FIRSTTECH

FEDERAL BUDGET BRIEFING

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FirstTech Winner of **Best Technical Support** in the Wealth Insights Fund Manager Service and Platform Service Surveys for 2017

WEALTH INSIGHTS

Colonial First State

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Contents

Introduction

Last night the Federal Government handed down the 2017 Budget. While the scale of the announcements this year were nowhere near as significant as those announced in 2016, there were a range of significant announcements that advisers need to be aware.

Key Budget measures include:

- An opportunity for first home buyers to save for a home deposit through their superannuation
- Non-concessional contributions for downsizer retirees
- Increased Medicare levy from 1 July 2019
- Rental property tax changes

Finally, it is important to note that the Budget announcements are still only proposals at this stage and will depend on the proposals being legislated in due course.

Superannuation

Contributing proceeds from sale of home

Effective 1 July 2018

Individuals aged 65 and over will be able to contribute up to $300,000 into super from the proceeds of the sale of their principal place of residence. This measure will apply to a principal place of residence held for a minimum of 10 years.

These contributions will be treated as non-concessional contributions and will be in addition to any other voluntary contributions that people are able to make under the existing contribution rules and concessional and non-concessional caps.

The existing contribution restrictions for people over age 65 and the restrictions on making non-concessional contributions where a person's total superannuation balance is over $1.6M will not apply. However, these contributions will not be exempt from the transfer balance cap and will only be able to be used to commence a retirement phase pension where the member has remaining transfer balance cap space. The amount contributed will also be fully assessable under the age pension assets test.

FirstTech comment

While this proposal could allow an eligible couple to contribute up to an additional $600,000 to super over and above their existing concessional and non-concessional caps, it is likely to be more attractive for clients who are income tested or who are not receiving a means tested pension. For assets tested part pensioners, they would need to earn an after tax return of at least 7.8% on the amount contributed to break even.

First Home Saver Scheme

Effective 1 July 2017

Individuals will be able to make voluntary superannuation contributions in excess of super guarantee of up to $15,000 per year up to a total of $30,000 to purchase their first home. These voluntary contributions, which will be taxed at 15%, along with deemed earnings, can be withdrawn for a deposit on a person's first home. Withdrawals will be taxed at marginal tax rates less a 30% tax offset and will be allowed from 1 July 2018.

First home savers will be able to salary sacrifice an amount from their pre-tax income directly into super. Individuals who are self-employed or whose employers do not offer salary sacrifice will be able to claim a tax deduction on personal contributions. However, any pre-tax contributions made under these rules must be within the concessional cap.

First home savers will also be able to make non-concessional contributions under this scheme. However, these contributions will not be taxed when they are withdrawn.

The amount of deemed earnings that can be released under these rules will be calculated based on the 90 day Bank Bill rate plus 3% - currently equivalent to a deemed rate of return of 4.77%.

The Government has confirmed that the ATO will have the primary responsibility for administering the scheme, including:

- eligibility of the person seeking a release
- calculation of the release amount
- compliance mechanisms to ensure the released monies are used for the intended purpose.

The Government has also confirmed that while the concessional part of a release amount will be included in a person's taxable income, it will not flow through to other income tests used for other purposes, such as for calculation of HECS/HELP repayments, family tax benefit or child care benefit.

FirstTech comment

While the tax concessions available on contributions made under the First Home Saver Scheme may allow a first home buyer to save a larger deposit, many first home buyers may be unwilling to use the scheme if their additional contributions cannot be accessed until retirement if they don't end up buying a home.

It should also be noted that a person using the scheme will not be able to invest for growth to try and maximise their deposit, as the release amount will be calculated using a deemed rate of return.

To assist people to understand the advantages of the scheme the Government has provided an online estimator at www.budget.gov.au/estimator.

Non-arm's length arrangements

Effective 1 July 2018

The Government has announced it will further tighten the non-arm's length income rules to ensure expenses that would normally apply in a commercial transaction are included when considering whether the transaction is on a commercial basis.

