MACQUARIE

2017 Federal Budget: what it means for financial services professionals

The Federal Treasurer, the Hon. Scott Morrison MP, delivered his second Federal Budget on 9 May 2017.

With some considerable focus on affordable housing, there are minimal impacts on personal income taxation, superannuation and social security entitlements for most financial services professionals' clients.

This summary provides coverage of the key issues of most interest in relation to advice given by financial services professionals.

Personal income tax

Increase in the Medicare levy

The Medicare levy will increase by half a percentage point from 2.0 to 2.5 per cent of taxable income from 1 July 2019. 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.

The revenue generated by the Medicare levy increase will be used to support the National Disability Insurance Scheme (NDIS) and to guarantee Medicare.

Temporary Budget Repair Levy expiry

There is no announced change to cessation of the Temporary Budget Repair Levy (TBRL) on 30 June 2017. This means that the top marginal tax rate (where taxable income exceeds $180,000), including the Medicare levy, will reduce from 49.0 percent to 47.0 per cent from 1 July 2017, and increase to 47.5 per cent from 1 July 2019.

Income year	Top marginal tax rate (including TBRL and Medicare levy)
2016/17	49.0
2017/18	47.0
2018/19	47.0
2019/20	47.5

Medicare levy thresholds for 2016/17

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.

HELP changes

The Higher Education Loan Program (HELP) repayment criteria will be altered.

The income thresholds for repayment of HELP debt, repayment rates and the indexation of repayment thresholds will be revised from 1 July 2018. A new minimum threshold of $42,000 will be established with a 1 per cent repayment rate and a maximum threshold of $119,882 with a 10 per cent repayment rate.

Disallow certain deductions for residential rental property

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

Investors will not be prevented from engaging third parties such as real estate agents for property management services. These expenses will remain deductible.

Also from 1 July 2017, plant and equipment depreciation deductions will be limited to outlays actually incurred by investors in residential real estate properties. Plant and equipment items are usually mechanical fixtures or those which can be 'easily' removed from a property such as dishwashers and ceiling fans.

This measure addresses concerns that some plant and equipment items are being depreciated by successive investors in excess of their actual value. Acquisitions of existing plant and equipment items will be reflected in the cost base for capital gains tax purposes for subsequent investors.

Expanding tax incentives for investments in affordable housing

From 1 January 2018, the CGT discount will increase from 50 per cent to 60 per cent for resident individuals who elect to invest in 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.

Foreign residents

Lower threshold for withholding tax for residential property disposals

From 1 July 2016, foreign investors were subject to a withholding tax where they sold a residential property for $2 million or more. The obligation to withhold falls on the purchaser of the property.

From 1 July 2017, this threshold will reduce to $750,000. As median house prices in both Sydney and Melbourne exceeded $750,000 in the December 2016 quarter1, a far greater number of purchasers will need to be conscious of these rules to avoid any penalties for failure to withhold.

This obligation to withhold applies where:

- the purchaser knows or has reasonable grounds to believe the vendor is a foreign resident
- the purchaser doesn't reasonably believe the vendor is an Australian resident and
  - has a record about the purchase indicating that the vendor has an address outside Australia, or
  - is authorised to provide a financial benefit (eg make a payment) to a place outside Australia (whether to the vendor or to anybody else).

Other rules will be introduced to aggregate indirect property holdings of associates (related entities) in applying the foreign resident CGT regimes.

Business owners

Continuation of small business asset write-offs ($20,000 threshold)

Small businesses with an annual turnover of less than $10 million will be able to continue to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2018, with some exclusions including in-house software.

Assets valued at $20,000 or more can continue to be placed into the small business simplified depreciation pool and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. New depreciation pools can also be immediately deducted if the balance is less than $20,000 over this period.

This measure will only be extended for a further 12 months to 30 June 2018, at which time the immediate deductibility threshold and deductible pool balance will revert to $1,000.

Integrity measures limiting access to small business capital gains tax concessions

Measures will be introduced to ensure that taxpayers do not arrange their affairs in a way that means ownership interests in larger businesses do not count towards the small business CGT tests.

This will ensure that the small business concessions are available to the appropriate group of taxpayers.

Superannuation

First home super saver scheme

From 1 July 2017 individuals will be able to make voluntary contributions to superannuation of up to $15,000 per year and $30,000 in total, to be withdrawn for the purpose of purchasing a first home. Both voluntary concessional and non-concessional contributions will qualify.

These contributions (less tax on concessional contributions) along with deemed earnings can be withdrawn for a deposit from 1 July 2018. When withdrawn, the taxable portion will be included in assessable income and will receive a 30 per cent offset.

