PROFILE
FINANCIAL SERVICES

FEDERAL BUDGET ANALYSIS

MAY 2016

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THE ECONOMY AND MARKETS

In summary, we think the overall **economic** impact of this budget is likely to be positive. It is difficult to gauge the initial **market** impact of the budget specifically as this goes to press, given the RBA's interest rate cut on the same day, and the prevailing market view of a slowing global economy as a backdrop. The reality is, the key risks for investment markets lie outside the federal budget (and outside our government's control), but at least it is one less thing for markets to worry about.

Themes this year

The challenge of guiding any budget to surplus is to protect and grow revenue while at the same time controlling expenses – and for the government, getting re-elected! Last year's budget took aim at expenses, with a focus on welfare payments. This was very controversial, and the subsequent abandonment of many polices due to public backlash has created plenty of confusion. However, welfare payments are 35.2% of government expenditure –by far and away the largest line item, and growing – and must be controlled for a future surplus to be possible.

Estimated future government deficits have all increased from last year's budget: $39.9bn for 2015/16 (+$4.4bn on last year's forecast) and $37.1bn or 2.2% of GDP for 2016/17 (+$13.7bn on last year's forecast). The projected return to surplus has been delayed by a further year to 2020/21.

Key treasury forecasts

FINANCIAL YEAR	GDP % (CHANGE)		INFLATION % (CHANGE)		UNEMPLOYMENT % (CHANGE)		FISCAL POSITION (DEFICIT/SURPLUS)			
							($bn)		% of GDP	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
2015/16	2.75	2.50	2.50	1.25	6.50	5.75	-33.0	-39.9	-2.0	-2.4
2016/17	3.25	2.50	2.50	2.00	6.25	5.50	-23.4	-37.1	-1.3	-2.2
2017/18	3.50	3.00	2.50	2.25	6.00	5.50	-9.2	-26.1	-.05	-1.4

The key point to note from this table is the change in projections: for example, GDP growth in 2016/17 was predicted to be 3.25% in last year's budget, but this year it's been downgraded to 2.5%. These more moderate forecasts look more plausible, making them less likely to disappoint.

Key measures (over 4 years)

SPENDING	$BILLION
Small and Large Business	5.35
Health	2.90
Education and Training	1.30
Infrastructure	0.54

REVENUE/SAVINGS	$BILLION
Superannuation	5.05
Tobacco Excise	4.70
Multi-National Company Tax	3.90

The impact and risks

It's important to distinguish between the economic and market impacts of the budget. For example, there is a projected fall in tax collected from individuals, primarily driven by downward revisions to total wages forecasts and personal income tax cuts. Slower wage growth is a positive for business (markets), given that wages form a large portion of expenditure for employers. However, it's a negative for households (economy), as they are less inclined to spend as costs rise without the ability to demand higher wages.

The tax incentives for businesses – with the corporate tax rate to be cut to 25% over the next decade – should help employment growth, and spill over to the economy, as Australians feel more confident in their work prospects and therefore more confident to spend.

Mining investment is expected to contribute just 1.5% to GDP growth in 2015/16, down from 2.8% in 2011/12. But there are encouraging signs of broader-based growth within the Australian economy, as mining investment is being replaced with household consumption, dwelling investment and exports. Record low interest rates, the depreciation of the Australian dollar, a fall in petrol prices (15% over the past year) and a declining household saving rate have all assisted household consumption. The buoyant housing market (assisted by low interest rates) has also supported consumption through spending on house-related items such as whitegoods and furnishings. More dwelling investment has also helped the economy. However, this is forecast to slow as dwellings reach completion (one only needs to look at the cranes on the Sydney skyline to see evidence of this). Any premature slowdown could affect forecasts as they stand.

In summary the key risks to the budget projections are China, the Senate and the States.

- If China's economic growth disappoints, it will have a material impact on the forecasts.
- A hostile Senate may result in budgeted savings measures not being passed or delayed, thereby affecting forecasts.
- Recent budgets have seen responsibility for a raft of expenditure measures pushed to the States, and there's a risk is that the Government may have to "take back" expenditure items previously taken off their books.

