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The sky's the limit

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2016 Changes / Key Announcements

Below is a summary of the changes to be aware of and announcements that will potentially affect you for the year ending 30th June 2016 or will come into effect as of 1st July 2016.

1. Personal Income Tax Rates

2015/2016 Financial Year

Taxable Income	Tax Rate %
$0 - $18,200	0%
$18,201 - $37,000	19%
$37,001 - $80,000	32.5%
$80,001 – $180,000	37%
$180,001 plus	47%

(plus 2% Medicare levy where applicable)
*This includes the 2% budget repair levy where the taxable income exceeds $180,000

2016/2017 Financial Year

Taxable Income	Tax Rate %
$0 - $18,200	0%
$18,201 - $37,000	19%
$37,001 - $87,000	32.5%
$87,001 – $180,000	37%
$180,001 plus	47%

(plus 2% Medicare levy where applicable)
*This includes the 2% budget repair levy where the taxable income exceeds $180,000

Note: The low income offset is $445. This offset will reduce by 1.5 cents for every $1 of taxable income over $37,000. It phases out when the taxable income is $66,667

2. Medicare Levy – Low Income Threshold

For the 2015/2016 income year, Medicare Levy will be incurred when the incomes are above:

- Individuals $21,335
- Families $36,001

Plus $3,306 for each dependent child.

3. Motor Vehicle – Statutory Formula

A) FBT for Business

The Statutory Formula method to calculate the taxable value of the private use (Fringe Benefit) of a vehicle is a flat 20% statutory rate of the cost of the car. It is no longer based on kms travelled per year.

Important Note: the importance of keeping a vehicle logbook has increased!!

B) Cents per KM for Individuals

The Motor Vehicle Statutory Formula claim for the cents per kilometre for individuals has changed for 30th June 2016 financial year and beyond to 66 cents per kilometre. There is only one single rate for all engine sizes. Individuals will only be able to claim cents per kilometre method or logbook method. You can no longer claim 12% of original value method or one third of actual expenses method from 1st July 2015.

4. Superannuation Contributions (concessional)

The maximum amount that taxpayers can contribute into superannuation as concessional contributions are:

Year ending 30th June 2016		Year ending 30th June 2017	
Age under 49	$30,000 max	Age under 49	$30,000 max
Age 49 and above	$35,000 max	Age 49 and above	$35,000 max

It is proposed that from 1st July 2017, the concessional superannuation annual cap will be $25,000 for all ages.

Important Notes:

- From 1st July 2017, it is proposed that the government will remove the requirement that an individual aged 65 to 74 must meet the "work test" to make concessional contributions to superannuation
- From 1st July 2017, it is proposed that all individuals under the age of 75 to claim an income tax deduction for personal superannuation contributions. There will be no more 10% test to claim a tax deduction for personal contributions. Therefore, partially self-employed and partially employed (wages) and individuals whose employers do not offer salary sacrifice arrangements will benefit from proposed changes
- From 1st July 2017, it is proposed that individuals with a superannuation balance of less than $500,000 can make additional concessional contributions if they have not used all their cap in the previous 5 years, on a rolling basis on unused amounts accrued from 1st July 2017.

5. Superannuation Contributions (non-concessional)

The non-concessional contribution cap (contributions for which you do not claim an income tax deduction) is:

2015 – 2016 Income Year	$180,000
2016 - 2017 Income Year	$180,000

People aged under 65 years may be able to make lump sum non-concessional contributions of up to three times their non-concessional cap over a 3 year period (lump sum $540,000)

Important Notes:

- It is proposed that the government will introduce a $500,000 lifetime non-concessional contribution cap. If an individual has exceeded the cap prior to 3rd May 2016, they will have taken to have used up their life-time cap but will not be required to take the excess out of super.
- If after commencements (3rd May 2016) an individual makes non-concessional contributions that cause them to exceed the cap, they will be notified and must withdraw the excess from their fund to avoid penalty tax.

6. Superannuation Changes

A. From 1st July 2017, the government will remove the tax exemption on earnings of assets supporting Transition to Retirement income streams, being income streams of individuals over preservation age but not retired. The earnings will be taxed at 15% and the change is proposed to apply irrespective of when the Transition to Retirement commenced.

B. From 1st July 2017, it is proposed that the government will introduce a $1.6million superannuation transfer balance cap on the total amount of accumulated superannuation an individual can transfer into pension phase. Under the proposed changes:
   - Subsequent earnings on this pension balance will not be restricted
   - The superannuation transfer balance cap will index in $100,000 increments
   - If an individual accumulates amounts in excess of $1.6million they will be able to maintain this excess amount in accumulation phase account (where earnings will be taxed at the concessional rate of 15%)

Important: fund members in pension phase with balances above $1.6million will be required to reduce this balance to $1.6million by 1st July 2017.