Features associated with this measure include:

- Contributions will count towards existing concessional and non-concessional contribution caps
- Earnings will be calculated based on the 90 day Bank Bill rate plus three percentage points.
- The ATO will administer this scheme, calculate the amount that can be released and provide release instructions to superannuation funds.
- The amount withdrawn (including the taxable component) will not flow through to income tests used for tax and social security purposes, such as for the calculation of HECS/HELP repayments, family tax benefit or child care benefit.

Example from Budget Fact Sheet 1.4

Michelle earns $60,000 a year and wants to buy her first home. Using salary sacrifice, she annually directs $10,000 of pre-tax income into her superannuation account, increasing her balance by $8,500 after the contributions tax has been paid by her fund. After three years, she is able to withdraw $27,380 of contributions and deemed earnings on those contributions. Her withdrawal is taxed at her marginal rate (including Medicare levy) less a 30 per cent offset. After paying $1,620 of withdrawal tax she has $25,760 that she can use for her deposit. Michelle has saved around $6,240 more for a deposit than if she had saved in a standard deposit account.

Michelle's partner Nick has the same income and also salary sacrifices $10,000 annually to superannuation over the same period. Together they have $51,520 that they can put towards a deposit, $12,480 more than if they had saved in a standard deposit account.

Contributing the proceeds of home downsizing to superannuation

It is proposed that from 1 July 2018, people aged 65 and 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 the existing contribution caps.

Features associated with this measure include:

- The property must have been the principal place of residence for a minimum of 10 years
- 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 through the downsizing cap
- Amounts will count towards the transfer balance cap when used to commence an income stream
- Contributions will be subject to social security means testing when added to a superannuation account

Contribution eligibility requirements, such as the work test and restrictions on contributions from age 75 will not apply to these contributions. The requirement to have a total superannuation balance of less than $1.6 million to be eligible to contribute will also not apply.

Example from Budget Fact Sheet 1.5

George and Jane, both retired and aged 76 and 69, sell their home to move into more appropriate accommodation. The sale proceeds are $1.2 million. They can both make a non-concessional contribution into superannuation of $300,000 ($600,000 in total), even though Jane no longer satisfies the standard contribution work test and George is over 75. They can make these special contributions regardless of how much they already have in their accounts.

Example 2 from Budget Fact Sheet 1.5

John and Sarah, who are still working part-time at age 65, decide to sell the large family home after all the children move out. The sale proceeds are $1.4 million. They are both able to make a non-concessional contribution of $300,000 ($600,000 in total) into superannuation. This is regardless of how much they have in their accounts already. They may also be able to make additional contributions to their superannuation using the sale proceeds under standard contribution arrangements.

Integrity of non-arm's length arrangements

From 1 July 2018, the Government will reduce opportunities for members to use related party transactions on non-commercial terms to increase superannuation 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.

Tax relief for merging superannuation funds

It is proposed that the current tax relief for merging superannuation funds be extended to 1 July 2020. This relief was due to lapse on 1 July 2017.

The relief has allowed superannuation funds to transfer capital and revenue losses when merging with another fund and to defer the taxation consequences on gains and losses on revenue and capital assets.

Social security

Energy Assistance Payment

A one-off Energy Assistance Payment will be made in 2016-17 of $75 for single recipients and $125 per couple for those eligible for qualifying payments on 20 June 2017 and who are a resident in Australia.

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*.

Enhanced Residency Requirements for Pensioners

The residency requirements will be revised for claimants of the Age Pension and the Disability Support Pension (DSP). From 1 July 2018, claimants will be required to have 15 years of continuous Australian residence before being eligible to receive the Age Pension or DSP unless they have either:

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

Existing exemptions for DSP applicants who acquire their disability in Australia will continue to apply.

Other measures

Affordable housing investment through Managed Investment Trusts

Affordable housing will now be an eligible investment within the flow-through tax environment of a Managed Investment Trust.

The affordable housing must be available to rent for 10 years and the Trust must derive at least 80% of its assessable income from affordable housing. Additional withholding taxes will apply to resident and non-resident investors where the property or the Trust does not meet these conditions.

A new financial dispute resolution framework

From 1 July 2018, a new one-stop shop, the Australian Financial Complaints Authority (AFCA) will provide financial services consumers, small businesses and retail investors with access to a free, fast and binding dispute resolution service. Australian Financial Services Licensees will be required to be members of AFCA, and its decisions will be binding on all firms. AFCA will hear individual consumer/investor and small business disputes of higher values than are currently permitted under the existing three schemes, and those who are found to have wrongfully suffered losses will have access to more appropriate levels of compensation.

The AFCA will be an industry funded complaints resolution body for all financial and superannuation disputes and will replace the Financial Ombudsman Service, the Credit and Investments Ombudsman and the Superannuation Complaints Tribunal (SCT).

If you have any questions, please contact your Macquarie representative, email us at adviser@macquarie.com, or visit macquarie.com/advisers

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