to meet the level of services that their communities wanted or demanded was not supported by all of the premiers and chief ministers.[7]

Tax reform is always difficult because there are inevitably some sectors of the economy that will be the losers and the Government is currently not in a position to be able to offer compensation. The Prime Minister has stated that 'it may be that in the final analysis the conclusion is that the only reforms practically available are incremental ones …'[8]

The challenge for the Budget — identified by former Treasurer Joe Hockey — of 'too much government spending' i.e. the expenditure on 'welfare, infrastructure and handouts' that was locked in by the previous government against receipts that did not materialise under the Mining Tax[9] remains.

The further challenges which the Federal Budget must take into account were identified by the 2015 Intergenerational Report[10] which was released on 5 March 2015. The Intergenerational Report assesses the long-term sustainability of current Government policies. It analyses the key drivers of economic growth — population, participation[11] and productivity — and what the projected changes in these drivers will mean for our standard of living.[12] The challenges identified in the Report included:

- an aging population that is living longer;
- a declining participation rate; and
- slowing productivity (about working more efficiently or producing more or better goods and services with the same level of resources).

These challenges have not changed.

The MYEFO updates

The Mid-Year Economic and Fiscal Outlook (MYEFO) 2015–16, which updates the economic and fiscal outlook from the previous Budget, was released on 15 December 2015. It takes into account the decisions made since the release of the Budget, and therefore revises the budget aggregates. It stated that:

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6 The Prime Minister announced this proposal in his doorstop interview at the Penrith Panthers Academy. The proposal was to be considered by the premiers and chief ministers at the Council of Australian Governments (COAG) meeting which was to be held later in that week.

7 COAG's report of 1 April 2016 stated it would consider proposals to reduce the number of tied Commonwealth grants thus allowing the states and territories greater autonomy and the broader opportunities for tax reform, including state tax reform. The Federation Reform White Paper which was scheduled to be released by the end of 2015 has now been abandoned and COAG will work on fixing the relationship between the states and the Commonwealth: see **https://federation.dpmc.gov.au/about**.

8 Reported by Heath Aston in his article titled 'Malcolm Turnbull rips up his own script on tax reform debate' in the *Sydney Morning Herald*, 25 April 2016; see also the article by Andrew Clark titled 'Malcolm Turnbull takes the long road to economic reform' in the *Australian Financial Review*, 13 February 2016.

9 The previous Treasurer's speech to the Australia-Israel Chamber of Commerce, Crown Towers Melbourne on 22 April 2015.

10 The Report was released on 5 March 2015.

11 Participation refers to the proportion of people aged 15 years and over who are actively engaged in the workforce.

12 See: **www.treasury.gov.au/PublicationsAndMedia/Publications/2015/2015-Intergenerational-Report**

- the deficit for 2015–16 is expected to be $37.4 billion (an increase of $2.3 billion since the Budget in May), with the expected return to surplus pushed back a further year to 2020–21; and
- total receipts are expected to be $33.8 billion lower over the forward estimates than expected at the 2015–16 Federal Budget, largely reflecting revisions to forecast nominal GDP and with:
  - declining commodity prices resulting in lower company tax receipts;
  - a weaker outlook for wages, and population growth leading to lower than expected personal income tax; and
  - weaker equity markets resulting in downward revisions to CGT receipts.

The Government has implemented a number of measures to stimulate the engine room of the economy, i.e. the small business sector, and — as a kick start to the transition from a resources economy to a new knowledge-based economy — launched the National Innovation and Science Agenda. These measures are summarised below.

Measures implemented since the 2015–16 Federal Budget

Tax reform	Details of changes implemented or proposed
Capital gains tax measures	■ changes to the foreign resident CGT withholding regime — from 1 July 2016[13]; ■ full CGT exemption on assets held by Norfolk Island residents prior to 24 October 2015[14]; and ■ CGT rollover relief for mandatory transfers made from 29 June 2015 to 1 July 2017 within a fund in the transition to MySuper.
Revised DTA with Germany	The Government signed a new tax treaty with Germany on 12 November 2015. Changes in the treaty include reduction in withholding tax on dividends, interest and royalty payments. The new treaty has not yet come into force.
Managed investment trusts (MITs)	Changes to finalise the legislation to introduce a new tax system for MITs. The changes generally apply from 1 July 2016, however MITs can choose to apply the new rules from 1 July 2015.[15]

[13] The measure was contained in Schedule 2 to the *Tax and Superannuation Laws Amendment (2015 Measures No. 6) Act 2015* which received Royal Assent as Act No. 10 of 2016 on 25 February 2016. Purchasers of certain Australian assets from foreign residents are obliged to withhold and pay to the Commissioner a 10 per cent non-final withholding tax.

[14] On 26 May 2015, the package of eight bills relating to the Norfolk Island reforms received Royal Assent. The tax related Bills, *Tax and Superannuation Laws Amendment (Norfolk Island Reforms) Act 2015* received Royal Assent as Act No. 53 of 2015, and *A New Tax System (Medicare Levy Surcharge — Fringe Benefits) Amendment Act 2015* received Royal Assent as Act No. 52 of 2015.

[15] These measures are contained in the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Bill 2015* and accompanying Bills, which were introduced into Parliament on 3 December 2015. The Bill lapsed on prorogation of Parliament. However, the Senate agreed to resume consideration of the Bill on 2 May 2016.

Tax reform	Details of changes implemented or proposed
National innovation and science agenda	Measures which form part of this agenda[16] include: ■ increasing access to past year tax losses for companies and certain unit trusts by replacing the same business test with a more flexible 'predominantly similar business test' — applicable to losses made in the 2015–16 or future income years[17]; ■ allowing taxpayers to self-assess the tax effective life of some intangible assets, such as patents, copyright and registered designs — for assets acquired from 1 July 2016; and ■ new arrangements for venture capital investment and tax incentives for angel investors.[18]

Primary producers	Measures which were announced as part of the Stronger Farmers, Stronger Economy agenda include:
	■ bringing forward the start date of accelerated depreciation measures for primary producers in relation to water facilities, fencing and fodder storage assets[19];
	■ changes in relation to FMDs[20]:
	    ▪ removing the restriction on FMD accounts being used as an offset for business loans;
	    ▪ doubling the FMD deposit limit to $800,000 from 1 July 2016;
	    ▪ allowing primary producers affected by severe drought early access to FMDs without losing their taxation benefit; and
	■ allowing primary producers to re-access tax averaging 10 years after the year in which they chose to opt out.[21]

16 On 7 December 2015, the Treasurer, Scott Morrison, issued a Media Release titled *Tax and business incentives to boost economic growth and jobs*, in which he announced a suite of tax and business measures under the Government's National Innovation and Science Agenda (NISA), which was launched by the Prime Minister, Malcolm Turnbull, and Minister for Industry, Innovation and Science, Christopher Pyne, on 7 December 2015.

17 The Government released for public consultation exposure draft legislation titled *Tax and Superannuation Laws Amendment (2016 National Innovation and Science Agenda) Bill 2016: Access to losses* on 6 April 2016. The closing date for submissions was 22 April 2016.

