Federal Budget Analysis 2017

According to the Federal Treasurer, Scott Morrison, the 2017-18 budget is intended to be a “practical” budget. Mr Morrison pointed out that the economic changes we’ve experienced over recent years have delivered overall benefit but still left many Australian’s “digging deep”, with not all sharing in the nation’s growth and prosperity. Many of our small businesses and SMEs have gone without just to keep their businesses open.

So what does this budget hold for families and businesses which makes it “practical” and delivers on Mr Morrison’s vision of “fairness” and “opportunity”? Well, depending on where you sit there are winners and losers. Overall however there are fewer significant changes when compared to budgets in prior years, indicating a cautious Government looking to win back much needed community support.

Super

This budget presents nothing like the changes put forward last year which affect super. However the Government is proposing adjustments to how property with debt is treated in SMSF, and there is good news for ‘downsizers’ who can benefit from a new non-concessional contribution incentive.

Business

There is some positive support for business in the form of extending the instant asset write-off and implementing the first phase of the 10-year Enterprise Tax Plan. Importantly, the Government is proposing significant initiatives across infrastructure and health which are designed to create “more and better paid jobs” across all markets.

The Government says that the global economic outlook is good and that we can expect 3% real growth rebound over the next two years.

Individuals & Families

Mr Morrison spoke of the pressures on families and that we are “moving to the end of a difficult period”. Initiatives for individuals and families are a key feature of this year’s budget. However, changes to the Medicare levy are earmarked to fund the National Disability Insurance Scheme and the new “Guarantee Medicare Bill” will come at a cost to taxpayers. Stimulating housing stock is designed to provide affordable housing as well as jobs growth, while higher education students will find their costs increase and pensioners will win back some benefits.

INDIVIDUALS & FAMILIES

Changes to Personal Taxes

- **2% Debt Levy wound back**

Some good news for taxpayers with taxable incomes which exceed $180,000 – the debt levy of 2% that increased the tax rate for these income earners to 49% will come to an end on 30 June 2017 with no indication that this will be reintroduced.

- **Medicare Levy Up**

Medicare is getting a boost but the counter is a measure predicted to make $8.2billion for the Government over four years.

Most workers will be hit hard when the Medicare levy increases from 2% to 2.5% of taxable income from 1 July 2019 to fund the National Disability Insurance Scheme.

Individuals will only be exempt if their income is below the threshold of $21,655 for singles, $36,541 for families and $34,244 for pensioners.

Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased.

- **Travel Expenses related to residential rental properties disallowed**

From 1 July 2017 with the aim of gaining $540million in revenue, travel expenses related to inspecting or collecting rent for a residential rental property will be disallowed.

- **Depreciation deductions limited for residential rental properties**

To address concerns that some plant and equipment items are being depreciated by successive investors in excess of their actual value, from 1 July 2017, investors can only claim depreciation on plant and equipment they actually acquire and not on items that are acquired from the previous owner of the property.

- **CGT Discount increased to 60% for "affordable housing" investments**

From 1 January 2018, the CGT discount will increase from 50% to 60% for capital gains made by resident individuals from the sale of investments in "Affordable Housing".

"Affordable Housing" are properties that are:

- managed through a registered community housing provider;
- provided to low to moderate income tenants;
- with rent charged at a discount below the private rental market rate.

In addition, you must also own the property for a least three years to access the extra discount.

- **Purchasers of new residential properties to remit GST**

From 1 July 2018, if you acquire a newly constructed property or new subdivision and GST is included in the purchase price, you will be required to remit the GST directly to the ATO at the time of settlement.

Previously, the developer who sold the property would collect the GST and remit the amount to the ATO.

- **New HELP repayments and thresholds for higher education debt**

From 1 July 2018 a new minimum threshold of $42,000 will be established with a 1% repayment rate. Currently the minimum repayment threshold for the 2017/2018 year is $55,874 with a repayment rate of 4%.

Foreign Residents

Foreign investors in Australian residential property are facing tougher rules. This includes the removal of the main residence Capital Gains Tax exemption, tightened compliance and a cap of 50% sales to overseas investors in new developments. There will also be a levy on all foreign investors who fail to either occupy or lease their property for at least six months of the year.

- **Capital Gains Tax Changes**

Individuals who are foreign or temporary residents will no longer have access to the CGT main residence exemption from 9 May 2017. Existing properties held before this date will continue to be exempt until 30 June 2019.

Currently, the foreign resident CGT Withholding rate applies to Australian real property or related interests valued at $2million or more. From 1 July 2017 not only will the threshold be reduced to $750,000 but the rate will be increased from 10% to 12.5%.

