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2017-18 Federal Budget

9 May 2017

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Overview

On the evening of May 9, the eyes of the financial planning industry turned to Canberra as Treasurer Scott Morrison delivered his second Federal Budget. While it did not include the jaw-dropping changes of his first Budget, there was still plenty to interest financial planners and their clients.

The measures announced in this Budget reflected a mix of idealism, pressure to bring the Budget back to surplus and pragmatism in dealing with a parliament where the cross-benchers are influential.

The Budget provides greater flexibility for first-home buyers in difficult markets, tax assistance for small business and some additional benefits for pensioners. On the flip side, the banking industry will carry additional responsibility for reducing the deficit, and cost savings will be made by increasing repayment rates for student loans provided by government and freezing some benefit payment rates.

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Superannuation

First Home Super Saver Scheme

Effective date – July 1, 2017

One of the more significant opportunities for clients was the announcement of the First Home Super Saver Scheme (FHSSS). Under this scheme, from July 1, 2017, first-home buyers will be able to make voluntary contributions to super and withdraw them, along with associated earnings, to purchase their first home.

Contributions

Existing contribution caps will apply. In 2017/18, the concessional cap is $25,000 and the non-concessional cap is $100,000. That said, contributions able to be withdrawn under this scheme will be limited to $15,000 per year up to a maximum $30,000. The withdrawal amount will be less any contributions tax payable on concessional contributions.

Members of a couple could both use this scheme to purchase their first home, effectively doubling the amount available.

Superannuation Guarantee (SG) contributions will not be able to be withdrawn under this scheme. Salary sacrifice can be used to meet an employer's SG obligations. Exactly how this will be viewed is not yet clear.

Earnings

As well as contributions made under this scheme, earnings associated with those contributions will be able to be withdrawn. These associated earnings will be calculated as accruing at the rate of the Shortfall Interest Charge (SIC - currently 4.78 per cent per annum).

Withdrawals

Withdrawals will be permitted from July 1, 2018. They will be taxed at the client's marginal tax rate with a 30 per cent offset applied.

Administration

The ATO will be responsible for administering the FHSSS. It will determine the amount a client can withdraw and will be responsible for ensuring the client uses the proceeds to buy their first home.

Example

Shane earns $70,000 a year and contributes $10,000 in salary sacrifice contributions in 2017/18 and 2018/19. Shane wants to make a withdrawal to purchase his first home on June 30, 2019. At this date, Shane's contributions total $17,000 after contributions tax. The earnings associated with these contributions total $698 (assuming the SIC is at current levels). This provides him with a before-tax withdrawal amount of $17,698.

Shane will pay tax at his marginal tax rate of 34.5 per cent (including Medicare levy) with a 30 per cent offset applied. This will result in $796 in tax, leaving Shane a net withdrawal of $16,902 to put towards the purchase of his first home.

Implications for clients

This scheme provides clients with tax incentives and flexibility when saving for their first home. The government has provided an estimator to help determine the amount a client will be able to withdraw to purchase their first home and the tax advantage they will enjoy.

While existing clients may already own their own home, the FHSSS will provide the opportunity to provide advice to their adult children.

The key to this scheme will be making voluntary contributions to super. This may not be something that is front-of-mind for some clients who are yet to buy their first home, so advice will be of great value to them.

Downsizing and contributing to super

Effective date – July 1, 2018

From July 1, 2018, the government has proposed that clients aged 65 and older will be able to contribute proceeds from the sale of their home to super.

A client could make a non-concessional contribution of up to $300,000 regardless of their age, work status or total superannuation balance. The home must be their principal place of residence and it must be held for at least 10 years.

Members of a couple could contribute up to $300,000 each from the sale of the same home, potentially making this a $600,000 opportunity.

Transfer Balance Cap and Age Pension treatment

A contribution made under this concession would still count under a client's Transfer Balance Cap if it was used to commence an income stream. Furthermore, any contribution would be assessable under the Centrelink and DVA assets and income tests.

Example

Berwick (67) and Helena (70) are retirees who decide to downsize. They sell their family home for $1.4 million and purchase a unit nearer the city for $900,000. After costs, Berwick and Helena have $450,000 to invest.

