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Federal Budget 2016-17 – A review of the changes

Posted by [Josh Rundmann](#) May 6, 2016

Written by Josh Rundmann, [IOOF Technical Services Manager](#). Josh has been working in the Financial Services industry since 2007 in Paraplanning and Advisory Support roles. He has a passion for technical strategy particularly around superannuation, social security and insurance planning.



Scott Morrison delivered his first Federal budget this week, outlining the Coalition's economic plan and providing an economic policy for the upcoming election. The majority of changes relevant to "mums and dads" relate to superannuation and small business, although there was some minor changes to personal tax and adjustments to social security – without the level of cuts that has been seen in recent budgets.

Small businesses

Small businesses have been given a reduction in their tax rate, and the definition of small business for the purposes of this reduced tax will scale up over the next seven years, after which all corporations will be subject to the lower rate of 27.5%. From here, the budget proposes to reduce the corporate tax rate to 25% by 2026/27 for all businesses.

Superannuation

Super has received an overhaul, largely slated to start 1 July 2017, aiming to re-direct generous concessions for the wealthy to lower income earners. Persons earning over \$250,000 will be subject to an additional 15% tax on their before-tax super contributions, and before-tax contributions are now capped at \$25,000 (down from a maximum of \$35,000 for older Australians). After-tax contributions are now subject to a lifetime cap of \$500,000 which will be effective from the budget announcement, assuming it passes into law.

The budget also introduces a limit as to how much of your super can be rolled into an Account Based Pension, by introducing a \$1.6m "transfer" cap – stopping those with larger super balances from being able to invest all their wealth in the tax-free pension

environment (although the balance can still be held in the 15% tax-capped super environment).

The savings from the above changes have been used to re-introduce the Low Income Superannuation Contribution, although this refund of contributions tax of up to \$500 for those earning less than \$37,000 is now called the Low Income Superannuation Tax Offset. Additionally, any unused before-tax contribution cap can be rolled forward for up to five years for those with balances below \$500,000. These changes are suggested to help women save for their retirement by providing additional flexibility to make catch-up contributions for those who need them and reducing taxes for lower earners.

Some of the older rules with super have been removed, most notably the requirement to be working to make contributions after age 65, and the Anti-detriment Payment which provided a tax concession on super payments made on death.

Tax

In a move stated to help combat bracket creep, the second-highest personal marginal tax bracket will commence at \$87,000 rather than \$80,000, starting next financial year. This creates a saving of up to \$315 for those earning \$87,000 or more each year.

Social security

On the social security front, the major budget announcement was a youth employment package called "PaTH". PaTH is designed to re-vamp the process for getting young people into the workforce by providing practical job skills and increasing their employment opportunities by offering incentives for employers to take internships and offer jobs to young people in the program.

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