

THE 2017-18 BUDGET

What you need to know

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THE 2017-18 FEDERAL BUDGET AT A GLANCE

This year's Budget contained a number of 'big ticket' items but, at its core, this budget is relatively benign in its impact to you. The most polarising issues came from announcements made before the Budget was brought down last night – however – we now have some more information to analyse.

Nevertheless – like all Budgets – the devil will be in the detail and much of this we will not know in its entirety until the relevant legislation is introduced into parliament later on. Once it is introduced it becomes another matter of having the legislation passed into law which, given the current government has the slimmest majority, this could be challenging.

The economy

The government is predicting a return to surplus by 2020-21. The deficit for 2017-18 is forecast to be \$20.4bn, but following that comes a projected surplus in 2020-21 of \$7.4bn.

Economic growth is forecast to improve – with growth of 3% per annum predicted from 2018-19.

Housing affordability

As predicted in the lead-up to the Budget – housing affordability has been confirmed as one of the major components of this year's Budget. Some of the measures announced include:

- Tax concessions to encourage investment in affordable housing by Managed Investment Trusts (MITs). Investors in qualifying MITs will receive concessional tax treatment.
- Penalties for foreigners owning property that is not occupied, or not genuinely available on the rental market, for at least six months per year.
- Foreign and temporary tax residents to be denied access to the main residence exemption for capital gains tax. This measure applies from 7.30 pm, 9 May 2017 – however – existing properties will be exempt until 30 June 2019.
- From 1 July 2017 tax deductions for travel costs associated with inspecting and maintaining residential rental properties, and collecting rental payments, will be abolished.
- In addition to tax concessions for investments in MITs that invest in affordable housing, individuals who invest in affordable housing will be entitled to a capital gains discount of 60% (as opposed to the current rate of 50%). This will apply from 1 January 2018.
- Changes will be made from 1 July 2017 to the depreciation deduction allowed for plant and equipment (e.g. air conditioning, cooking appliances) in residential real estate. While the original purchaser will be entitled to depreciate plant and equipment over the life of the asset, the depreciation allowance will not be available to subsequent owners for plant and equipment purchased by the previous owner.

- The foreign ownership of new developments will be capped at a maximum of 50%. This will ensure that Australians have ready access to purchase newly developed residential property.

Tax

The Budget contained a number of taxation measures directed both at individual taxpayers and small businesses. They are as follows:

- The accelerated deductibility announced in the 2015-16 Budget saw some businesses (with aggregated turnover of less than \$10m) being able to deduct the full cost of eligible assets costing less than \$20,000. It was announced that this measure will be extended until 30 June 2018.
- The small business capital gains tax concessions are going to be modified in order to improve integrity.
- The Medicare levy will be increased from 2% to 2.5% from 1 July 2019. This measure will then provide funding for the National Disability Insurance Scheme.
- Low-income earners will remain exempt from paying the Medicare levy. However, the income thresholds outlined below (which detail when the Medicare levy is not payable), are to be increased:

Status	Income threshold
Single	\$21,655
Families	\$36,541 plus \$3,356 for each dependent child.
Single seniors-pensioners	\$34,244
Family seniors-pensioners	\$47,670 plus \$3,356 for each dependent child.

- The Temporary Budget Repair levy will expire on 30 June 2017 as previously announced.

Superannuation

With Superannuation receiving so much attention in last year's Budget – there was not much in terms of unexpected news this year. However, there were a couple of important announcements:

- The First Home Super Saver Scheme will allow first home buyers to withdraw voluntary contributions they make to superannuation (along with associated earnings) to be used towards a deposit for a first home. The maximum amount that can be contributed, and later withdrawn, is \$15,000 per annum, with a maximum limit of \$30,000. The scheme applies to contributions made from 1 July 2017 – and withdrawals can be made from 1 July 2018. Where concessional contributions and associated earnings are withdrawn, they will be taxed at the contributor's marginal tax rate (minus a 30% tax offset).
- As previously announced by the government – limited recourse borrowing arrangements will impact on superannuation fund member's total superannuation account balance, and their transfer balance cap.

This may impact on the ability of some individuals to make future non-concessional contributions, and the amount that may be held in a pension account. This only applies to new limited recourse borrowing arrangements implemented once the amending legislation has been passed.

- An integrity measure will be introduced that will reduce the opportunity for self-managed superannuation funds to use related-party transactions on non-commercial terms in order to increase superannuation savings.
- As part of the government's overall housing affordability measures it was announced that Australians aged 65 and over who sell their family home (that they have lived in for at least ten years), will be able to contribute up to \$300,000 of the surplus sale proceeds to their superannuation accounts. They will not have to meet the work test, or to be constrained by the superannuation non-concessional contribution caps.

Education

As announced in the lead up to the Budget – the government has confirmed its intentions to substantially increase funding for schools.

Also, and not unexpected, was the announced changes set to reform funding of higher education – with additional modifications announced for the government's Higher Education Loan Program (HELP).

The proposed changes will see HELP contributions being subject to a lower threshold. From July 2018 students will be required to start paying back their loans when they reach an income level of \$42,000 per year, down from the current level of approximately \$55,000.

Aged care, social security, and health

The Budget contained a number of announcements in relation to aged care, social security, and health care.

Some of the measures announced included:

- Additional funding to extend the Commonwealth Home Support Program and Regional Assessment Service. These programs support many of the services that enable older Australians to remain in their own home as they get older.
- Current claimants for the Age Pension and Disability Support Pension will, from 1 July 2018, need to have at least 15 years continuous Australian residency in order to be eligible to receive these benefits.
- The Liquid Assets Waiting Period is to be extended from 13 weeks to 26 weeks from 20 September 2018. This will ensure that applicants exhaust their own financial resources before being eligible to claim income support from the government.
- Access to the Pensioner Concession Card will be reinstated for pensioners that lost their card as a result of the changes to the assets test that took effect from 1 January 2017.
- A number of income support benefits paid to people of working age are to be combined in to one single type of payment.

- The 2017-18 Budget will allow for an additional \$1.8bn to be made available for new and amended listings under the Pharmaceutical Benefits Scheme (PBS). This means out-of-pocket expenses will be less for some, as well as the addition of medicines added to the PBS in order to treat heart conditions and schizophrenia.

In summary

While this is not an exhaustive list of the measures announced last night, this summary provides you with an overview of the key changes that are most likely to impact all Australians.

It was also announced that this year's Budget will include some significant spending on infrastructure and renewable energy projects that will not only be good for the country, but may also provide ongoing investments and employment opportunities nationwide.

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