SUPERANNUATION

Decrease to the Concessional Contributions Cap

Date of effect: 1 July 2017 **Who's affected: Everyone contributing to super**

Regardless of age, the concessional contributions cap is reducing to $25,000 pa. Notional and actual employer contributions to unfunded defined benefit schemes and constitutional protected funds will also start being counted towards the cap.

Age of contributor	Current	From 1 July 2017
Under 49	$30,000	$25,000
49 and over	$35,000	$25,000

Profile's view: This is going to require a review of contributions strategies both now and in the future:

- In the current & next financial year, everyone should seriously consider taking advantage of the current higher contribution limit even if they aren't doing so currently.
- Then from 1 July 2017, salary sacrifice contributions may need to be changed to ensure caps are not breached.
- Longer term, people should consider making additional salary sacrifice contributions earlier in their working career, as their ability to 'catch up' later is now much reduced.
- For those who are using gearing inside their SMSF and relying on concessional contributions to fund the interest (and perhaps principal repayments), this change could present significant challenges. More immediately they may be forced to start making extra non-concessional contributions (with reduced tax benefits) to meet cash flow requirements. Longer term (or sooner if they have already reached their cap) the non-concessional lifetime cap (refer below) may restrict their ability to meet the shortfall. This may require other assets to be sold, or result in the collapse of the gearing strategy.

Unused Concessional Contributions Cap Carry Forward

Date of effect: 1 July 2017 **Who's affected: People with irregular income**

For those with super balances below $500,000, any unused concessional contributions cap can now be carried forward, on a rolling 5-year basis.

Profile's view: This change is designed to assist those such as mothers and carers who take breaks from the workforce, but it is not specifically limited to them. It also opens a raft of planning opportunities to manage lumpy (but planned) tax years - eg a large capital gains tax event. This is balanced by a need to rethink asset ownership strategies (ie whose name investments are held in) for couples, to ensure the $500,000 account balance requirement is not exceeded.

Non-Concessional Contribution Lifetime Cap

Date of effect: 1 July 2007 **Who's affected: Everyone contributing to super (especially those nearing retirement)**

A lifetime non-concessional contribution cap of $500,000 is being introduced immediately, which will replace the current $180,000 annual cap (as well as the $540,000 3-year bring forward option).

This change is retrospective, as it includes contributions made since **1 July 2007**. If you had already exceeded the lifetime cap as at budget night – 3 May 2016 - it will just be taken that you have now used up your lifetime cap.

It's unclear what happens to future contributions made over this threshold – they may just be returned, or subject to excess tax.

Profile's view: This is big.

- **For** many nearing retirement, it will stop important re-contribution strategies to reduce estate taxes, that were often years in the planning. Combined with the removal of the anti-detriment payment (noted below) this is effectively going to increase the level of "death taxes" that many estates will face.

- ♦ As for the concessional cap reduction noted above, this highlights the importance of building your superannuation balance as early as possible. $500,000 contributed early will be much more beneficial through compounding at reduced tax rates, than $500,000 contributed at or near retirement. However many people early in their working lives will struggle to fund anything like this amount.
- ♦ Anyone with gearing will need to re-think the optimum level of debt that should be maintained against investment assets in the leadup to retirement (eg weighing up the relative attractiveness of concessional contributions and interest payments).
- ♦ Record keeping of non-concessional contributions going back to 1 July 2007 is going to be both important and complex. While super accounts maintain these records, individuals (or their planner) will also need to chase closed super accounts, and premiums paid on standalone super-based insurance policies, which will be challenging! There may be some help from ATO records – although we don't yet know if this information will be available to individuals for planning (rather than just from an infringement monitoring perspective).
- ♦ While not directly addressed in the budget, small business rollover relief **might** not be affected by this change. Currently, capital proceeds from a sale of an active business asset, up to a life time CGT cap of $1.395 million, can be contributed to super and not be counted towards a person's non-concessional or concessional cap.

Extending the Spouse Tax Offset

Date of effect: 1 July 2017 **Who's affected: Couples including someone earning less than $37,000**

The government will extend the eligibility rules for claiming the tax offset for superannuation contributions people make to their low income spouse.

The current 18 per cent tax offset of up to $540 will be available for any individual, whether married or de facto, contributing to a recipient spouse whose income is up to $37,000 (an increase from the current $10,800). As is currently the case, the offset is gradually reduced for income above this level and now completely phases out at income above $40,000.

