Federal Budget May 2017

Overview

May 2017

On 9 May 2017, the Turnbull Government delivered the 2017/18 Federal Budget. According to the Treasurer, this year's Budget is about making the right choices to secure better days ahead.

From a pure financial planning and wealth perspective, the positive news from this year's Budget is that the changes are minimal. This is a very welcome outcome given the significant changes, particularly to superannuation, that were announced in last year's Budget and that are still largely due to come into effect from 1 July 2017.

Most of the changes announced were focused on addressing housing affordability, particularly around reducing concessions for foreign ownership and increased incentives for investing in low rental residential properties.

The Medicare levy will be increased by 0.5% to 2.5% of taxable income from 1 July 2019, but this is offset by the cessation of the temporary budget repair levy from 1 July 2017.

Superannuation wasn't completely untouched, with some amendments (which had previously been announced) being made to limited recourse borrowing arrangements. However, there were also some new announcements including:

1. The ability to use super to save towards a first home deposit; and
2. The ability to add up to $300,000 per person to super after age 65 when downsizing your principal residence, with such contributions not subject to existing (or new) contribution limitations.

As is always the case, these measures will need to pass through the legislative process before they become law, and could change during that process.

Following is a summary of the proposals and how they may affect your clients.

Incentives for older Australians to downsize their home

Effective date: 1 July 2018

Affected clients: Australians aged 65 or above who wish to 'downsize' their home

From 1 July 2018, a person aged 65 or over will be able to make a non-concessional contribution of up to $300,000 from the proceeds of selling their home. These contributions will be in addition to those currently permitted under existing rules and caps.

Importantly, the work test requirements that currently apply to persons aged 65 or older will not apply to these contributions, and they can also be made by those with more than $1.6 million of total superannuation.

This measure has the potential to allow for top-ups to existing superannuation balances, and provides an opportunity for some people to access the benefits of the superannuation system for the first time.

The measure will apply separately for each member of a couple, meaning a couple could jointly contribute up to $600,000 of sale proceeds into super.

In order to access this measure, the house must have been owned for at least 10 years.

Introduce a first home super saver scheme

Effective date: 1 July 2017

Affected clients: Individuals who are saving to purchase their first home

From 1 July 2017, home ownership will be encouraged by allowing future voluntary contributions to superannuation made by first home buyers to be withdrawn (from 1 July 2018 onwards) for a first home deposit, along with associated deemed earnings.

Voluntary contributions can be either non-concessional (or after tax) contributions or concessional (pre-tax) contributions, such as those through salary sacrifice arrangements. Importantly, compulsory superannuation guarantee contributions cannot be accessed under this scheme.

Concessional contributions and earnings that are withdrawn will be taxed at the individual's marginal rate less a 30 per cent tax offset. Combined with the existing concessional tax treatment of contributions and earnings, this will provide an incentive that will enable first home buyers to build savings more quickly for a home deposit.

Under the measure up to $15,000 per year and $30,000 in total can be contributed, within existing caps. Both members of a couple can take advantage of this measure to buy their first home together.

Borrowing arrangements within super to impact new super rules

Effective date: 1 July 2017

Affected clients: Those who commence a new loan within their super on or after 1 July 2017

The Government will make amendments to the new super rules that are due to commence on 1 July 2017. These amendments are due to reduce any potential advantages a member may obtain through the use of limited recourse borrowing arrangements (LRBA) within their super account.

Where a new LRBA is entered into on or after 1 July 2017, the portion attributable to a particular member will be included in a member's annual total superannuation balance. This could affect their ability to make non-concessional contributions or carry forward any unused concessional contribution cap.

Further, any repayments of principal and interest of a LRBA from a member's accumulation account will be a credit to the member's transfer balance account.

Integrity of non-arm's length arrangements

Effective date: 1 July 2018

Affected clients: Those who have related party transactions in their SMSFs

The Government will reduce the opportunities for members to use related party transactions on non-commercial terms to increase super savings. The non-arm's length income provisions will be amended to ensure expenses that would normally apply in a commercial transaction are included when considering whether the transaction is on a commercial basis.