Helena contributes $300,000 to her super, and Berwick $150,000 to his under this downsizing provision. Neither of them needs to meet any work test and their existing superannuation balances do not impact their eligibility. The contributions are assessable as assets for Age Pension purposes and will be deemed to determine income while in the accumulation phase or in an account-based income stream.

Implications for clients

This additional contribution may present clients with the opportunity to use the concessionally-taxed super environment if they choose to sell their home. While this may deliver tax savings on investments going forward, the impact it may have on any Age Pension entitlement needs to be carefully considered.

If you have clients who are looking to downsize, immediate consideration should be given to the benefits of this proposal. For those uncertain about whether to downsize, this may provide added incentive.

New external dispute resolution body

Effective date – July 1, 2018

A new dispute resolution body, the Australian Financial Complaints Authority (AFCA), has been proposed from July 1, 2018. This body would replace the Financial Ombudsman Service, the Credit and Investments Ombudsman and the Superannuation Complaints Tribunal. The AFCA would be funded by industry and its decisions would be binding.

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Non-arm's length arrangements

Effective date – July 1, 2018

Stronger provisions are proposed to ensure that transactions between a member of a super fund and a related party are kept to an arm's-length basis. The provision, to apply from July 1, 2018, will ensure expenses that would normally apply to the transaction are considered when determining if it is at arm's length.

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Taxation

Medicare levy

Effective date – July 1, 2019

The Medicare levy is proposed to increase to 2.5 per cent from July 1, 2019. This will also increase taxes that use the top marginal tax rate plus Medicare levy, such as the Fringe Benefits Tax.

Implications for clients

Clients will need to be made aware of this increase as reviews are conducted.

Marginal tax rates – end of the Temporary Budget Repair Levy

Effective date – July 1, 2017

The temporary budget repair levy of 2 per cent on the highest marginal tax rate (MTR) is due to end on June 30, 2017. There was no announcement in the budget indicating this measure would be extended so it seems it will be discontinued.

This change will affect several tax measures that refer to the top MTR, including:

- resident tax rates;
- non-resident rates;
- rates applied to minors for unearned income;
- Fringe Benefits Tax (FBT) rates;
- Excess non-concessional contribution tax; and
- Tax on lump sums from an untaxed super source.

Implications for clients

Tax planning strategies for those on the highest MTR will need to be reviewed in light of the reduced rate.

Higher Education Loan Program

Effective date – July 1, 2018

From July 1, 2018, the government proposes to lower the income threshold at which HELP debts must begin to be repaid. The 2017/18 threshold below which no repayments are compulsory is $55,874. The 2018/19 threshold is proposed to be $42,000. The rate at which repayments must be made will increase with income from 4 per cent up a maximum of 10 per cent of income for those earning more than $119,881.

Changes were also announced regarding the way in which income thresholds applicable to repayment rates are indexed. Currently these thresholds are indexed in line with Average Weekly Earnings (AWE). It's proposed they be indexed in line with the Consumer Price Index (CPI) from July 1, 2019.

Implications for clients

Clients with HELP debt may experience an increase in their repayments from July 1, 2018. CPI typically increases more slowly than AWE so clients may also find they climb the income brackets sooner.

There is not a great deal that can be done to lessen the effect of the increase. The definition of income used to determine repayments will not be reduced by salary sacrifice, and the discount for early repayment of HELP debt was discontinued on January 1, 2017.

Clients who routinely make distributions from a family trust to a beneficiary with a HELP debt (such as a child) need to be wary of these thresholds. Tax benefits gained by distributing to a lower income beneficiary may be eroded by the requirement to make larger HELP repayments.

Extending the immediate asset write-off for small business

Effective date – July 1, 2017

In the 2015-16 Budget, the ability for small businesses to immediately write off depreciating assets was temporarily increased from $1000 to $20,000. This increase was due to end on June 30, 2017, but has now been proposed to be extended until June 30, 2018.

The laws that prevent small business from re-entering the simplified depreciation regime for five years if they opt out will also continue to be on hold until June 30, 2018.

Small businesses are defined as those with an aggregated turnover of less than $10 million.

Implications for clients

The extension of this provision may assist clients with small businesses to make small to medium purchases they otherwise may have struggled to fund.

Integrity measures for the small business CGT concessions

Effective date – July 1, 2017

Integrity measure are proposed to be introduced from July 1, 2017, to further ensure these measures only benefit genuine small businesses and their associated assets. These measures will aim to capture arrangements such as those that exclude a client's interests in larger businesses.

