

Accurium Federal Budget Report 2017-18

Fairness, security and opportunity

On Tuesday 9 May 2017 the Treasurer, Scott Morrison, released the Government's 2017-18 Budget.

After substantial changes affecting both pre and post retiree clients in recent Budgets, including the changes to superannuation and income streams announced in the 2016-17 Budget effective from 1 July 2017, the Budget this year appears less likely to significantly impact SMSF clients. That said there are, as always, plenty of changes announced that will require your consideration and present new opportunities, including increased flexibility in superannuation contributions and income streams for those downsizing their home.

It is important to note that before any of these announcements can be implemented they will require the passage of legislation and they may be subject to change.

Superannuation

Additional super contributions for down-sizers

From 1 July 2018, people aged 65 and over will be able to make a non-concessional superannuation contribution of up to \$300,000 from the proceeds of the sale of their home. Both members of a couple will be able to apply this measure allowing up to \$600,000 per couple to be contributed to superannuation.

Contributions made under the downsizing cap will be in addition to any other voluntary contributions a person is able to make under the existing contribution rules and caps.

To facilitate this measure the Government will remove the existing contribution rules for those aged 65 and over making contributions under the new downsizing cap, including:

- ▶ removing the gainful employment requirement between age 65 and 74;
- ▶ removing the restriction on contributions from age 75; and
- ▶ removing the restriction applying from 1 July 2017 on non-concessional contributions by a person with a total superannuation balance of over \$1.6 million.

This measure will only apply following the sale of a principal place of residence held for a minimum of 10 years.

It is important to note that while an amount may be able to be contributed to superannuation under the downsizing cap, the measure does not extend to amounts transferred into the retirement phase of superannuation under the \$1.6 million transfer balance cap. A person will only be able to transfer up to their \$1.6 million transfer balance cap into a retirement phase income stream.

The Government has confirmed that downsize sale proceeds contributed to superannuation will be counted under the Age Pension Assets Test.

This measure will provide significant additional flexibility to those retirees looking to structure income streams for their retirement including those downsizing for lifestyle, to raise capital or for additional care requirements.

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First home super saver scheme

To reduce pressure on housing affordability the Government will allow voluntary superannuation contributions to be withdrawn for a first-home deposit.

- ▶ From 1 July 2017 an amount up to \$15,000 per year of voluntary contributions (concessional or non-concessional) within the existing contribution caps can count towards this measure, up to \$30,000 in total. Normal tax rules on contributions will apply.
- ▶ From 1 July 2018 these amounts can be withdrawn for a first home deposit up to the maximum of \$30,000 along with associated deemed earnings.
- ▶ Withdrawals relating to concessional contributions will be taxed at a person's marginal rate less a 30% offset. Non-concessional contributions withdrawn will not be taxed.
- ▶ The measure is applied per person, meaning both persons in a couple buying their first home will be eligible to apply this scheme.

The amount of earnings released will be calculated using a deemed rate of return based on the 90 day Bank Bill rate plus 3 percentage points (same as the Shortfall Interest Charge (SIC)). The current annual SIC is 4.78%. Before making contributions under this scheme first home savers should consider their personal circumstances including what type of contribution could be most effective and the tax rate payable on earnings inside superannuation compared to their effective tax rate outside of superannuation.

The scheme will be administered by the ATO and they will determine the amount of contributions a person can release and instruct super funds to make the payments accordingly.

Integrity of limited recourse borrowing arrangements

From 1 July 2017 the outstanding balance of a limited recourse borrowing arrangement (LRBA) will be included in a person's annual total superannuation balance. This will affect a person's ability to make non-concessional contributions and use the segregated method in an SMSF.

In addition, repayments of the principal and interest of a LRBA from an accumulation account will be a credit in the person's transfer balance account. This is an integrity measure introduced to curb LRBAs being used to circumvent contribution caps and avoid growth in assets from the accumulation phase to the retirement phase being captured by the transfer balance cap.

Draft legislation released by the Government on 27 April 2017 proposed to include LRBAs by SMSFs in a member's total superannuation balance and the \$1.6m transfer balance cap on a prospective basis from 1 July 2017. The Budget proposals adjust this identifying the measures will also apply to outstanding LRBA balances from 1 July 2017.