FirstTech comment

This measure will require trustees to ensure that any expenses that would normally apply as part of a normal commercial transaction will also need to be taken into account when determining whether a fund will be considered to have earned non-arm's length income, which will be taxed at the top marginal tax rate.

Taxation

Medicare levy increase

Effective 1 July 2019

The Medicare levy will be increased from 2% to 2.5% of taxable income.

The increase will be used to ensure the National Disability Insurance Scheme (NDIS) is fully funded.

The Medicare levy low-income thresholds for singles, families and seniors and pensioners will increase from the 2016/17 financial year.

FirstTech comment

An increase in Medicare Levy may also result in an increase in many tax rates linked to the top personal tax rate including:

- fringe benefits tax
- excess non-concessional contributions tax
- taxable Employer Termination Payment in excess of whole of income cap and ETP cap
- no TFN tax on superannuation contributions.

Certain lump sum payments from superannuation also attract Medicare levy and hence may be affected by this change:

- lump sum super benefits for people under preservation age (i.e. disability benefits)
- lump sum super benefits for people between preservation age and age 60 in excess of the low rate cap
- lump sum death benefits paid to non-dependants directly from the super fund.

Extending the immediate deductibility threshold for small businesses

Effective 1 July 2017

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

Small businesses with aggregated annual turnover less than $10 million will 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 this date, the immediate deductibility threshold will revert back to $1,000.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

Major bank levy

Effective 1 July 2017

A major bank levy will be introduced for authorised deposit taking institutions (ADIs), with licensed entity liabilities of at least $100B (indexed to GDP).

The levy will be calculated quarterly as 0.015% of an ADI's licensed entity liabilities as at each quarterly reporting date mandated by APRA. This equates to an annualised rate of 0.06%. For example, on a bank deposit of $500,000 the levy is going to be approximately $300 pa.

Superannuation funds and insurance companies will not be subject to the levy.

FirstTech comment

It is unclear at this stage how this is going to work and what the impact on the clients might be.

Changes to small business capital gains tax (CGT) concessions

Effective 1 July 2017

The Government will amend the small business CGT concessions to ensure the concessions can only be accessed in relation to assets used in a small business or an ownership interest in a small business.

The Government is concerned that some taxpayers are able to access the small business concessions for assets which are unrelated to their small business, for instance through arranging their affairs so that their ownership interests in larger businesses do not count towards the tests for determining eligibility for the concessions.

The small business CGT concessions will continue to be available to small business taxpayers with aggregated turnover of less the $2 million or business assets less than $6 million.

FirstTech comment

Further clarification will be required from the Government to ascertain the exact impact of these changes as limited information was contained in the Budget papers.

Additional capital gains tax discount for investment in affordable housing

Effective 1 January 2018

Resident individuals who invest in qualifying affordable housing will be eligible for an additional 10 percentage point CGT discount, increasing from 50% to 60%.

To qualify for the higher discount, the residential property must be:

- rented to low to moderate income tenants, and
- rented at a discounted rate, and
- managed through a registered community housing provider, and
- held for a minimum period of three years.

The additional discount will be pro-rated for periods where the property is not used for affordable housing purposes.

Managed Investment Trust (MIT) investment in affordable housing

Effective 1 July 2017

MITs will be provided concessional tax treatment if they invest in affordable housing that is available to be rented for at least 10 years. The investor will receive a 60% discount on CGT if they hold the investment for more than three years.

Under this regime MITs will be able to acquire, construct or redevelop the property as long as they derive at least 80% of assessable income from affordable housing.

Residential property plant and equipment depreciation deductions

Effective 1 July 2017

Deductions relating to the depreciation of plant and equipment (i.e. dishwashers and ceiling fans) in residential properties will be limited to investors who actually incur the outlay. This change is to ensure subsequent owners of a property will not be able to claim deductions for plant and equipment purchased by a previous owner.

