TapIn Flash

For Adviser use only **2017/03**

10 May 2017

2017-18 Federal Budget – Adviser Briefing

Last night's Federal Budget contained a number of proposals that will impact the financial planning industry.

The commentary in this document is based on TapIn's initial observations and interpretation of the proposals based on the limited details provided in the Budget papers.

Importantly, these proposals require passage of legislation before they are implemented. TapIn will continue to monitor these proposals and issue further communications as more details emerge.

Superannuation

1. First Home Super Saver Scheme

Proposed effective date: 1 July 2017

From 1 July 2017, individuals can make voluntary contributions (e.g. salary sacrifice, personal tax deductible, and non-concessional contributions) of up to $15,000 per year and $30,000 in total, to their superannuation account to purchase a first home. These limits apply to each individual – that is, a couple combined can contribute up to $30,000 per year and $60,000 in total.

Voluntary contributions under this scheme must be made within existing superannuation caps.

Withdrawals of the contributed amounts along with the deemed earnings will be allowed from 1 July 2018. The amount of earnings that can be released will be calculated using a deemed rate of return based on the 90 day Bank Bill rate plus three percentage points.

The withdrawals of concessional contributions and associated earnings will be taxed at the individual's marginal tax rates less a 30% tax offset. When non-concessional amounts are withdrawn, they will not be taxed, but we anticipate that the earnings will be taxed at the individual's marginal tax rates less a 30% tax offset.

The First Home Super Saver Scheme will be administered by the ATO, which will determine the amount of contributions that can be released and instruct superannuation funds to make these withdrawal payments. The ATO will also be responsible for administering compliance mechanisms to ensure that people purchase their first home after they withdraw from superannuation for their deposit.

Observation:

- This measure may assist singles/couples to accumulate a deposit for a first home quicker than through other forms of voluntary savings.

2. Contributing the proceeds of "property-downsizing" to superannuation

Proposed effective date: 1 July 2018

Currently, individuals aged 65 to 75 who want to make voluntary superannuation contributions must satisfy a work test. People over age 75 are generally unable to contribute to superannuation.

The Government proposes that from 1 July 2018, people aged 65 and over will be able to make a non-concessional contribution into their superannuation of up to $300,000 from the proceeds of selling their home, irrespective of their age, work status, and total superannuation balance.

Further, both members of a couple will be able to take advantage of this measure for the same home, meaning $600,000 per couple can be contributed to superannuation under this measure.

This measure will only apply to a principal place of residence held for a minimum of 10 years.

These contributions will be in addition to any other concessional or non-concessional contributions individuals are eligible to make.

Observations:

- Although the $1.6 million total superannuation balance assessment will not apply to these contributions, once the contribution is made, only individuals who have remaining transfer balance cap space available can convert their contributions into a retirement phase pension account where earnings are tax-free.
- Importantly, there does not appear to be any special social security concessions associated with this measure. As such, social security clients may be adversely impacted.

3. SMSF – Limited recourse borrowing arrangements (LRBA)

Proposed effective date: 1 July 2017

The Government is proposing to include the outstanding balance of a LRBA in the calculation of a member's total superannuation balance (TSB).

Further, the repayment of the principal and interest of a LRBA from a member's accumulation account will result in a credit in the member's pension transfer balance account*.

It's worth noting that these measures were previously outlined in Exposure Draft legislation released for industry consultation on the 27th April 2017 – submissions closed on the 3rd May 2017.

According to this exposure draft, existing LRBA's would not be impacted. That is, the exposure draft indicated that these proposed measures would broadly only apply for LRBA's entered into on or after the legislation receives Royal Assent.

* The exposure draft legislation provided that a credit to a member's pension transfer balance account would only occur where loan repayments result in a transfer of value from accumulation to pension phase.

Observations:

- Including the outstanding balance of an LRBA in the calculation of a member's TSB will impact on a member's ability to:
  1. Make non-concessional contributions – where their TSB exceeds $1.6 million, or
  2. Utilise the concessional contribution catch-up provisions (from 1 July 2018) where their TSB exceeds $500,000.

4. SMSF – Non-arm's length arrangements

Proposed effective date: 1 July 2018

The Government is proposing to reduce opportunities for members to use related party transactions on non-commercial terms to increase superannuation savings.

