Federal Budget 2017

May 2017

BT Financial Group

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Treasurer Scott Morrison handed down his second Federal Budget in Canberra overnight. He spoke of this Budget being about fairness, security and opportunity with the Government focusing on guaranteeing essential services, tackling the cost of living and ensuring the Government lives within its means.

Following extensive changes to superannuation in the 2016 Federal Budget, there was only a handful of new measures for superannuation this time around. As anticipated, two of the super measures linked in to the Government's housing affordability policy with the only sting being for SMSF members whose fund has limited recourse borrowing arrangements.

The following Budget update looks broadly at the measures announced that may affect you. It is important to understand that most of these measures will need to be passed by Parliament before they become law.

If you think that these changes may affect your retirement or investment plan, it is important to speak with your adviser before acting.

Housing affordability

Individuals will be able to make voluntary contributions of up to $15,000 p.a. and $30,000 in total towards purchasing first home

First Home Super Saver Scheme

Effective Date: 1 July 2017

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 for the purposes of purchasing a first home. The contributions can be made using before-tax or after-tax money (i.e. concessional or non-concessional contributions) and must be made within an individual's existing contribution caps.

From 1 July 2018 onwards, individuals will be able to withdraw these contributions and their associated deemed earnings from superannuation to fund a first home deposit. The taxable component of any withdrawals will be taxed at an individual's marginal tax rate, less a 30% tax offset. No tax will be payable on the tax free component of any withdrawals.

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 3%.

Withdrawals from superannuation for the purposes of purchasing a first home will not impact the individual’s social security entitlements such as HECS/HELP repayments, family tax benefit or child care benefit.

The ATO will be responsible for administering the new First Home Super Saver Scheme and as such will assess eligibility for withdrawing amounts for the purposes of purchasing a first home as well as calculating the amount that can be released. Superannuation funds will need to respond to a release request authorised by the ATO (it is expected the ATO would leverage the existing release authority process).

The ATO will also be responsible for ensuring that individuals actually use the proceeds they have withdrawn from superannuation to purchase their first home.

The First Home Super Saver Scheme differs to the First Home Saver Account (FHSA) regime that was abolished in 2015. FHSA’s were separate stand alone accounts managed by financial institutions which required individuals to contribute a minimum of $1,000 from after-tax income each financial year. Salary sacrifice contributions to FHSA were not possible, and accounts were required to be held for 4 years before being eligible to withdraw. The First Home Super Saver Scheme utilises the existing superannuation framework to derive tax incentives, including the use of salary sacrifice arrangements.

For an individual with a taxable income of $80,000 p.a. making annual salary sacrifice contributions of $10,000, the following example highlights the potential benefits of the First Home Super Saver Scheme compared to saving via a standard deposit account.

	2017/18	2018/19	2019/20	2020/21
Annual salary sacrifice	$10,000	$10,000	$10,000	$0
Amount available for deposit (after-tax)	$8,312	$16,983	$25,542	$26,276
Increase in savings from first home deposit*	$1,719	$3,711	$5,555	$6,029

* Compared to saving in a standard deposit account

Source: First Home Saver Super Scheme Estimator

What does this mean for you?

> If you are looking to purchase your first home, the First Home Super Saver Scheme could boost your savings for a deposit for your first home by at least 30% compared with saving through a standard deposit account.

> If your employer offers salary sacrificing, you could consider taking advantage of these arrangements to make additional contributions to superannuation to help fund your first home deposit. Care should be taken to ensure you do not breach your contribution caps.

> If you are self-employed, or do not have access to salary sacrificing arrangements through your employer, you may be able to take advantage of this new scheme by making after-tax contributions to superannuation and subsequently claiming a tax deduction on these contributions, meaning savings are effectively derived from your before-tax income. Care should be taken to ensure you do not breach your contribution caps.

> You and your partner can both take advantage of this new scheme to buy your first home together.

Contributing the proceeds of downsizing to superannuation

Individuals age 65+ can make non concessional contributions up to $300,000 from the proceeds of selling their principal residence

Effective Date: 1 July 2018

From 1 July 2018, individuals aged 65 or over will be allowed to make a non-concessional contribution into superannuation of up to $300,000 from the proceeds of selling their principal residence. Contributions made under the proposed downsizing provisions will be exempt from the existing contribution rules for individuals aged 65 and older. The existing age test, work test and $1.6 million total superannuation balance restrictions that apply to ordinary non-concessional contributions will also not apply to contributions made under these provisions.

Contributions made as a result of downsizing will be in addition to any other voluntary contributions that individuals are able to make under the existing contribution rules and caps.

