



A summary of the 2016 Australian
Government Budget

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Introduction

On May 3, 2016, Federal Treasurer Scott Morrison MP handed down the Federal Government's 2016/17 Budget. This is the third budget for the current Coalition Liberal-National Government and the first for Scott Morrison. This budget is critical to the formation of the economic plan that will be taken to the upcoming election, to be held on July 2, 2016.

Budget overview

The aim of the 2016-17 Budget is to establish a plan for jobs and growth. The Treasurer has focussed on keeping spending under control, while delivering reforms that he believes will provide a much-needed boost to investment and jobs.

The Budget contains important reforms that will help businesses and households. For retailers, the key outtakes from the Budget include advantageous tax reform for small to medium businesses, which follow on from the Coalition's \$20,000 tax write-off that allows SMEs to deduct assets costing less than \$20,000.

Middle-income earners have also gained a small tax break, with the government increasing the upper tax limit for middle-income earners from \$80,000 to \$87,000.

In an effort to address youth unemployment, the Treasurer has announced active measures toward increasing the employability of Australia's youth through training and real work experience, with new initiatives.

Tax reform

Company tax reductions

From 1 July, 2016, businesses with turnover less than \$10 million will have a reduced company tax rate of 27.5 per cent. The eligibility threshold for the lower rate will be progressively raised until all companies are at 27.5 in 2023-24. The rate will then fall to 27 percent in 2024-25 and then by one percentage point each year to 25 per cent by 2026-27. This measure will cost \$2.65 billion over the next four years.

Given the 830,000 Small to Medium Enterprises (SMEs) in Australia, one in seven of which are in the retail sector, the proposed business tax cuts outlined in the budget provide a more supportive business environment for retail owners.

Cutting their effective tax rate will support these businesses and their team members. We certainly hope that these proposed tax breaks will enable small to medium businesses to invest back into their own businesses, and create more jobs for everyday Australians.

The changes to the corporate tax rate will take a while to take effect, so this is probably less of an issue in terms of immediate impact. However, the majority of businesses operating in the retail industry are small businesses, and tax concession will be a welcome relief.

Unincorporated tax discount

To match the corporate tax changes, the tax discount for unincorporated businesses introduced in last year's budget will be increased to 8 per cent, capped at \$1,000. This discount will be further increased in phases to reach 16 per cent by 2026-27. This measure will cost \$450 million over four years.

Small business threshold

From 1 July 2016 the small business threshold will be raised from \$2 million to \$10 million turnover, providing more businesses with access to benefits such as accelerated depreciation. This measure will cost \$2.18 billion over four years.

Extending the definition of a small business by raising the threshold from \$2 million to \$10 million turnover per annum, means the lower company tax rate is now available to a much greater percentage of Australian businesses.

In addition, all firms within the expanded definition can take advantage of the accelerated depreciation rates on new plant and equipment. Tax incentives will also be provided to unincorporated businesses – this is great news for retailers wishing to expand or refit their stores.

This is good news for retailers, who have faced unprecedented competition from overseas retailers who aren't facing the same cost imposts, such as; high award wages and penalty rates, restrictive trading hours, penalising lease agreements, as well as high business tax rates. SMEs are the heart of the economy and must be able to compete in order to create continuing employment opportunities, which in turns leads to economic growth for all Australians.

Personal income tax

The income level at which the 32.5 per cent tax rate begins will be raised to \$87,000 up from \$80,000, costing \$3.95 billion over four years.

By increasing the tax threshold for middle income earners across Australia, it would be hope that this may support some reduction in the level of caution we are currently seeing in consumer spending. While the sluggish retail trade figures are being impacted by a range of factors, certainly a reduction in the level of taxation on this category of earner has the potential to benefit retailers, if the net gain in pay is spent in retail stores. The increasing of income tax levels, has the potential to have more of an immediate impact on the industry.

Superannuation

From July 1, 2017, the Government will introduce better targeting and greater flexibility in superannuation. This will include support for low income earners, the introduction of a \$500,000 non-concessional life-time voluntary contributions cap, a new \$1.6 million cap for the transfer of balances into the tax free retirement phase, a 30 per cent tax on concessional contributions for those earning over \$250,000 per annum and a lower annual concessional contributions cap of \$25,000.

Training and employment

The main priorities for the employment portfolio include lifting youth employability skills and providing real work experience by implementing a suite of measures under the Government's \$840.3 million Youth Employment Package. As the economy diversifies, the package will help up to 120,000 vulnerable young people take advantage of job opportunities.

The Youth Jobs PaTH is the focus of this package – it includes employability skills training, internship placements, the youth bonus wage subsidy and the employer mobilisation strategy to encourage participation in the initiative by employers.