

BusinessPlus+ Newsletter

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Federal Budget Edition – May 2017

2017/18 Federal Budget Highlights

***Please note: Most of the items discussed in this newsletter have not yet been legislated. The government has to submit its budget to the Senate for debate and passing of the legislation before the individual items become law*.**

Mr Scott Morrison, the Federal Treasurer, has handed down his second budget. Mr Morrison said the budget is focused on boosting the economy and households, so that “we live within our means and are able to return the budget to balance in 2020/21”.

The government is proposing to address the housing affordability crisis with a package of tax, superannuation and other measures. Additionally, the budget contains measures intended to ensure the integrity of the tax and superannuation system.

Economic Forecasts

The economic forecasts contained in the budget indicate the following:

	<u>2016 Actual</u>	<u>2017 Forecast</u>	<u>2018 Forecast</u>	<u>2019 Forecast</u>
Real GDP	2.6%	1.75%	2.75%	3.0%
CPI	1.0%	2.0%	2.0%	2.5%
Unemployment Rate	5.7%	5.75%	5.75%	5.5%
Wage Price Index	2.1%	2.0%	2.5%	3%

The Forecast Deficit Contained in the Budget will be:

- in 2016/17 - \$37.6 billion
- forecast deficit in 2017/18 - \$29.4 billion

Tax Rates

There were no direct tax increases announced in the 2017/18 budget. The temporary budget repair levy which was due to expire on 30 June 2017 will expire at that date.

Tax rates for 2017/18 income years:

<u>Taxable income threshold range (\$)</u>	<u>Resident individual 2017-18 marginal income tax rate (%)</u>	<u>Non-resident individual 2017-18 marginal income tax rate (%)</u>
0 - 18,200	0	32.5
18,201 - 37,000	19	32.5
37,001 - 87,000	32.5	32.5
87,001 - 180,000	37	37
180,001 +	45	45

Medicare

Individuals

- the Medicare Levy will be increased from 2% to 2.5% of taxable income from 1 July 2019. Other tax rates that are linked to the top personal tax rate, such as fringe benefit tax rate, will also be increased.
- The Medicare Levy Low Income Thresholds for singles, families, and seniors and pensioners will increase from the 2016/17th income year.

Business

Extending the Immediate Right off for a Small Business

The government has announced that the \$20,000 immediate right off for purchase of assets that was due to expire on 30 June 2017 will be extended to 30 June 2018 for businesses with aggregated annual turnovers of less than \$10 million. This means small businesses will be able to immediately deduct purchases of eligible assets, individually costing less than \$20,000, which were first used or installed ready for use by 30 June 2018.

Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified appreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter. The simplified depreciation pool can also be immediately deducted if the balance is less than \$20,000 over this period.

Extension of the Taxable Payments Reporting System to Contractors in the Courier and Cleaning Industries

The government will extend the taxable payments reporting system (TPRS) to contractors in the courier and cleaning industries with effect from 1 July 2018. The TPRS already operates in the building and construction industries. Under the TPRS businesses are required to report payments they make to contractors (individual and total for the year) to the ATO.

10 Year Enterprise Tax Plan

The 10 year enterprise tax plan unveiled in last year's federal budget remains on track. Incorporated small businesses with turnovers up to \$10 million will have their rate of tax cut to 27.5% for the current financial year. Businesses with turnovers up to \$50 million will receive the same tax rate from the 2018/19 financial year. Unincorporated businesses with annual turnover of up to \$5 million will receive an increase in the unincorporated tax discount taking the rate to 8%.

Foreign Worker Levy

The government has announced that following the announcement on the abolition of "457 temporary work visas" a new annual foreign worker levy with the funds raised to go to a new Commonwealth-State Skilling Australians Fund. The annual foreign worker levy for a worker on a temporary work Visa will be \$1,200 per worker per annum for businesses with turnovers up to \$10 million and \$1,800 per worker per annum for businesses with turnovers over \$10 million.

For workers on a permanent skilled Visa the levy will be \$3,000 on a one-off basis for businesses with turnovers under \$10 million and \$5,000 on a one-off basis for businesses with turnover over \$10 million.

