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Federal Budget 2017: Fairness, security & opportunity

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In delivering his second budget, Treasurer Scott Morrison delivered a budget purporting to lift the economy from an underlying cash balance deficit of $29.4b for 2017-18 to a projected surplus of $7.4b by 2020-21. The Budget expects the economy to rebound and grow at 2.75% in 2017-18 and 3.0% in 2018-19, supported by growth in household consumption, exports and a transition to non-mining business investment.

But what about the specific measures that impact your clients' financial futures? We'd seen enough from the previous budget and subsequently legislated superannuation measures to know that superannuation wouldn't be in the firing line this time around. However, there are some things to consider in discussions with your clients. In this special federal budget edition of Financial Insights, we have listed the main proposals of the 2017 Federal Budget, commenting on those measures which most impact upon your clients in their financial journeys.

The Government has introduced new policy measures that include an increase in the Medicare levy, a levy on the major banks that harkens back to the days of the Financial Institutions Duty and Bank Account Debits Tax and have improved the integrity of GST on property transactions and a Skilling Australia Fund levy. These policy measures are expected to raise $11.9bn over the forward estimates. The Government expects that an improving domestic and global economy will upgrade the outlook for profits which is expected to see higher tax revenue from companies.

The budget had a lot to say on big ticket infrastructure spending and nation building with the Western Sydney airport and Snowy Hydro 2.0 but then dove into the weeds on skilled immigration and social engineering with moves to change 457 visas with a levy on foreign workers and more stringent workforce participation requirements on social security recipients.

Cost of living pressures also got a mention with the Treasurer saying that Governments "have to take the actions they can take to put downward pressure on those rising costs of living". In this area, the Government has also put forward what it calls a comprehensive plan on housing affordability, including initiatives for first home buyers.

But what of the measures specific to advisory?

Summary of revenue measures announced

The major revenue measures announced in the Budget included:

- a new major bank levy of 6 basis points from 1 July 2017 for ADIs with licensed entity liabilities of at least $100b;
- the instant asset write-off ($20,000 threshold) for small business entities (SBEs) will be extended by 12 months to 30 June 2018;
- the small business CGT concessions will be restricted to assets used in a small business or ownership interests in a small business from 1 July 2017;
- the multi-national anti-avoidance law (MAAL) will be amended to negate the use of foreign trusts and partnerships in corporate structures effective from 1 January 2016;
- additional ATO funding for black economy audit and compliance programs;
- changes to the GST treatment of digital currencies (from 1 July 2017) and changes for payments on sales of new residential premises (from 1 July 2018);
- the Medicare levy will be increased by 0.5% to 2.5% from 1 July 2019; and
- faster higher education repayment and threshold changes from 1 July 2018.

Personal Tax Measures

Personal tax rates: no change; 2% Budget deficit levy to end on 30 June 2017.

The 2017-18 Budget contained no changes to the personal income tax rates and thresholds.

This means that the 2% budget deficit levy on incomes over $180,000 will not be extended beyond its initial three years. The levy will therefore cease at the end of the 2016-17 financial year.

Medicare levy to be increased to 2.5% from 1 July 2019

The Government will increase the Medicare levy to 2.5% from 1 July 2019 (up 0.5% from the current 2% Medicare levy) to ensure the National Disability Insurance Scheme (NDIS) is fully funded and to guarantee Medicare. Other tax rates that are linked to the top personal tax rate, such as the FBT rate, will also be increased.

Low-income earners will continue to receive relief from the Medicare levy through the low-income thresholds for singles, families, seniors and pensioners. The current exemptions from the Medicare levy will also remain in place.

Date of effect: 1 July 2019

Higher Education HELP changes to repayments and thresholds announced

The Government announced a Higher Education Reform Package (see *https://docs.education.gov.au/system/files/doc/other/ed17-0138_-_he_-_glossy_budget_report_acc.pdf*) to take effect from 1 January 2018 which, at a high level will seek to redress the current $52b of taxpayer funded student loans and will see the income threshold at which HELP debtors need to start making repayments reduce from an annual income of $55,874 (2017-18) to $42,000 from 1 July 2018.

The repayment rate for individuals earning over $55,874 is currently at 4%, rising to 8% for people with incomes above $101,900. This will change from 1 July 2018 with a lower 1% repayment rate, and a maximum threshold of $119,882 with a repayment rate of 10%.

Also, HELP repayment thresholds are currently indexed to Average Weekly Earnings (AWE) but will be changed to align to the Consumer Price Index (CPI) from 1 July 2019.

Superannuation Measures

With many super reforms set to start on 1 July 2017, there were thankfully no major new superannuation measures announced. Some refinements were announced to existing measures to address unanticipated issues that arose during implementing these measures, such as the treatment of LRBA's under the pension transfer balance cap.