18 These incentives are contained in the *Tax Laws Amendment (Tax Incentives for Innovation) Bill 2016* which was introduced into Parliament on 16 March 2016. The Bill lapsed on 15 April 2016 at prorogation of Parliament.

19 These proposed measures are contained in Schedule 2 to the *Tax Laws Amendment (Small Business Measures No. 2) Act 2015* which received Royal Assent as Act No. 67 of 2015 on 22 June 2015.

20 This measure is contained in Schedule 3 to the *Tax and Superannuation Laws Amendment (2016 Measures No. 1) Bill 2016* which was introduced into Parliament, on 10 February 2016. This Bill lapsed on 15 April 2016 at prorogation of Parliament.

21 This measure is contained in Schedule 2 to the *Tax and Superannuation Laws Amendment (2016 Measures No. 2) Bill 2016* which was introduced into Parliament on 17 March 2016. This Bill lapsed on 15 April 2016 at prorogation of Parliament.

Tax reform	Details of changes implemented or proposed
Tax administration	Implementing Single Touch Payroll (STP) reporting, so employers will automatically report individual employee payroll information, including superannuation contributions, to the ATO using their business management software. STP reporting will be phased in from July 2017. SBEs will be entitled to a $100 non-refundable tax offset for expenditure on Standard Business Reporting enabled software.[22]

Understanding the jargon

The following terminology is used in connection with Federal Budget matters and while we can discern the general gist of whether things are good or bad, a little understanding of what the jargon refers to may go a long way to improving our understanding.

Term	Explanation
Vertical fiscal imbalance	This refers to the problem created by the Federal Government having most of the revenue raising power while the States and Territories have most of the obligations to provide services especially in the big spending areas such as health care and education and infrastructure. The Prime Minister's recent attempts to change this balance were rebuffed by most of the States and Territories.
Horizontal fiscal imbalance	Australia's horizontal fiscal imbalance is a result of the differing capacities of the States to raise revenue and differing cost structures in delivering their services. There is an equalisation scheme under which the Federal Government uses the GST revenue to allocate funds between the States on the basis of their needs and capacity to raise revenue.
The national fiscal balance	This is the combined federal and state budgets. Since the Commonwealth, state and territory government delivered their 2015–16 Budgets, the national fiscal deficit has deteriorated by $34.1 billion to $122.1 billion.[23] About 80 per cent of the blow out in this figure has been blamed largely on the Federal Government and is said to be a result of falling revenues.[24]

22 On 25 September 2015, the ATO announced that it has provided to the Government a summary of the findings from its consultation with representatives from large businesses, industry and software developers on Single Touch Payroll. Further consultation is on hold pending a Government decision.

23 The original 2015–16 budget projections estimated the projected national fiscal deficit over the forward estimates was $88 billion. See: Parliamentary Budget Office. 'National fiscal outlook as at 2016 mid-year fiscal updates', Report no. 01/2016.

24 Parliamentary Budget Office. 'National fiscal outlook as at 2016 mid-year fiscal updates', Report no. 01/2016, at page 1.

Term	Explanation
Budget deficit	The last time Australia had a Budget surplus was in 2006. Every year since the GFC, we have had Budget deficits i.e. the Federal Government has spent more money than it has collected. This is expected to continue until at least 2020–21.[25] Australian also has a structural deficit which means that, all other things being equal, the Government's general level of spending exceeds the general levels of taxation. The solution requires either a change in the Government spending level or a change in the level of taxation.
Government debt	As a result of spending more than it raises by taxation, the Federal Government must borrow. Government debt is about $420 billion and is expected to rise to $552 billion in three years.[26] Interest paid on this debt is about $11 billion per year.

Some facts about the Australian economy

In the days before the 2015–16 Federal Budget, the then Treasurer Joe Hockey listed some salient facts about the Australian economy. The macro view of the Australian economy is critical to the Government's policy settings for the future. It is also useful to our own planning for the future to know some of the facts which the then Treasurer highlighted as potentially providing opportunities for growth.

- 70 per cent of the Australian economy is services including tourism and education, yet it represents only 17 per cent of our exports[27];
- mining and resources are around 10 per cent of our economy, but represent over 50 per cent of our exports[27];
- financial services represent more than 50 per cent of the value of the ASX200[27];
- the small business sector employs about 4.5 million people and contributes a third of Australia's output;[27]
- 60 per cent of the Federal Government's tax collected is from personal and company taxes:
    - just 12 companies pay one-third of all company tax; and
    - just two per cent of taxpayers pay a quarter of all personal income tax[28]; and
- Australia is currently borrowing $100 million each and every day just to pay our day-to-day bills.[28]

25 Reported by Jessica Irvine in her article titled 'Why we should worry about fixing the budget' in the Sydney Morning Herald on 2 April 2016.

26 This is gross debt.

27 The Treasurer, Joe Hockey. Address to the Australia-Israel Chamber of Commerce, Crown Towers, Melbourne, on 22 April 2015.

28 The Treasurer, Joe Hockey. *Australia's economic prosperity*, Address to the Institute of Public Affairs, Melbourne, 31 March 2015. Craig Emerson reported in the *Financial Review* on Tuesday 12 May 2015, that interest payments on public debt will soon exceed $1 billion per month.

2016–17 Federal Budget — the key information

The Government's 2015–16 MYEFO reported a deterioration in the Budget position of $33.8 billion over the forward estimates as a result of lower than expected income tax from individuals as a result of weaker than expected wage growth, lower company tax receipts as a result of declining commodity prices and lower capital gains tax receipts as a result of weaker equity markets.[29]

			Estimates			
	Actual 2014–15	**Budget 2015–16**	**Budget 2016–17**	**Budget 2017–18**	**Budget 2018–19**	**Budget 2019–20**
Underlying cash position[30]	($37.9b)	($39.9b)	($37.1b)	($26.1b)	($15.4b)	($6.0b)
Economic growth	2.2%	2.5%	2.5%	3.0%	3.0%	3.0%
Unemployment rate	6.1%	5.75%	5.5%	5.5%	5.5%	5.5%
CPI — inflation	1.5%	1.25%	2.0%	2.25%	2.5%	2.5%

What we have been told so far …

- It is common sense to make no adjustments to negative gearing at the higher end of the income scale.[31]
- The Budget will be a prudent budget, living within our means. It will be fair. People will look at that budget and they'll say this is a fair budget. But it will also be one that encourages enterprise and people to have a go and to invest.[32]
- 'Jobs and growth' will be the focus of the Budget.
- You don't grow the size of our economy by increasing the burden on hard working Australians and business owners with higher taxes.[33]
- 'There isn't a lot of room to move in this budget; you can't pay for something with nothing.'[34]
- This is not a typical election budget of generous handouts and tax cuts.[35]
- 'There is substantial tax reform, or tax changes, in the budget.' 'This is not Tony Abbott's plan, this is the plan of the Turnbull Government' and 'It is a plan to ensure jobs and growth and a

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29 Page 2 of the *Mid-Year Economic and Fiscal Outlook 2015–16*, December 2015.

30 Underlying cash position — a reduction in the underlying cash balance means that the government must borrow more and as a consequence the interest cost on the higher public debt increases.