To be eligible for this new measure, individuals must have owned their principal residence for at least 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 provisions.

While the restrictions on non-concessional contributions for individuals with superannuation balances above $1.6 million will not apply to contributions made under this new downsizing cap, the general transfer balance cap for the purposes of commencing an income stream will still apply.

In addition, sale proceeds contributed to superannuation under this measure will count toward the assets test for Social Security purposes.

What does this mean for you?

> If you are 65 or over, from 1 July 2018 you may be able to make additional contributions to superannuation using the proceeds of the sale of your principal residence where you may otherwise have been unable to due to the existing restrictions and caps. This may allow you to unlock the value of your home to boost your retirement income.

- Taking advantage of the downsizing provisions may impact your entitlement to Social Security benefits, such as the Age Pension.

Other measures to reduce pressure on housing affordability

Effective Date: Various

In addition to the proposed measures detailed above, the Government has announced a range of other measures aimed at reducing pressure on housing affordability, including:

- establishing a new National Housing and Homelessness Agreement that will see Commonwealth funding to State and Territory Governments increased and linked to concrete outcomes including supply targets, residential land planning and zoning reforms, and homelessness services;
- establishing a $1 billion National Housing Infrastructure Facility to remove infrastructure impediments to developing new homes;
- establishing an online Commonwealth land registry that will provide more detailed information about Commonwealth land to external parties in a mapped format, allowing and encouraging proposals for higher value land use, including housing development proposals;
- releasing suitable surplus Commonwealth land to be used to support the development of new homes;
- commencing planning and zoning reform across eight Western Sydney local government areas facing above average population growth and affordability pressures;
- restricting foreign ownership in new developments to 50%;
- introducing an annual levy of at least $5,000 for foreign-owned vacant residential property that is unoccupied or not available for rent for 6 months or more each year;
- encouraging social impact investing to support innovative approaches to reduce homelessness;
- establishing the National Housing Finance and Investment Corporation to operate an affordable housing bond aggregator to provide cheaper and longer-term finance for the community housing sector.

Key points on social security

Job seeker Compliance Framework

Effective Date: From 2016-17

The Government intends to introduce new penalties for deliberate non-compliance while providing help for genuine job seekers to meet their requirements. The new framework includes a Personal Responsibility Phase where failures without reasonable excuse will result in payment suspension until re-engagement, and accrual of demerit points, but no actual penalty. Individuals who accrue four demerit points in six months will enter a three-strike Intensive Compliance Phase, in which they will face escalating penalties.

Once in the Intensive Compliance Phase:

- First strike: Loss of 50% of a fortnightly payment
- Second strike: Loss of 100% of a fortnightly payment
- Third strike: Payment cancelled for four weeks.

Stronger relationship verification process

Effective Date: 1 January 2018

Stronger relationship verification process will be implemented from 1 January 2018 for existing single parents. As of 20 September 2018, new claimants seeking Parenting Payment (Single) or single parents claiming Newstart Allowance will be required to have a third party sign to verify their relationship status. Penalties of up to 12 months in prison may be applied to referees who provide a false declaration.

What does this mean for you?

- You will have to prove your relationship status before you are entitled to the Parenting Payment (single) or Newstart allowance. This may result in a longer approval process.

From 1 Jan 2018, Tax File Numbers will be collected before income support payments are approved

Welfare claimants to provide Tax File Numbers

Effective Date: 1 January 2018

From 1 January 2018, Tax File Numbers (TFN) will be collected before income support payments are approved. Under the new arrangements, claims will not be processed until a TFN is provided.

What does this mean for you?

- If you are currently in receipt of income support payments, you will not be affected.
- If you apply for income support payments on or after 1 January 2018, you will need to provide your TFN as part of the payment approval process.

New JobSeeker Payment

Effective Date: Various starting from 20 March 2020

From 20 March 2020, a new Jobseeker Payment will be introduced as the main working age payment. As a result, seven working age payments and allowances will be consolidated or ceased.

The JobSeeker Payment will replace the Newstart Allowance and Sickness Allowance on 20 March 2020. Other impacted payments include the Wife Pension, Partner Allowance, Bereavement Allowance, Widow B Pension and Widow Allowance.

Eligibility for Pensioner Concession Cards and Health Care Cards will remain unchanged under this new JobSeeker Payment.

The JobSeeker Payment will have a minimum qualifying age of 22 years with the upper age limit aligned with the Age Pension age.

