Hot from the Budget Lock-up

Overall, there were a lot of significant changes in the area of Superannuation in the 2016-17 Budget.

The issues that may be of most interest to actuaries are detailed below. All of the papers can be found at www.budget.gov.au.

Overall Economy

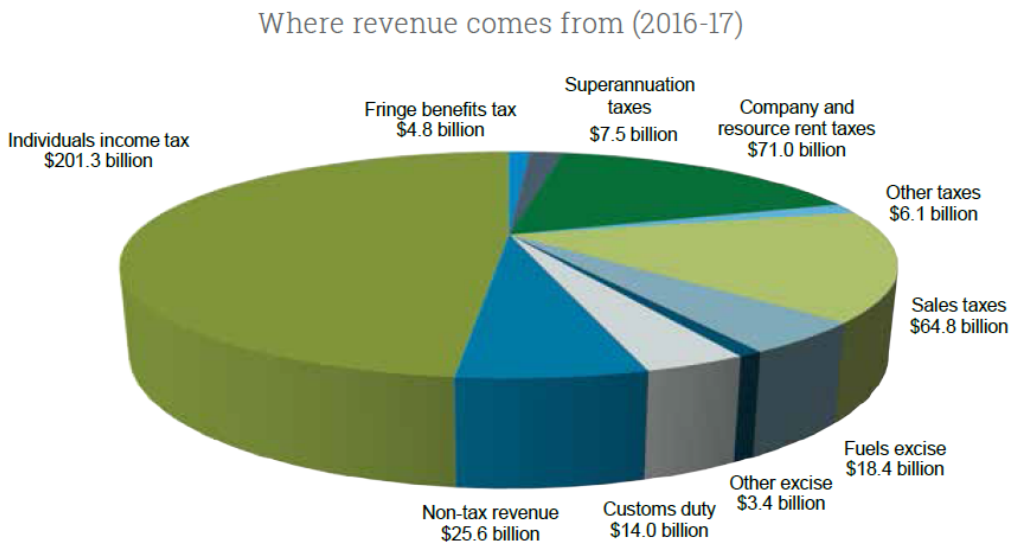
The Australian economy is entering its 26th year of economic expansion. The budget is forecast to return to balance by 2020-21. Below are some forecasts for the major economic parameters, many which continue to be challenging.

- Real GDP is forecast to grow by 2.5% in 2015-16 and 2016-2017 and to pick up to 3% in 2017-18. This is slower than last year's budget forecast of 2.75% in 2015-16, 3.25 % in 2016-17 and 3.5% in 2017-18.
- Consumer Price Index is forecast to grow to 2% in 2016 – 17 from 1.25% in 2015-16 , increasing to 2.25% in 2017-18 and then staying at 2.5% from 2018-19.
- Wage price index is expected to move from 2.25% in 2015-16 to 3.5% in 2019-20.
- The unemployment rate is forecast to reduce from 5.75 % in 2015-16 to 5.5% in 2016-17 and then remaining at the level.

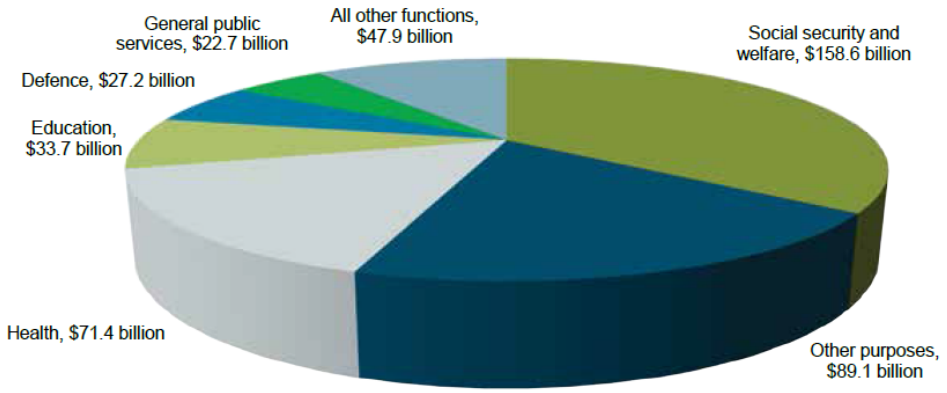
The underlying Budget deficit is expected to be $37.1 billion in 2016-17 (2.2% of GDP), reducing to $6.0 billion (0.3% of GDP) in 2019-20. Last year the Budget deficit was projected to be $35.1 billion in 2015-16 (2.1% of GDP), reducing to $6.9 billion (0.4% of GDP) in 2018-19.