Under this measure, the acquisition of existing plant and equipment items will be reflected in the cost base for capital gains tax purposes for subsequent investors.

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 deductions for depreciation under current rules.

FirstTech comment

It is important to note that this particular measure does not apply to depreciation on building allowances which refers to construction costs of building itself, such as concrete and brickwork.

Disallowing deduction of travel expenses for residential property

Effective 1 July 2017

The Government will disallow deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property. This measure is to address concerns that many taxpayers have been claiming travel deductions without correctly apportioning costs, or have claimed travel costs that were for private travel purposes.

FirstTech comment

This measure impacts all property investors including SMSFs, family trusts and companies.

Reducing the corporate tax rate

The legislation to reduce the corporate tax rate has passed both houses, but is not yet law.

The Bill was amended so that the reduced company tax rate will progressively apply to companies with an aggregated annual turnover of less than $50 million only.

A summary of the proposed rates is as below:

Financial year	*Companies with annual aggregated turnover of less than*	*Applicable company tax rate*
2015-16	*$2 million*	*28.5%*
2016-17	*$10 million*	*27.5%*
2017-18	*$25 million*	*27.5%*
2018-19	*$50 million*	*27.5%*
2019-20 to 2023-24	*$50 million*	*27.5%*
2024-25	*$50 million*	*27%*
2025-26	*$50 million*	*26%*

2026-27	*$50 million*	*25%*

Capital gains tax changes for non-residents

The Government will make the following changes to capital gains tax rules applicable to foreign tax residents:

- Individuals who are foreign or temporary tax residents will no longer have access to the CGT main residence exemption on properties acquired after 7:30pm (AEST) on 9 May 2017. Existing properties held before this date will be grandfathered and can continue to claim the exemption until 30 June 2019.
- The CGT withholding rate that applies to foreign tax residents will be increased from 10% to 12.5% from 1 July 2017.
- The property value threshold where the CGT withholding obligation applies will reduce from $2m to $750,000 from 1 July 2017.

Changes to repayment of HELP debt

Effective 1 July 2018

The Government will revise the income thresholds for the repayment of HELP debt, repayment rates and the indexation of repayment thresholds.

A new minimum threshold of $42,000 will be established with a 1% repayment rate and a maximum threshold of $119,882 with a 10% repayment rate. Currently, the maximum repayment threshold for the 2017-18 year is $103,766 with a repayment rate of 8%.

Annual levy for foreign owned vacant residential properties

Effective 9 May 2017

Foreign owners of residential property where the property 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.

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

Social Security

Pensioner concession card reinstatement

Effective 1 July 2017

Pensioners who lost entitlement to their Pensioner Concession Card due to the assets test changes on 1 January 2017 will have their card reinstated.

The Pensioner Concession Card will be reinstated to about 92,300 former pension recipients and will provide access to discounts and concessions offered by states, territories and private providers.

The card will be automatically reissued over time with an ongoing income and assets test exemption.

FirstTech comment

Those who lost their entitlement to the age pension on 1 January 2017 due to the asset test changes were issued with both a Health Care Card and a Commonwealth Seniors Health Card. However these cards provided access to a reduced number of concessions compared to the Pensioner Concession Card.

Clients who have their Pensioner Concession Card reinstated will gain access to a wider range of concessions such as subsidised hearing services. They will also retain the Commonwealth Seniors Health Card which will ensure they continue to receive the Energy Supplement.

Increasing pension residence requirements

Effective 1 July 2018

Residence requirements for Age Pension and Disability Support Pension are increasing.

Currently, to qualify for a pension, a client must have at least 10 years residence in Australia with at least five years of those years continuous residence.

Under the changes, a person will be required to have at least 15 years residence in Australia unless they have either:

- 10 years continuous Australian residence, with five years during their working life (16 years of age to Age Pension age), or
- 10 years continuous residence and not have been in receipt of an activity tested income support payment for cumulative periods greater than five years.