Pension Concession Card will be reinstated for pensioners who lost their Age pension entitlements due to changes in the assets test from 1 January 2017

Reinstating the Pensioner Concession Card

Effective Date: 1 July 2017

Pensioners who were no longer entitled to the Age Pension following changes to the pension assets test from 1 January 2017 will have their Pensioner Concession Card (PCC) reinstated.

What does this mean for you?

> If you are eligible to have your Pensioner Concession Card reinstated, you will be able to access health care and certain goods and services (e.g. electricity and gas bills, property and water rates and public transport fares) at a reduced cost.

Enhanced Residency Requirements for Pensioners

Effective Date: 1 July 2018

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

> 10 years continuous Australian residence, with five years of this residence being during their working life (16 years 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.

Currently, to be eligible to receive an Age Pension or DSP, you need to have been an Australian resident for at least 10 years in total with continuous residency of at least 5 years.

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

What does this mean for you?

> If you have less than 15 years of continuous Australian residence you may not be able to access the Age Pension or Disability Support Pension (DSP) as early as you previously would have been able to.

Energy Assistance Payment

Effective Date: 2016-17

A one off Energy Assistance Payment of $75 for singles and $125 per couple will be provided in 2016-17 for 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 and War Widow(er)s Pension.

What does this mean for you?

> If you are in receipt of a qualifying payment, you will be entitled to an additional payment from the Government to assist you to pay your energy bills.

New Mutual Obligation Rules for working age income support recipients

Effective Date: 20 September 2018

From 20 September 2018, to be eligible to receive income support, jobseekers aged:

- 30-49 years will have to satisfy activity requirements of 50 hours per fortnight, up from the current 30 hours.
- 55 to 59 years will no longer be able to satisfy 30 hours of activity requirements through volunteering alone; there will be flexibility for some recipients in areas of high unemployment.
- 60 to Age Pension age who currently have no activity requirements will be required to satisfy 10 hours per fortnight of activity requirements which can through volunteering or paid work.

Liquid Assets Waiting Period

Effective Date: 20 September 2018

Under new arrangements, the maximum Liquid Assets Waiting Period will increase from 13 weeks to 26 weeks from 20 September 2018 when a claimant's liquid assets are equal to or exceed $18,000 for singles without dependants or $36,000 for couples and singles with dependants.

Child Care Subsidy – upper income threshold

Effective Date: 1 July 2018

The Child Care Subsidy will be targeted only to families with incomes below $350,000 per annum. This upper income threshold of $350,000 per annum will be indexed annually by CPI from 1 July 2018.

Consistent Income Treatment for Family Tax Benefit Part A recipients

Effective Date: 1 July 2018

The government will implement a consistent 30cents per $1 income test taper for Family Tax Benefit Part A families with a household income in excess of the higher Income Free area (currently $94,316) from 1 July 2018.

Key points on Taxation

Increase in Medicare Levy

Effective Date: 1 July 2019

From 1 July 2019, the Medicare Levy will increase to 2.5% (from 2.0%). This increase is to ensure that the National Disability Insurance Scheme is fully funded.

Other tax rates that are linked to the top marginal tax rate, such as the fringe benefits tax rate, will also be increased.

The table below shows the additional Medicare Levy payable from 1 July 2019.

Income	$50,000	$75,000	$100,000	$150,000
Additional Medicare Levy	$250 p.a.	$375 p.a.	$500 p.a.	$750 p.a.

What does this mean for you?

> If you are liable to pay the Medicare Levy you will receive a lower net income in 2019/20 and subsequent income years. Refer below for details of the thresholds below which Medicare Levy is not payable.

> If you have a salary sacrifice arrangement for the 2019/20 income year, and you wish to maintain 2018/19 net income levels, you may wish to consider reducing your salary sacrifice amount for 2019/20 to take into account the increased Medicare Levy.

> If you have surplus net income (cash in hand), you could consider establishing a salary sacrifice arrangement, or increasing an existing arrangement in 2019/20 to reduce your taxable income which will reduce the amount of tax payable. Take care to ensure you do not breach your contributions caps.

Increase in the Medicare Levy low income thresholds

Effective Date: 1 July 2016

The Government has announced increases to the Medicare Levy low income thresholds that apply for the current financial year (ending 30 June 2017).

The Medicare Levy low income thresholds will be increased as follows:

> $21,655 for individuals (previously $21,335)

> $36,541 for couples with no children (previously $36,001)

> $34,244 for pensioners eligible for the Seniors and Pensioners Tax Offset (previously $33,738)

> $47,670 for senior and pensioner couples with no children (previously $46,966)

For families and senior and pensioner couples with children, the additional amount of threshold for each dependent child or student will be increased to $3,356 (up from $3,306)

What does this mean for you?