Profile's view: this is a significant rise in thresholds, in line with a more reasonable estimate of what a spouse working part-time can expect to earn (up to $40,000 – approximately 50% of the current full-time average annual earnings). It's a positive incentive for couples to support each other in savings for retirement.

Division 293 – Additional 15% Contributions Tax Threshold

Date of effect: 1 July 2017 **Who's affected: Super contributors earning $250,000 pa & over**

The income at which people have an additional 15% super contributions tax levied will be lowered to $250,000 and above (down from $300,000 and above). The definition of income includes:

- Taxable income
- Reportable fringe benefits
- Total net investment loss
- Low tax contributions including super guarantee, salary sacrifice and personal concessional contributions.

Tax bracket	Marginal tax rate**	Contributions tax	Tax concession
$0 - $18,200	0%	0%^	15%^
$18,201-$37,000	21%	0%^	21%^
$37,0001-$87,000	34.5%	15%	19.5%
$87,001-$180,000	39%	15%	24%
$180,000-$250,000	49%	15%	34%
$250,001 and over	49%	30%*	19%

** Includes Medicare Levy and Temporary Budget Repair Levy

^ As a result of the Low Income Superannuation Tax Offset from 1 July 2017 of up to $500

* Includes an additional 15% contributions tax (Division 293)

Profile's view: This is a needed step to help address the current inequalities of the super system. It will only affect around 1% of members. And although the tax benefits of making concessional contributions will decrease, there is still a benefit of 19% for those affected. On top of this, investment earnings are still taxed at a maximum of 15% once in super compared to 49% if the funds are invested outside of super.

Low Income Superannuation Tax Offset

Date of effect: 1 July 2017 **Who's affected: Super contributors earning $37,000 pa & under**

A new "Low Income Superannuation Tax Offset" will replace the Low Income Superannuation Contribution when it expires on 30 June 2017. This will allow individuals with an adjusted taxable income of $37,000 or less to receive an effective refund of the tax paid on their concessional contributions, up to a cap of $500.

Profile's view: This is a positive initiative to increase the super balances of those on low incomes (often working part-time) – reducing future reliance on the Age Pension and further addressing the inequality of the super tax benefits.

Work Test Requirements Abolished

Date of effect: 1 July 2017 **Who's affected: Super contributors aged 65 - 74**

Currently people aged between 65 and 74 are required to meet a work test* to make voluntary super contributions. This requirement will be removed from 1 July next year. (Those over 74 still won't be able to contribute).

* Must have worked 40 hours within a 30 consecutive day period at some stage in the financial year a voluntary contribution is to be made.

Profile's view: For those retiring at 65 with investment assets outside super, the work test can be a real barrier to benefiting from the tax effective nature of superannuation. Sometimes people have needed to restructure before retirement, triggering capital gains at high marginal tax rates. Alternatively people have needed to look for short-term often unsatisfying work just at the time they wanted to stop! This change is a big benefit, allowing asset restructuring to happen after retirement in a beneficial tax environment. It is particularly good for those people looking to downsize their home & use the proceeds to contribute extra to super at some stage in retirement (although of course now limited by the $500,000 lifetime cap for non-concessional contributions).

Personal Concessional Contribution Eligibility Extended

Date of effect: 1 July 2017 **Who's affected: Super contributors who are employees**

Currently, employees (supported persons*) cannot make personal concessional contributions. These must come via their employer, as either SG or salary sacrifice. The proposal will allow all Australians (assuming age restrictions are met), regardless of their employment status, to make personal concessional contributions. To claim a deduction, employees will need to lodge a deduction notice with their super fund before lodging their tax return or commencing a pension (keeping in mind any contributions made by an employer will still count towards the concessional contributions cap).

* More than 10% of your assessable income plus salary sacrifice plus reportable fringe benefits are attributable to your work as an employee.

Profile's view: A good change making the contribution rules simpler and fairer. This will also facilitate managing a capital gains tax event – previously an employee would need to salary sacrifice their income, which could present quite a cash flow problem if the asset sale was late in the financial year and there was insufficient income remaining in the year. With this change, they will be able to just top up their contributions to the desired amount (within the cap) once the asset has been sold, with the proceeds.