31 Prime Minister's interview with Leigh Sales on 7.30, ABC TV on 26 April 2016: **www.pm.gov.au/media/2016-04-26/interview-leigh-sales-730-abc-tv**

32 Prime Minister's radio interview with John Laws on 22 April 2016: **www.pm.gov.au/media/2016-04-26/radio-interview-john-laws**

33 The Treasurer, Scott Morrison, in his address, titled 'Clearing a path for jobs and growth', to the Business Council of Australia, Annual Forum dinner, 13 April 2016: **http://sjm.ministers.treasury.gov.au/speech/012-2016/**

34 The Treasurer, Scott Morrison, reported in the article titled 'Malcolm Turnbull's government is sending more mixed messages on tax' by Adam Gartrell in *The Sydney Morning Herald* on 23 April 2016.

35 Reported by Peter Hartcher and James Massola in *The Age* on 2 May 2016, on page 1.

sustainable tax system, and the restoration of the budget to balance, bringing those deficits down in a managed and measured way so that we … live within our means.’ [36]

Some leaks and other kite-flying

Since it was announced that everything was on the table, many ideas have been floated and abandoned. The following measures have been listed as being ‘in the Budget’:

- tightening the thin capitalisation rules by reducing the permitted debt to equity ratio from the current 1.5:1 to 1:1 — i.e. the safe harbour for debts to assets will be reduced from 60 per cent to 50 per cent;
- increase in the aggregated turnover threshold for the purposes of defining what is a small business entity from $2 million to $5 million, possibly $10 million;
- increase in the income threshold at which the rate of 37 per cent applies from $80,000 to $85,000 to address bracket creep[37];
- reduction in the concessional superannuation contribution caps;
- decrease in the high income threshold of $300,000 to $250,000 beyond which the concessional tax treatment of superannuation is reduced;
- reduction in the non-concessional contribution cap from the current $180,000[38];
- change to the low income superannuation contribution (LISC) scheme;
- a phasing in of a reduction to the company tax rate for medium and large companies;
- increase to tobacco excise[39];
- tightening of the Multinational Anti-Avoidance Law, i.e. the ‘Google tax’; and
- introduction of anti-hybrid rules which are directed at arrangements that result in double non-taxation.[40]

[36] Malcolm Turnbull, reported by Naomi Woodley and Eliza Borrello in ‘Budget 2016: Turnbull to call election by week’s end, ‘substantial’ tax changes expected in budget’ on ABC News: **www.abc.net.au/news/2016-05-02/budget-2016-malcolm-turnbull-says-substantial-tax-changes/7374204**

[37] Currently, income between $37,001 and $80,000 is taxed at the rate of 32.5 per cent; income in the range of $80,001 and $180,000 is taxed 37 per cent. It has been reported that some 300,000 workers would be affected by such a change: **www.smh.com.au/federal-politics/political-news/malcolm-turnbulls-government-is-sending-more-mixed-messages-on-tax-20160423-godfbf.html**. However, Peter Hartcher and James Massola reported in the Age on 2 May 2016 that the Treasurer said that ‘there is no indication that people earning less than $80,000 can expect any tax relief’.

[38] This threshold is calculated as six times the standard concessional contributions cap of $30,000.

[39] Naomi Woodley and Eliza Borrello reported in their article titled ‘Budget 2016: Tobacco excise hike confirmed as Scott Morrison prepare to deliver election budget’ on 3 May 2016 that Finance Minister Mathias Cormann confirmed that the Budget would contain 12.5 per cent annual increase in tobacco excise over four years to 2020. There is some confusion about whether the increase is 12 per cent per year or 12.5 per cent over four years.

[40] This usually involves payments between a resident entity and a related foreign entity whereby one entity is able to treat the payment as a deduction while the recipient is able to treat the receipt as exempt from tax.

Income Tax

Announcements

2016 Announcements

2016-17 Federal Budget - Targeted personal income tax relief

KEY POINTS
▪ The Government will increase the 32.5 per cent personal income tax threshold from $80,000 to $87,000 with effect from 1 July 2016.

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will increase the 32.5 per cent personal income tax threshold from $80,000 to $87,000.

START DATE

1 July 2016

Current personal income tax thresholds

Resident

Income thresholds	Rate	Current tax payable	
$0 – $18,200	0%	Nil	
$18,201 – $37,000	19%	Nil	+ 19% of excess over $18,200
$37,001 – $80,000	32.5%	$3,572	+ 32.5% of excess over $37,000
$80,001 – $180,000	37%	$17,547	+ 37% of excess over $80,000
$180,000 +	45%	$54,547	+ 45% of excess over $180,000

Foreign resident

Income thresholds	Rate	Current tax payable	
$0 – $80,000	32.5%	Nil	+ 32.5% of excess over $0
$80,001 – $180,000	37%	$26,000	+ 37% of excess over $80,000
$180,000 +	45%	$63,000	+ 45% of excess over $180,000

Proposed personal income tax thresholds

The tables below show the **proposed** personal income tax thresholds and the effect on the tax payable.

Resident

Income thresholds	Rate	Current tax payable	
$0 – $18,200	0%	Nil	
$18,201 – $37,000	19%	Nil	+ 19% of excess over $18,200
$37,001 – **$87,000**	32.5%	$3,572	+ 32.5% of excess over $37,000
$87,001 – $180,000	37%	**$19,822**	+ 37% of excess over **$87,000**
$180,000 +	45%	**$54,232**	+ 45% of excess over $180,000

Foreign resident

Income thresholds	Rate	Current tax payable	
$0 – **$87,000**	32.5%	Nil	+ 32.5% of excess over $0
$87,001 – $180,000	37%	**$28,275**	+ 37% of excess over **$87,000**
$180,000 +	45%	**$62,685**	+ 45% of excess over $180,000

Source: Budget Paper No. 2 page 42; and
Treasurer's Media Release: A Tax Plan For Australia's Future

▶ 2016-17 Federal Budget - Transition to retirement income streams (TRIS)

KEY POINTS
▪ From 1 July 2017, the income tax exemption on earnings of assets supporting Transition to Retirement Income Streams (TRIS) will be removed.
▪ Additionally, individuals will not be able to treat certain superannuation income stream payments as lump sums for tax purposes.

START DATE

1 July 2017

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the income tax exemption on earnings of assets supporting a Transition to Retirement Income Stream (TRIS) will be removed.

Additionally, the ability for an individual to treat certain superannuation income stream payments as lump sums for tax purposes will be removed.

☞ Note

In certain circumstances, a member of a self managed superannuation fund (SMSF) can elect under reg. 995-1.03 of the *ITA Regs 1997* to treat a TRIS payment — that would otherwise be a superannuation income stream benefit for income tax purposes — as a superannuation lump sum and therefore access the low rate cap. The low rate cap is reduced by any amount to which the low rate cap was previously applied and, for the 2015–16 income year, is capped at $195,000.