From 1 July this year, the upper limit for the middle income tax bracket of 32.5% will increase from $80,000 to $87,000 per year. These changes will impact 500,000 tax payers and reduce revenue by $3.95 billion over the next four years.

Total revenue for 2016-17 is expected to be $416.9 billion, an increase of 5.2 % on estimated revenue in 2015-16. Total expenses for 2016-17 are expected to be $450.6 billion, an increase of 4.4% on estimated expenses in 2015-16.



Where taxpayers' money is spent (2016-17)

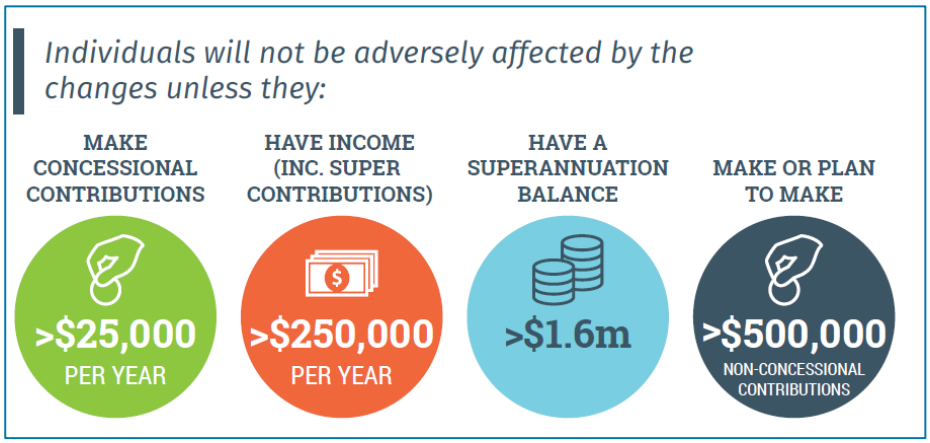


Key Areas of Interest to Actuaries

Superannuation - Simpler and Fairer

Proposed Policy Changes

This Budget has introduced the largest changes to superannuation since the Costello Budget of 2007. The changes adversely impact less than 4% of all members and pensioners.



The proposed superannuation changes all take place from 1 July 2017 unless otherwise stated.

Fiscal Change

The cost savings ($m) from the various superannuation changes are shown in Table 1.

Reform Item	2015-16	2016-17	2017-18	2018-19	2019-20
Catch up concessional contributions	-	-	-	-100	-250
Harmonising rules for ages 65 to 74			-40	-40	-50
Improve low income spouse payments				-5	-5
$1.6m pension cap			550	700	750
Lifetime non-concessional cap		50	100	150	250
LISTO				-600	-700
Remove anti-detriment on death benefits				105	245
Integrity of income streams (TTR)			190	220	230
Tax deductions for personal super			350	600	750
TOTAL		**50**	**1,150**	**1,030**	**1,220**

Objective of Superannuation

The Government has accepted the Financial System Inquiry (FSI) recommendation. The prime objective of superannuation is to provide income in retirement to substitute or supplement the Age Pension. The objective seems to be unchanged despite the recent government consultation with industry.

These tax reforms have been designed to fit in with this objective.

Division 293

From 1 July 2017 the threshold for Division 293 tax will be reduced from $300,000 to $250,000. This threshold is for the total of salary and concessional superannuation contributions combined. Any contributions above the threshold are assessable within the fund at 30% rather than 15%.

This change (which mirrors Labor policy) recognises that those on the top personal marginal tax rates receive a larger tax benefit from payment of concessional contributions.

Concessional Caps

The concessional contribution cap is currently $30,000 a year for individuals who have not yet attained age 49 on 1 July of the financial year. For those who are older, the concessional cap is $35,000. Australians may have concessional contributions up to age 75.

From 1 July 2017, the concessional cap will be a flat $25,000 a year (irrespective of age).

This cap will also be available to self-employed individuals (those earning more than 10% of income from wages). Effectively, there is now no work test for the payment of any contributions.

Catch up on Concessional Contributions

Members who have a superannuation balance less than $500,000 and who do not contribute the full available $25,000 a year of concessional contributions can save the shortfall for up to five years. This will be attractive for women who leave the workforce to raise a family. On return from maternity leave, they can make good the shortfall.