Deferral of Future Fund withdrawals

Effective date: drawdowns deferred by 12 months to now commence in 2021/22

Affected clients: No real impact

The Future Fund was established in 2006 with funds being set aside to, amongst other things, ensure that a number of unfunded government superannuation schemes would have sufficient funds available to commence paying member benefits as they became due.

The Government has decided to defer by 12 months (at a minimum) the time at which amounts could first be accessed from the Future Fund until the year commencing 1 July 2021. The Government has indicated they will continue to monitor the need for future withdrawals from this fund and may look to introduce further deferrals in the future.

Importantly for clients, this is not an indication that they will not be able to access accumulated super or pension arrangements from these funds in the future. Clients who are members of such funds should continue to have faith that the superannuation system will continue to remain a sustainable and secure system for retirement planning.

Extending tax relief for merging super funds

Effective date: Extended from 30 June 2017 to 30 June 2020

Affected clients: Those who are members of a super fund that choose to merge with another fund during the above period

Since 2008, the Government has provided tax relief for merging funds, which essentially has meant that there has been no realisation of underlying gains or losses on assets held by the merging funds. This relief is important for members of those funds as it avoids the need to physically sell assets, or for account balances to be impacted by tax outcomes where super funds choose to merge which each other.

This tax relief has seen a number of superannuation funds (particularly industry funds) merge over the last few years.

As there is currently a review underway into the efficiency and competitiveness of the Australian superannuation industry, the Government has extended this tax relief for another three years. This may lead to a further consolidation of superannuation funds into the future.

For clients, it is important that this is not seen as a reason to not review their current superannuation arrangements to see if they are in the right fund for them.

Increase in Medicare levy (and other comparable taxes)

Effective date: From 1 July 2019

Affected clients: Those subject to the Medicare levy

The Medicare levy increased from 1.5% to 2.0% of taxable income on 1 July 2014 to help fund the National Disability Insurance Scheme (NDIS). To ensure the NDIS is fully funded into the future, the Medicare levy will be further increased to 2.5% of taxable income from 1 July 2019.

In addition, other taxes which are based on the highest marginal tax rate (plus applicable levies), such as the fringe benefits tax rate, will be similarly adjusted.

Increasing the Medicare levy low-income threshold

Effective date: From 1 July 2016

Affected clients: Low income tax payers

The Medicare levy low income thresholds will increase for the 2016/17 income year. The table below outlines the new thresholds that will apply for the 2016/17 income year.

Taxpayer	New Threshold
Single	$21,655 (was $21,335)
Couples (with no children)	$36,541 (was $36,001)
Additional amount for each dependent child or student	$3,356 (was $3,306)
Single Seniors & Pensioners	$34,244 (was $33,738)
Senior and Pensioner Couples (with no dependent children)	$47,670 (was $46,966)
Additional amount for each dependent child or student	$3,356 (was $3,306)

The increase incorporates the movements in CPI so that low income taxpayers on incomes below the new threshold will continue to be exempt from paying the Medicare Levy.

Extension of $20,000 instant assets write-off for small business

Effective date: availability extended by 12 months to 30 June 2018

Affected clients: Small businesses with a turnover of up to $10 million

The $20,000 instant asset write-off allowing a small business with turnover up to $10 million p.a. a tax deduction for the purchase of assets worth up to $20,000 in the year of purchase was due to end on 30 June 2017. This tax concession will be extended for a further 12 months to 30 June 2018.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into a small business simplified depreciation pool and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter.

The reduced tax liability resulting from the tax deduction frees up cash flow for small business owners which can be used to sustain and/or expand their businesses.

From 1 July 2018, it is proposed that the asset value thresholds will revert to the previous $1,000 limit.

Cessation of the Temporary Budget Repair Levy

Effective date: 1 July 2017

Affected clients: Individuals with taxable income in excess of $180,000 pa

The 2% additional tax on an individual's taxable income in excess of $180,000 was introduced in 2014/15 and was levied for three financial years ending 2016/17.