Source: Budget Paper No. 2 page 30

2016 - Legislation

Tax and Superannuation Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2016

2016-17 Federal Budget - Bill introduced into Parliament

KEY POINTS
▪ On 2 May 2016, as part of the 2016–17 Federal Budget, the Government introduced into Parliament the *Tax and Superannuation Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2016*.
▪ The Bill proposes to increase the Medicare levy low-income threshold from the 2015-16 income year for:
▪ singles — from \$20,896 to \$21,335;
▪ families — from \$35,261 to \$36,001;
▪ single seniors and pensioners — from \$33,044 to \$33,738; and
▪ each dependent child-student — from \$3,238 to \$3,306.
▪ The increase adjusts the thresholds to take into account increases in the CPI.

START DATE

From the 2015–16 income year

On 2 May 2016, as part of the 2016–17 Federal Budget, the Government introduced into Parliament the *Tax and Superannuation Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2016*[41]. The Bill proposes to increase the Medicare levy low-income threshold for singles, families and single seniors and pensioners.

The increase adjusts the thresholds to take into account increases in the Consumer Price Index (CPI).

The Medicare levy low-income thresholds are detailed in the table below.

Income year	Individuals	Families	Pensioners below age pension age	Senior Australians	+ amount for each dependent child/student
2015–16	\$21,335	\$36,001	\$33,738		\$3,306
2014–15	\$20,896	\$35,261	\$33,044		\$3,238
2013–14	\$20,542	\$34,367	\$32,279		\$3,156
2012–13	\$20,542	\$33,693	\$32,279		\$3,094
2011–12	\$19,404	\$32,743	\$30,451	\$30,685	\$3,007
2010–11	\$18,839	\$31,789	\$30,439	\$30,685	\$2,919

Source: Tax and Superannuation Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2016

41 This Bill was introduced into Parliament on 2 May 2016 i.e. the day before the 2016–17 Federal Budget. The Bill was passed by both Houses on 3 May 2016.

Income

Exempt Income

2016-17 Federal Budget - Tax relief for ADF personnel deployed overseas

KEY POINTS
▪ The Government will provide an income tax exemption for Australian Defence Force personnel deployed on Operation PALATE II in Afghanistan for the period from 1 January 2016 to 31 December 2016.

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will amend the tax law to provide a full income tax exemption for Australian Defence Force personnel deployed on Operation PALATE II in Afghanistan.

START DATE

1 January 2016 to 31 December 2016

The exemption will remain in effect from 1 January 2016 until 31 December 2016.

Source: Budget Paper No. 2 page 20

Tax Offsets

Personal Tax Offsets

2016-17 Federal Budget - Improve superannuation balances of low income spouses

KEY POINTS
▪ The Government will increase access to the low income spouse superannuation tax offset by raising the income threshold for the low income spouse from $10,800 to $37,000.
▪ The offset provides up to $540 per annum for the contributing spouse.

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will increase access to the low income spouse superannuation tax offset.

START DATE

1 July 2017

This will be done by raising the income threshold for the low income spouse from $10,800 to $37,000. The offset provides up to $540 per annum for the contributing spouse.

Source: Budget Paper No. 2 page 25

2016-17 Federal Budget - Increase in the tax discount for the small business tax offset

KEY POINTS
■ The current tax discount of 5 per cent for the purposes of working out the small business tax offset discount for unincorporated small businesses will be increased over 10 years to 16 per cent.
■ The discount will increase to 8 per cent from 1 July 2016 and remain at 8 per cent until the 2023–24 income year, after which it will progressively increase to 16 per cent by the 2026–27 income year.

START DATE
1 July 2016

Background

The small business tax offset (SBTO) is a discount that is available in an income year to an individual who is a small business entity (SBE) or whose assessable income for the income year includes a share of the net income of an SBE that is **not** a corporate tax entity.

The SBTO is therefore available to individuals who are:

- SBEs;
- partners in a partnership that is an SBE; or
- beneficiaries of a trust that is an SBE.

The discount is currently five per cent of the income tax payable on the business income received from an unincorporated SBE.

Announcement

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the discount for the purposes of working out the small business tax offset will be increased over 10 years from five per cent to 16 per cent. The current cap of $1,000 per individual for each income year will be retained.

The small business tax offset discount will be increased as follows:

Income year	Discount for the SBTO
2015–16 (current law)	5%
Proposed from 2016–17 to 2023–24	8%
Proposed for 2024–25	10%
Proposed for 2025–26	13%
Proposed for 2026–27	16%

Source: e.g. Budget Paper No. 2 page 40; and
Treasurer's Media Release: The 2016 Budget – A National Plan for Jobs and Growth

Company and Shareholder Issues

General

▶ 2016-17 Federal Budget - Reduction of company tax rate

KEY POINTS

▪ The company tax rate will progressively reduce to 25 per cent over 10 years.
▪ The annual aggregated turnover threshold for companies facing a reduced tax rate will increase:
  ▪ from \$2 million to \$10 million from the 2016–17 income year;
  ▪ then progressively from \$10 million to \$1 billion by the 2022–23 income year.
▪ All companies will have a tax rate of 27.5 per cent by the 2023–24 income year.
▪ The tax rate for those companies below the annual aggregated turnover threshold will be reduced from 28.5 per cent:
  ▪ to 27.5 per cent from the 2016–17 income year;
  ▪ to 27.0 per cent from the 2024–25 income year;
  ▪ to 26.0 per cent from the 2025–26 income year; and
  ▪ finally to 25.0 per cent from the 2026–27 income year.

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the company tax rate will be reduced to 25 per cent over 10 years.

START DATE

Annual aggregated turnover thresholds progressively increased from 2016–17 to 2023–24 income years

Company tax rate progressively reduced from 2016–17 to 2026–27 income years

Company tax rate to be reduced to 27.5 per cent

Current law

The tax rate for a company that is a small business entity within the meaning of s. 328-110 of the *ITAA 1997* is currently 28.5 per cent.

From 1 July 2016, the tax rate for businesses with an annual aggregated turnover of less than $10 million will be 27.5 per cent. The annual aggregated turnover threshold will be progressively increased, so that ultimately, all companies will have a tax rate of 27.5 per cent by the 2023–24 income year.

The annual aggregated turnover thresholds for companies facing a tax rate of **27.5 per cent** will be as follows:

Income year	Annual aggregated turnover threshold
2015–16 (current year: no change)	$2 million
2016–17	$10 million
2017–18	$25 million
2018–19	$50 million
2019–20	$100 million
2020–21	$250 million
2021–22	$500 million
2022–23	$1 billion
2023–24	All companies

Company tax rate to be reduced to 25 per cent

From 1 July 2024, the company tax rate will be reduced to 27 per cent and then progressively reduced by 1 percentage point per year until it reaches 25 per cent in the 2026–27 income year.

This may be summarised as follows:

Income year	Company tax rate
2024–25	27.0%
2025–26	26.0%
2026–27	25.0%

Note

- Franking credits will be able to be distributed in line with the rate of tax paid by the company making the distribution.
- Until 1 July 2023, any company whose annual aggregated turnover is equal to or exceeds the above turnover thresholds will be taxed at the current rate of 30 per cent.