Although many women will still not have the disposable income, the ability to make personal concessional contributions means they can leverage their partner's salary too.

Cap on pension balances

From 1 July 2017, the total balance an individual can transfer into a pension account will be capped at $1,600,000. If a member accumulates more than this in the superannuation system, they can leave the excess amount in their accumulation account or take it as a lump sum payment.

This cap will be indexed to CPI and increased in increments of $100,000.

Where a member has an amount less than $1.6m in a pension, the percentage of the cap will be stored. At a later date, they will be able to make additional contributions up to 100% of whatever the pension cap equals at the time the contribution is made. For example, if a member has $800,000 in their pension account at 1 July 2016, this is 50% of the pension cap. If the cap is increased by indexation to $1.7m through indexation, they will be entitled to transfer 50% of this amount, namely $850,000.

Members with existing pension balance above $1.6m will be required to reduce their balance back to $1.6 million by 1 July 2017. This can be done by:

- Taking a lump sum or
- Moving the money back to their accumulation account.

A balance of $1.6 million can support an income stream in retirement around four times the level of the single Age pension. This applies to both current retirees and to individuals yet to enter the retirement phase.

Transition to Retirement

Transition to retirement (TTR) pensions have been used to generate tax-free earnings for many wealthier working Australians. The benefit has been retained but the earnings on assets held in the TTR pension will now be taxed at the same rate as accumulation funds.

Further, it will no longer be possible to draw tax-free lump sums (up to $195,000 in total) from income stream products.

Lifetime non-concessional cap

At present, individuals are able to contribute up to $180,000 a year as non-concessional (NC) contributions. At any age, they can bring forward three years and make a contribution up to $540,000. These contributions currently cease at age 65 (though it is possible to bring forward 3 years at age 64 making the effective cap in the last year $540,000).

Effective 3 May 2016 (Budget night), there will be a new cap for NC contributions of $500,000 over an individual's lifetime. This cap will include any NC contributions made since 1 July 2007. This change will replace the annual NC cap.

This cap will be indexed to AWOTE and it will be changed in $50,000 increments.

Note that the current rule for converting the proceeds of a sale of small business into superannuation will continue and will be separate to this cap.

Introduce LISTO

The Low Income Superannuation Contribution (LISC) will not be abolished from 2018 FY as currently planned. LISC is a government contribution payment of up to $500 paid into superannuation to help low income earners save for retirement.

From 1 July 2017, the Government will introduce a Low Income Superannuation Tax Offset (LISTO) which will provide a tax offset to superannuation funds in respect of the tax paid on the concessional contributions of low income earners.

The offset will be paid to accounts of members with an annual taxable income under $37,000, up to a cap of $500, to effectively refund the tax paid on concessional contributions.

It is not clear whether the thresholds for LISTO will be indexed.

Defined Benefits

Defined benefits are usually an afterthought. This time changes have been made to bring defined benefits (including constitutionally protected public sector funds) into line with accumulation funds.

Members will be subject to the Division 293 limit ($250,000) for the high income contribution tax.

Defined benefit pensions from unfunded arrangements above $100,000 a year will be capped at full marginal rates. For members of funded defined benefit schemes, 50% of pension amounts above $100,000 will be taxed at the individual's marginal tax rate.

Retirement Income Products

The Government has extended the tax exemption on earnings to products such as deferred annuities and group self-annuitisation products. The Government will review the impact of these products on the Age Pension means test.

Disability Support Pension

Over the next three years, up to 90,000 current Disability Support Pension (DSP) recipients will have their DSP eligibility reviewed to assess their capacity to work. Up to 30,000 of the total reviews will include a Disability Medical Assessment as part of the overall review process for those considered to be a high risk of not being eligible for the payment.

Health

Health represents 14.3% of total expenses. Real growth from 2016-17 to 2019-20 is at 9.7%.

The government will establish a $1.7 billion Child and Adult public dental scheme to ensure dental spending is prioritised to those most in need.

Medicare benefits schedule frozen for three years.