First Home Super Saver Scheme

From 1 July 2017, individuals can make voluntary contributions to their superannuation accounts of up to $15,000 pa, to a maximum of $30,000 in total, to help fund the purchase of their first home. Any contributions made will count towards the relevant existing contribution cap. (i.e. $25,000 in 2017/18 for concessional contributions). A deeming rate will be used to determine the amount of earnings that can be released, which will be based on the 90 day bank bill rate plus 3 percentage points.

The First Home Super Saver Scheme will be administered by the ATO. Contributions will be taxed at 15% (or 0% if non-concessional), and associated earnings also taxed at 15%. Withdrawals will be allowed from 1 July 2018, and will be taxed at the individual's MTR, less a 30% offset.

This measure may help boost saving for a first home deposit by at least 30% compared to standard bank accounts.

Savings can effectively be made using pre-tax income with the use of salary sacrifice arrangements or by individuals claiming tax deductions on personal contributions.

CM comment: *When the idea of accessing superannuation was recently floated by the then-Treasurer Joe Hockey, it was derided as a poor idea because of what that would do to retirement savings. The Government's earlier alternative of a First Home Savers Account was dumped a while ago. This measure seems like a bad combination of the two. I personally cannot see this measure gaining traction with the cross-benchers.*

Reducing Barriers to Downsizing

To help remove some of the barriers of older people downsizing their homes, from 1 July 2018, it is proposed that people aged 65 and over will be able to make a non-concessional contribution into super of up to $300,000 from the sale proceeds of their home.

Existing barriers for older people making these contributions, such as the work test, no contributions after age 75 and the $1.6M balance test for non-concessional contributions will not apply to these contributions.

This will only apply to principal places of residence that have been held for at least 10 years, and both members of a couple can take advantage of this measure, allowing a total amount of $600,000 to be contributed per couple.

Note: *The sale proceeds contributed to super are not proposed to be exempt from Centrelink's asset test.*

LRBA Integrity Measures

The use of LRBA's will be included in a members total superannuation balance and for the $1.6m pension transfer balance cap from 1 July 2017, removing the potential for LRBA's to be used to circumvent contribution caps.

The outstanding balance of a LRBA will be included in a members annual total superannuation balance. The repayment of the principal and interest will be a credit in the member's pension transfer balance account.

Related Party Transactions – Non arm's length income rules to be amended

To reduce opportunities for related-party transactions on non-commercial terms to increase superannuation savings, from 1 July 2018, the non-arm's length income provisions for super funds will be amended to ensure expenses that would normally apply in a commercial transaction are included when considering whether the transaction is on a commercial basis.

This measure looks to be aimed at preventing individuals from using non-arm's length arrangements with their superannuation fund to circumvent the pension balance cap and total superannuation balance threshold.

Social Security Measures

Earlier Measures Abandoned

The Government announced that it will not proceed with various measures announced in previous Budgets and MYEFOs, including:

- The cessation of the education entry payment and the pensioner education supplement;
- Phasing out end of year supplements and limiting FTB Part B to single families with a youngest child aged under 17 years; and
- Reducing FTB Part B for single parents with a youngest child aged 13-16.

Restoring the Pensioner Concession Card

The Government will reinstate the Pensioner Concession Card for those impacted by the asset test change introduced in January this year, allowing an extra 92,000 people to access discounts offered to holders of the Pensioner Concession Card, including subsidised hearing services offered by the Commonwealth.

It will also facilitate these people continuing to access discounts offered by the States and Territories.

New Jobseeker Payment to replace current working age payments

From 20 March 2020, a new JobSeeker Payment will be introduced as the main working age payment to replace the following:

- Newstart Allowance;
- Sickness Allowance;
- Wife Pension;
- Partner Allowance;
- Bereavement Allowance;
- Widow B Pension; and
- Widow Allowance.

Changes to FTB Part A Payments

From 1 July 2017, Family Tax Benefit Part A supplement payments will be reduced by $28 per fortnight for each child who does not meet the Government immunisation requirements.

From 1 July 2018, the Government will implement a consistent 30 cents in the dollar income test taper for FTB Part A families with a household income in excess of the Higher Income Free Area, ensuring higher income families are subject to the same income test taper rates.

The Government will also not be increasing the maximum rate of FTB Part A, which was announced as part of the 2015-16 MYEFO measure titled "Family Payment Reform -- anew families package".

Other Social Security Measures Announced

- A new, more coherent set of mutual obligation requirements will be introduced progressively for those who receive working age income support from 20 September 2018;
- To prevent welfare payments being used to fund drug and alcohol addictions, a suite of measures will be progressively implemented from 1 July 2017:
- 5,000 new recipients of Newstart and Youth Allowance will be required to undertake random drug tests for illegal drugs in 3 locations from 1 January 2018;
- Loopholes allowing welfare recipients to be exempt from mutual obligation requirements solely due to drug or alcohol abuse will be closed from 1 January 2018;
- From 1 July 2017, Income Management will be extended by a further 2 years and the Cashless Debit Card will be expanded to 2 new locations over 2 years,;
- The maximum length of the Liquid Assets Waiting Period will increase to ensure people claiming working age payments support themselves if they have the means to do so; and
- A new demerit point-based system putting the onus on jobseekers to be responsible for complying with the requirements attached to receiving payments will be introduced from 1 July 2018. In addition, those affected by drug and alcohol abuse will be required to take action to address their problem in order to continue to receive welfare.