Source: Budget Paper No. 2 page 41; and
Treasurer's Media Release: The 2016 Budget – A National Plan for Job and Growth

Division 7A

2016-17 Federal Budget - Targeted amendments to Div 7A

KEY POINTS

- The Government will make targeted amendments to improve the operation and administration of Div 7A of Part III of the *ITAA 1936* from 1 July 2018 by:
  - introducing a self-correction mechanism for inadvertent breaches of Div 7A;
  - introducing appropriate safe-harbour rules to provide certainty;
  - simplifying Div 7A loan arrangements; and
  - making a number of technical adjustments to improve the operation of Div 7A and provide increased certainty for taxpayers.

START DATE

1 July 2018

Background

On 18 May 2012, the then Assistant Treasurer and Minister assisting for Deregulation, David Bradbury, announced that the Board of Taxation ('the Board') would undertake a post-implementation review of Div 7A of Part III of the *ITAA 1936*.

The final report was completed and provided to the Government on 12 November 2014. The Government released the report on 4 June 2015.

Announcement

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will make targeted amendments to improve the operation and administration of Div 7A, drawing upon a number of recommendations from the Board's post implementation review into Div 7A.

The amendments will include:

- a self-correction mechanism for inadvertent breaches of Div 7A;
- appropriate safe-harbour rules to provide certainty;
- simplified Div 7A loan arrangements; and
- a number of technical adjustments to improve the operation of Div 7A and provide increased certainty for taxpayers.

Source: Budget Paper No. 2 page 42

Trust Issues

Managed Investment Trusts

2016-17 Federal Budget - Implementing a new suite of collective investment vehicles

KEY POINTS
▪ The Government will introduce, as part of its Ten Year Enterprise Tax Plan, two new types of collective investment vehicles: ▫ corporate CIVs — from income years starting on or after 1 July 2017; and ▫ limited partnership CIVs — from income years starting on or after 1 July 2018. ▪ The new CIVs will have to meet eligibility criteria similar to those applicable to managed investment trusts. ▪ Investors will be taxed as if they had invested directly. ▪ The new CIVs will allow fund managers to offer investment products using vehicles that are commonly used overseas.

START DATE

For income years starting on or after:

- 1 July 2017 — for corporate CIVs
- 1 July 2018 — for limited partnership CIVs

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will introduce a new tax and regulatory framework for two new types of collective investment vehicles (CIVs), namely:

- corporate CIVs; and
- limited partnership CIVs.

A CIV allows investors to pool funds and have these funds managed by professional funds managers who can offer investment products via vehicles that are commonly used overseas. The aim of this measure is to enhance the international competitiveness of the Australian managed funds industry and maximise the effectiveness of related Government initiatives aimed at increasing access to overseas markets i.e. the Asia Region Funds Passport.

The new CIVs will be required to satisfy eligibility criteria similar to those applicable to managed investment trusts, such as being widely held and engaging in primarily passive investment.

Investors will generally be taxed as if they had invested directly in the relevant entity.

Source: Budget Paper No. 2 page 39

Special Classes of Taxpayers

Small Business Entities

2016-17 Federal Budget - Increase in the small business entity turnover threshold

KEY POINTS

▪ The small business entity annual aggregated turnover threshold will increase from $2 million to $10 million on 1 July 2016.
▪ However, the following lower thresholds will apply for the purposes of:
    ▪ the small business CGT concessions — $2 million annual aggregated turnover;
    ▪ the small business tax offset — $5 million annual aggregated turnover.

START DATE

1 July 2016

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the small business annual aggregated turnover threshold will be increased from $2 million to $10 million from 1 July 2016.

However, the current $2 million turnover threshold will be retained for access to the small business CGT concessions in Div 152 of the *ITAA 1997*, and access to the small business tax offset will be limited to entities with turnover of less than $5 million.

The various thresholds that will apply to small business entities may be summarised as follows:

	Turnover threshold	Purpose
Current law, applies until 30 June 2016	$2 million	All small business concessions
Proposed new law, applies from 1 July 2016	$2 million	Small business CGT concessions in Div 152 of the *ITAA 1997*
	$5 million	Small business tax offset
	$10 million	Small business concessions including: ▪ the lower small business corporate tax rate (see related article on the reduction of the corporate tax rate); ▪ accelerated depreciation; and ▪ depreciation pooling provisions.

Source: e.g. Budget Paper No. 2 page 40; and
Treasurer's Media Release: The 2016 Budget – A National Plan for Jobs and Growth

Exempt Organisations and Funds

Gifts

2016-17 Federal Budget - Updates to the list of specifically listed deductible gift recipients

KEY POINTS

■ Since the *Mid-Year Economic and Fiscal Outlook 2015–16*, the following organisations have been approved as deductible gift recipients (DGRs):
  ■ Australian Science Innovations Incorporated — from 1 January 2016;
  ■ The Ethics Centre Incorporated — from 24 February 2016; and
  ■ Cambridge Australia Scholarships Limited — from 1 July 2016 to 30 June 2021.
■ The following organisations have been approved as specifically listed DGRs:
  ■ The Australasian College of Dermatologists;
  ■ The College of Intensive Care Medicine of Australia and New Zealand; and
  ■ The Royal Australian and New Zealand College of Ophthalmologists.

START DATE

Various

Announcement

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, confirmed that since the *Mid-Year Economic and Fiscal Outlook 2015–16*, the following organisations have been approved as DGRs:

- Australian Science Innovations Incorporated — from 1 January 2016;
- The Ethics Centre Incorporated — from 24 February 2016; and
- Cambridge Australia Scholarships Limited — from 1 July 2016 to 30 June 2021.

In addition, the following organisations have been approved as specifically listed DGRs from the time of Royal Assent, provided that the gifts are made in relation to education or research in medical knowledge or science:

- The Australasian College of Dermatologists;
- The College of Intensive Care Medicine of Australia and New Zealand; and
- The Royal Australian and New Zealand College of Ophthalmologists.

Source: Budget Paper No. 2 page 23

Avoidance and Tax Planning

Anti-Avoidance

General

2016-17 Federal Budget - Establishing the Tax Avoidance Taskforce

KEY POINTS
■ The Government will provide $678.9 million to the ATO over the forward estimates to: ■ establish a new Tax Avoidance Taskforce which will carry out enhanced compliance activities targeting multinationals, large public and private groups and high wealth individuals; and ■ improve tax compliance in high risk areas.

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government would provide $678.9 million to the ATO, over the forward estimates, to establish a new Tax Avoidance Taskforce (the Taskforce) to crack-down on multinational tax avoidance. Compliance activities will target multinationals, large public and private groups and high wealth individuals.

The Taskforce will:

- be led directly by the Commissioner, Chris Jordan;
- employ around 1,300 ATO officers;
- be assisted by external experts, including a panel of former judges which will review any proposed settlement arrangements to ensure they are fair and appropriate.

The Taskforce is expected to raise more than $3.7 billion in tax liabilities by July 2020. New legislation will be introduced allowing the ATO to improve information sharing and analysis with ASIC.

Source: Budget Paper No. 2 page 33; and
Treasurer's Media Release: A New Tax Avoidance Taskforce

Goods and Services Tax

GST - Announcements

2016 Announcements

2016-17 Federal Budget - Discussion paper on GST treatment of digital currency

KEY POINTS
■ As part of the 2016–17 Federal Budget, the Government released the discussion paper *GST treatment of digital currency* seeking public submissions on options to address the 'double taxation' of digital currencies under the GST regime.