C. From 1st July 2017, the low income spouse superannuation tax offset income threshold for low income spouses will increase to $37,000 (from $10,800). The offset will phase out when income reaches $40,000. The low income spouse offset provides up to $540 per annum when $3,000 is contributed into your spouse's superfund.

7. **Net Medical Expense Rebate**

For 30th June 2016 financial year, you can only claim net medical expenses offset on aged care, disability aids and attendant care expenses. There is no more rebate on other net medical expenses for 2016 or future years.

8. **Minors (Children under 18 years)**

Families distributing money to children from Family Trust's will need to be aware that they can only distribute $416 tax free for 30th June 2016 year.

9. **Additional Tax on Superannuation Contributions – High Income Earners**

In the 30th June 2016 year, Individuals with income greater than $300,000 will have their super contributions taxed at 30% and not 15% (this has been in place since 1st July 2012). From 1st July 2017, the threshold will be decreased to $250,000.

Note:

- Income is taxable income plus reportable fringe benefits, reportable superannuation contributions and any total net investment loss
- Super contributions include super guarantee and salary sacrifice
- The tax is payable by the individual client not the superfund

10. **Superannuation Guarantee**

From the 1st July 2016, the SG rate will stay at to 9.5 per cent. This will remain until 2021 and then increases will be by 0.5 per cent each financial year until 12 per cent is reached. The proposed future increases each year are:

Financial Year	Minimum Superannuation Guarantee Rate
2015/16	9.50%
2016/17	9.50%
2017/18	9.50%
2018/19	9.50%
2019/20	9.50%
2020/21	10.00%
2021/22	10.50%
2022/23	11.00%
2023/24	11.50%
2024/25	12.00%

11. Restart Incentive for Seniors

The mature Age Worker Tax Offset (MAWTO) was abolished from 1st July 2014. The MAWTO was replaced by the expanded seniors' employment incentive payment called Restart.

From 1st July 2014, a payment of up to $10,000 will be available to employers who hire a mature age job seeker, aged 50 years or over, who has been receiving income support for at least 6 months.

Specifically, eligible employers will receive $3,000 if employed for 12 months. Further $2,000 payments will be made after 18 months and 24 months fulltime employment (maximum is therefore $10,000).

12. Changes To Family Trusts And Income Resolutions

Trustees must ensure that trust income is distributed by an income distribution resolution/minute by the 30th June 2016. These resolutions must show what trust income each beneficiary is entitled to, and the streaming of franked dividends and capital gains if applicable.

Trusts with older deeds should have these reviewed to ensure the definition of income complies with current legal definitions in the tax act and that the deed allows for streaming of capital gains and franked dividends. The trust deed must also state all required beneficiaries.

13. Changes To Private Health Insurance Rebate And Medicare Levy Surcharge

The private health insurance rebate is now income tested and the Medicare levy surcharge will be increased based on your income if there is no appropriate private hospital cover for the year. The following table summarises the changes to the private health insurance (PHI) rebate and the Medicare levy surcharge based on the income levels from the 1st April 2016 (the rebate % has decreased from last year):

Income Level	PHI Rebate			Medicare Levy Surcharge
	Below Age 65	Age 65 to 69	Age 70+	
Singles $0 - $90,000 **Couples/Families** $0 - $180,000	26.79%	31.26%	35.72%	Nil
Singles $90,001- $105,000 **Couples/Families** $180,001 -$210,000	17.86%	22.33%	26.79%	1%
Singles $105,001 - $140,000 **Couples/Families** $210,001 - $280,000	8.93%	13.39%	17.86%	1.25%
Singles $140,001+ **Couples/Families** $280,001+	0%	0%	0%	1.50%

(For families with more than one dependent child, the relevant threshold is increased by $1,500 for each child after the first)

14. Change To Depreciation

Small businesses with aggregate annual turnover of less than $2 million can immediately deduct assets they start to use or install ready for use, provided the asset costs less than $20,000 (GST excl). This will apply for assets acquired and installed ready for use until 30 June 2017. Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed in the small business simplified depreciation pool (‘the pool’) and depreciated at 15% in the first income year and 30% each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools). From 1st July 2016, it is proposed that the small business entity turnover threshold will increase from $2million to $10million. This will allow businesses with a turnover of less than $10million to access the $20,000 immediate write-off on assets purchased until 30th June 2017.

Note: this is for small business entities, not employees or rental properties

15. Increase Small Business Entity Turnover Threshold

From 1st July 2016, it is proposed that the Small Business Entity (SBE) turnover threshold will increase from $2million to $10million. This will allow businesses (with turnover less than $10million) to access:

- Lower (27.5%) corporate tax rate
- Simplified depreciation rules (including immediate deduction for an asset purchased costing less than $20,000 until 30th June 2017)
- Simplified trading stock rules if their stock has changed by less than $5,000
- Option to account for GST on cash basis

Note: the current $2million turnover threshold will be retained for small business capital gains tax concessions.