- **Annual Levy on vacant residential properties**

As a measure to make more rental properties available, a charge of at least $5,000 will be levied annually on foreign owners of residential property where the property is not occupied or genuinely available on the rental market for at least six months.

The measure will apply to foreign investors who make a foreign investment application for residential property from 9 May 2017.

- **Foreign ownership in new developments restricted to 50%**

With the aim of increasing housing stock to Australian purchasers, a 50% cap on foreign ownership in new developments will be introduced through a condition on new dwelling exemption certificates from 9 May 2017.

New dwelling certificates are granted to a property developer and act as a pre-approval allowing the sale of new dwellings in a specified development to foreign persons without each foreign purchase seeing their own foreign investment approval. The current certificates do not limit the sales that are made to foreign purchasers.

New & Existing Home Owners

- **Major Bank Levy**

A new major bank levy is to be implemented affecting five of Australia’s biggest banks in an effort to level the playing field among big and small bank lenders. The Government proposes to monitor the potential impact on residential mortgage pricing with the aim to ensure that the levy is not passed on through mortgage pricing and fees to borrowers.

- **Access to Super for first home deposit**

From 1 July 2017, individuals will be given the option of piggybacking on their superannuation to access a kind of super-charged savings account, which will allow savers to salary sacrifice up to $30,000 – with $15,000 in a single year – from their pre-tax income. It will receive the same favorable tax treatment as superannuation.

Then from 1 July 2018, individuals will be able to withdraw the contributions and the earnings for a first home deposit.

The withdrawals will be taxed at an individual's marginal rate, less a 30% tax offset.

Pensioners

The Government will provide $268.9 million over two years for a one-off winter energy payment in 2016-17 of $75 to singles and $125 per couple.

The pensioner concession card will be restored to those who lost it after the pension assets test change introduced earlier this year. Seniors will regain access to state and territory based concessions that were lost after the changes.

The Government will also provide $5.5 billion for home support services for the elderly as Australia's population continues to age. However the residency requirements will be tougher, with recipients required to have 15 years of continuous Australian residence in order to access the support funding.

Anti-vaxxers "No Jab No Pay"

Parents who don't vaccinate their children will be $14-a-week worse off, with $28 set to be wiped from their family tax benefits every fortnight.

The measure, which will start from July 2018, is expected to raise $15million over four years, while sending a tough message to those who fail or refuse to immunise their children.

Welfare recipients

A crackdown on unemployed Australians with drug and alcohol habits will include penalties for those who fail to turn up to appointments or work-for-the-dole placements due to intoxication, with payments to be reduced or cancelled.

A further initiative will target single parents who attempt to collect multiple welfare payments. Single-parent households will be subjected to closer scrutiny to verify any relationship status.

Smokers

Roll-your-own tobacco and cigars will soon be more expensive under a plan to bring their tax treatment in line with pre-made cigarettes. The change will be phased in over four years from 2017 to 2020, to coincide with the existing annual 12.5 per cent tobacco tax increases which occur on 1 September each year.

The move is expected to claw an extra $360million in tax revenue.

A boost for those in regional areas

Those living in regional areas can look forward to some improved infrastructure. Firstly, the government will provide an extra $8.4billion in equity investment to the Australian Rail Track Corporation to deliver inland rail. It's earmarked as a boost for regional Australia and a boon for jobs growth.

There will be $28.5million to establish the Regional Investment Corporation to streamline the delivery of $4 billion in concessional loans. This includes the $2 billion National Water Infrastructure Loan Facility and the $2 billion Farm Business Concessional Loan Scheme.

Superannuation

Most had thought taxation of super would be untouched given the significant changes which were announced in last year's budget.

- **SMSFs with loans targeted for $1.6million cap**

The Government proposes to introduce legislation confirming that from 1 July 2017, the use of Limited Recourse Borrowing Arrangements will be included in a member's total superannuation balance and transfer balance cap.

This is a highly controversial proposal because, in addition to capturing a larger amount against the transfer balance cap by adding outstanding loans to member balances, the interplay with the total superannuation balance could threaten the ability of the member to make a contribution which in turn could affect the fund's ability to service the loan.

- **Added bonus for 'downsizers'**

Older Australians will benefit from the incentive to 'downsize' their home property.

From 1 July 2018, an individual aged 65 or over can make a non-concessional contribution into superannuation of up to $300,000 from the proceeds of selling their home. The key requirement is that they must have owned the home for at least 10 years.

The contributions are in addition to existing rules and caps and exempt from the works test, the $1.6million total superannuation balance test and age test for making non-concessional contributions.

This is available to both members of a couple for the same home.

