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The good, the bad and the likely: What the Government will – and could – consider in the upcoming Federal Budget

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From IOOF

The 2016 Federal Budget is only a few months away. While tax reform is likely to be on the menu for Budget night, there are also other areas that are likely to be included, such as changes to retirement income streams.

IOOF has foreshadowed what topics are likely to be included in the Budget – and what areas of the economy the Government could reform, particularly:

Helping women back to work

- While the gender pay gap is well known, one area which doesn't receive the same press is the retirement savings gap between men and women
- It's not surprising therefore that the Government is considering incentives to get mothers back into the workforce, with plans to increase the maximum childcare subsidy to $10,000 (up from $7,500)
- IOOF believes another effective way to get mothers back to work is to introduce a tax-offset for secondary income earners

Affordable housing

- With land releases in capital cities having little effect on the housing affordability crisis, the Government may look to more innovative solutions to increase housing supply – particularly for lower income earners
- One option could be for senior Australians living in high demand areas to receive preferential tax and/or Centrelink treatment on proceeds from the sale of their former home
- The Government could also reform tenancy laws to reflect a more European-style system, where stronger protections for renters and long term leases reduce the desire for renters to buy their own homes

Reforms to retirement income streams

- Government changes restricting Centrelink payments – such as the 1 January 2017 asset test changes – will only put more emphasis, and pressure, on retirees to fund their own retirement
- That's why the Government will likely support initiatives aimed at helping retirees more effectively manage their retirement savings

- As per their response to the Financial Systems Inquiry, this support could be in the form of legislating superannuation providers to develop 'Comprehensive Income Product for Retirement' (CIPR) – a new class of products specifically designed to support pensioners in the back end of retirement

Superannuation changes

- It seems almost every other day a new story emerges on how the Government will tinker with superannuation to reign in its generosity to high income earners
- Another possible area for super reform being touted has been adjusting the tax on super to 15 per cent below an individual's marginal tax rate, which would also see those on the highest marginal tax rate of 49% pay 34% tax on their super
- This would bring in to play other investment types such as negative gearing and investments bonds, which have lower effective tax rates without the undesirable aspect of super – that is, money is locked away till preservation age, usually retirement

Whatever changes are proposed in the next months, there is little doubt that bold economic reform will be necessary eventually. The government should take the initiative to make innovative changes to help Australians save more for their retirement by making housing more affordable, and by helping women increase their workforce participation.

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