Budget 2017

Lifestyle

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On Tuesday the 9th of May 2017, the Federal Government handed down the 2017 Budget. Unlike last year, the Budget left superannuation largely alone – other than a couple of interesting and welcome initiatives relating to retiree downsizers being able to contribute sale proceeds to superannuation and first home buyers being able to use superannuation to assist in saving for a home.

Despite the changes above, the big focus for most of our clients will be the many previously announced changes to superannuation laws that will commence from July 2017. In recognition of this, we have revisited these changes at the end of this summary.

Announcements in the 2017 Budget that may impact our clients are as follows:

Superannuation - Contributing proceeds from sale of home

Effective 1 July 2018

Individuals aged 65 and over will be able to contribute up to $300,000 into superannuation from the proceeds of the sale of their principal place of residence. This measure will apply to a principal place of residence held for a minimum of 10 years.

These contributions will be treated as non-concessional contributions and will be in addition to any other voluntary contributions that people are able to make under the existing contribution rules and concessional and non-concessional caps.

The existing contribution restrictions for people over age 65 and the restrictions on making non-concessional contributions where a person's total superannuation balance is over $1.6 million will not apply. However, these contributions will not be exempt from the transfer balance cap and will only be able to be used to commence a retirement phase pension where the member has remaining transfer balance cap space. The amount contributed will also be fully assessable under the Age Pension assets test.

Comment:

While this proposal could allow an eligible couple to contribute up to an additional $600,000 to superannuation over and above their existing concessional and non-concessional caps, it is likely to be more attractive for clients who are income tested or who are not receiving a means tested pension

Superannuation - First Home Saver Scheme

Effective 1 July 2017

Individuals will be able to make voluntary superannuation contributions that exceed the superannuation guarantee by up to $15,000 per year, up to a total of $30,000, to purchase their first home. These voluntary contributions, which will be taxed at 15%, along with deemed earnings, can be withdrawn for a deposit on a person’s first home. Withdrawals will be taxed at marginal tax rates less a 30% tax offset and will be allowed from 1 July 2018.

First home savers will be able to salary sacrifice an amount from their pre-tax income directly into superannuation. Individuals who are self-employed or whose employers do not offer salary sacrifice will be able to claim a tax deduction on personal contributions. However, any pre-tax contributions made under these rules must be within the concessional cap.

First home savers will also be able to make non-concessional contributions under this scheme. However, these contributions will not be taxed when they are withdrawn.

The amount of deemed earnings that can be released under these rules will be calculated based on the 90 day Bank Bill rate plus 3% - currently equivalent to a deemed rate of return of 4.77%.

The Government has also confirmed that while the concessional part of a release amount will be included in a person's taxable income, it will not flow through to other income tests used for other purposes, such as for calculation of HECS/HELP repayments, family tax benefit or child care benefit.

Comment

While the tax concessions available on contributions made under the First Home Saver Scheme may allow a first home buyer to save a larger deposit, many first home buyers may be unwilling to use the scheme as their additional contributions cannot be accessed until retirement if they don’t end up buying a home.

It should also be noted that a person using the scheme will not be able to invest for growth to try and maximise their deposit, as the release amount will be calculated using a deemed rate of return.

Taxation - Medicare levy increase

Effective 1 July 2019

The Medicare levy will be increased from 2% to 2.5% of taxable income. The Medicare levy low-income thresholds for singles, families and seniors and pensioners will increase from the 2016/17 financial year.

Comment

While the Medicare levy will be increasing, the Budget Repair Levy (2% of income over $180,000) will cease as planned from July 2017.

Social Security - Pensioner Concession Card reinstatement

Effective 1 July 2017

Pensioners who lost their entitlement to the Pensioner Concession Card due to the assets test changes on 1 January 2017 will have their card reinstated.

The Pensioner Concession Card will be reinstated to about 92,300 former pension recipients and will provide access to discounts and concessions offered by states, territories and private providers.

The card will be automatically reissued over time with an ongoing income and assets test exemption.

Comment

Those who lost their entitlement to the Age Pension on 1 January 2017 due to the asset test changes were issued with both a Health Care Card and a Commonwealth Seniors Health Card. However, these cards provided access to a reduced number of concessions compared to the Pensioner Concession Card.

Clients who have their Pensioner Concession Card reinstated will gain access to a wider range of concessions such as subsidised hearing services. They will also retain the Commonwealth Seniors Health Card which will ensure they continue to receive the Energy Supplement.