This Levy will cease to apply from 1 July 2017.

Key Social Security Measures

New JobSeeker Payment

Effective Date: 20 March 2020

Affected clients: Recipients of working age income support payments

A new JobSeeker Payment will be introduced as the main working age payment. As a result, seven current working age payments will be consolidated or ceased to simplify the welfare system and ensure people in similar circumstances have similar participation requirements and payments.

On 20 March 2020, Newstart Allowance and Sickness Allowance recipients will transition to the new JobSeeker Payment to better reflect the expectation that working age people with a capacity to work should be in employment, looking for work or improving their skills to gain employment. The new JobSeeker Payment will be set at the same rate as Newstart Allowance and current mutual obligation exemptions for Sickness Allowance will be retained.

Widow Allowance and Partner Allowance cease on 1 January 2022, and by this stage all recipients will have reached Age Pension eligibility age.

Widow B Pension will cease on 20 March 2020 and recipients will transition to the Age Pension with no change to their payment rate.

Wife Pension, which has been closed to new recipients, will cease on 20 March 2020. Most recipients will transition to the Age Pension or Carer Payment at the same payment rate. Australian residents who do not qualify for these payments will transition to the new JobSeeker Payment. Transitional arrangements will ensure that those who transfer to the JobSeeker Payment have their rates preserved; however, those aged under 55 will be required to meet mutual obligation requirements.

Bereavement Allowance will be closed to new recipients from 20 March 2020 and will be replaced by the new JobSeeker Payment. Existing recipients of Bereavement Allowance will not be impacted by the change. Newly bereaved people on the new JobSeeker Payment will receive a triple payment in the first fortnight to reflect their higher upfront costs. The current mutual obligation exemptions will be retained.

Eligibility for the Pensioner Concession Card and the Health Care Card will not be affected by these changes.

Change in JobSeeker Requirements

Effective date: 20 September 2018

Affected clients: Job seekers aged 30 to Age Pension age

Under a new equitable participation framework, job seekers will now have to meet greater participation requirements to receive social security income support.

Currently, recipients aged 30 to 49 years are required to have part-time annual activity requirements of 30 hours per fortnight. From 20 September 2018, the requirements will be increased to 50 hours per fortnight.

Those aged 55 to 59 are currently allowed to meet their requirements by undertaking 30 hours of volunteer work. From 20 September 2018 only 15 hours of their annual activity requirement can be met through volunteer work, with consideration being given to persons in areas of higher unemployment.

Those aged 60 to Age Pension age who currently don't have activity requirements will be required to complete 10 hours of volunteer work.

Reduced Family Tax Benefit Part A for certain children

Effective date: 1 July 2018

Affected clients: Families with children who do not meet immunisation requirements

Family Tax Benefit Part A (FTBA) will be reduced by $28 per fortnight ($726 pa) for each child who does not meet immunisation requirements. Parents will need to ensure their children are immunised to receive the full FTBA.

Free catch up childhood vaccinations will be available for children and young adults aged up to 19 years old under the National Immunisation Program.

New job seeker framework introduces demerit system for job seekers

Effective date: 1 July 2018

Affected clients: Individuals under Age Pension age who receive income support

A new demerit system will be introduced to encourage job seekers receiving Social Security income support to comply with requirements to undergo approved training and education and/or actively find suitable work.

A job seeker will accrue demerit points whenever the recipient fails to turn up for appointments or employment interviews without good reason.

A job seeker who accrues at least 4 demerit points within six months will be subject to a three-strike Intensive Compliance Phase. The first strike will result in a reduction of the job seeker's social security payment by 50%. A second strike will result in a non-payment of their fortnightly payment and a third strike will result in a suspension of their payment for up to four weeks.

Job seekers receiving income support who are not actively looking for work or participating in activities that will help them find employment will need to meet requirements to avoid a reduction or suspension of their payments.