Integrity of non-arm's length arrangements

The Government will amend non-arm's length income provisions to ensure expenses that would normally apply in a commercial transaction are included when considering whether a transaction is on a commercial basis.

This integrity measure will apply from 1 July 2018 to ensure the 2016-17 Superannuation Reform Package operates as intended by reducing opportunities for related party transactions on non-commercial terms to be used to increase superannuation savings.

Social security

Family Tax Benefit payments not increasing

The Government will maintain the current Family Tax Benefit (FTB) payment rates for two years at their current levels from 1 July 2017 as previously announced in the 2015-16 Mid-Year Economic and Fiscal Outlook. Indexation of the FTB payment rates using the Consumer Price Index will resume on 1 July 2019.

▶ **From 1 July 2017 the outstanding balance of a limited recourse borrowing arrangement (LRBA) will be included in a person's annual total superannuation balance.**

A one-off Energy Assistance Payment of \$75 for single recipients and \$125 per couple.

Family Tax Benefit Part A income test taper rate

The Government will implement a consistent 30 cents in the dollar income test taper rate for higher income families receiving Family Tax Benefit (FTB) Part A from 1 July 2018.

Currently the rate of FTB Part A is worked out using two income tests, with the test that provides the highest rate being applied. The first test reduces the maximum rate of FTB Part A by 20 cents for each dollar above the Lower Income Free Area (currently \$51,903). The second test reduces the base rate of FTB Part A by 30 cents for each dollar over the Higher Income Free Area (currently \$94,316).

Where household income is in excess of the Higher Income Free Area the rate of FTB Part A will be worked out using the second test only, to ensure higher income families are all subject to the same income test taper rate.

Department of Human Services improvements

The Government will undertake a number of administrative processes to improve Department of Human Services (DHS) service delivery and reduce red tape from 2016-17 including:

- ▶ piloting opportunities with existing accredited Government service providers to reduce call wait times by increasing Centrelink call centre capacity by 250 full-time equivalent roles;
- ▶ more efficient information-sharing arrangements with the Australian Taxation Office by requiring welfare claimants to provide their Tax File Number (TFN) when first lodging claims; and
- ▶ streamlining of referrals for welfare fraud prosecution by allowing information held by DHS to be used in respect to potential criminal proceedings.

Energy Assistance Payment

The Government will make a one-off Energy Assistance Payment of \$75 for single recipients and \$125 per couple for those eligible for qualifying payments on 20 June 2017 and who reside in Australia. The payment will be automatically paid in the week commencing 26 June 2017 and is not taxable and will not be counted as income.

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, War Widow(er)s Pension, and permanent impairment payments under the Military Rehabilitation and Compensation Act 2004 (including dependent partners) and the Safety, Rehabilitation and Compensation Act 1988.

Enhanced residency requirements for Pensioners

The Government will revise the residency requirements for claimants of the Age Pension and the Disability Support Pension (DSP) from 1 July 2018. Claimants will be required to have 15 years of continuous Australian residence before being eligible to receive the Age Pension or DSP unless they have either:

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

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

Liquid Assets Waiting Period increasing

The Government will increase the maximum Liquid Assets Waiting Period from 13 weeks to 26 weeks from 20 September 2018.

The maximum waiting period will apply where a claimant's liquid assets are equal to, or exceed, \$18,000 (from \$11,500) for singles with no dependants or \$36,000 (from \$23,000) for couples and singles with dependants.

Pensioner Concession Card reinstatement

The Government will reinstate the Pensioner Concession Card (PCC) for former pensioners who were no longer eligible to receive the Age Pension following the rebalancing of the Assets Test from 1 January 2017.

These former pensioners will receive the PCC from 9 October 2017 and they will retain the Commonwealth Seniors Health Card to ensure they continue to receive the Energy Supplement. The Low Income Health Care Card will be deactivated.

Working Age Payments Reforms

The Government will progressively consolidate seven working age payments and allowances into a new JobSeeker Payment.

