Federal Budget - 2017-2018 Brief

Welcome to the KSR edition of the Federal Budget overview.

The Federal Government handed down what commentators are calling a balanced budget. Scott Morrison has embraced a positive outlook for the economy and says the budget focuses on boosting the economy and households. The budget anticipates the books to balance in 2020-21.

The main message from this year's budget is housing affordability.

The key changes announced are:

- Allowing first home buyers to save for a deposit via their superannuation funds
- Extension of the $20,000 immediate asset write off for small business
- Limiting investment property deductions
- Temporary budget repair levy of 2 per cent applying to individuals earning over $180,000 will cease on 30 June 2017 as intended
- Integrity measures for Small Business CGT concessions
- Increase in Medicare Levy from 1 July 2019
- Foreign employer levy applies to businesses that employ foreign workers

SMALL BUSINESS

SBE Concessions

- Small businesses with an annual turnover up to $10 million will be eligible to access the immediate tax deductibility for asset purchases costing less than $20,000 for another year till 30 June 2018.

- The small business capital gains tax 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. This will mean that the SBE concessions will only be available if the respective asset is used in a business turning over less than $2,000,000.

YOUR PARTNER IN BUSINESS

PROPERTY

GST

- GST on new residential Property – From 1 July 2018 purchasers of newly constructed residential properties will be required to withhold and remit the GST amount on the purchase price to the ATO, this was previously the responsibility of the vendor/ developer. This measure will likely impact settlement processes and transaction costs on property transfers.

Investment Property Deductions

- Rental deductions relating to travelling expenses for inspecting, maintaining or collecting rent will now be disallowed. However, this does not prevent investors from engaging property management services and claiming a deduction on it.
- The Government will be also implementing an integrity measure to limit deductions for plant and equipment that form part of residential property investments to expenses investors have directly incurred themselves. All plant and equipment forming part of residential investment properties prior to 9 May 2017 will continue to be deductible until either the property is sold or the item reaches the end of its effective life. This effectively means that any plant and equipment purchased as part of an existing property (established property in contrast to new property purchased from a developer) from 10 May 2017 onwards will not be depreciable, as opposed to plant and equipment purchased directly by the new investment owners.

Property Purchasers

- The withholding rate for foreign resident capital gains tax withholding regime will be increased from 10% to 12.5%. The threshold will be reduced from $2 million to $750,000, meaning the seller will have to provide a certificate noting they are a resident, or face withholding tax. This will basically impact most major city purchases.

Capital Gains Tax

- Foreign residents and temporary residents will no longer be able to access the main residence exemption for their property and will be forced to pay capital gains tax on their property. This will be grandfathered for existing properties until 30 June 2019.

- The capital gains tax discount will be increased from 50% to 60% for individuals who invest in qualifying affordable housing. This will come into effect from 1 January 2018 onwards. In order to qualify, the housing must be provided to low-to-moderate income tenants, with rent charged at a discount below the private rental market rate. The property must also be managed through a registered community housing provider and must be held for a minimum of 3 years as affordable housing.

Vacant Properties

- The Government is discouraging foreign investors from buying residential properties and leaving them vacant. They will now charge an annual charge if the property is not occupied or available for rent for at least six months each financial year. The new annual vacancy charge will commence from 7.30 pm 9 May 2017 and be administered by the ATO. The annual charge will come up to at least $5,000 annually.

PERSONAL TAX

Medicare

- From a personal income tax perspective, one of the few changes of note coming out of the 2017 budget was the increase in the Medicare levy, which effective 1 July 2019, will increase by half a percentage point from 2.0% to 2.5%.

- Other tax rates that are linked to the top personal tax rate will also increase correspondingly. Importantly, exemptions from the Medicare levy continue to remain in place and low income earners may continue to receive relief through existing measures.

Higher Education 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.

YOUR PARTNER IN BUSINESS

SUPERANNUATION MEASURES

1.6 Million Transfer Balance Cap

- From 1 July 2017, the Government will include the use of Limited Recourse Borrowing Arrangements (LRBA) in a member's total superannuation balance and transfer balance cap (to the extent those payments are paid out of accumulation phase).

