

2017 FEDERAL BUDGET SYNOPSIS

We provide below a brief summary of the changes that have been announced in Tuesday's federal budget together with a more detailed explanation of the various announcements and how they will impact you, your business and your superannuation.

As has become common fare in recent years, the below changes have not passed through both houses of parliament and may be subject to change or variation.

BUDGET IN BRIEF

Small business

-) Extension of the \$20,000 immediate write-off for assets purchased by small businesses to 30 June 2018. Previously this measure was to finish on 30 June 2017.
-) Extension of the taxable payment reporting system to the cleaning and courier industries. This measure is intended to reduce the cash economy and will commence from 1 July 2018.

Individuals and families

-) The Medicare Levy will increase from 2.0% to 2.5% from 1 July 2019
-) The HELP repayment threshold will be reduced to \$42,000 from 1 July 2018
-) Travel expenses incurred in relation to inspecting rental properties for residential property investors will be disallowed from 1 July 2017
-) Reduction of allowable depreciation deductions for items of plant and equipment for residential property investors

Superannuation

-) From 1 July 2017, a first home owner saver scheme will be established to allow first home buyers to accelerate saving inside the superannuation system
-) From 1 July 2018, individuals over 65 can contribute up to \$300,000 to superannuation from the sale of their house

GST and other indirect taxes

-) From 1 July 2018, purchasers of new residential property will be required to remit the GST direct to the Australian Taxation Office (ATO)
-) From 1 July 2017, the foreign resident withholding tax applicable to property sales by foreign residents will increase from 10% to 12.5% and the property value threshold will reduce from \$2 million to \$750,000

BUDGET IN DETAIL

Small Business

Measures Affecting Small Businesses

Extending the \$20,000 immediate write-off for small business

Under current law, the \$20,000 immediate write-off ends on 30 June 2017. However, the Government has proposed to extend the concession by 12 months to 30 June 2018 for businesses with an aggregated annual turnover less than \$10 million.

This means small businesses will be able to immediately deduct purchases of eligible assets costing less than \$20,000 first used or installed ready for use by 30 June 2018. Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15% in the first income year and 30% each income year thereafter.

From 1 July 2018, the immediate deductibility threshold and the balance at which the pool can be immediately deducted will revert back to \$1,000.

New integrity measure for the small business CGT concessions

The Government will amend the small business CGT concessions with effect from 1 July 2017 to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business.

Measures Affecting the GST Regime

Improving the integrity of GST on property transactions

From 1 July 2018, purchasers of newly constructed residential properties or new subdivisions will be required to remit the GST directly to the ATO as part of settlement. Under the current law, some developers are failing to remit the GST to the ATO despite having claimed GST credits on their construction costs.

Black Economy Taskforce

Extension of the taxable payments reporting system to contractors in the courier and cleaning industries

The Government will extend the taxable payments reporting system ('TPRS') to contractors in the courier and cleaning industries with effect from 1 July 2018.

The TPRS is a transparency measure and already operates in the building and construction industry, where it has resulted in improved contractor compliance. Under the TPRS, businesses are required to report payments they make to contractors to the ATO.

This measure brings payments to contractors in the courier and cleaning industries into line with wages, which are reported to the ATO. Businesses in these industries will need to ensure that they collect information from 1 July 2018, with the first annual report required in August 2019.

Individuals and Families

Personal Income Tax Measures

Limiting plant and equipment depreciation deductions to outlays actually incurred by investors – for residential investment properties acquired from Budget night on 9 May 2017

From 1 July 2017, the Government will limit plant and equipment depreciation deductions to outlays actually incurred by investors in residential properties. Plant and equipment items are usually mechanical fixtures, or those that can be 'easily' removed from a property such as dishwashers and ceiling fans. These changes will apply on a prospective basis, with existing investments grandfathered. More specifically:

-) Plant and equipment forming part of residential investment properties as of 9 May 2017 (including contracts already entered into at 7:30PM (AEST) on 9 May 2017) will continue 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 their residential investment property *after* 9 May 2017 will be able to claim a deduction over the effective life of the asset. However, subsequent owners of a property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property. Acquisitions of existing plant and equipment items will be reflected in the cost base for CGT purposes for subsequent investors.

No deduction for travel expenses for residential rental properties

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

Increasing the Medicare levy low-income thresholds

The Government will increase the Medicare levy low-income thresholds for singles, families and seniors and pensioners from the 2017 income year.

