

FEDERAL BUDGET 2017

SNAPSHOT

On Tuesday 9 May, the Federal Government handed down its Budget for the 2017–18 financial year.

According to Federal Treasurer Scott Morrison, this year's Budget is founded on the principles of fairness, security and opportunity. Mr Morrison claims that the government's proposed measures will raise almost \$21 billion in revenue over the next four years, returning Australia's budget to surplus by 2021.

Here are some of the key Budget announcements. Note that each of these proposals will only become law if it is passed by Parliament.



Tax (individuals)

- A 0.5% Medicare levy increase from 2019
- New thresholds for HELP debt repayments



Tax (businesses)

- Extension of the deductibility threshold for small businesses
- New levy for major banks



Tax (investors)

- Incentives for investment in affordable housing
- Restrictions on deductions for residential property investments
- Tax changes for foreign tax residents and property owners



Superannuation

- Additional non-concessional cap for retiree downsizers
- Super savings scheme for first home buyers



Social security

- Reinstatement of Pensioner Concession Card entitlements
- Increased pension residence requirements



Other proposals

Federal Budget 2017: What you need to know



Tax (individuals)

- A 0.5% Medicare levy increase from 2019
- New thresholds for HELP debt repayments

A 0.5% Medicare levy increase from 2019

From 1 July 2019, the Medicare levy will increase by half a percentage point from 2% to 2.5% of an individual's taxable income. The Medicare levy low-income thresholds for singles, families, seniors and pensioners will increase from the 2016–17 financial year.

What this could mean for you

The increased levy may also result in increases to many tax rates linked to the top personal tax rate, including fringe benefits tax and excess non-concessional contributions tax. Certain lump sum super payments that attract the levy may also be impacted, such as disability benefits paid to people under preservation age.

New thresholds for HELP debt repayments

From 1 July 2018, income thresholds for the repayment of HELP debts will be revised, along with repayment rates and the indexation of repayment thresholds.

What this could mean for you

A new minimum threshold of \$42,000 will apply, with a 1% repayment rate. A maximum threshold of \$119,882 will apply, with a 10% repayment rate. Currently, the maximum repayment threshold for the 2017–18 financial year is \$103,766 with a repayment rate of 8%.



Tax (businesses)

- Extension of the deductibility threshold for small businesses
- New levy for major banks

Extension of the deductibility threshold for small businesses

The government will extend the existing accelerated depreciation allowance for small businesses by 12 months to 30 June 2018.

What this could mean for you

If your small business has aggregated annual turnover below \$10 million, you'll be able to immediately deduct the purchase of eligible assets costing less than \$20,000 where they are first used or installed ready for use by 30 June 2018. After that date, the immediate deductibility threshold will revert back to \$1,000.

New levy for major banks

A major bank levy will be introduced for authorised deposit-taking institutions (ADIs) with licensed entity liabilities of at least \$100 billion (indexed to Gross Domestic Product (GDP)). The levy will equate to an annualised rate of 0.06% – for example, the levy on a bank deposit of \$500,000 will be approximately \$300 pa. Superannuation funds and insurance companies won't be subject to the levy.

What this could mean for you

It's unclear at this stage how the levy will be implemented, and what the impacts might be on customers and shareholders.



Tax (investors)

- Incentives for investment in affordable housing
- Restrictions on deductions for residential property investments
- Tax changes for foreign tax residents and property owners

Incentives for investment in affordable housing

From 1 January 2018, resident individuals who invest in qualifying affordable housing will be eligible for an increase in the capital gains tax (CGT) discount from 50% to 60%. This increased discount will also apply to eligible Managed Investment Trusts (MITs) as of 1 July 2017.

What this could mean for you

To qualify for the higher discount, your residential property must be rented to low-to-moderate income tenants at a discounted rate and be managed through a registered community housing provider. You also need to hold the investment for at least 3 years. If you invest in an MIT, you'll be eligible for the 60% discount if the trust invests in affordable housing that is available to be rented for at least 10 years, and you hold the investment for at least 3 years.

Restrictions on deductions for residential property investments

From 1 July 2017, depreciation deductions for residential plant and equipment (e.g. dishwashers and ceiling fans) will be limited to investors who actually incur the outlay – not subsequent owners. Also from that date, investors will be unable to deduct travel expenses related to inspecting, maintaining or collecting rent for a residential rental property.