Property investment

Effective date – various

It is proposed that expenses incurred in traveling to inspect and maintain residential investment properties will no longer be deductible from July 1, 2017. Furthermore, plant and equipment depreciation on residential property is proposed to be limited to the actual outlay incurred for properties purchased from Budget night.

Conversely, the Capital Gains Tax (CGT) discount on certain affordable investment properties is proposed to be increased to 60 per cent from July 1, 2018. In order to benefit from this concession, conditions would need to be met. These include:

- Rent must be charged at a discount to the market rate;
- The housing must be managed through a community housing provider; and
- The investment must be held for at least three years.

Implications for clients

Clients keen to make property investment will need to be aware of these changes.

Foreign property investors

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Effective date – various

A number of proposals were made in relation to foreign investors in Australian residential property. These include:

- A charge of at least $5000 where a residential investment property is left unoccupied for six months or more a year. This is to take effect on investment applications made from Budget night.
- The removal of the CGT main residence exemption for foreign and temporary tax residents. This will take effect from Budget night but existing properties will be grandfathered until the end of the 2018/19 financial year.
- Increasing the CGT withholding rate to 12.5 per cent and reducing the threshold to $750,000 from July 1, 2017.
- Foreign investment in new developments will be capped at 50 per cent.

Implications for clients

Non-resident clients who currently invest in Australian residential property will need to review their investments in light of these changes.

Social Security and Family Benefits

Electricity payment for pensioners

Effective date – July 20, 2017

Recipients of the Age Pension, Disability Support Pension, Single Parenting Payment and several DVA payments are proposed to receive a one-off payment to assist with the rising cost of electricity. The payment will be $75 for single recipients and $125 for couples (combined). It will be made to those in receipt of an eligible payment on June 20, 2017, who are residents in Australia.

Liquid Assets Waiting Period (LAWP)

Effective date – September 20, 2018

The maximum LAWP is proposed to increase from 13 weeks to 26 weeks from September 20, 2018.

Implications for clients

Clients applying for Youth Allowance, Austudy, Newstart and Sickness Allowance from this date may have to wait longer for their first payment. Single clients with no dependents will have a longer LAWP under this proposed rule if their liquid assets exceed $12,000, as will others who have liquid assets of more than $24,000.

Residency requirements for pensions

Effective date – July 1, 2018

From July 1, 2018, claimants of the Age Pension and Disability Support Pension (DSP) will be required to meet one of the following requirements:

- Have 15 years of continuous residence in Australia.
- Have 10 years of continuous residence in Australia, with five years of this period being during their working life. Working life extends from 16 to Age Pension age.
- Have 10 years of continuous residence in Australia without having received an activity tested income support payment for a total of five years.
- Have become disabled in Australia (DSP only).

Implications for clients

Clients who have been a foreign resident for extended periods will need to consider these revised requirements.

Family Tax Benefit (FTB)

Effective date – various

From July 1, 2018, the government proposes to apply a 30-cents-in-the-dollar taper rate to FTB Part A recipients with family income over the Higher Income Free Area ($94,316 currently).

The government proposes not to proceed with an increase to the maximum rate of FTB Part A announced in the 2015-16 MYEFO. It also proposes to freeze the rates of FTB for two years from July 1, 2017.

JobSeeker and payment consolidation

Effective date – various

Newstart Allowance and Sickness Allowance are proposed to be combined into one benefit, the JobSeeker Payment, from March 20, 2020. This payment will be set at the same level as the current Newstart Allowance.

A number of payments are proposed be phased out. These include:

- Widow Allowance – this would be closed to new recipients from January 1, 2018, and all recipients will have transitioned to the Age Pension by January 1, 2022.
- Partner Allowance – this will cease on January 1, 2022, when all recipients have transitioned to the Age Pension.
- Widow B Pension – this would cease on January 1, 2020. All recipients would be transitioned to the Age Pension with no reduction in payment rate.
- Wife Pension - this would cease on January 1, 2020. All recipients would be transitioned to the Age Pension or Carer Payment with no reduction in payment rate.

Pensioner concession card

The pensioner concession card will be reinstated for those who lost their pension as a result of the assets test changes that came into effect from January 1, 2017.