Newstart Allowance and Sickness Allowance recipients will transition to the new JobSeeker Payment on 20 March 2020 and will be set at the same rate as Newstart Allowance. Current mutual obligation exemptions for Sickness Allowance will be retained.

Widow Allowance will be closed to new recipients from 1 January 2018 and will cease on 1 January 2022, when all remaining recipients have reached Age Pension eligibility age. Widow Allowees transferring to the Age Pension will receive a higher payment rate.

Partner Allowance, which has been closed to new recipients since 20 September 2003, will cease on 1 January 2022, when all remaining recipients have reached the eligibility age for the higher payment Age Pension.

Widow B Pension, which has been closed to new recipients since 20 March 1997, will cease on 20 March 2020. Recipients will transition to the Age Pension with no change to their payment rate.

Wife Pension, which has been closed to new recipients since 1 July 1995, will cease on 20 March 2020. Most recipients will transition to the Age Pension or Carer Payment at the same payment rate. Australian residents who do not qualify for these payments will transition to the new JobSeeker Payment. Transitional arrangements will ensure that those who transfer to the JobSeeker Payment have their rates preserved; however, those aged under 55 will be required to meet mutual obligation requirements.

Bereavement Allowance will be closed to new recipients from 20 March 2020 and will be replaced by the new JobSeeker Payment. Existing recipients of Bereavement Allowance will not be impacted by the change. Newly bereaved people on the new JobSeeker Payment will receive a triple payment in the first fortnight and current mutual obligation exemptions will be retained.

Eligibility for the Pensioner Concession Card and the Health Care Card will not be affected by these changes.

A new, more equitable participation framework will apply from 20 September 2018. Key elements include aligning the participation requirements for recipients aged 30 to 49 with those for recipients under 30, and recipients aged 55 to 59 will only be able to meet up to half



The Government will reinstate the Pensioner Concession Card (PCC) for former pensioners.

From 1 July 2019, the Medicare levy will increase by 0.5% to 2.5% of taxable income.

of their participation requirements through volunteering. Recipients aged between 60 and Age Pension age will have a new activity requirement of 10 hours per fortnight that can be met through volunteering. The current jobactive program will be enhanced to support both mature age and inexperienced job seekers to increase their chances of finding employment, including through a new Career Transition Assistance Program.

Tax

0.5% increase in Medicare levy

From 1 July 2019, the Medicare levy will increase by 0.5% to 2.5% of taxable income, effectively increasing the top marginal tax rate (which includes the fringe benefits tax rate) to 47.5%. The increase ensures the National Disability Insurance Scheme (NDIS) is fully funded.

The Temporary Budget Repair levy will expire on 30 June 2017 as originally announced in the 2014-15 Federal Budget.

Increase to Medicare levy low-income thresholds

The 2016-17 financial year Medicare levy low-income threshold will be indexed for individuals and families. The threshold for singles will increase to \$21,655 per annum and, for couples with no children, increase to \$36,541 per annum. For those individuals and couples who are eligible for seniors and pensioners tax offset (SAPTO) the thresholds will increase to \$34,244 per annum and \$47,670 per annum respectively. The additional threshold amount for each dependent child or student will increase to \$3,356 per annum.

The increase in these thresholds takes into account movements in CPI.

	2016-17	2015-16
Single	\$21,655	\$21,335
Single eligible for SAPTO	\$34,244	\$33,738
Couple	\$36,541	\$36,001
Couple eligible for SAPTO	\$47,670	\$46,966
Additional threshold for each dependent child	\$3,356	\$3,306

Reduced residential property deductions

The Budget introduces integrity measures for deductions claimed by residential property investors.

From 1 July 2017, depreciation deductions on plant and equipment are limited to outlays actually incurred on residential properties. Broadly, these items include mechanical fixtures or those easily removed from the property such as dishwashers and fans.

For plant and equipment purchased after the 9 May 2017, deductions are claimable over the effective life of the asset only by the investor who purchases the items. Subsequent investors of a property will be unable to claim deductions for existing plant and equipment, although the value of existing items will be reflected in the cost base for capital gains tax purposes.

For investors with existing investments as at Budget night, grandfathering rules will apply, allowing deductions on plant and equipment to continue until either the investor no longer owns the asset or the asset reaches the end of its effective life.