On 3 May 2016, as part of the 2016–17 Federal Budget, the Government released the discussion paper *GST treatment of digital currency* seeking public submissions on options to address the 'double taxation' of digital currencies under the GST regime.

A series of ATO rulings on the tax treatment of Bitcoin released in December 2014 outlined that Bitcoin is considered a form of 'intangible property' under the *GST Act*. As a result, double taxation occurs because:

- the acquisition of the Bitcoin is subject to GST; and
- its use in exchange for other goods and services is also subject to the GST.

Website

The discussion paper is available here:

www.treasury.gov.au/~/media/Treasury/Consultations%20and%20Reviews/Consultations/2016/GST%20treatment%20of%20digital%20currency/Key%20Documents/PDF/GST_treatment_of_digital_currency.ashx

Source: Treasurer's Media Release: Embracing our FinTech future; and Discussion paper: GST treatment of digital currency

2016-17 Federal Budget - GST to apply to low value goods imported by consumers

KEY POINTS
▪ Importations of goods with a value of less than $1,000 are not currently subject to GST.
▪ From 1 July 2017, GST will apply to the importation of low value goods imported by consumers — overseas suppliers will be required to register and account for the tax.

START DATE

Importations made on or after 1 July 2017

Background

Div 42 of the *GST Act* sets out the importations that are not subject to GST. These include importations of goods covered by various items in Schedule 4 to the *Customs Tariff Act 1995*, including item 26 which covers goods, other than tobacco, alcohol and bulk orders, with a value less than an amount prescribed by by-law (currently $1,000).

On 21 August 2015, the then Treasurer, Joe Hockey, announced in Media release No. 075 that the Government would broaden the GST to cover overseas online purchases of physical goods under $1,000.

Announcement

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the GST will be extended to low value goods imported by consumers from 1 July 2017.

The intent of this measure is that low value goods imported by consumers will face the same tax regime as goods that are sourced domestically.

Overseas suppliers that have an Australian turnover of $75,000 or more will be required to register for, collect and remit GST for low value goods supplied to consumers in Australia, using a vendor registration model.

The arrangements will be reviewed after two years to ensure they are operating as intended, and to take account of any international developments.

☞ Note

This change will require the unanimous agreement of the States and Territories prior to the enactment of legislation. This follows the in-principle agreement made on 21 August 2015 by the Council on Federal Financial Relations Tax Reform Workshop.

Source: Budget Paper No. 2 page 19

Superannuation

Superannuation - Announcements

2016 Announcements

2016-17 Federal Budget - Harmonising contribution rules for people aged 65 to 74

KEY POINTS
▪ The Government will remove the current restrictions on contributions to superannuation that apply to Australians aged 65 to 74 — namely minimum work requirements and restrictions on spouse contributions. ▪ From 1 July 2017, the same contribution acceptance rules will apply for all individuals under the age of 75.

START DATE
1 July 2017

Background

Under the existing law:

- there are minimum work requirements for Australians aged 65 to 74 who want to make voluntary superannuation contributions; and
- spouses aged over 70 cannot receive contributions.

These restrictions do not apply to individuals aged under 65.

Announcement

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will remove these restrictions on contributions to superannuation that apply to Australians aged 65 to 74 and instead apply the same contribution acceptance rules for all individuals under the age of 75.

This change is intended to simplify the superannuation system for older Australians and allow them to increase their retirement savings, especially from sources that may not have been available to them before retirement, including from downsizing their home.

This measure forms part of the Government's Superannuation Reform Package.

Source: Budget Paper No. 2 page 24;
Budget Overview: Making Our Tax System More Sustainable; and
Treasurer's Media Release: A More Sustainable Superannuation System

2016-17 Federal Budget - Introduction of a $1.6 million superannuation transfer balance cap

KEY POINTS
■ A cap of $1.6 million will be introduced on the total amount of accumulated superannuation that an individual can transfer into the retirement phase (the transfer balance cap).
■ Amounts that are transferred in excess of the cap (including earnings on these excess transferred amounts) will be taxed in a way similar to the tax treatment that applies to excess non-concessional contributions.
■ Members already in the retirement phase with balances above $1.6 million will be required to reduce their retirement balance to $1.6 million by 1 July 2017.

START DATE

1 July 2017

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that a $1.6 million transfer balance cap will be introduced on the total amount of accumulated superannuation that an individual can transfer into the retirement phase.

Subsequent earnings on these balances will not be restricted. This will limit the extent to which the tax-free benefits of retirement phase accounts can be used by high wealth individuals.

The key points of this measure are as follows:

Key point	Explanation
Balances that exceed the $1.6 million transfer balance cap	Where an individual accumulates amounts in excess of $1.6 million, they will be able to maintain this excess amount in an accumulation phase account (where earnings will be taxed at the concessional rate of 15 per cent).
Existing balances that exceed the $1.6 million transfer balance cap	Members already in the retirement phase with balances above $1.6 million will be required to reduce their retirement balance to $1.6 million by 1 July 2017. Excess balances for these members may be converted to superannuation accumulation phase accounts.
Tax on amounts transferred in excess of the cap	Amounts transferred that are in excess of the $1.6 million cap (including earnings on these excess transferred amounts) will be taxed in a way similar to the tax treatment that applies to excess non-concessional contributions.
Multiple transfers	The amount of cap space remaining for a member seeking to make more than one transfer into a retirement phase account will be determined by apportionment.

Key point	Explanation
Defined benefit funds	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. The Government will provide funding for required systems changes to its defined benefits superannuation schemes.

Consultation will be undertaken on the implementation of this measure for members of both accumulation and defined benefits schemes.

Source: Budget Paper No. 2 page 25; and
Treasurer's Media Release: A More Sustainable Superannuation System

▶ 2016-17 Federal Budget - Introducing a Low Income Superannuation Tax Offset (LISTO)

KEY POINTS
▪ The Government will introduce a Low Income Superannuation Tax Offset (LISTO) to reduce tax on superannuation contributions for low income earners.
▪ The LISTO will provide a non-refundable tax offset, capped at $500, to superannuation funds, based on the tax paid on concessional contributions made on behalf of low income earners.
▪ The LISTO will apply to concessional contributions made on behalf of members with adjusted taxable income up to $37,000.

START DATE

1 July 2017

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will introduce a Low Income Superannuation Tax Offset (LISTO) to reduce the tax on superannuation contributions for low income earners.

Concessional contributions received by a superannuation fund are treated as assessable income of the fund and are generally taxed at a 15 per cent tax rate.[42]

☞ Note

The LISTO will replace the Low Income Superannuation Contribution which expires on 30 June 2017.

The LISTO will provide a non-refundable tax offset, capped at $500, to superannuation funds that receive concessional contributions on behalf of low income members, being those with adjusted taxable income of less than $37,000.

[42] The taxation provisions applicable to superannuation entities are contained in Div 295 of the *ITAA 1997*. Division 293 contains special rules for very high income earners (earning over the current threshold of $300,000 which is proposed to be reduced to $250,000 from 1 July 2017).