Anti-detriment Payments Abolished

Date of effect: 1 July 2017 **Who's affected: Beneficiaries of super members who die with remaining balances**

The anti-detriment provisions meant that super funds could increase lump sum death benefit payments, by refunding a member's lifetime contributions tax payments when paid to eligible beneficiaries. This benefit will no longer be available from 1 July next year.

Profile's view: This could be seen as introducing a "death tax" on super. Added to the new lifetime non-concessional contributions cap of $500,000 mentioned above, this will make lump death benefit payments much less attractive to some beneficiaries and instead a death benefit income stream may be preferred. SMSFs often found it harder to offer this benefit than large public-offer super funds, and this change reduces that "competitive disadvantage" of SMSFs.

Transition to retirement income streams (TRIS)

Date of effect 1 July 2017 **Who's affected: Super contributors aged over 55**

Currently, Transition to Retirement income streams (TRISs, or also abbreviated as TTR), currently receive tax exempt status on their earnings. This proposal would remove this tax exempt status of TRIS's, which would start to pay the same 15% tax rate applied to accumulation accounts.

While this new rule will apply from 1 July 2017, it will apply to all TRIS's, **irrespective of when they commenced**, i.e. no grandfathering rules apply.

Further to this, individuals will also lose the ability to treat certain pension payments as lump sum payments so as to take advantage of the tax-free low rate cap of $195,000.

Profile's view: Much of the intent of the original TRIS legislation was to support people's cash flow to "transition to retirement" while progressively reducing the hours they work. However many have also been using the tax concessions as a way of ramping up their super balances more quickly in the leadup to full retirement, and this strategy will be less attractive.

For people aged 55-59, given their personal tax consequence of receiving the TRIS payments, it will be more challenging to make the strategy work and those already using it may need to reconsider.

For those aged 60 and over, where TRIS income is effectively funding some living expenses and allowing for increased concessional super contributions (or other beneficial uses such as accelerated non-deductible debt repayment) there are still likely to be benefits in using the strategy.

There is also a strong incentive for people to try to meet a "condition of release" (such as retirement) earlier, as 'normal' pensions are still tax exempt. People over 55 and under 60 would need to be able to declare that they had retired and did not intend to return to the workforce – which does not support the original TRIS intent as people are discouraged from taking on some work after ceasing their "career job". For people over 60 but under 65, a change of employment is a condition of release. This is fine if you are looking to, say, take on a part time role with a new employer as part of your winding back. However you will not be able to do this with your existing employer. Looking for a new employer for many over 60's may well be too daunting (and risky) a task.

$1.6 million Superannuation Transfer Balance Cap

Date of effect 1 July 2017 **Who's affected: Any super member who accumulates a balance over $1.6m**

From 1 July next year, a lifetime cap of $1.6 million (indexed with CPI in $100,000 increments) will be introduced on super moved from an accumulation account to a pension account. (Once started, the pension balance can exceed this amount due to net earnings and capital growth.)

For existing pension balances, the current account balance will be deemed to have used up a given percentage of your lifetime cap, and will restrict the amount of funds that can be transferred to a new pension in the future. For existing pension balances over $1.6 million as at 30 June 2017, the excess amount will need to be transferred back to accumulation phase or withdrawn from the account or penalties apply.

It must be highlighted this cap is applied at an individual level not a fund level. So a couple with an SMSF each have a $1.6 million cap available to them, allowing the fund to hold $3.2 million of pension assets where no tax will be payable.

Profile's view: This will restrict the amount that an individual can effectively hold in the 0% pension tax environment, and expose the remainder to the 15% tax rate within accumulation phase, or their marginal tax rate if leaving the super system.

Long term planning can help, where the $1.6million cap is likely to be an issue for an individual with a spouse who is unlikely to reach their cap. Spouse contributions, contribution splitting and the timing & allocation of non-concessional contributions will become important tools in maximising the funds a couple will be able to hold in the tax effective pension environment.

From a more immediate planning perspective, where people have a pension account balance in excess of the cap, and will be required to roll funds back to accumulation phase (where they will be exposed to capital gains tax), a thorough review of the investments where significant unrealised capital gains are present should be completed ASAP.