ASIC

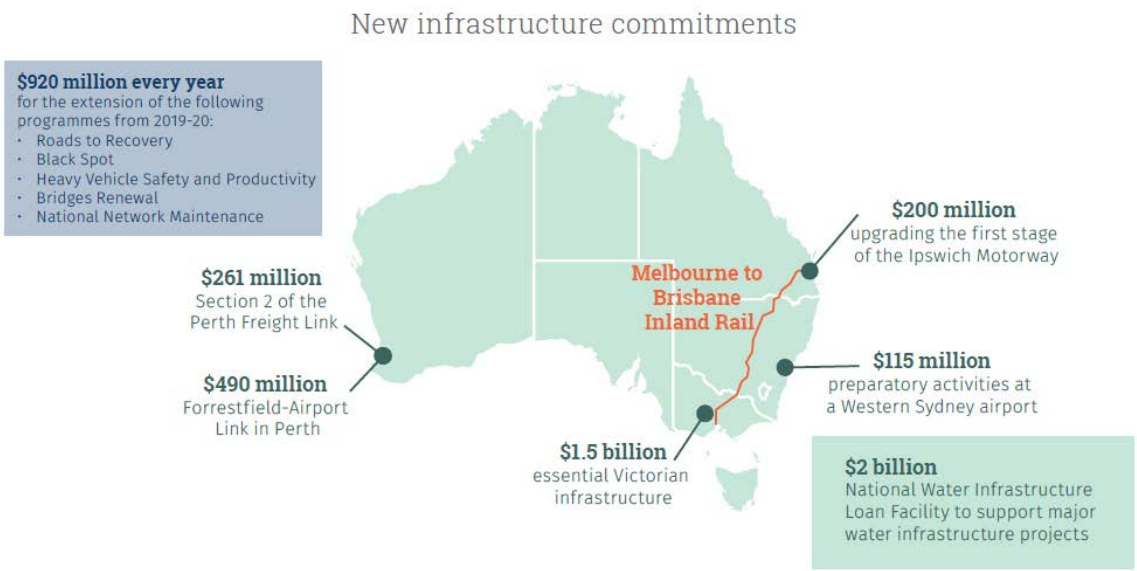
The government will provide $127.2 million over four years to ASIC and $5.9 million over three years from 2016-17 to the Department of Treasury to combat misconduct in Australia's financial services industry and bolster consumer confidence in the sector. The additional funding will support increased surveillance and enforcement activities in areas such as financial advice, responsible lending, life insurance, and breach reporting and enhancements to ASIC's data analytics

National Disability Insurance Scheme

Spending on the NDIS increases substantially over the next four years as the scheme expands to full coverage in 2019-20. In 2019-20 it is estimated that it will cost $21.6 billion or around 1.1 % of GDP. To help meet the future costs of the NDIS the government is establishing an NDIS Savings Fund. They state that "this fund will hold unspent funds from the NDIS as well as the proceeds of savings measures from better targeting welfare spending. These funds can then be reinvested back into delivering the NDIS and contribute to filling the current funding gap that exists."

Investment

The budget continues to roll out $50 billion national infrastructure plan between 2013-14 and 2019-20. The Government are pursuing the next steps in establishing an integrated inland rail link connecting Brisbane and Melbourne. New commitments have been made for the Ipswich Motorway, Monash Freeway, Murray Basin Freight Rail and the Perth Freight Link.



Financial Technology (FinTech)

The government will encourage the exploration of Blockchain technology, including through a study and pilot testing by the CSIRO's Data61. Changes to GST will be introduced to ensure that consumers are no longer double taxed when using digital currencies such as Bitcoin. ASIC will release a consultation paper in coming weeks on a regulatory sandbox exemption to facilitate the testing of new FinTEch products and services.

Other key initiatives

- From 1 July this year the **small business tax rate** will be lowered to 27.5% and the turnover threshold for small business able to access it will be increased from $2 million to $10 million. Access to an immediate tax deduction for equipment purchases of up to $20,000 (expiring on 30 June 2017) will be extended to businesses with a turnover of less than 10 million.

  Access to the lower company tax rate of 27.5% will be extended to businesses with turnover of $25 million in 2017-18 , to $50 million in 2018-19 and $100 million in 2019-20. These measures will reduce revenue by $5.3 billion over the next four years.

- The budget will invest in public private partnerships through the Cyber security strategy.

- The Budget introduces a new Australian Diverted Profits Tax which will impose a 40% penalty rate of tax on multinational corporations that attempts to shift their Australian profits offshore to avoid paying tax.

This general summary has been prepared for information only. Please refer to the Budget papers for details in relation to specific issues.

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