STRATEGIC PROSPERITY GROUP
FINANCIAL PLANNING SPECIALISTS

Federal Budget Analysis 2016-2017

Blueprint for an election

Treasurer Scott Morrison promised it would be no ordinary budget but instead an 'economic plan for jobs and growth'.

With the federal election to be called as early as this week, the focus has shifted from an earlier emphasis on debt and deficit under Prime Minister Tony Abbott to a more upbeat message promising a new era of nation-building under new Prime Minister Malcolm Turnbull.

Increased infrastructure spending and tax cuts for small to medium enterprises are positioned as the main drivers of growth and jobs.

Personal tax cuts have been restricted to higher wage earners but, in a bid to ward off criticism of a lack of fairness that tarnished the Coalition's first budget, high income earners face a significant winding back of superannuation tax concessions.

The Big Picture

The Reserve Bank's decision to cut the official cash rate by 25 basis points to a new low of 1.75 per cent on budget day underlines the work that still needs to be done in Australia's transition from the mining boom to a broader-based economy.

Although the economy is projected to grow by 2.5 per cent in 2015-16, a fall in the annual rate of inflation to 1.3 per cent in the March quarter suggests further stimulus is needed.

The budget deficit is forecast to rise to $37.1 billion in 2015-16 and the Treasurer said the budget is expected to remain in deficit until 2020-21. Net debt is expected to reach $326 billion this financial year, or 18.9 per cent of GDP.

Despite a bounce in prices for iron ore and coking coal in 2016, government revenues have been hit by the higher Aussie dollar and sluggish wages growth. Unemployment is expected to ease to 5.5 per cent this year and wages to rise by 2.5 per cent, barely ahead of inflation at 2 per cent.

Nation building

As part of its drive to promote jobs and growth, the government will spend $50 billion on infrastructure projects. This includes funding for a series of road and rail projects, including Metro rail projects in Melbourne and Sydney and motorways in Queensland.

The proposed Brisbane to Melbourne inland rail link has received $594 million for land acquisition and preliminary work. Regional Australia will also benefit from a $2 billion water program to invest in new dams and pipelines.

Tax relief for individuals

As expected, the Treasurer has confirmed a tax cut for people earning over $80,000. To prevent workers on $80,000 moving from the 32.5 per cent tax scale to 37 per cent through “bracket creep” as their wages rise, the 37 per cent threshold will be increased to $87,000.

The government estimates this will save 500,000 taxpayers moving into the second highest tax band and cost $3.95 billion over four years.

The Budget Repair Levy on people earning over $180,000 a year will end as scheduled on June 30, 2017.

Changes to superannuation

The Coalition came to power pledging not to tinker with superannuation during its first term of office, but politics has forced its hand with changes aimed at reducing concessions for high income earners.

From July 1, 2017, there will be a $1.6 million cap on the amount that can be transferred from a super accumulation account into a retirement account, where earnings are tax-free.

There are also new limits on the amount of voluntary, after-tax contributions people can make. Effective immediately is a new lifetime cap, set at $500,000, on non-concessional (after-tax) contributions. Up till now there has been no lifetime limit, with an annual limit of $180,000.

Flexibility measures to encourage middle-income earners to save more for a self-funded retirement include allowing workers with super balances under $500,000 who have not already maximised their concessional caps to bring forward up to five years’ worth of contributions on a rolling basis.

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The annual income threshold at which the high-income super contributions tax rate of 30 per cent applies on concessional contributions will be lowered from $300,000 to $250,000. Everyone else will continue to pay the concessional rate of 15 per cent.

The annual cap on concessional contributions will also be lowered to $25,000.

Other changes to make the contribution rules more flexible include allowing all savers under the age of 75 to claim a tax deduction for personal contributions up to the concessional cap. Tax breaks will also be extended for people who top up their low-income spouse's super fund.

As expected, the government has maintained the Low Income Superannuation Contribution (LISC), renaming it the Low Income Superannuation Tax Offset (LITSO). This means workers earning less than $37,000 a year will continue to receive an automatic rebate worth up to $500 annually.

Rules for transition to retirement pensions have also been tightened. Lump sum withdrawals will no longer be allowed and people aged 60-65 will no longer be able to withdraw tax-free earnings.

A boost to business

Following last year's tax cut for small businesses, from July 1 this year their tax rate will be cut further to 27.5 per cent and extended to businesses with a turnover of up to $10 million. The turnover threshold will gradually rise so that by 2020 businesses with a turnover of up to $100 million will receive the 27.5 per cent rate.

By 2024 all businesses will pay a company tax at a rate of 27.5 per cent, compared with the current top rate of 30 per cent. And by 2027 the tax rate for all businesses will reduce to 25 per cent.

Unincorporated small businesses with a turnover of less than $5 million have not been left out, with an increase in the tax discount to 8 per cent.

Last year's $20,000 instant asset write-off for small business has been extended to business with a turnover of up to $10 million until June 2017.

Multinational tax avoidance

To avoid criticism of only cutting taxes for the wealthy and business, the government will spend $2 billion on new measures to crack down on multinational tax avoidance.

Multinational corporations will face a diverted profits tax on income they attempt to shift offshore – the so-called 'Google tax' – at a penalty rate of 40 per cent. This will be policed by a 1000-member ATO task force.

Youth into work

The Treasurer unveiled a new Youth Jobs PaTH at a cost of $752 million. The program will be rolled out in three stages, beginning in April 2017 with intensive pre-employment training. Paid internships and youth wage subsidies for employers will follow.

Health and education

As previously announced, public hospitals will be given a $2.9 billion boost in total spending over three years.

The government has pledged to restore an extra $1.2 billion of the Gonski payments to schools in 2018 and 2019. Universities will still be hit with a 20 per cent funding cut, originally part of a fee deregulation package that has been scrapped.

Looking ahead

Treasurer Scott Morrison has crafted what he called an 'extraordinary' budget to set the scene for the Coalition's re-election campaign.

He has attempted to strike a balance between positive measures to stimulate business investment and employment, while stressing that all spending would be 'practical, targeted and responsible'.

What is out of the ordinary is that the success of this year's budget will be tested at the ballot box within a matter of months.

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