This will effectively avoid the situation in which low income earners would pay more tax on savings placed into superannuation than on income earned outside of superannuation which has been subject to the low income earner's marginal rate of tax.

Source: Budget Paper No. 2 page 28; and
Treasurer's Media Release: A More Sustainable Superannuation System

Superannuation Issues

General

▶ 2016-17 Federal Budget - Removal of anti-detriment provision

KEY POINTS
▪ The Government will remove the superannuation anti-detriment provision.
▪ As the provision is currently applied inconsistently, removing it will better align the treatment of lump sum death benefits across all superannuation funds, and to bequests outside of superannuation.

START DATE
1 July 2017

Background

An anti-detriment payment (now called a *tax-saving amount*[43]) is an additional lump sum[44] payment that a trustee of a complying superannuation fund can make, on the death of a member, to:

- a deceased estate;
- a spouse or former spouse of the deceased; or
- a child, including an adult child[45] of the deceased.

The tax-saving amount increases the deceased member's lump sum death benefit to compensate for the effect of the tax that was paid while the member was accumulating in the fund.

Announcement

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will remove the anti-detriment provision.

As the provision is currently applied inconsistently, removing the anti-detriment provision will better align the treatment of lump sum death benefits not only across all superannuation funds, but also to bequests outside of superannuation.

Lump sum death benefits paid to dependants will remain tax-free.

Source: Budget Paper No. 2 page 29; and
Treasurer's Media Release: A More Sustainable Superannuation System

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[43] Section 295-485.

[44] The anti-detriment payment is not available if the benefit is paid as a pension.

[45] See ATO ID 2010/1.

2016-17 Federal Budget - Deductions for personal superannuation contributions

KEY POINTS
▪ From 1 July 2017, all individuals under the age of 75 will be allowed to claim an income tax deduction for personal superannuation contributions up to the concessional cap.
▪ This means that all individuals, regardless of their employment circumstances, will be able to make deductible contributions up to their concessional cap.

START DATE

1 July 2017

Background

Currently, only individuals whose income, that is attributable to their activities as an employee, constitutes less than 10 per cent of the sum of their total assessable income, reportable fringe benefits and reportable superannuation contributions for the income year are eligible to claim deductions for personal superannuation contributions (see s. 290-160 of the *ITAA 1997*).

Announcement

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that individuals up to age 75 will be able to claim an income tax deduction for personal superannuation contributions, regardless of their employment circumstances, up to the concessional contributions cap.

This measure forms part of the Government's Superannuation Reform Package.

☞ **Note**

In accordance with the existing law, members of certain prescribed funds — e.g. untaxed funds and Commonwealth, State, Territory or corporate defined benefit funds — would not be entitled a deduction for any contribution made to those schemes.

Source: Budget Paper No. 2 page 30; and
Treasurer's Media Release: A More Sustainable Superannuation System

2016-17 Federal Budget - Allow catch-up concessional superannuation contributions

KEY POINTS
▪ Individuals will be allowed to make additional concessional contributions where they have not reached their concessional contributions cap in previous years.
▪ Access to these unused cap amounts will be limited to those individuals with a superannuation balance of less than $500,000.
▪ Amounts are carried forward on a rolling basis for a period of five consecutive years, and only unused amounts accrued from 1 July 2017 can be carried forward.

START DATE
1 July 2017

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that individuals will be allowed to make additional concessional contributions where they have not reached their concessional contributions cap in previous years.

Access to these unused cap amounts will be limited to those individuals with a superannuation balance of less than $500,000. Amounts are carried forward on a rolling basis for a period of five consecutive years, and only unused amounts accrued from 1 July 2017 can be carried forward.

Annual concessional caps can limit the ability of people with interrupted work patterns — for example, women or carers — to accumulate superannuation balances commensurate with those who do not take breaks from the workforce. Allowing people to carry forward their unused concessional cap provides them with the opportunity to 'catch-up' if they have the capacity and choose to do so.

The measure will also apply to members of defined benefit schemes and consultation will be undertaken to minimise additional compliance impacts for these schemes.

Source: Budget Paper No. 2 page 24; and
Treasurer's Media Release: A More Sustainable Superannuation System

2016-17 Federal Budget - Reforming the taxation of concessional superannuation contributions

KEY POINTS
▪ The Div 293 threshold — above which high income earners pay additional contributions tax — will be lowered from $300,000 to $250,000 from 1 July 2017.
▪ The annual cap on concessional superannuation contributions will be reduced to $25,000 for all individuals from 1 July 2017.

START DATE
1 July 2017

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced a number of reforms to the taxation of concessional superannuation contributions.

Changes to Division 293 of the *ITAA 1997*

The Div 293 threshold (the point at which high income earners pay additional contributions tax) will be lowered from $300,000 to $250,000 from 1 July 2017.

The lower Div 293 income threshold will also apply to members of defined benefit schemes and constitutionally protected funds currently covered by the tax, and existing exemptions (such as State higher level office holders and Commonwealth judges) for Div 293 tax will be maintained.

Changes in relation to concessional contributions

From 1 July 2017, the annual concessional superannuation contributions cap will be reduced to $25,000 (currently $30,000 for those aged less than 50; $35,000 for those aged 50 and over).

Also from 1 July 2017, notional (estimated) and actual employer contributions will be included in the concessional contributions cap for members of unfunded defined benefit schemes and constitutionally protected funds.

Members of these funds will have opportunities to salary sacrifice commensurate with members of accumulation funds. For individuals who were members of a funded defined benefit scheme as at 12 May 2009, the existing grandfathering arrangements will continue.

The current and proposed contribution caps are as follows:

<table>
<tr><th></th><th colspan="2">Concessional contributions cap</th><th rowspan="2">Non-concessional contributions cap</th></tr>
<tr><th>Income year</th><th>General cap</th><th>Temporary cap</th></tr>
<tr><td>2012–13</td><td>$25,000</td><td>$25,000</td><td>$150,000 / $450,000[46]</td></tr>
<tr><td>2013–14</td><td>$25,000</td><td>If ≥ 59 years = $35,000[47]</td><td>$150,000 / $450,000[46]</td></tr>
<tr><td>2014–15</td><td>$30,000</td><td>If ≥ 49 years = $35,000[48]</td><td>$180,000 / $540,000[46]</td></tr>
<tr><td rowspan="2">2015–16</td><td rowspan="2">$30,000</td><td rowspan="2">If ≥ 49 years = $35,000[48]</td><td>1 July 2015 to 7.30 pm on 3 May 2016
$180,000 / $540,000[46]</td></tr>
<tr><td>From 7.30 pm on 3 May 2016
$500,000 lifetime cap[49]</td></tr>
<tr><td>2016–17</td><td>$30,000</td><td>If ≥ 49 years = $35,000[48]</td><td>$500,000 lifetime cap[49]</td></tr>
<tr><td>2017–18</td><td>$25,000</td><td>—</td><td>$500,000 lifetime cap[49]</td></tr>
</table>

Source: Budget Paper No. 2 page 28; and
Treasurer's Media Release: A More Sustainable Superannuation System

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46 Under the 'bring forward' rule in ss. 292-85(3) and (4) of the *ITAA 1997*. This amount is three times the non-concessional cap of the first year.