The fund is expected to contribute \$1.5 billion to State and Territory governments in its first four years with a focus on apprenticeships and traineeships in high demand occupations that currently rely on skilled migration, as well as, regional areas and future growth industries.

Property Owners

Limiting plant and equipment depreciation deductions to outlays actually incurred by investors – for residential investment properties acquired after 7.30pm AEST 9 May 2017.

From 1 July 2017 the government will limit the plant and equipment depreciation deductions to outlays actually incurred by investors in residential properties. Plant and equipment items are usually mechanical fixtures or those that can be "easily" removed from a property such as dishwashers and ceiling fans. These changes will apply on a prospective basis, with existing investments grandfathered. More specifically:

- Plant and equipment forming part of residential investment properties as of 9 May 2017 (including contracts already entered into 7.30pm (AEST) on 9 May 2017) will continue to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.
- Investors who purchase plant and equipment for their residential investment property after 9 May 2017 will be able to claim a deduction over the effective life of the asset. However, subsequent owners of a property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property. Acquisitions of existing plant and equipment items will be reflected in the cost base for CGT purposes for subsequent investors.

No Deduction for Travel Expenses for Residential Rental Properties

From 1 July 2017, the government will disallow deductions for travel expenses relating to inspecting, maintaining or collecting rent for a residential rental property.

This measure will not prevent investors from claiming a deduction for costs incurred in engaging third parties, such as real estate agents, for property management services.

Capital Gains Tax

New Integrity Measure for the Small Business CGT Concessions

The government will amend the small business CGT concessions with effect from 1 July 2017 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 proposed amendment is targeted at taxpayers who 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 of determining eligibility for the concessions. The small business CGT concessions will continue to be available to small business taxpayers with aggregated turnover of less than \$2 million or business assets of less than \$6 million.

Measures affecting GST - Improving the Integrity of GST on Property Transactions

From 1 July 2018, purchasers of newly constructed residential properties or new subdivisions will be required to remit the GST directly to the ATO as part of settlement. Under the current law (whether GST is included in the purchase price and the developer remits the GST to the ATO) some developers are failing to remit the GST to the ATO despite having claimed GST credits on their construction costs.

Aligning the Treatment of Digital Currency (e.g. bitcoin) with Money

From 1 July 2017 the government will align the GST treatment of digital currency (e.g. bitcoin) with money. Digital currency is currently treated as intangible property for GST purposes. Consequently, consumers who use digital currencies as payment can effectively bear GST twice: once on the purchase of the digital currency and again on its use in exchange for other goods and services subject to GST. This measure will ensure purchasers of digital currency are no longer subject to the GST.

CGT changes for foreign investors

The government will extend Australia's foreign resident CGT regime by denying foreign and temporary tax residents access to the CGT main residence exemption from 7.30pm (AEST) on 9 May 2017. Existing properties held prior to 9 May 2017 will only be grandfathered until 30 June 2019.

Change to the Foreign Resident CGT Withholding (FRCGW) Regime

The government will extend Australia's FRCGW regime by increasing the CGT withholding rate for foreign residents from 10% to 12.5% from 1 July 2017. The government will also reduce the CGT withholding threshold for foreign tax residents from \$2 million to \$750,000 from 1 July 2017.

Superannuation

Superannuation

There were no new specific announcements made in the budget relating to superannuation. Therefore the changes announced in the 2016 budget will apply. Contributions to be made in 2016/17 will be limited to:

- persons over 50 - \$35,000
- persons under 50 - \$30,000
- maximum non-concessional contributions able to be made prior to 30 June 2017 - \$180,000

Superannuation Regime from 1 July 2017

- contribution limit for all taxpayers - \$25,000
- non-concessional contribution limit - \$100,000 per annum with a maximum of \$300,000 over a three-year period

Individuals aged 65 or over are able to contribute the proceeds of downsizing into superannuation

From 1 July 2018 the government will allow a person aged 65 or over to make a non-concessional contribution (NCC) of up to \$300,000 from the proceeds of selling their home. These NCCs will be in addition to those currently permitted under existing rules and caps and they will be exempt from the existing aged test, work test and the \$1.6 million balance tests for making NCCs.

