2017 Federal Budget Tax Analysis

May 2017

The Federal Treasurer, Scott Morrison handed down his second Federal Budget tonight. The Government has predicted the economy to grow at 2.75% in the 2017/2018 year, with it committing significant funding to transport infrastructure spending. As the Stock Market anticipated today, the most significant revenue measure was the introduction of a major bank levy.

Thankfully there were no significant surprises from a personal income tax or superannuation perspective.

No Change in Tax Rates for Individuals

The 2017/2018 Budget did not increase the personal income tax rates and thresholds. As a result, the 2% Budget Deficit Levy on incomes over $180,000 will **not** be extended beyond 30 June 2017. The top marginal tax rate now effectively becomes 45% plus the Medicare Levy of 2%.

The Medicare Levy has been proposed to increase from 2% to 2.5% from 1 July 2019.

Acceleration of HELP Repayments

Apart from the increase in the Higher Education Fees announced by the Federal Government last week, from 1 July 2018, HELP debts will be required to be repaid sooner. When a HELP Debtor has annual income of $42,000 or greater, they will be required to commence to repay their HELP debt. This threshold has dropped from the current threshold of $55,874.

Rental Property Tax changes

From 1 July 2017, the Government will disallow deductions for travel expenses related to inspecting, maintaining or collecting rent for residential rental properties.

In addition, the Government will limit depreciation for plant and equipment used in residential real estate properties. The deduction limit will only apply to acquisitions of plant and equipment for residential investment properties acquired after 9 May 2017. Subsequent owners of that plant and equipment will be unable to claim deductions for plant and equipment purchased by a previous owner of that residential property.

From 1 July 2018, the Government will require Purchasers of newly constructed residential property to remit GST directly to the ATO as part of the settlement, rather than pay it to the Vendor. This is an integrity measure to address Vendors of new residential premises failing to remit GST to the ATO on the sale of those premises.

Superannuation Changes

Selling your Principal Place of Residence and aged over 65 – Think Super!

Commencing 1 July 2018, home owners aged 65 and over will be able to make a special non-concessional (post-tax) contribution into a superannuation fund of up to $300,000 from the proceeds of selling their Principal Place of Residence.

This contribution will not count towards the current annual non-concessional contribution limit and can be made regardless of age and your accrued Superannuation balance. That is, it can be made for members with Superannuation member balances of over $1.6m (no limitations).

It will apply where a Principal Place of Residence has been held for a minimum of 10 years.

A couple will be eligible to put up to $600,000 combined ($300,000 each) into Superannuation on the disposal of a property they both live in.

First Home Buyers can save for a Deposit via Superannuation

From 1 July 2017, voluntary tax deductible contributions of up to $15,000 per year ($30,000 in total), can be made to a superannuation fund which can be withdrawn (with earnings) to fund the deposit on the purchase of a first home.

Withdrawals will be permitted from 1 July 2018 and subject to concessional income tax treatment.

Changes to Limited Recourse Borrowing Arrangements (LRBA)

From the 1 July 2017, borrowings within Superannuation under an LRBA will become more restrictive.

Debts within a Superannuation Fund will count towards the $1.6m Non-Concessional Cap. There will also be complex calculations for clients in pension mode and their Pension Transfer Balance Caps.

This will have a significant impact where members had factored in a strategy around non-concessional contributions to fund debt repayments.

This measure applies to members in either accumulation or pension mode.

Small Business Depreciation

The current instant asset write-off for small business entities for assets that cost $20,000 or less will continue for another 12 months to 30 June 2018. The immediate asset write-off only applies to assets used by a small business and first used or installed ready for use by 30 June 2018.

Assets valued at $20,000 or more can continue to be placed in a general small business pool and depreciated at 15% in the first income year and 30% in each income year thereafter.

Small Business Capital Gains Tax Changes

There are technical integrity measures announced in the Budget to restrict the ability to claim the Small Business CGT Concessions by owners of small businesses who are attempting to access concessions for assets that are unrelated to their small business. Clearly, the Government has a particular tax avoidance scheme in mind. Nevertheless, no detail was released with the Budget Papers. We will keep you up to date of the changes once they are released.

Corporate Tax Rate Reduction

This is a measure that was announced in last year's Budget but was finally passed by the Senate today.

Effective 1 July 2016, the Corporate Tax Rate is reduced for small business entities to 27.5%. A small business entity is an entity that has an aggregated business turnover of less than $10 million.

The turnover threshold to qualify for the 27.5% Corporate Rate will increase in accordance with the following table:

Income Year	Annual Aggregated Turnover Threshold $
2017 – 2018	25 Million
2018 – 2019	50 Million
2019 – 2020	100 Million
2020 – 2021	250 Million
2021 – 2022	500 Million
2022 - 2023	1 Billion

The Government aims to reduce the Corporate Rate ultimately to a 25% Corporate Rate for all Companies commencing 1 July 2026.

For non-Corporate entities that receive small business income, for example, Trusts and Sole Traders that operate a business, they will be entitled to a tax offset that is capped to $1,000 of tax payable. The $1,000 cap acts as a disincentive to operate a small business outside a corporate tax structure.

Foreign Ownership of Australian Real Property Assets

As expected, there was several tax changes affecting foreign owners of Australian residential property assets to discourage foreign ownership.

They include:

- From 9 May 2017, foreign and temporary residents access to the CGT Main Residence Exemption will be limited. Existing main residence property holdings will continue to be eligible for the main residence exemption (i.e. “grandfathered”) until 30 June 2019.
- Imposing a levy on foreign owners of residential property where the property is not occupied or genuinely available on the rental market for at least 6 months per year. The annual levy is approximately $5,100 for every $1m paid to acquire the property. This change will apply to foreign persons who make a Foreign Investment Application for residential property from 7.30pm 9 May 2017.
- Introducing a 50% cap on pre-approved foreign ownership new developments.