In order to do so, 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.

Taxation – General

5. Marginal tax rates remain unchanged

Marginal tax rates are unchanged from 2016-17. As legislated, the Temporary Budget Repair Levy (TBRL) will expire on 30 June 2017. The TBRL is an additional 2% on the top marginal tax rate.

Resident and non-resident marginal tax rates for 2017-18 are shown in the table below.

<table>
<tr><th colspan="2">Residents</th><th colspan="2">Non-residents</th></tr>
<tr><th>Income ($)</th><th>Marginal tax rate (%)</th><th>Income ($)</th><th>Marginal tax rate (%)</th></tr>
<tr><td>0 – 18,200</td><td>0</td><td rowspan="3">0 – 87,000</td><td rowspan="3">32.5</td></tr>
<tr><td>18,201 – 37,000</td><td>19</td></tr>
<tr><td>37,001 – 87,000</td><td>32.5</td></tr>
<tr><td>87,001 – 180,000</td><td>37</td><td>87,001 - $180,000</td><td>37</td></tr>
<tr><td>> 180,000</td><td>45</td><td>> 180,000</td><td>45</td></tr>
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Note: Medicare levy may also apply, see below.

Observations:

- The Low Income Tax Offset (LITO) remains unchanged which gives resident taxpayers an effective tax free threshold of $20,542 in 2017-18.

- Older Australians eligible for the Seniors and Pensioners Tax Offset (SAPTO) have an effective tax free threshold of up to $32,279 for singles and up to $28,974 for each member of a couple, also unchanged.

6. Increase to Medicare Levy

Proposed effective date: 1 July 2019

The Medicare levy is proposed to increase from 2% to 2.5% from 1 July 2019. The Medicare levy is still assessed on taxable income.

The increase in the Medicare levy will be used to assist the funding of the National Disability Insurance Scheme (NDIS).

Other tax rates which are linked to the top marginal tax rate (i.e. 47.5% following the increase) will also rise, such as the fringe benefits tax rate and the rate applied to employment termination payments in excess of the ETP cap (currently $195,000).

7. Increasing the Medicare levy low-income thresholds

Proposed effective date: 1 July 2016

The Medicare levy thresholds for low-income singles, families and seniors and pensioners will increase in the 2016-17 income year. The increases are based on movements in the consumer price index (CPI) so that low income earners are generally not liable for the Medicare levy.

The threshold for singles will increase to $21,655. The family threshold will increase to $36,541 plus $3,356 for each dependent child or student.

For senior singles and pensioners the threshold will increase to $34,244. The family threshold for seniors and pensioners will increase to $47,670 plus $3,356 for each dependent child or student.

8. Residential investment property – disallowance of deduction for travel expenses and limitation on deductible depreciation

Proposed effective date: Various

From 1 July 2017, travel expenses incurred in inspecting, maintaining or collecting rent on residential investment properties will no longer be tax deductible. Residential property investors will continue to be able to deduct fees paid to real estate agents or other property managers for these services.

In a separate proposal, depreciation deductions for plant and equipment in residential investment property will be limited to the actual expenditure incurred by the investor. Such fixtures include dishwashers and ceiling fans.

This is an integrity measure designed to ensure that successive purchasers of a property cannot depreciate an asset beyond its actual cost.

This measure will apply on a prospective basis with plant and equipment forming part of residential investment properties as at 9 May 2017 continuing to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.

Investors who purchase plant and equipment for a residential investment property after 9 May 2017 will be able to claim depreciation over the effective life of the asset. However, subsequent owners of the property will not be eligible to claim such depreciation allowances.

Taxation – Small business

9. Instant asset tax write-off extension

Proposed effective date: 1 July 2017

The Government has announced a further extension to 30 June 2018 of the accelerated depreciation rules.

These rules include allowing businesses with annual aggregated turnover of less than $10 million to immediately deduct purchases of eligible assets costing less than $20,000 where first used or installed ready for use by 30 June 2018.

10. Company tax rate reduction

Legislated from: 1 July 2016

Federal Parliament has now also finalised passage of legislation to reduce the company tax rate.