SME BUSINESS

- **Instant asset write-off extended**

The $20,000 instant asset write-off concession will be extended for another year. This now applies to businesses with a turnover of up to $10million since the recently legislated expansion of the definition of a small business which was announced in last year's budget. It's noted that this is potentially more valuable in the current year due to the 2% reduction in the top marginal personal income tax rates (discussed above).

- **More support for small business**

The Government will provide $15million over two years to undertake a small business information campaign to educate the small business community about what programs and support are available to assist them.

- **CGT concessions to tighten**

The Small Business CGT Concessions will be tightened to deny eligibility for assets which are unrelated to the small business. This effectively closes a loophole whereby ownership interests in larger businesses did not count towards the tests for determining eligibility for the concessions. The exact mechanism to achieve this result remains to be seen, however it's expected that where access to the concessions is established through the $2million turnover test, the relevant asset that the concession may apply to must be used in that business (or another business you are connected to), rather than, for example, a shareholding in another active business or an unrelated active asset.

- **Accessing Crowd-Sourced funding**

The Crowd-Sourced Equity Framework (CSEF) regime will be extended to proprietary companies through additional funding with the aim of facilitating crowd-sourced financial contributions.

- **Skilling Australia**

Businesses employing foreign workers on skilled visas will be subject to a new regime including an upfront levy. The levy is designed to fund a new 'Skilling Australia Fund'. For each employee on a Temporary Skill Shortage visa the levy will be an upfront payment of $1,200 for small business (<$10m turnover) or $1,800 for other businesses. For each employee being sponsored for a subclass 186 or 187 visa the payment required will be $3,000 for small business and

$5,000 for other businesses.

- **Increased reporting for courier and cleaning businesses**

The taxable payments reporting system (TPRS) currently in place in the building industry will be extended to contractors in the courier and cleaning industries. Business owners will be required from 1 July 2018 to report payments (individual and total for the year) that they make to contractors. The first annual report will be due in August 2019.

- **A boost for manufacturing, tourism and Indigenous businesses**

Just over $100million will be allocated over five years to establish an Advanced Manufacturing Fund to promote research and capital development for high technology manufacturing businesses.

Indigenous businesses and entrepreneurs will receive increased business support, albeit from a new department, including training, loan products and capital support.

$5million will be provided for tourism operators in Queensland.

Business Administration

The Government will seek to incentivise the States and Territories to cut “red tape” for small business and SMEs with rewards when they do. It remains to be seen what red tape is to be targeted and how and what the rewards will include.

HEALTH SECTOR CHANGES

- **Lifting the Medicare freeze**

The Medicare Benefits Schedule (MBS) will be unfrozen at an expected cost of $1billion over four years. The bulk-billing incentives for General Practitioners will be indexed from 1 July 2017, standard consultations by General Practitioners and specialist attendances will be indexed from 1 July 2018, and from 1 July 2019 indexation will apply to specialist procedures and allied health services.

Diagnostic imaging items on the MBS will be indexed from 1 July 2020. There will also be some minor amendments to MBS items with a focus on cancer screening.

Improvements to MBS compliance arrangements and debt recovery practices are anticipated to result in combined savings of $104million over four years. It will target unusual business billing and “improve the consistency of administrative arrangements”.

The MBS Review Taskforce will continue the review of the MBS with the aim of improving patient outcomes and $67million will be spent in 2017-18 in modernising the health and aged care payments system.

- **Hospital & health funding increases**

The Government has indicated a total of $10.2billion for vital health funding. This includes additional funding of $2.8billion to be provided to a range of hospitals and $1.4billion to health research.

Up to $12.5million over six years will be allocated to the Central Coast Health & Medical Campus establishment in order to stimulate jobs and training access and participation.

There will be $115million for mental health initiatives, with $80million for severe mental illness support.

- **Changes to the PBS**

The PBS will increase statutory price reduction arrangements with medicine manufacturers resulting in Government savings of $1.8billion over five years and reducing the cost of medicines for the public. A much needed win for individuals and families.

- **My Health Record System**

Funding will be provided for the My Health Record system and the previously mooted national opt-out arrangements will be implemented.

- **NDIS**

The National Disability Insurance Scheme is to be fully-funded by the 0.5% increase to the Medicare Levy from 2020 with legislation also to be passed to guarantee Medicare and the PBS.

OTHER ENTERPRISES

Extension to the 'Google Tax' rules

Multinational anti-avoidance rules (such as the Diverted Profits Tax) will be extended to include partnerships and trusts. This will apply retrospectively from 1 January 2016.

Find out more

We are available to discuss your specific circumstances with you and to assist with any decisions you might be considering. Don't hesitate to get in touch with your Prosperity Adviser today or give us a call on 1800 855 844.

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