What this could mean for you

If you're a subsequent investor in a property, the acquisition of existing plant and equipment will be reflected in the cost base for CGT purposes. Grandfathering applies to plant and equipment that forms part of a residential investment property as at 9 May 2017 and will continue to give rise to depreciation deductions under current rules. The new rule around travel expense deductions applies to all property investors, including SMSFs, family trusts and companies.

Tax changes for foreign tax residents and property owners

Foreign or temporary tax residents will no longer have access to the CGT main residence exemption on properties acquired after 7.30pm AEST on Budget night (9 May 2017). Also from Budget night, foreign owners of residential property that is not occupied or genuinely available on the rental market for at least six months per year will be subject to an annual levy of at least \$5,000.

What this could mean for you

If you're a foreign or temporary tax resident and you held an existing property before Budget night, the property will be grandfathered and you'll be able to continue claiming the CGT main residence exemption until 30 June 2019. However, from 1 July 2017, the CGT withholding rate that applies to foreign tax residents will increase from 10% to 12.5%.



Superannuation

- Additional non-concessional cap for retiree downsizers
- Super savings scheme for first home buyers

Additional non-concessional cap for retiree downsizers

From 1 July 2018, people aged 65+ will be able to contribute up to \$300,000 into super from the sale of their principal home, if they've owned their home for at least 10 years. The existing restrictions for contributions over age 65 won't apply for these non-concessional contributions.

What this could mean for you

You may be able to contribute an additional \$300,000 to super (or \$600,000 for couples), over and above your existing concessional and non-concessional caps. However, if you or your partner receives the age pension, this could cause your entitlements to be reduced.

Super savings scheme for first home buyers

From 1 July 2017, individuals will be able to make extra voluntary super contributions of up to \$15,000 a year beyond their employer's Super Guarantee payments, up to a total of \$30,000. These contributions will be taxed at 15% and can be withdrawn to go towards the deposit on a first home. Withdrawals will be allowed from 1 July 2018.

What this could mean for you

When you withdraw your extra contributions to pay for a deposit, they'll be taxed at your marginal tax rate minus a 30% tax offset. While the tax concessions for these contributions may allow you to save a larger deposit, you won't be able to access your money until retirement if you decide not to buy a home.



Social security

- Reinstatement of Pensioner Concession Card entitlements
- Increased pension residence requirements

Reinstatement of Pensioner Concession Card entitlements

Pensioners who lost their Pensioner Concession Card entitlement due to the assets test changes on 1 January 2017 will have their card reinstated. Those who lost their entitlement were instead issued with both a Health Care Card and a Commonwealth Seniors Health Card. However these cards provided access to fewer concessions than the Pensioner Concession Card.

What this could mean for you

If your Pensioner Concession Card entitlement is reinstated, you'll have access to a wider range of concessions than those available with the Health Care Card, such as subsidised hearing services. Your Pensioner Concession Card will be automatically reissued over time with an ongoing income and assets test exemption. You'll also retain the Commonwealth Seniors Health Card, ensuring you continue to receive the Energy Supplement.

Increased pension residence requirements

An individual currently needs to have at least 10 years' residence in Australia (at least 5 of which are continuous) to qualify for the age pension or disability support pension. From 1 July 2018, they'll need to have at least 15 years' residence in Australia or either:

- 10 years' continuous residence including 5 years during their working life, or
- 10 years' continuous residence and not in receipt of an activity-tested income support payment for a cumulative period greater than 5 years.

What this could mean for you

This measure may impact you if you have less than 15 years' residence in Australia or less than 5 years' residence between age 16 and age pension age. However, existing exemptions will be maintained for humanitarian reasons or if you became unable to work while you were an Australian resident.



Other proposals

- A new Jobseeker Payment will replace 7 existing working age payments from 20 March 2020.
- Job seekers and parents who receive working age income support will have increased activity test requirements from 20 September 2018.
- The maximum length of the Liquid Assets Waiting Period will increase from 13 weeks to 26 weeks from 20 September 2018.
- A one-off Energy Assistance Payment of \$75 for single recipients and \$125 for couples will be paid for those who qualify on 20 June 2017.
- Family Tax Benefit rates will not be indexed for 2 years from 1 July 2017.
- A new upper income threshold of \$350,000 pa will apply to the child care subsidy from 1 July 2018.

Find out more

Website: colonialfirststate.com.au/supertaxchanges

Phone: 13 13 36

Email: contactus@colonialfirststate.com.au