Also from 1 July 2017, the Government will no longer allow deductions for travel expenses related to inspecting, maintaining or collecting rent for residential rental property. However, where investors engage third parties such as real estate agents and property management services, those expenses continue to be deductible.

Aged Care

Strengthening aged care

The Government will make a number of changes impacting the operation of aged care:

- ▶ From 1 July 2017 the establishment and support of an industry-led aged care workforce taskforce. The taskforce will explore options to improve productivity in the aged care workforce and contribute to the development of an aged care workforce strategy, including for regional and remote areas.
- ▶ From 1 July 2018 the Commonwealth Home Support Program (CHSP) and Regional Assessment Services (RAS) funding arrangements will be extended. The CHSP and RAS contribute to essential home support services, such as meals (Meals on Wheels), personal care, nursing, domestic assistance, home maintenance, and community transport, to assist older people to keep living independently in their own home.

Greater choice for at home palliative care

From 2017-18, the Government will provide palliative care services for people who would prefer to be cared for in their homes rather than in a hospital or hospice setting. Funding will be provided through the Primary Health Care Networks, supporting greater choice for end-of-life care for Australians.

Small business

Extending the immediate deductibility threshold for small businesses

The Government will extend their 2015-16 Budget measure Growing Jobs and Small Business - expanding accelerated depreciation for small businesses by 12 months to 30 June 2018.

Small businesses, with aggregate annual turnover of less than \$10 million, can immediately deduct purchases of eligible assets up until 30 June 2018, provided the asset costs less than \$20,000.

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 income year and 30% each income year 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 small business simplified depreciation pool can be immediately deducted will revert back to \$1,000.

Improving the small business capital gains tax concessions

From 1 July 2017, the Government will look at modifying the small business CGT concession rules to ensure that these concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business.

The Government has said that the revised rules will prevent taxpayers from accessing these concessions for assets that are not related to their small business by, for example, arranging their affairs so that their ownership interests in larger businesses do not count towards the eligibility requirements.

While the Government has not specifically detailed how the rules will be amended, they have said that they will not change the aggregated turnover threshold of \$2 million or the maximum net asset value test threshold of \$6 million.

Other measures

Major bank levy

From 1 July 2017, the Government will introduce a levy for banks with licensed entity liabilities of at least \$100 billion. The \$100 billion threshold will be indexed to grow in line with nominal gross domestic product (GDP). Currently this will only affect the five largest banks but does not apply to superannuation funds and insurance companies.

The levy will be calculated quarterly as 0.015% of a bank's licensed entity liabilities (for an annualised rate of 0.06%).

Importantly, the levy will not apply to deposits of individuals, businesses and other entities protected by the Financial Claims Scheme. That means that banks will not incur this cost on funds held by an individual of up to \$250,000.

Foreign investors and property

From 7.30pm on Tuesday 9 May 2017 there will be a number of changes affecting property investments by foreign residents. These include:

- ▶ Foreign-owned residential property left vacant for more than six months in a year, will incur a charge (minimum \$5,000). The amount will be equivalent to the foreign investment application fee paid at the time of application.
- ▶ Foreign and temporary tax residents will no longer be able to claim the main residence capital gains tax exemption when they sell property in Australia. For those who already own property on Budget night they will be able to continue to claim the exemption until 30 June 2019.
- ▶ Developers who are granted a New Dwelling Exemption Certificate will be subject to a condition which limits the sale to foreign investors of new dwellings in that development to 50%.

Additionally, from 1 July 2017 foreign residents will be subject to a 12.5% capital gains tax withholding regime (increased from 10%) where the transaction is \$750,000 or above (reduced from \$2 million or above).

Pharmaceutical Benefits Scheme (PBS) and Repatriation Pharmaceutical Benefits Scheme (RPBS)

The Government has proposed a number of changes to the schemes including new listings and price amendments for both schemes. This will include building on existing statutory price reductions for medicines listed on the Pharmaceutical Benefits Scheme (PBS) to ultimately reduce out-of-pocket costs for medicines for Australians.

Further information can be found on the PBS website (www.pbs.gov.au).



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