Increase in the Liquid Assets Waiting Period

Effective date: 20 September 2018

Affected clients: Individuals seeking a new income support payment from 20 September 2018

Currently, individuals applying for certain income support payments need to serve a Liquid Assets Waiting Period (LAWP) of up to 13 weeks where they have liquid assets in excess of $5,499 for singles, or $10,999 for members of a couple combined.

From 20 September 2018 the LAWP will double to a maximum period of 26 weeks when an individual's liquid assets are $18,000 or greater for singles without dependants, or $36,000 for singles with dependants or members of a couple combined.

Reinstatement of the Pensioner Concession Card

Effective date: 1 July 2017

Affected clients: Pensioners who lost their Pensioner Concession Card as a result of changes to the Age Pension asset test from 1 January 2017

The Government will reinstate the Pensioner Concession Card for pensioners who lost their card as a result of losing their Age Pension entitlement following the changes to the pension assets test from 1 January 2017.

Increase in residency requirement for Age Pension and Disability Support Pensions

Effective date: 1 July 2018

Affected customers: New applicants for the Age Pension and Disability Support Pensioner

Residency requirements to qualify for the Age Pension and Disability support pension will increase from 1 July 2018.

Individuals will be required to have 15 years of continuous Australian residency before being eligible to receive either payment, unless they have either;

- 10 years of continuous Australian residence, with five being during their working life, or
- 10 years of continuous Australian residence, without having received an activity tested income support payment for a cumulative period of five years.

As a result of these changes, those who wish to apply for age and disability support pension may have to wait longer periods to receive payments.

Family Tax Benefit rates frozen

Effective date: 1 July 2017

Affected clients: Families receiving FTB Part A and B

Family Tax Benefit rates will be frozen for two years and will not be indexed to CPI until 1 July 2019. This change applies to the standard, base rate and approved care organisation rate of FTB Part A and the maximum rate of FTB Part B.

Consistent income treatment for families receiving Family Tax Benefit Part A

Effective date: 1 July 2018

Affected clients: Families receiving FTB Part A

From 1 July 2018, a flat 30 cents in the dollar income test taper will apply to families with household income in excess of the Higher Income Free Area (currently $94,316), ensuring higher income families are subject to the same taper rate.

Some families will lose access to or see a reduction in Family Tax Benefit Part A.

Energy Assistance Payment

Effective date: 20 June 2017

Affected clients: Australian residents on qualifying payments

A one-off energy assistance payment of $75 for single recipients and $125 per couple will be made to those eligible for qualifying payments on 20 June 2017 and who are Australian residents.

HELP debt repayment income threshold reduced

Effective date: 1 July 2018

Affected clients: Persons who have or will have a HELP debt earning at least $42,000 pa

The income threshold at which persons with existing HELP debt will be required to make HELP debt repayments will reduce from $54,869 (in 2016/17) to $42,000 pa from 1 July 2018. The repayment rate will start at 1% and will increase to 10% once the maximum threshold of $119,882 is reached. Each progressive threshold is set at six per cent higher than the preceding threshold, while repayment rates increase in 0.5% increments.

This means that graduates will have less disposable funds available after repayments are made.

New indexation arrangements for repayment thresholds for HELP

Effective date: 1 July 2019

Affected clients: Persons who have or will have a HELP debt

The indexation of HELP repayment thresholds, currently linked to Average Weekly Earnings (AWE), will be changed to Consumer Price Index (CPI) to improve the sustainability of HELP.

Growth in AWE has been typically faster than CPI, which means this change will likely result in loan repayments to the Commonwealth being made more quickly.

This means that in future as graduates' incomes will likely grow quicker than the thresholds, they will need to make higher minimum repayments. As a result they will have less disposable income available after repayments are made.

Rebalancing student contributions towards course fees

Effective date: 1 January 2018

Affected clients: University students

Student contributions will be increased by 7.5% over 4 years from 1 January 2018. This will capture all students regardless of when they commenced their study.