This measure will apply to sales of a principal residence owned for the past 10 or more years and both members of a couple will be able to take advantage of this measure for the same home.

It is unclear how this measure will affect the assets' test for age pension purposes.

Encouraging Home Ownership

Superannuation - First Home Superannuation Saver Scheme

The government will encourage homeownership by allowing first homeowners to “build a deposit” inside their superannuation fund, as follows:

- Voluntary superannuation contributions of up to \$15,000 per year, and \$30,000 in total, can be contributed by first home buyers from 1 July 2017. The contribution must be within existing concessional and non-concessional caps. Concessional contributions are taxed at 15% in the fund and earnings on contributions are taxed at 15% in the fund.
- These contributions can be withdrawn, along with associated deemed earnings, for a first home deposit, from 1 July 2018. Concessional contributions and earnings that are withdrawn will be taxed at the taxpayer’s marginal rate less a 30% offset. When non-concessional contributions are withdrawn, they will not be taxed.

Both members of a couple can take advantage of this measure to buy their first home together.

Encouraging Investment In Affordable Housing

Increased CGT Discount for Resident Individuals Investing in Qualifying Affordable Housing

From 1 January 2018 the government will increase the CGT discount from 50% to 60% for resident individuals who elect to invest in qualifying affordable housing.

To qualify for the higher CGT 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.

Management Investment Trusts

Management Investment Trust will be able to invest in affordable housing, allowing investors to receive concessional tax treatment, provided certain conditions are met, including that the properties are let as affordable housing for at least 10 years.

Manufacturing

Advanced Manufacturing Growth Fund

The government allocated \$47.5 million towards a new manufacturing growth fund for capital investment by automotive manufacturing businesses in Victoria and South Australia.

Advanced Manufacturing Growth Centre

The government has announced its intention to contribute \$4 million in funding which will be utilised for small-scale and pilot projects conducted by start-ups and researchers.

Innovation Labs

\$10 million in funding will be contributed towards the establishment of innovation labs in South Australia and Victoria. The labs will contain test centre facilities and business development opportunities which the government plans to deliver through existing government programs and agencies.

Students

Changes Affecting the Higher Education Loan Program (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.

Charge on Foreign Owners of Underutilised Residential Property

The government will introduce a charge of at least \$5,000 on foreign owners of residential property where the property is not occupied or genuinely available on the rental market for lease six months per year. This measure will apply to foreign persons who make a foreign investment application for residential property from 7.30pm (AEST) on 9 May 2017. The charge will be levied annually and will be equivalent to the relevant investment application fee imposed on the property at the time it was acquired by the foreign investor. This measure is intended to encourage foreign owners of residential property to make their properties available for rent where they are not used as a residence and so increase the number of dwellings available for Australians to live in.

Restricting Foreign Ownership in New Developments to 50%

The government will introduce a 50% cap on foreign ownership and new developments through a condition on New Dwelling Exemption Certificates. The cap will be included as a condition on New Dwelling Exemption Certificates where the application was made from 7.30pm (AEST) on 9 May 2017.

Crowd-Sourced Funding

Extension of Crowd Sourced Funding

The federal government has allocated \$4.5 million over four years to extend the Crowd Sourced Equity Funding to Proprietary Companies. The Australian Securities and Investment Commission will receive the funding between 2017/18 and 2020/21 to implement and monitor an extension of the Crowd Sourced Equity Funding to proprietary companies.

Crowd Sourced Equity Funding is currently available to proprietary companies that convert to an unlisted public company and to companies specifically incorporated as unlisted public companies. Capital raising for eligible Crowd Sourced companies is available from September 2018.

Banks

Banking Regulation to Benefit Customers

Following a number of high-profile scandals in Australia's banking sector, the government announced the establishment of the Australian Financial Complaints Authority. The government has indicated that the authority will be *"a simpler, more accessible and more affordable one stop shop for Australians to resolve their disputes and obtain binding outcomes from the banks and other financial institutions"*. *"If banks breach misconduct rules, they will also face bigger fines starting at \$50 million for small banks and \$200 million for large banks"*.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

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