-) The threshold for singles will be increased to \$21,655.
-) The family threshold will be increased to \$36,541 plus \$3,356 for each dependent child or student.
-) For single seniors and pensioners, the threshold will be increased to \$34,244.
-) The family threshold for seniors and pensioners will be increased to \$47,670 plus \$3,356 for each dependent child or student.

Increase in the Medicare levy from 1 July 2019

From 1 July 2019, the Government will increase the Medicare levy from 2% to 2.5% of taxable income. Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased. Low-income earners will continue to receive relief from the Medicare levy through the low-income thresholds for singles, families, seniors and pensioners. The current exemptions from the Medicare levy will also remain in place.

Measures Affecting Foreign Investors

CGT changes for foreign investors

The Government will extend Australia's foreign resident CGT regime by:

-) denying foreign and temporary tax residents access to the CGT main residence exemption from 9 May 2017. Note that existing properties held prior to this date will only be grandfathered until 30 June 2019.

Charge on foreign owners of underutilised residential property

The Government will introduce a charge of at least \$5,000 on 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.

Restricting foreign ownership in new developments to 50%

The Government will introduce a 50% cap on foreign ownership in new developments through a condition on New Dwelling Exemption Certificates. The cap will be included as a condition on New Dwelling Exemption Certificates where the application was made from 7:30 PM (AEST) on 9 May 2017.

New Dwelling Exemption Certificates are granted to property developers and act as a pre-approval allowing the sale of new dwellings in a specified development to foreign persons without each foreign purchaser seeking their own foreign investment approval. The current certificates do not

limit the amount of sales that may be made to foreign purchasers. The measure will ensure that a minimum proportion of developments are available for Australians to purchase.

Changes to the Foreign Resident CGT Withholding ('FRCGW') regime

The Government will extend Australia's FRCGW regime by increasing the CGT withholding rate for foreign tax residents from 10.0% to 12.5% from 1 July 2017.

The Government will also reduce the CGT withholding threshold for foreign tax residents from \$2 million to \$750,000 from 1 July 2017.

Encouraging Investment into Affordable Housing

Increased CGT discount for resident individuals investing in qualifying affordable housing

From 1 January 2018, the Government will increase the CGT discount from 50% to 60% for resident individuals who elect to invest in qualifying affordable housing.

To qualify for the higher CGT 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.

Changes affecting the Higher Education Loan Program ('HELP')

The Government will revise the income thresholds for repayment of HELP debt, repayment rates and the indexation of repayment thresholds **from 1 July 2018**. 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.

By way of background, for 2017/18, the minimum threshold is \$55,874 and the minimum repayment rate is 4%. The maximum threshold for 2017/18 is \$103,766 with an 8% repayment rate.

Superannuation

First home superannuation saver scheme

The Government will encourage home ownership by allowing first homebuyers to 'build a deposit' inside their superannuation fund, as follows:

-) Voluntary superannuation contributions of up to \$15,000 per year, and \$30,000 in total, can be contributed by first homebuyers from 1 July 2017. The contribution must be within existing concessional and non-concessional caps. Concessional contributions are taxed at 15% in the fund and earnings on contributions are taxed at 15% in the fund.

-) These contributions can then be withdrawn, along with associated deemed earnings, for a first home deposit, from 1 July 2018 onwards. Concessional contributions and earnings that are withdrawn will be taxed at the taxpayer's marginal rate less a 30% offset. When non-concessional contributions ('NCCs') are withdrawn, they will not be taxed.

Note that, both members of a couple can take advantage of this measure to buy their first home together.

Limited recourse borrowing arrangements ('LRBAs')

From 1 July 2017, the Government will include the use of LRBAs in a member's total superannuation balance and transfer balance cap. Both of these concepts were initially proposed as part of the 2016/17 Federal Budget and are now legislated to apply from 1 July 2017.

As such, the outstanding balance of a LRBA will be included in a member's annual total superannuation balance and the repayment of the principal and interest of a LRBA from a member's accumulation account will be a credit in the member's transfer balance account.

Individuals aged 65 or over able to contribute the proceeds of downsizing into superannuation

From 1 July 2018, the Government will allow a person aged 65 or over to make a NCC of up to \$300,000 from the proceeds of selling their home. These NCCs will be in addition to those currently permitted under existing rules and caps and they will be exempt from the existing age test, work test and the \$1.6 million balance test for making NCCs.

This measure will apply to sales of a principal residence owned for ten or more years and both members of a couple will be able to take advantage of this measure for the same home.

We hope you found our synopsis useful and again, please feel free to contact either Brendan Podevin or Cameron Wilson should you wish to discuss any of the above issues in more detail.

Kind regards



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