Thought should also be applied to how the excess pension balances are reduced, to ensure that any impact on the grandfathering benefits of Health Care Card recipients are minimised

At this stage it is unclear how these changes will be applied to death benefit pensions.

Changes to retirement income products

Date of effect: 1 July 2017

The tax exemption on earnings in retirement phase will be extended to products such as deferred lifetime annuities and group self-annuitisation products.

Profile's view: With the real issues of Australians living longer and increased volatility in investment markets, there is growing concern that retirees may outlive their pension, or not be able to recover from a serious market correction. In economic and market environments where reasonable (or even attractive) rates of return are being offered, annuities can provide an attractive addition to a retiree's portfolio. The proposed change should assist driving product development in this area (which is somewhat limited of recent times) and improved rates of return being offered.

TAXATION

Personal tax

Income tax cuts

Date of effect: 1 July 2016 **Who's affected: Those earning taxable income over $80,000 pa**

The budget provided a bit of tax relief for middle income earners, as the top of the 32.5% tax bracket increased from $80,000 to $87,000 delivering up to $315 per year in tax savings. The new tax rates for the 2016-2017 financial year are:

Taxable income	Tax on this income
$0 - $18,000	Nil
$18,201 - $37,000	19% over $18,200
$37,001 - $87,000	$3,572 + 32.5% over $37,000
$87,001 - $180,000	$19,822 + 37% over $87,000
$180,001 and over	$54,232 + 45% over $180,000

Profile's view: Only the top 25% of income earners receive any benefit, and at around $6 per week, they may not appreciate much the extra large coffee. Sure, it's something, and it's fair to raise the limit given inflation, but the government may be giving up a fair whack of revenue for little real gain.

Medicare Levy low-income threshold for families

Date of effect: 1 July 2015 **Who's affected: Low income earners**

From the 2015-16 financial year, the Medicare Levy low-income threshold will be indexed. Those with income below these levels are exempt from paying the Medicare Levy:

Individuals	Medicare Levy Threshold (2014-15)	Medicare Levy Threshold (2015-16)
Singles	$20,896	$21,335
Couples	$35,261	$36,001
Additional threshold for dependent child or student	$3,238	$3,306

Seniors and Pensioners	Medicare Levy Threshold (2014-15)	Medicare Levy Threshold (2015-16)
Singles	$33,044	$33,738
Couples	$46,000	$46,966
Additional threshold for dependent child or student	$3,238	$3,306

Profile's view: There are savings for low income earners but they're fairly small - around $43 per year for singles with no dependents. From 1 November 2016, the Medicare system is to be reviewed to ensure spending for the services listed is appropriate.

Extending the freeze on the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds

Date of effect: 1 July 2018 **Who's affected:** High income earners (individuals above $90k pa, families above $180k pa)

Indexation of the income thresholds for the Medicare Levy Surcharge and Private Health Insurance Rebate will continue to be paused at 2014 levels, for another three years from 1 July 2018 (until 2021). This will mean individual taxpayers earning near or above $90,000 or a family earning near or above $180,000, will effectively pay more for private health insurance (or the surcharge)

Profile's view: The extended freeze provides a temporary buffer for the health system's stretched capacity. However much more extensive reforms for the both the public health system and the private health insurance industry will be needed for quality service to be adequately provided.

Cigs up!

Date of effect: 1 September 2017 **Who's affected: Smokers**

Smokers have been hit again, with four annual rises to tobacco excise of 12.5% starting on 1 September 2017. By 2020, a pack of cigarettes will cost about $40, of which almost 70% will be tax. The duty free tobacco allowance will also reduce, and border protection will be strengthened to help its enforcement.

Profile's view: Our advice as always is, please give up smoking if you possibly can! 1 September 2017 might be a good goal to set to kick the habit - helping both your health and your financial bottom line.

Temporary Budget Repair Levy (TBRL) to cease as planned

Date of effect: 1 July 2017 **Who's affected: Those earning taxable income over $180,000 pa**

No changes were actually made in the budget; meaning the Temporary Budget Repair Levy (2% on taxable earnings above $180,000 per year) will cease on 30 June 2017 as was originally announced.

No change to negative gearing

As previously flagged, there were no changes here and no plans have been announced to remove or limit negative gearing in future.