Other Key Measures

Reducing pressure on housing affordability

The 2017/18 Federal Budget contained a number of measures to reduce pressure on housing affordability, and this was done through a combination of measures, designed to either increase the level of housing available, or change the taxation implications for certain investors.

Affordable housing through Managed Investment Trusts

Effective date: 1 July 2017

Affected clients: Those seeking to invest in residential rental property

To encourage investment in affordable housing, the Government will enable Managed Investment Trusts (MITs) to invest in affordable housing.

Investments through certain managed investment trusts will also be eligible for the higher CGT discount (refer next page). There are additional conditions that apply, such as at least 80% of the investment trust's assessable income needs to come from affordable housing, and the housing needs to be available for rent for a minimum of 10 years.

Annual charge on foreign owners of underutilised residential property

Effective date: 7:30pm AEST on 9 May 2017

Affected clients: Foreign owners of residential property

To encourage foreign owners of residential property to make their properties available for rent when not in use, the Government will introduce a charge if the property is not occupied or available for rent for more than 6 months of the year.

The charge will be levied annually, equivalent to the relevant foreign investment application fee imposed on the property at the time it was acquired by the foreign investor.

This measure will apply to foreign persons who make a foreign investment application for residential property from Budget night.

Capital gains tax changes for foreign investors

Effective date: 7:30pm AEST on 9 May 2017, 1 July 2017, 1 July 2019

Affected clients: Foreign owners of residential property

Foreign investors will no longer be eligible to access the CGT main residence exemption on Australian owned property. Grandfathering will apply for those existing owners until 30 June 2019.

The CGT withholding rate for foreign investors will increase from 10% to 12.5% and the CGT withholding threshold for foreign investors will reduce from $2 million to $750,000 from 1 July 2017.

Disallow deductions for travel expenses for residential rental property

Effective date: 1 July 2017

Affected clients: Owners of residential investment property

From 1 July 2017, the Government will disallow deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property.

For anyone owning residential investment properties, including self-managed super funds, this may have a slight impact on overall tax payable. If the investor wishes to engage a real estate agent to undertake these activities for them, those costs will remain deductible. It's important to note that it is only the costs of travel that are being denied tax deductibility. Costs of repairs and maintenance remain deductible, as do travel costs relating to commercial (non-residential) property.

Expanding tax incentives for investing in affordable housing

Effective date: 1 January 2018

Affected clients: Investors in qualifying affordable housing

From 1 January 2018, the CGT discount for individuals will be increased from the current 50% to 60% for Australian residents who invest into qualifying affordable housing.

To qualify for the higher discount, housing must be provided to low to moderate income tenants, with rent charged at a discount below the private rental market rate. The affordable housing must be managed through a registered community housing provider and the investment held for a minimum period of three years.

Restricting foreign ownership in new developments to no more than 50%

Effective date: 7:30pm AEST on 9 May 2017

Affected clients: Foreign owners of residential property

A 50% cap on foreign ownership in new developments will be introduced through a condition on New Dwelling Certificates. The cap will be included as a condition on New Dwelling Certificates where the application was made from 7:30pm AEST on 9 May 2017.

Economic Update

Focusing on the detail of the Budget has provided diminishing returns in an environment where minor parties in the Senate increasingly have the power to decide which policies will proceed. The fourth Coalition budget is still dealing with budget plans announced in the first Abbott/Hockey budget in 2014 which were never legislated, while reiterating policies such as company tax cuts and infrastructure spending tabled in last year's Budget.

What stands out in the 2017 Federal Budget is the Government's desire to distance itself from previous Budgets which tried to garner public support by focusing on the supposed impending disaster if the Government did not rein in government debt, and by extension move the Budget into surplus. Instead this Budget was positioned as one where policies would be implemented on their merits. The notion of 'good debt' and 'bad debt' floated by the Treasurer in the lead up to the Budget provided the basis for this shift in approach and makes it possible for the Government to involve itself in 'nation building' without compromising its credentials of keeping (bad) Government debt under control.