December 2016 superannuation changes

Concessional contribution cap reduced to $25,000

Effective 1 July 2017

The concessional contributions cap will reduce to $25,000 per annum for everyone regardless of age from 1 July 2017. Currently the concessional contributions cap is $30,000 for clients under age 49 and $35,000 for ages 49 and over, as at 30 June 2016.

Catch-up concessional contributions

Effective 1 July 2018

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 2018. Access to unused cap amounts will be limited to individuals with a superannuation balance less than $500,000.

Non-concessional contribution cap reduced to $100,000

Effective 1 July 2017

From 1 July 2017 the annual non-concessional contribution cap will be reduced from $180,000 to $100,000 for clients with a total superannuation balance of less than $1.6 million. Where a client's total superannuation balance is $1.6m or more, their non-concessional contribution cap will be reduced to nil (see next page for more information on the $1.6 million rule).

The bring-forward rule, which allows clients to bring forward two future years of non-concessional contributions, will be retained for those under age 65. Therefore, taking into account the reduction in the non-concessional cap to $100,000 in 2017–18, clients will be able to make non-concessional contributions of up to $300,000 (previously $540,000) in one year using the bring forward rule depending on their total superannuation balance.

Introduce 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 a maximum of $1.6 million. Where an individual accumulates amounts in excess of $1.6 million, they will be able to maintain the excess in accumulation phase (where earnings will be taxed at the concessional rate of 15%). The cap will be indexed in $100,000 increments in line with the consumer price index. A proportionate method which measures the percentage of the cap previously utilised will determine how much cap an individual has available at any point in time.

For example, if an individual has previously used up 75% of their cap they will have access to 25% of the current (indexed) cap. Subsequent fluctuations in retirement accounts due to earnings growth or pension payments will not be considered when calculating the remaining cap.

Existing pension balances

Members already in pension phase as at 1 July 2017 with balances in excess of $1.6 million will need to either:

• transfer the excess back into an accumulation account; or

• withdraw the excess amount.

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

Transitional Rule: Where a client breaches their transfer balance cap on 30 June 2017 by less than $100,000, the excess amount will be disregarded for a period of six months.

Additional 15% contributions tax: threshold reduces to $250,000

Effective 1 July 2017

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.

Transition to retirement pensions: removal of earnings tax exemption

Effective 1 July 2017

The tax exempt status of income from assets supporting transition to retirement (TTR) income streams will be removed from 1 July 2017. Earnings will then be taxed at 15% like any other super fund. This change applies irrespective of when the TTR income stream commenced, i.e. no grandfathering applies.

Increased access to spouse superannuation tax offset

Effective 1 July 2017

The income threshold for the spouse superannuation tax offset is increasing from $10,800 to $37,000.

A contributing spouse will be eligible for an 18% offset worth up to $540 for contributions made to an eligible spouse's superannuation account.

Extend deductions for personal contributions

Effective 1 July 2017

Anyone eligible to make a personal superannuation contribution will be able to claim an income tax deduction for these personal superannuation contributions up to their concessional cap. This effectively allows all individuals, regardless of their employment circumstances, to claim a deduction for their personal contributions up to the value of the concessional cap.

To access the tax deduction, individuals will need to lodge a **notice of their intention to claim the deduction** with their superannuation fund or retirement savings provider prior to lodging their tax return.

Tax & Age Pension

Personal income tax reduction

Effective 1 July 2016

Taxable Income	Tax Payable *
$0 - $18,200	0%
$18,201 - $37,000	19% over $18,200
$37,001 - $87,000	$3,572 + 32.5% over $37,000
$87,000 - $180,000	$19,822 + 37% over $87,000
$180,000+	$54,232 + 45% over $180,000

Note: The Temporary Budget Repair Levy has not been extended beyond June 2017.

Age Pension - Increase in Assets Test thresholds

From 1 January 2017, the Assets Test thresholds changed to:

	Lower Threshold for Full Pension	Upper Threshold for Part Pension
Single, homeowner	$250,000	$547,000
Single, non-homeowner	$450,000	$747,000
Couple, homeowner	$375,000	$823,000
Couple, non-homeowner	$575,000	$1,023,000

Lifestyle

A 24/809 Pacific Highway Chatswood NSW 2067
E contact@yourlifestyle.com.au **W** yourlifestyle.com.au **T** 1300 349 188