Company Tax

Increase to the small business entity turnover threshold

Date of effect: 1 July 2016 **Who's affected: Companies with turnover up to $10m**

The small business entity turnover threshold will be increased from $2 million to $10 million from next financial year, affecting around 90,000 businesses. It will allow more businesses to access many small business concessions, such as:

- simplified depreciation rules, including immediate tax deductibility for asset purchases costing less than $20,000 until 30 June 2017 and then less than $1,000,
- simplified trading stock rules, giving businesses the option to avoid an end of year stocktake if the value of the stock has changed by less than $5,000,
- a simplified method of paying PAYG instalments calculated by the ATO, which removes the risk of under- or over-estimating PAYG instalments and the resulting penalties that may be applied
- the option to account for GST on a cash basis and pay GST instalments as calculated by the ATO, and
- other tax concessions such as the Fringe Benefits Tax concessions (from 1 April 2017, the beginning of the next fringe benefit tax year) and immediate deductibility of professional expenses.

However the $2 million threshold will be retained for the purposes of the small business capital gains tax concessions.

Profile's view: This is broadly a very welcome change for many businesses although excluding the capital gains concessions adds complexity.

Reducing the company tax rate to 25%

Date of effect: 1 July 2016 **Who's affected: All companies (starting with turnovers up to $10m), individual shareholders**

The corporate tax rate will be progressively further reduced, to 25% over the next 10 years, with 'small businesses' (now defined as those with turnover up to $10 million) benefitting first. The change will impact 870,000 businesses and about 3.4 million workers.

Financial year	Aggregated turnover of less than …	Company tax rate
2016-17	$10 million	27.5%
2017-18	$25 million	27.5%
2018-19	$50 million	27.5%
2019-20	$100 million	27.5%
2020-21	$250 million	27.5%
2021-22	$500 million	27.5%
2022-23	$1 billion	27.5%
2024-25	All companies	27%
2025-26	All companies	26%
2026-27	All companies	25%

This is good news for companies, however individual shareholders may pay more tax (since imputation credits are still based on tax paid by the company paying the dividend). The example below shows the tax impact for an individual shareholder receiving a dividend of $5,000 with a flat marginal tax rate of 37.5%, who will pay $297 more tax on the same dividend by 2026/27:

	Company Tax Rate – 30%	Company Tax Rate – 25%
Dividend	$5,000	$5,000
Imputation credit	$2,143	$1,667
Taxable income	$7,143	$6,667
Tax at 37.5%	$2,679	$2,500
Imputation credit offset	-$2,143	-$1,667
Tax payable	$536	$833

Profile's view: Companies will be saving tax, and the hope is the increased profitability will be used to employ more workers and will thus increase jobs growth – and that is certainly possible! Imputation credits become a little less attractive, and there will be lots more accounting required here to ensure the correct credits are calculated based on the various different tax rates that will apply over time, and to differently sized companies in the same year.

Increase to the unincorporated small business tax discount

Date of effect: 1 July 2016 **Who's affected: Unincorporated businesses with turnover up to $5m**

A 5% tax discount was introduced last year, for individual tax payers with an unincorporated business with turnover of less than $2m. This will be increased to an 8% discount for unincorporated businesses with up to $5m turnover. 2.3 million unincorporated businesses are expected to benefit.

The discount remains capped at $1,000 per individual per year, and will be static for 8 years. Then the discount will increase to 16% in increments from 2024 to 2026 (to coincide with the staggered reductions in the corporate rate).

According to the Government, a sole trader with an unincorporated business turning over $2.5 million and a taxable income of $150,000 would pay $46,447 in personal income tax, including the Medicare levy, under the current system. After this discount is applied, along with other changes to personal income tax, they would pay $45,132 in tax and would therefore be $1,315 better off.

Profile's view: The hope is that this will incentivise sole traders to employ more people and create more jobs, with the increase in employment resulting in a higher collection of income tax to offset the cost to revenue of reducing company tax. This is probably not the place to get into a dissertation on the 'trickle down' theory – but even if sole traders just end up spending their tax cuts, that will increase consumption!

Tax Review for High Net Worth Entities

Date of effect: 1 July 2017 **Who's affected: Multi-national companies**

The goal here is to increase taxes paid by multinationals (as well as high net worth individuals) on their earnings sourced in Australia, and it's forecast to raise $3.9 billion over the next four years.