- If your income is below the relevant threshold you won't need to pay Medicare Levy for the 2016/17 financial year.

Medicare Guarantee Fund

Effective Date: 1 July 2017

The Government will establish the Medicare Guarantee Fund to guarantee the Government's commitment to the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS) into the future.

The fund will be credited each year with revenue raised from the Medicare Levy (excluding the 0.5% increase that is being used to fund the National Disability Insurance Scheme) as well as a portion of personal income tax receipts sufficient to cover the costs of the MBS and PBS.

What does this mean for you?

You may not need to pay as much for certain medications as you otherwise would

Extending the immediate deductibility threshold for small businesses

Small business instant write-off extended for 12 months to 30 June 2018

Effective Date: 1 July 2017

The Government intends to extend the existing small business concession, allowing an immediate deduction for assets costing less than $20,000 for a further 12 months to 30 June 2018. This means a deduction can be claimed for eligible assets first used, or installed ready for use, by 30 June 2018. Access to this tax write-off is currently due to expire on 30 June 2017.

A small number of assets such as horticultural plants and in-house software are ineligible for this immediate write-off.

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

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.

What does this mean for you?

- If you are a small business owner, you can continue to access this small business tax incentive until 30 June 2018.

Lower tax rate for incorporated small businesses

Effective Date: 1 July 2016

As announced in the 2016 Federal Budget, incorporated small businesses with turnover of less than $10 million will have a tax rate of 27.5% in 2016/17 (down from 30%). This lower corporate tax rate will be extended to other businesses with annual turnover of less than $50 million by 2018/19.

What does this mean for you?

- If you are a small business owner, the reduction in the company tax rate may:
  - lead to increased capital to re-invest into your business or in other areas, such as superannuation.
  - mean that you may wish to revise existing strategies and/or put new strategies in place to invest increased cash flow.

Increase in CGT discount for investments in affordable housing

Individuals entitled to increase in CGT discount for investments in affordable housing from 1 January 2018

Effective Dates: 1 July 2017 and 1 January 2018

Resident individuals will be entitled to an increase in the CGT discount for investments in affordable housing from 1 January 2018. The CGT discount for eligible investments will increase from 50% to 60%.

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.

The Government will consult further on the implementation of this policy, including on the precise definition of affordable housing and tenant eligibility, and what qualifies as rent charged below the market rate.

The CGT discount will also be available through Managed Investment Trusts (MITs) from 1 July 2017. An MIT will be able to acquire, construct or redevelop the property but must derive at least 80% of its assessable income from affordable housing. Qualifying housing must be provided to low to moderate income tenants, with rent charged at a discount below the private rental market rate.

In order for investors to receive concessional taxation treatment through a MIT, the affordable housing must be available for rent for at least 10 years.

Resident investors in these MITs will continue to be taxed on investment returns at their marginal tax rates. Income from capital gains will be eligible for the increased CGT discount of 60% (rather than the standard 50%), where applicable. An increased CGT discount will not apply to super funds.

What does this mean for you?

- If you choose to invest in affordable housing, directly or through a Managed Investment Trust, you may pay less tax on any capital gains when your investment is sold.

Disallowing the deduction of travel expenses for residential investment properties

Effective Date: 1 July 2017

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

What does this mean for you?

- If you own a residential rental property, 2016/17 will be the last financial year you will be eligible to claim a tax deduction for expenses related to inspecting, maintaining or collecting rent for the rental property.

Reducing the CGT concessions available to foreign investors

Effective Dates: 9 May 2017 and 1 July 2017

From 7.30pm on 9 May 2017, access to the CGT main residence exemption will be denied to foreign and temporary tax residents. The exemption will remain available until 30 June 2019 for existing properties held prior to this time.

From 1 July 2017, the following proposed changes will also impact foreign tax residents:

- the CGT withholding rate will increase from 10% to 12.5%, and
- the CGT withholding tax threshold will fall from $2m to $750,000.

What does this mean for you?

- This measure will not directly impact Australian tax residents.
- If you are a foreign or temporary tax resident, you may pay more tax than you previously would have in relation to Australian investments.
- This measure may reduce demand for Australian property by foreign investors.

Tightening the small business CGT concessions

Effective Date: 1 July 2017

The small business capital gains tax (CGT) concessions will be amended 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.

According to the budget papers some taxpayers are able to access these 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 existing small business CGT concessions will continue to be available to small business taxpayers with aggregated turnover of less than $2 million or business assets less than $6 million.

What does this mean for you?

- If you are looking to take advantage of these rules in the future, you should get professional advice as to whether they will apply to you.