The first step involves reducing (from 28.5%) to 27.5% for the 2016-17 income year the corporate tax rate for companies that are small business entities. That is, companies that carry on a business and have an annual aggregated turnover of less than $10 million (up from the existing under $2 million for this purpose).

Other companies remain subject to the 30% corporate tax rate.

The second step involves subsequent increases in this annual aggregated turnover threshold so that progressively larger companies that are carrying on a business will qualify for the 27.5% corporate tax rate.

The legislation provides for the following increase in the annual aggregated turnover threshold that will attract the 27.5% corporate tax rate:

Income year	Aggregated turnover under ($ million)
2017-18	25
2018-19	50

Then, from 2024-25 the tax rate for these companies with an annual aggregated turnover less than $50 million will be progressively reduced as follows:

Income year	Company Tax Rate (%)
2024-25	27
2025-26	26
2026-27	25

11. Unincorporated businesses – annual aggregated turnover threshold

Legislated from: 1 July 2016

The annual aggregated turnover threshold from 1 July 2016 is to be increased to $5 million (up from $2 million) for unincorporated business looking to qualify for the small business income tax offset.

This small business income tax offset will progressively increase to 16% of an individual's tax liability related to their net small business income by the 2026–27 tax year.

For the 2016–17 to 2023–24 tax years, the tax offset is to increase to 8% (up from 5%).

The offset is available to unincorporated small businesses and is currently 5% of the individual's net small business income tax liability capped at a maximum offset of $1,000 per annum.

Despite these increases in the tax offset percentage, the dollar amount will remain an annual maximum of $1,000 of an individual's tax liability related to small business net earnings.

The existing $2 million aggregated turnover / $6 million net asset value thresholds are to be retained (unchanged) for the Small Business CGT concessions.

Families and Social Security

12. Liquid Asset Waiting Period (LAWP) extended

Proposed effective date: 20 September 2018

Currently, applicants for Youth Allowance, Austudy, Newstart and Sickness Allowance are required to serve a LAWP to reflect their available liquid assets. However, there is no LAWP if the applicant has less than $5,000 (single) or $10,000 (couple) in liquid assets. Those who exceed these thresholds can be required to serve a waiting period of between one and 13 weeks.

The Government is proposing to increase the maximum LAWP from 13 weeks to 26 weeks.

Observation:

- As a result of this change, those with liquid assets in excess of $18,000 (single) and $36,000 (couple) will be required to serve the maximum 26 week waiting period.

13. Changes to Newstart Activity tests for over 55's

Proposed effective date: 20 September 2018

A new participation framework will apply from 20 September 2018:

- Recipients aged 55 to 59 will only be able to meet up to half of their participation requirements through volunteering; and
- Recipients aged between 60 and Age Pension age will have a new activity requirement of 10 hours per fortnight that can be met through volunteering.

14. Pensioner Concession Card reinstated

Proposed effective date: 2017-18

Due to the assets test changes that came in 1 January 2017 some pension recipients were no longer entitled to a payment and as a result lost their Pensioner Concession Card (PCC). At the time those affected were issued with a Low Income Health Card and in some cases a Commonwealth Seniors Health Card.

Although these cards provide clients with access to discounted medication under the Pharmaceutical Benefits Scheme, they don't provide all the ancillary benefits that the PCC provided.

The Government will reinstate the PCC to those who lost their payment as a direct result of the 1 January 2017 asset changes.

15. One off Energy Assistance Payment

Proposed effective date: 20 June 2017

Individuals in receipt of a qualifying income support payment will receive a one off payment of $75 for singles and $125 for couples combined to assist with energy bills.

Qualifying payments include the Age Pension, Disability Support Pension, Parenting Payment Single, Veterans' Service Pension, Veterans' Income Support Supplement, Veterans' disability payments, War Widow Pension, and permanent impairment payments under the Military Rehabilitation and Compensation Act 2004.

16. Changes to residency requirements for Pensioners

Proposed effective date: 1 July 2018

Currently, to be eligible for Age Pension and Disability Support Pension (DSP), applicants must have 10 years of total Australian qualifying residence. This must include at least one period of five years or more of continuous residency.