47 The higher cap of $35,000 applies if the individual is aged 59 years or over on 30 June 2013.

48 The higher cap of $35,000 applies if the individual is aged 49 years or over at the end of the preceding income year.

49 See related article headed 'Introduction of a new lifetime cap for non-concessional superannuation contributions'. The new lifetime cap of $500,000 will commence at 7.30 pm on 3 May 2016, but will take into account non-concessional contributions made on or after 1 July 2007.

2016-17 Federal Budget - Introduction of a lifetime cap for non-concessional superannuation contributions

KEY POINTS
▪ The Government will introduce a lifetime cap of $500,000 for non-concessional contributions into superannuation funds.
▪ The new lifetime cap will apply from 7.30 pm on 3 May 2016 and will be indexed to weekly ordinary time earnings.
▪ The cap will take into account all non-concessional contributions made on or after 1 July 2007, however any contributions made before the commencement date (7.30 pm on 3 May 2016) cannot result in an excess.
▪ Excess contributions made after the commencement date must be removed from the superannuation fund or they will be subject to penalty tax.

START DATE

7.30 pm on 3 May 2016

Announcement

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will introduce a lifetime cap of $500,000 for non-concessional contributions into superannuation funds. This will replace the existing annual caps for non-concessional contributions.[50]

The lifetime cap will commence at 7.30 pm on 3 May 2016, and will take into account any non-concessional contributions made on or after 1 July 2007, from which time the ATO has maintained reliable records.

Although any contributions that were made between 1 July 2007 and 7.30 pm on 3 May 2016 will not result in excess non-concessional contributions as a result of this change, they will count towards determining whether the lifetime cap has been used.[51] Excess contributions that are made after the commencement of this measure will need to be removed from the superannuation fund or they will be subject to penalty rates of tax.

Defined benefits accounts and constitutionally protected funds

The cap will also have implications for after-tax contributions made into defined benefits accounts and constitutionally protected funds. In these instances, the contributions will be included in an individual's lifetime non-concessional cap, and if a member of a defined benefit fund exceeds their lifetime non-concessional cap, contributions can continue.

However, the member will be required to remove an equivalent amount (including proxy earnings) from any accumulation account they hold on an annual basis, limited to the amount of non-concessional contributions made into those accounts since 1 July 2007. Contributions to the defined benefit account will not need to be removed.

Source: Budget Paper No. 2 page 27; and
Treasurer's Media Release: A More Sustainable Superannuation System

[50] The annual cap for the 2015–16 income year is $180,000, or $540,000 under the 'bring forward rule' in ss. 292-85(3) and (4) of the *ITAA 1997.* This amount is three times the non-concessional cap of the first year.

[51] For example, if the total of the non-concessional contributions that were made between 1 July 2007 and 7.30 pm on 3 May 2016 exceeds the $500,000 lifetime cap, this will not result in an excess non-concessional contribution. However, it will result in the lifetime cap having been met, so any additional contributions made after the commencement date would be considered excess and dealt with accordingly.

Tax Administration

Administration Issues

General

▶ 2016-17 Federal Budget - Better protecting tax whistleblowers

KEY POINTS
▪ The Government will introduce, with effect from 1 July 2018, new measures to better protect individuals (including employees, former employees and advisers) who disclose information to the ATO about tax avoidance and other tax issues.

START DATE
1 July 2018

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will introduce new arrangements to better protect individuals who disclose information to the ATO on behaviour concerning tax avoidance and other tax issues.

Under these proposed measures, individuals — including employees, former employees and advisers — who disclose information to the ATO will be better protected under the law.

Source: Budget Paper No. 2 page 32; and
Treasurer's Media Release: A Tax Plan For Australia's Future

Other Federal Taxes

Federal - Announcements and Developments

2016 Announcements and Developments

2016-17 Federal Budget - Diplomatic, consular and international organisation concessions

KEY POINTS
▪ The Government will grant or extend access to refunds of indirect tax (including GST, fuel and alcohol taxes) under the Indirect Tax Concession Scheme to: ▪ the diplomatic and consular representation of Cyprus, Estonia and Finland; and ▪ the Organisation for the Prohibition of Chemical Weapons and its officers and representatives in Australia.

START DATE

Time specified by the Minister of Foreign Affairs

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will grant or extend access to refunds of indirect tax (including for GST, fuel and alcohol taxes) under the Indirect Tax Concession Scheme to:

- the diplomatic and consular representation of Cyprus, Estonia and Finland; and
- the Organisation for the Prohibition of Chemical Weapons and its officers and representatives in Australia.

Source: Budget Paper No. 2 page 20

2016-17 Federal Budget - Tobacco excise to increase

KEY POINTS
▪ The Government announced that it will increase tobacco excise and excise equivalent customs duties through four annual increases of 12.5 per cent per year from 2017 until 2020.

START DATE

1 September 2017 to 1 September 2020

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer, Scott Morrison, announced that the Government will increase tobacco excise and excise equivalent customs duties through four annual increases of 12.5 per cent per year from 2017 until 2020.

The increases will take place on 1 September each year and will be in addition to existing indexation to average weekly ordinary time earnings.

Source: Budget Paper No. 2 page 16

2016-17 Federal Budget - Wine equalisation tax rebate integrity

KEY POINTS
■ The wine equalisation tax producer rebate cap will be reduced: ■ from $500,000 to $350,000 on 1 July 2017; and ■ to $290,000 on 1 July 2018. ■ Tightened eligibility criteria for the rebate will apply from 1 July 2019.

START DATE
1 July 2017

Background

WET is a once-off tax imposed by the *A New Tax System (Wine Equalisation Tax) Act 1999* on the value of wine. It is designed to tax the last wholesale sale of wine in Australia. Certain transactions are exempt from WET, e.g. where the buyer quotes their ABN to the seller (typically where there has been an earlier wholesale transaction).

Wine producers may currently be entitled to a rebate of the WET amount paid on a wine dealing — or the amount that would have been paid had the buyer not quoted — up to a maximum of $500,000 each financial year.

Announcement

On 3 May 2016, as part of the 2016–17 Federal Budget, the Assistant Treasurer, Kelly O'Dwyer, announced that the Government will amend the law to address integrity concerns with the wine equalisation tax (WET) rebate by reducing the rebate cap and tightening eligiblity criteria.

The Government will reduce the WET rebate cap:

- from $500,000 to $350,000 on 1 July 2017; and
- to $290,000 on 1 July 2018.

The Government will also introduce additional integrity measures. The associated producer provisions will be amended to help deter artificial business structuring and multiple rebate claims.

Eligibility criteria for the rebate will also be tightened from 1 July 2019. Under the tightened criteria, a wine producer will be required to own a winery or have a long-term lease over a winery and sell packaged, branded wine domestically. The final details, including the definition of a winery, will be resolved through further consultation.

Source: Budget Paper No. 2 page 43
Assistant Treasurer's Media Release: WET rebate – Improving Integrity And Growing Exports