A Multinational Anti Avoidance Law has actually already been passed, in December 2015, and the government will add 1,000 staff for the ATO to target multinational corporate tax avoidance cases. And from 1 July 2017, a new "Diverted Profits Tax" of 40% will also be introduced, which will target multinationals looking to shift profits offshore.

Profile's view: Few would argue with this one (except CEOs of multinationals). It's unlikely that many multinationals would close down or cut back their Australian operations purely due to this measure, and more tax revenue is all to the good. But whistleblower legislation in Australia is woefully inadequate compared with many countries. Offering whistleblowers more legal protection, and a slice of any fines, could be a far more cost-effective way of enforcing these provisions than just ramping up staff at the ATO.

SOCIAL SECURITY

Try, test & learn scheme

Date of effect: 1 April 2017 **Who's affected: The long-term unemployed**

The Government will spend $96.1 million over four years on policies aimed at reducing long-term welfare dependency.

Called "Try, test & learn", the scheme will be rolled out in three phases. First, long term welfare recipients will be given pre-employment skills training. In the second stage there will be internship placements made available: the intern will receive an extra $200 per fortnight, and the employer will receive a single $1,000 payment. The final stage is the long term appointment of staff, where the business will receive a Youth Bonus wage subsidy of between $6,500 and $10,000.

Profile's view: It's a turnaround from last year, when the government proposed to cut payments to job seekers who had been receiving welfare for longer than six months. Now we have a carrot instead of a stick. And certainly, practically helping the long term unemployed integrate into the workforce is to be commended.

National Disability Insurance Scheme (NDIS) Savings Fund

Date of effect: various **Who's affected: The long-term disabled, new welfare recipients, new carers, DSP recipients who could work, … and government marketing agencies!**

The NDIS was launched in July 2013, to support Australians with a significant and permanent disability and their families and carers.

The NDIS Savings Fund Special Account will be set up to assist in meeting the future costs of the NDIS. Over 5 years the government will credit $2.1 billion to the account. So where is the money coming from?

- $1.4 billion over five years comes from stopping carbon tax compensation payments to new welfare recipients, from 20 September 2016.
- $108.6 million over four years by restricting backdating for new Carer Allowance claims (aligning with other social security payments). From 1 January 2017, Carer Allowance will be payable to from the date of the claim, or the date they first contact the Department of Human Services.
- $62.1 million over five years by reviewing 30,000 Disability Support Pension recipients each year for three years, assessing their capacity to work (and, presumably, moving them to unemployment benefits in many cases).
- $66.7 million by 'banking' funds not being spent in 2015-16 and by not proceeding with an NDIS advertising campaign.

Profile's view: Withholding carbon tax compensation (up to $14 per fortnight per pensioner) for people who are not paying a carbon tax does seem to make sense, however creating a 2-tier system will add complexity. This is likely to be revisited in future budgets.

Changes to aged care funding

Date of effect: 1 July 2016 **Who's affected: Aged care residents with complex needs**

Residential aged-care costs continue to rise. To counteract this, the government will change the way it calculates funding levels for patients with complex needs, and the rate of indexation will be halved. This is expected to save $1.2 billion over four years.

Some of the savings will be redirected to other areas of aged care, including $102 million to help providers in rural and remote areas and $137 million for the My Aged Care contact centre (which assists people in navigating this complex area).

Profile's view: These measures will help stem the increasing costs of aged care to the country, but are not enough to curb the expected blow out of $3.8 billion. And while the My Aged Care contact centre is a positive move, we still think that most people need more than a phone call to help them through this very complex and financially important time in their lives. Much more change will be needed in future.

Deferring the new childcare subsidy scheme

Date of effect: 1 July 2018 **Who's affected: Families using childcare**

This scheme was proposed in last year's budget. It would replace the current Child Care Benefit, Child Care Rebate and Jobs, Education and Training Child Care Fee Assistance programs with a single subsidy based on family income. It was planned to start this year, however has been delayed to 1 July 2018 as the Senate did not pass the family tax benefit reforms. On the good side, the delay in implementation will save the government $1.1 billion this year.

Profile's view: The new scheme would be a benefit for families juggling work and childcare, and the sooner it is introduced, the better.

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