- The outstanding balance of a LRBA will be included in a member's annual total superannuation balance which determines whether a member can make non-concessional contributions and the amount they can contribute.
- 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.

First home buyers

- First home buyers will be able to save for a deposit for a first home by salary sacrificing a portion of their wage into their superannuation account. This portion will be on top of any compulsory superannuation contributions made by employers from 1st July 2017. These additional contributions will be able to be made directly into an existing superannuation fund.

- The additional Superannuation Contributions will be taxed at 15% instead of marginal rates, and the withdrawal of these funds will be taxed at marginal rate with a tax offset of up to 30% being applicable.

- These contributions will be limited to $30,000 per person in total, and up to $15,000 per year. This plan means that most first home buyers will be able to improve their home deposit savings through reduced taxes on the amount they commit to contribute.

- This scheme will be regulated by the Australian Taxation Office who will be responsible for ensuring that the money is used for its purpose and that only eligible people use the concession.

Senior Australians

- Residents over the age of 65 will be able to make a non-concessional superannuation contribution of up to $300,000 by using the proceeds from the sale of their main residence. This contribution will not be affected by any other caps.

- Must have owned their main residence for at least 10 years.

- Furthermore, this concession will not be prohibited by the current measure that prevents non-concessional contributions being made by members who have total superannuation balances of over $1.6 million.

- If a couple sells their main residence, and both members are over the age of 65, then both individuals can contribute an additional $300,000 in non-concessional contributions

Pensioners

- The pensioner concession card will be restored to those who lost it after the pension assets test change introduced earlier this year, so seniors will regain access to state and territory based concessions that were withdrawn after the change.

OTHER MEASURES

Foreign Worker Levy

- Businesses that employ temporary visa workers (457 visas) or sponsor workers under permanent skilled visa will be subject to annual foreign worker levy from March 2018.
- Small businesses will have to pay $1,200 for every year they employ a temporary visa worker and a one-off payment of $3,000 for each employee they sponsor for a permanent skilled visa.
- Businesses with turnover of more than $10 million will be charged $1,800 per worker a year and a $5,000 one –off levy for permanent skilled visas.
- Fee for 457 visa applications has been increased from $1,060 to $2,040 and about 200 occupations have been removed from 457 visa eligibility.

New Levy on Major Banks

- From 1 July 2017, Australia's big four banks plus Macquarie will have to pay a 0.06 percent annual levy on bank liabilities such as corporate bonds and large deposits.

- Ordinary bank deposits and other deposits protected by the Financial Claims Scheme, including those held by everyday Australians will be excluded from the levy base. The present value of major bank liabilities stands at $3.3 trillion compared to Australia's annual GDP of $1.7 trillion.
- The banking sector will also face higher fines should executives breach misconduct laws, ranging from $50 million for small banks and $200 million for larger banks.

Multinational Tax Avoidance

- A new diverted profits tax will be introduced on 1 July 2017 to impose a 40 percent tax on Australian profits artificially shifted offshore by large multinationals with annual global income exceeding $1 billon.

- The current Multinational Anti-Avoidance Law will be extended to ensure corporate structures involving foreign partnerships and foreign trusts will now be subject to the law.

- Australia’s transfer pricing rules have been aligned with OECD recommendations. Transfer pricing rules prevent profit shifting by ensuring payments are treated as occurring at arm’s length.

Exposing the black economy

- The government have established the Black Economy Taskforce to develop a policy framework to tackle the black economy.

- 17 percent pf Australia’s workforce are independent contractors up from 8 percent five years ago. An area of concern is where businesses classify workers as contractors rather than employees to avoid paying workers superannuation entitlements.

- One of the measures introduced is the extension of the Taxable Payment Reporting System to the courier and cleaning sectors to ensure payments made to contractors are reported to ATO.

State Budget Measures

It is also worth noting that Victoria will remove the stamp duty exemption for certain transfers of property between spouses, "closing a loophole that is currently used for tax-minimisation by investors". Property transfers between spouses and de facto partners will no longer be exempt from stamp duty from 1 July 2017. Exemptions for the principal place of residence and for transfers following a relationship breakdown will remain in place.

Please do not hesitate to contact the team here at KSR if you have any questions: 03 9830 1555

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