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The Federal Budget

What You Need Know

2017

Altus Financial

Introduction

The focus of the 2017-18 Federal Budget is focused on housing affordability and infrastructure.

There were populist undertones that included increasing taxes for foreign investors in Australian property.

Here is a summary of the significant areas you need to be aware of and how it affects you.

PART ONE

Business

Business

Tax Integrity Package — Small business capital gains tax concessions

- From 1 July 2017, there will be tighter access to the small business CGT concessions.
- The concessions themselves won't change, however the eligibility tests will likely change.

Impact of the change – There is little detail, but could potentially have an impact on the taxation on sale of businesses.

Extending the immediate deductibility threshold for small businesses

- The $20K immediate deductions for small businesses with a turnover of $2M is still in place, from now until 30 June 2018.
- When the current proposed legislation gets passed, this should extend to companies with a turnover of $10M.

Impact of the change – If you buy assets of $20K for your business, you can deduct the full amount immediately, provided your turnover is $2M and under.

Introduction of the major bank levy

- The Government is introducing a major bank levy which will be calculated quarterly at .015% of a bank's liabilities.

Impact of the change – It appears to prevent this impacting the residential property market, as the ACCC is monitoring the mortgage pricing of residential loans. However, there is no reference to monitoring loans for business or other investor loans. Potentially, this could lead to an increase in the cost of all loans.

PART TWO

Personal

Personal

Increase in the Medicare levy

- There will be no extension of the temporary budget repair levy due to expire 30 June 2017.
- From 1 July 2019, the Medicare levy will increase from 2% to 2.5% on all tax payers as opposed to the budget repair levy which only applied on income over $180K

Impact of the change – An increase in the tax rate for all tax payers.

Foreign resident capital gains tax changes

- From 1 July 2017, there will be an increase to the CGT withholding rate for foreign tax residents from 10% to 12.5%; and
- the CGT withholding threshold for foreign tax reduces from $2M to $750K.

Impact of the change – The sale of any property with a value of $750K or more will require you to obtain a foreign resident capital gains withholding clearance certificate. Likewise, if you purchase a property with a value of over $750K you will need to withhold 12.5% unless the vendor supplies you with a clearance certificate.

Restriction of the CGT main residency exemption

- From 9 May 2017, foreign and temporary tax residents will not be able to access the CGT main residence exemption, however there is a grandfathering provision until 30 June 2019 for existing properties as at 9 May 2017.

Impact of the change – Where the definition of foreign tax resident is the same as for income tax purposes, for people who are relocated overseas and become a foreign resident for Australian tax purposes, this may mean their main residence becomes subject to CGT.

Contributing the proceeds of downsizing to superannuation

- From 1 July 2018, individuals aged 65 or over will be able to make a non-concessional contribution of up to $300K from the proceeds of selling their home.
- This would be in addition to the other non-concessional contributions of $100K per year for those that are over 65 and meet the work test rules.

Impact of the change – This potentially is a way for downsizers to contribute extra funds to superannuation outside the current limits of $100K per year.

Changes to the HELP repayment threshold

- From 1 July 2018, the new minimum threshold for HELP debt will be $42K as opposed to the current $51,957; and
- The new maximum rate will be 10% as opposed to the current 8% on incomes over $119,882.

Impact of the change – Incomes will be subject to HELP on lower incomes and at higher rates.

Limit on depreciation deductions for property investors

- From 1 July 2017, there will be a limitation on depreciation deductions for rental properties. The Government are removing the ability to deduct costs of mechanical fixtures such as dishwashers, and ceiling fans that are existing in the property at the date of purchase. However, any equipment acquired directly by an investor will still be deductable. These changes apply to properties acquired on or after 10 May 2017; and
- travel deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property will be disallowed.

Impact of the change – There are now less opportunities for depreciation for some existing assets in rental properties.

Crowd source equity funding

- The Government is creating a framework that will support equity investment into propriety companies.

Impact of the change – This could open exciting opportunities for investment into private companies.

First home super saver scheme

- From 1 July 2017, first home owners can voluntarily contribute to superannuation so that they can withdraw the funds along with associated deemed earnings for a first home deposit. Under the proposed measure, $15K per year and $30K in total can be contributed, and withdrawals will be allowed from 1 July 2018 onwards.

Impact of the change – For clients that are directing income to their children and would like to assist them in saving for a deposit for their first home, this may provide a planning opportunity. It is also a more tax effective way for younger clients to save for their first home.

PART THREE

Superannuation

Superannuation

Integrity of limited recourse borrowing arrangements

- 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.
- The outstanding balance of a LRBA will now 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.

Impact of the change – This further emphasises the need to seek advice around the account based pension caps.

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.

Impact of the change – This further emphasises the need to seek financial advice as they are particularly related to SMSF and ensure that your SMSF strategy remains inside these proposed guidelines.

While this is a general overview of the budget, our next step at Altus is to make a start on your tax planning - what you need to do before 30 June 2017 to improve your tax position.

To make the most out of these new budget measures, contact your Altus Adviser to make a time to meet and discuss your tax planning options.

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