KPMG

# Federal Budget 2016

**Global Mobility Services**

A review of the Budget's major business implications

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# Introduction

On 3 May 2016, the Commonwealth Treasurer delivered the Australian Federal Budget 2016-17. The Budget contains measures related to individuals, some which reduce the personal tax burden for middle income earners while others increase the tax burden on superannuation contributions.

# Why this matters

Changes announced in this Budget impact the amount of tax paid by individuals as well as the interaction between employees and their Superannuation accounts. In general, there is a trend toward limiting the amounts that individuals are able to contribute into concessionally taxed superannuation accounts.

International assignment cost projections and budgeting for assignments to Australia and for assignees outside Australia still subject to Australian taxation should take into account the changes announced in the Budget to the extent they become legislated. With the expansion of the 32.5 percent tax bracket up to $87,000 (from $80,000) to take effect from 1 July 2016, employers will need to make the necessary payroll adjustments and update hypothetical tax calculations for tax equalised assignees.

Below we describe the key measures in the Budget affecting individuals and their employers. (All dollar figures expressed are Australian dollars.)

## Personal income tax: thresholds

Taxable income thresholds for the year commencing 1 July 2016 will change slightly for those earning above $80,000 per annum, with the income threshold at which the 37 percent tax rate commences increasing from $80,000 to $87,000.

### 2016-2017 resident tax rates

| Taxable income ($) | Rate |
|---|---|
| 0 – 18,200 | 0 |
| 18, 201 – 37, 000 | 19c for each dollar over $18,200 |
| 37,001 – 87,000 | $3,572 plus 32.5c for each dollar over $37,000 |
| 87,001 – 180,000 | $19,822 plus 37c for each dollar over $87,000 |
| 180,001+ | $54,232 plus 45c for every dollar over $180,000 |

*Note: Excludes 2.0 percent Medicare Levy. An additional Temporary Budget Repair Levy of 2.0 percent is payable on taxable income above $180,000 until 30 June 2017.*

There were several measures regarding the taxation of superannuation. We have outlined the key measures below:

## Superannuation – Tax on contributions for high income earners (Division 293 tax)

From 1 July 2012, the Australian Government introduced an additional 15 percent tax on concessional superannuation contributions for individuals with an adjusted taxable income of more than $300,000. From 1 July 2017, this additional 15 percent tax will be payable by individuals who earn an adjusted taxable income of more than $250,000.

This measure will mostly affect individuals who remain resident in Australia, and will increase the number of individuals who are affected by the additional 15 percent tax. Employers should consider the impact of these changes on their tax equalization policies, especially where assignment allowances and benefits push an assignee's annual income above the $250,000 threshold.

While this measure will also affect inbound temporary resident assignees in receipt of superannuation contributions in an administrative sense, there should be no overall total increase in tax on their superannuation contributions, as the additional 15 percent tax can be refunded where the assignee received a Departing Australia Superannuation Payment.

## Superannuation – Concessional contributions cap reduced

From 1 July 2017, concessional contributions to superannuation accounts will be capped at $25,000 per annum. Any concessional contributions in excess of the cap will be taxed as taxable income at the marginal rate of tax plus an excess concessional contributions charge. Any salary packaging arrangements regarding superannuation contributions should accordingly be revisited and adjusted to observe the caps as appropriate.

## Superannuation – Non-concessional contributions cap reduced

Prior to the Budget announcements on Tuesday evening, individuals could contribute up to $180,000 per annum (or $540,000 every 3 years for individuals aged under 65) into superannuation as non-concessional contributions (i.e. contributions from after-tax funds). From 7.30pm on 3 May 2016, a lifetime cap of $500,000 will apply to non-concessional contributions to superannuation (which will also take into account all non-concessional contributions made on or after 1 July 2007). This will particularly impact Australians who repatriate from overseas and are looking to also repatriate foreign pensions at the same time.

# Other measures

## Other measures announced include:

- From 1 July 2017, allowing all individuals up to age 75 to claim an income tax deduction for personal superannuation contributions, regardless of their employment circumstances, up to the concessional cap.
- The introduction of a new Low Income Superannuation Tax Offset up to $500 from 1 July 2017 which should reduce the taxes paid on superannuation contributions for low income earners.
- Limitation on the superannuation account balance that can be transferred into pension phase to $1,600,000.
- New incentives of $1,000 for businesses to host an intern under the age of 25 years who has been in employment services for at least 6 months and wage subsidies of up to $10,000 for hiring job seekers under 25 years with barriers to employment.
- The 'backpacker tax' announced in last year's Budget, which would see those on working holiday visas being taxed at 32.5 percent from the first dollar earned, is still expected to continue, however the government has indicated that it is likely to postpone the changes pending a consultation phase.
- There were no changes made to negative gearing or the taxation of discount capital gains.
- The 2 percent Temporary Budget Repair Levy will remain in place and expire at the end of the 2016-17 income year.

# KPMG Insight

There have been a number of discussions in the media and other forums regarding the types of tax measures that should be introduced, or repealed, in the lead-up to this Federal Budget. In the Budget announcement, the majority of the changes for individuals and employers have focused on limiting the balances that are able to be accumulated in concessionally taxed superannuation accounts, with some small measures included to combat 'bracket creep'.

Employers should engage with employees to ensure that they are aware of the impact of the Budget announcements, particularly the changes relating to superannuation.

In relation to assignees, employers should consider how the announcements may impact upon their company policies, including tax equalisation arrangements. Employers should communicate with assignees who are looking to repatriate to Australia and who have foreign pension accounts, as they may find it more difficult than before to repatriate those funds into a concessionally taxed superannuation vehicle in Australia.

# Next steps

The Budget will now be the subject of consideration and debate in the House of Representatives and Senate over the coming weeks and months.

Given its temporal proximity, it is currently uncertain the extent to which any of these Budget measures will be passed before the Federal Election on 2 July 2016.

For a complete summary of the Budget, see our web page for the 'Federal Budget 2016' published by the Australian member firm of KPMG International. Also, see: www.kpmg.com/au/budget

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