Spending measures

Increased infrastructure spending dominates the Budget priorities with $75 billion in infrastructure funding and financing over the next 10 years. Some of these projects such as the Brisbane to Melbourne rail link were announced in the previous budget but new proposals such as the Western Sydney Airport, the Snowy Mountains Scheme 2.0 and increased spending on regional and urban rail are largely new initiatives. Most other spending measures are offset by savings in other areas: increased schools funding is offset by savings in university funding, while increased funding for the Australian Federal Police comes at the expense of foreign aid. Housing affordability, which continues to loom large as an issue, is addressed by helping first home buyers through the concessional tax treatment of funds put aside for a house deposit and a number of initiatives to increase the supply of housing including unlocking government owned land for housing development.

Tax and Revenue measures

The Budget introduces a new levy on banks with liabilities greater than $100 billion which is expected to raise more than $1.5 billion per year from the big four banks and Macquarie Group. While the Budget Papers state this is for the purpose of Budget repair, it is likely to at least partially fund increased costs associated with the new Financial Complaints Authority and an expanded role for the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC) in monitoring financial service providers. Other new revenue measures include an increase in the Medicare levy from 2% to 2.5% from 1 July 2019 to help pay for the National Disability Insurance Scheme. Measures recycled from the last Budget include a cut in the company tax rate to 25% over the next decade and an extension of the laws to limit the ability of large multinationals to avoid paying tax.

Budget and Economic forecasts

The underlying deficit is expected to decrease from $37.6bn in 2016-17 to $29.4bn or 1.6% of GDP in 2017-2018. Reduced income tax revenue resulting from lower than expected wages is only partially offset by higher taxes from companies over the forward estimates. Nevertheless, together with new policies, the Government expects the Budget to return to surplus by 2020-21 as previously promised.

With respect to economic forecasts, the Budget Papers show real GDP growth of only 1.75% in 2016-17 due to the impact of floods in early 2017. This will prove temporary with growth rebounding to 2.75% in 2017-2018. Despite this improvement in economic growth, the unemployment rate is expected to remain stuck at around 5.75% and wages growth is seen improving only marginally to 2.5%.

Important Super Reform and Budget Proposal dates

The 2017 Federal Budget contained proposals which are intended to take effect on a number of dates over the next couple of years.

The following timeline shows how those dates align with the upcoming super reform dates. It's important to remain aware of these important dates to ensure opportunities are taken advantage of.

Taxpayer	New Threshold
9 Nov 16	• Start of pre-commencement period – Assets must have been held by the superannuation fund for fund to claim temporary CGT relief
30 Jun 17	• Last opportunity to make NCC of $540K • Returns on assets supporting TTRs no longer tax exempt • Temporary Budget Repair Levy expires
1 Jul 17	• Concessional contributions can count towards the First Home Saver Scheme (Budget 17 proposal) • Introduction of $1.6 million transfer balance cap – Existing pension balances added to personal transfer balance caps • Non-concessional cap of $100K per annum introduced • Concessional cap reduced to $25,000 for all • Anti-detriment payments not payable where death occurs from this date • Removal of 10% rule requirement on making personal deductible contributions • Div 293 tax threshold reduced to $250K from $300K per annum
31 Oct 17	• First returns due date for SMSFs - applies to those which lodged late in 15/16 financial year and new funds without a tax agent – last date for CGT relief election for these funds
30 Jun 18	• Final date for small business to use asset to qualify for increased immediate deduction of $20,000 (Budget 17 proposal)
1 Jul 18	• Those over 65 downsizing their home may contribute up to $300,000 into superannuation as non-concessional contributions with reduced requirements (Budget 17 proposal) • Withdrawals can be made under the First Home Savers Scheme (Budget 17 proposal) • Unused concessional contributions can be accumulated from this date
1 Jul 19	• Medicare levy increasing by 0.5% to 2.5% (Budget 17 proposal) • Can commence using catch up concessional contributions

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