Existing exemptions to residency requirements will be maintained for Humanitarian entrants and for those whose inability to work happened while they were an Australian resident.

FirstTech comment

This measure may impact those with less than 15 years residence in Australia that do not have five years residence between age 16 and Age Pension Age.

The Government states this measure will impact approximately 2,390 people on average each year.

Working age payment

Effective 20 March 2020

A new Jobseeker Payment will replace seven current working age payments from 20 March 2020.

The Jobseeker Payment will replace Newstart Allowance, Sickness Allowance, Wife Pension, Partner Allowance, Bereavement Allowance, Widow B Pension and Widow Allowance.

FirstTech comment

Payments such as Wife Pension, Partner Allowance and Widow B Pension were already closed to new entrants. When these payments cease most recipients will transfer to Age Pension.

Widow Allowance, which is a payment available to women born before 1 July 1955 will be closed to new entrants from 1 January 2018. New entrants that would have been eligible for Widow Allowance from 1 January 2018 may be entitled to receive Newstart Allowance.

Bereavement Allowance will be closed to new recipients from 20 March 2020 however newly bereaved people will receive a triple payment of Jobseeker Payment in the first fortnight.

New mutual obligations

Effective 20 September 2018

Job seekers and parents who receive working age income support will have increased activity test requirements from 20 September 2018.

The new activity test requirements are:

- Age 30 to 49: 50 hours per fortnight (increased from 30 hours per fortnight).
- Age 55 to 59: current 30 hours per fortnight activity test requirement will no longer be able to be met through volunteer work alone. Instead, recipients will only be able to meet half (15 hours) of the annual activity requirement of 30 hours per fortnight through volunteering.
- Age 60 to Age Pension Age: currently there is no activity test requirement. From 20 September 2018, the requirement will be 10 hours per fortnight which can be met with volunteering.

FirstTech comment

Currently, many Newstart Allowance recipients age 55 to 59 meet the activity test requirements through voluntary work.

The new activity test requirements will require these clients to undertake activity test activities for at least 15 hours per fortnight.

Liquid Assets Waiting Period increased

Effective 20 September 2018

The maximum length of the Liquid Assets Waiting Period will increase from 13 weeks to 26 weeks.

Single clients (without dependants) with liquid assets exceeding $18,000 or couples with liquid assets exceeding $36,000 will serve the maximum waiting period of 26 weeks.

FirstTech comment

While the maximum duration of the Liquid Assets Waiting Period has doubled from 13 to 26 weeks, the calculation method has remained largely unchanged under this measure.

For example, the current lower threshold of $5,499 for singles (without dependants) and $10,999 for couples remains unchanged. Also the divisor of $500 for singles (without dependants) and $1,000 for couples remains unchanged.

Energy Assistance Payment

Effective 20 June 2017

A one-off Energy Assistance Payment of $75 for single recipients and $125 per couple will be paid to those eligible for qualifying payments on 20 June 2017.

Qualifying payments include the Age Pension, Disability Support Pension, Parenting Payment Single, the Veterans' Service Pension and the Veterans' Income Support Supplement, Veterans' disability payments, War Widow(er)s Pension, and permanent impairment payments under the Military Rehabilitation and Compensation Act 2004 (including dependent partners) and the Safety, Rehabilitation and Compensation Act 1988.

Family Tax Benefit

Effective 1 July 2017

As previously announced, Family Tax Benefit (FTB) rates will not be indexed for two years from 1 July 2017. This applies to the standard, base rate and approved care organisation rate of FTB Part A and the maximum rate of FTB Part B.

Child care subsidy

Effective 1 July 2018

A new upper income threshold will apply to child care subsidy.

From 1 July 2018, families with income above $350,000pa will not be eligible for child care subsidy.

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