16. Dependent (Invalid & Carer) Tax Offset

The Dependent (Invalid & Carer) tax offset will be available to taxpayers who maintain a dependant who is unable to work due to invalidity or care obligations. Conditions that need to be met:

1. Taxpayer must contribute to maintenance of eligible dependent (i.e. spouse, parent, child, brother/sister)
2. Must be Australian resident for tax purposes
3. Taxpayers or their spouse must not be entitled to Family Tax Benefit Part B

17. Higher Education Loan Programme ("HELP") & Trade Support Loan (TSL) – repayment thresholds

For 2016/2017 the threshold and repayment rate to pay back debt is:

Repayment Income	Repayment Rate
Below $54,869	Nil
$54,869 - $61,119	4.0%
$61,120 - $67,368	4.5%
$67,369 - $70,909	5.0%
$70,910- $76,222	5.5%
$76,223 - $82,550	6.0%
$82,551 - $86,894	6.5%
$86,895 - $95,626	7.0%
$95,627 - $101,899	7.5%
$101,900 and above	8.0%

Australians who have a HELP or TSL and are residing overseas, will be required to make repayments against their debt from 1st July 2017 based on their 2016/2017 worldwide income. Overseas debtors are required to update their contact details via MyGov within 7 days of leaving Australia.

18. <u>Small Business Income Tax Offset (SBITO)</u>

For the 30th June 2016 financial year, individuals will receive a 5% tax discount as a non-refundable tax offset on business income. This includes Sole Traders, Partners in Partnership and Trust Distributions where the entity carries on a business. The entity must be a small business entity with a turnover of under $2million. The tax discount will be capped at $1,000 per individual for each income year. From 1st July 2016 it is proposed the discount will be increased to 8% for individuals in receipt of income from unincorporated small business entities. The access to the discount will be extended to businesses with aggregated annual turnover of less than $5million.

19. <u>Reducing the Company Tax Rate</u>

For the 30th June 2016 financial year, the company tax rate is 28.5% (reduction of 1.5%) for companies with aggregated annual turnover of less than $2million. Companies with aggregated turnover of $2million or above will continue paying tax at 30% on all their taxable income. From 1st July 2016, it is proposed the company tax rate will be cut to 27.5% for small businesses. The annual aggregated turnover will also be increased to turnover of less than $10million.

Note: the current maximum franking credit rate for distribution will remain at 30% for all companies.

20. <u>Zone Offset Change</u>

From 1st July 2015, all FIFO (Fly In, Fly Out) and DIDO (Drive In, Drive Out) workers will not be able to claim the zone rebate for the zone they work in. The zone rebate entitlement will only relate to the zone of their normal place of residence. Taxpayers who actually reside in a zone can continue to claim the zone rebate.

21. <u>Superstream Requirements for Employers and SMSFs</u>

Employers must make Superannuation contributions on behalf of employees by submitting payments and data electronically. Superannuation Funds (including SMSFs) must receive contributions from employers (that are not related parties of the SMSF) electronically. The start date for Superstream is 1st July 2016.

Businesses need to setup a service provider/clearing house to arrange the Superstream compliance. SMSFs need to obtain an electronic service address and this is setup through a messaging provider. If you require help setting this up, please contact us.

22. <u>Reducing Claim Period for Family Assistance Lump Sum Claims</u>

Families that choose to wait until the end of the financial year to claim their FTB entitlement or child care benefit will have a grace period of one year. Therefore, all 2015 tax returns must be lodged by 30th June 2016 and 2016 tax returns must be lodged by 30th June 2017.

Reminder of Things to Consider Before 30th June

- Consider making the $1,000 personal contribution to qualify for the super co-contribution before the 30th June if your taxable income will be below the thresholds.
- Ensure your 3 month logbooks have been kept.
- Make sure you have receipts for your tax deductions.
- Review the need to sell capital assets to obtain any capital losses if you have made any capital gains during the year.
- Obtain/prepare a summary of child support paid during the year if you are paying child support or child support you may have received, if you are receiving.
- Businesses:
  - Make sure you have odometer readings for all work vehicles.
  - Super must be paid for staff by the 28th July. However to get the deduction in the 2015/2016 year it must be paid before the 30th June (or received by Superfund if paid by transfer).
  - PAYG Summaries must be issued to all staff by the 14th July.
  - Trust Resolutions/Minutes for all trusts must be prepared and signed before 30th June 2016.
  - Businesses in the building and construction industry must lodge their payment annual reports for payments made to contractors during the year by 28th August 2016.
- Individuals:
  - Home office claim – ensure you have a 4 week diary recording hours worked from home for work. Must be kept to claim home office deduction.
  - Internet claim – ensure you have kept a 4 week diary recording internet usage (hours used for work/hours used personally) to support your work internet claim. This must be kept to claim home internet as a work deduction.