From 1 July 2018 applicants will require one of the following to be met instead:

- 15 years of continuous Australian residence; or
- 10 years continuous Australian residence, with five of these years being during their working life (age 16 to 65); or
- 10 years continuous Australian residence, without having received an activity tested income support payment (e.g. Newstart) for a cumulative period of five years.

17. Reform of working age payments

Proposed effective date: Various

To simplify the social security system, seven working age payments will be combined or phased out completely.

From 20 March 2020 Newstart allowance and Sickness allowance recipients will transfer to a new

Jobseeker Payment at the same rate.

Widow Allowance will be closed to new entrants as at 1 January 2018. The payment will cease to exist in January 2022 when all existing recipients will have reached age pension age.

Bereavement Allowance, which is a temporary 14-week benefit to compensate those adjusting to the loss of a partner, will cease from 20th March 2020. Jobseeker Allowance will have bereavement provisions built in from this point to allow exemptions from the activity test (i.e. looking for work) for 14 weeks.

The following payments, which are no longer open to new applicants, will cease.

- Wife Pension: Will cease from 20 March 2020 and recipients will transfer to Age Pension, Carer Payment or Jobseeker Payment depending on their circumstances. Clients who switch to the lower Jobseeker Payment will maintain their previous payment level.
- Partner Allowance: Will cease on 1 January 2022, when all current recipients have reached Age Pension age.
- Widow B Pension: Existing recipients will transition to Age Pension on 20 March 2020.

Other

18. Earlier Budget measures being abandoned

Proposed effective date: Various

The Government will not proceed with the unlegislated components (sometimes referred to as “zombie measures”) of measures reported prior to the 2016-17 Budget. This includes the following measures:

- Increasing the age of eligibility for Newstart Allowance and Sickness Allowance;
- Cessation of the education entry payment and the pensioner education supplement;
- Pharmaceutical Benefits Scheme – increase in co-payments and safety net thresholds;
- Australian Working Life Residence – tightening proportionality requirements;
- Youth Employment Strategy – revised waiting period for youth income support;
- Family Payment Reform:
  - phasing out end of year supplements and limiting FTB Part B to single families with a youngest child aged under 17 years, and
  - reducing FTB Part B for single parents with a youngest child aged 13–16;
- Paid Parental Leave — removing the mandatory obligation for employers to administer payments;
- The increase to Family Tax Benefit (Part A) of $10.08 per fortnight starting from 1 July 2018.

19. Reducing pressure on Housing Affordability

Proposed effective date: Various

In addition to the proposed ‘First Home Super Saver Scheme’ and the proposed measure to allow older Australians to contribute sale proceeds of ‘property-downsizing’ to superannuation mentioned earlier in this briefing, several other measures aimed at reducing pressure on housing affordability are proposed. These include:

- Affordable housing through Managed Investment Trusts (MITs) – MITs which own and make housing available to tenants at a discount to market rentals for a period of at least 10 years will receive concessional tax treatment on investment returns. Effective 1 July 2017.
- Annual charge on foreign owners of underutilised residential property – the proposed charge will apply to foreign owners of a residential property which is not occupied or genuinely available for rental for at least six months per year. This annual charge will be equivalent to the foreign investment application fee (e.g. $10,100 for a residential property valued from $1 million to $2 million). This will encourage foreign owners to make a residential investment property available to Australian tenants. Applies to foreign investors who apply after 9 May 2017.
- Capital Gains Tax (CGT) changes for foreign investors – foreign and temporary tax residents will not be eligible for the CGT main residence exemption. Those who already own a qualifying property as at 9 May 2017 will have the exemption only until 30 June 2019.

  The existing 10% CGT withholding rate, for foreign tax residents who sell a property, will be increased to 12.5% from 1 July 2017. The CGT withholding threshold will also decrease to $750,000 (currently $2 million) effective 1 July 2017.
- Increase the CGT discount to 60% for investors in affordable housing – the housing must be offered to low/moderate income tenants at a discount to private/market rent and be managed through a registered community housing provider and the investment held for at least three years. Effective 1 July 2018.
- Restrict foreign ownership in new residential developments to 50%. This proposal aims to increase the stock of new housing developments available for purchase by Australians. The 50% cap broadly applies from 9 May 2017.

Produced by TapIn