Major bank levy

Effective Date: 1 July 2017

The Government proposes to introduce a major bank levy (the levy) for Authorised Deposit-taking Institutions (ADIs), with licensed entity liabilities of at least $100 billion.

The levy will be calculated quarterly as 0.015% of an ADI's licensed entity liabilities as at each quarterly reporting date (annualised rate of 0.06%).

The Australian Competition and Consumer Commission (ACCC) will undertake a residential mortgage pricing inquiry until 30 June 2018 to facilitate the introduction of the levy. As part of this inquiry, the ACCC may require relevant ADIs to explain changes or proposed changes to residential mortgage pricing, including changes to fees, charges, or interest rates by those ADIs.

Key points on Superannuation

Integrity of limited recourse borrowing arrangements

Effective Date: 1 July 2017

The Government intends to amend the existing transfer balance cap and total superannuation balance provisions to take into account limited recourse borrowing arrangements (LRBAs).

From 1 July 2017, for members of a SMSF or Small APRA Fund (SAF) with a limited recourse borrowing arrangement:

- the member's total superannuation balance will include the outstanding balance of the LRBA, and
- the repayment of the principal and interest of the LRBA from the member's accumulation account will be counted towards their transfer balance cap.

These changes are being made to prevent LRBAs being used to circumvent contribution caps by effectively transferring growth in assets from the accumulation phase to the retirement phase without having this growth assessed against an individual's transfer balance cap.

On 27 April 2017, the Government issued for consultation draft legislation to introduce these proposed changes. For further details read the Treasury announcement, draft legislation and explanatory memorandum.

LRBAs to be taken into account for transfer balance cap and total superannuation balance

What does this mean for you?

- Assets effectively transferred from the accumulation phase to the retirement phase of your SMSF or SAF to repay some or all of a LRBA will count towards your transfer balance cap.
- The gross, not the net, value of an asset subject to a LRBA will be included in your total superannuation balance.

If your total superannuation balance on 30 June is $1.6m or more, you will be unable to make personal after-tax (non-concessional) contributions to superannuation, utilise the carry forward of unused concessional contributions provisions and claim a tax offset for contributions you make to your spouse's superannuation.

Integrity of non-arm's length arrangements

Effective Date: 1 July 2018

From 1 July 2018, the Government intends to amend the existing non-arm's length income provisions to ensure that expenses that would normally apply in a commercial transaction are included when considering whether the transaction is being made on a commercial basis.

These changes are being made to reduce opportunities for individuals to use related party transactions on non-commercial terms to increase their superannuation savings.

What does this mean for you?

> If you are a member of an SMSF, when dealing with related parties, your SMSF trustee will need to take care to ensure that the SMSF complies with the arm's length rules, to avoid income being taxed at a higher tax rate.

Extending tax relief for merging superannuation funds

Effective Date: 1 July 2017

The Government intends to extend the current tax relief for merging superannuation funds for a further three years until 1 July 2020. This aligns with the completion of the Productivity Commission's review into the efficiency and competitiveness of Australia's superannuation system.

The existing tax relief which has been available since December 2008, allows merging superannuation funds to transfer capital and revenue losses to the new (merged) superannuation fund, and to defer tax consequences on gains and losses from revenue and capital assets.

What does this mean for you?

> The changes encourage further rationalisation of superannuation providers which is expected to result in reduced costs to members leading to increased retirement savings.

> If your superannuation fund merges with another fund before 1 July 2020, the proposed tax relief will ensure tax that may otherwise apply is not deducted from your superannuation account balance upon transfer.

Current tax relief for merging super funds extended until 1 July 2020

Improving external dispute resolution – new single complaints body

Effective Date: 1 July 2018

The Government intends to introduce a new framework for dispute resolution from 1 July 2018 with the establishment of the Australian Financial Complaints Authority (AFCA).

AFCA will be an industry funded one-stop shop for complaints resolution for all financial and superannuation disputes. AFCA will replace the Financial Ombudsman Service, the Credit and Investments Ombudsman and the Superannuation Complaints Tribunal (SCT). The SCT will no longer operate from 1 July 2020.

AFCA will provide financial services consumers, small businesses and retail investors with access to a free, fast and binding dispute resolution service. This new dispute resolution body will hear individual consumer/investor and small business disputes of higher values than are currently permitted under the three existing schemes. Individuals found to have wrongfully suffered losses will also have access to more appropriate levels of compensation.

All Australian Financial Services Licensees will be required to be members of AFCA, and its decisions will be binding on all financial services firms.

What does this mean for you?

> Simpler and faster processes will be available for raising and having financial services disputes dealt with.

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