Other Measures

New One-Stop Shop for Financial Complaints

The Government has accepted all 11 of the recommendations made in the Ramsay Review to overhaul the financial system's external dispute resolutions framework.

In line with the recommendation that there be one single EDR body for all financial disputes, the Government said that it will create a new one-stop shop - the Australian Financial Complaints Authority (AFCA) - to be established by 1 July 2018. This will replace the Financial Ombudsman Service (FOS), Credit and Investments Ombudsman (CIO) and Superannuation Complaints Tribunal (SCT).

The Government intends to consult on exposure draft legislation that will require all financial firms (including superannuation funds) to be members of this approved one-stop shop and comply with its determinations, and they will also ensure that the AFCA has the monetary limits and compensation caps recommended in the Ramsay

Review (including further consultation on the caps for mortgage and general insurance products).

The Government states the AFCA will be able to hear financial disputes of a higher value enabling more consumers and small businesses to access fair compensation if they have wrongly suffered a loss.

ASIC will also be provided with stronger powers to oversee the AFCA and to require financial firms, including super funds, to report on their internal dispute resolution activity.

Business Tax Measures

In last year's budget, the Government announced *a Ten Year Enterprise Tax Plan* that purported to boost new investment, create and support jobs and increase real wages, starting with tax cuts for small and medium-sized enterprises, that would permanently increase the size of the economy by just over one per cent in the long term.

In this year's budget, the Government has re-committed to the remainder of the 10-year package. Legislative amendments already passed by the Senate will see the corporate tax rate reduced for companies with a turnover less than $50 million. These Senate amendments are set to be approved by the House of Reps as part of the Budget sittings. As part of the Budget, the Government said it remains committed to its 10-year Enterprise Tax Plan to eventually reduce the company tax rate to 25% for all companies.

Company tax rate to reduce to 25% by 2026-27

The Government has committed to reduce the company tax rate to 25% over the next 10 income years.

The measure will be phased in, depending on the company's size (ie its aggregated annual turnover). Small businesses will benefit sooner. The phase-in for all companies with aggregated turnover less than $50m will be completed in the 2026-27 income year.

The timetable is summarised in the table below.

Income year	Threshold (< $)	Rate (%)
2016-17	10m	27.5
2017-18	25m	27.5
2018-19	50m	27.5
2019-20 to 2023-24	50m	27.5
2024-25	50m	27
2025-26	50m	26
2026-27	50m	25

Small Business measures

Last year's Budget announced that the small business entity threshold would increase from $2m to $10m from 1 July 2016 which would allow a business with an aggregated annual turnover of less than $10m will be able to access a number of small business tax concessions, including the simplified depreciation rules.

A welcome measure included immediate tax deductibility for asset purchases costing less than $20,000 until 30 June 2017 and then less than $1,000. However, the Government has committed to extend the current instant asset write-off ($20,000 threshold) for small business entities (SBEs) by 12 months to 30 June 2018.

As a result of this announcement, SBEs will be able to immediately deduct purchases of eligible depreciating assets costing less than $20,000 that are acquired between 1 July 2017 and 30 June 2018 and first used or installed ready for use by 30 June 2018 for a taxable purpose. Only a few assets are not eligible for the instant asset write-off (or other simplified depreciation rules), for example horticultural plants and in-house software.

Assets valued at $20,000 or more (which cannot immediately be deducted) can continue to be placed in the general small business pool and depreciated at 15% in the first income year and 30% in each year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including the existing pool). The instant asset write-off threshold and the threshold for immediate deductibility of the balance of the pool will revert to $1,000 on 1 July 2018.

It is important to note that the threshold changes will not affect eligibility for the small business CGT concessions, which will only remain available for businesses with annual turnover of less than $2m or that satisfy the maximum net asset value test.

Small Business Concessions: Integrity Measures

According to the Government, some taxpayers have been able to access the small business concessions for assets which are unrelated to their small businesses, that is, by arranging their affairs to that their ownership interests in larger businesses do not count towards the tests for determining eligibility for the small business concessions.

The Government will amend the small business concessions with a proposed start date of 1 July 2017, to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interest in a small business.

Conclusion

There have not been significant changes to personal or business tax, superannuation or social security which is a welcome relief given the weight of change we are still dealing with following on from the 2016 federal budget.

Of the measures that have been proposed, keep in mind that these are only proposals at present. There are some elements of the proposals, particularly education funding, which we can expect to see hotly debated in Parliament and others such as the extension to the $20,000 instant asset write-off for small businesses which we'd expect should be more broadly accepted.

By all means, if you have questions on the measures included in this year's budget, please contact the Technical Services team.

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- Business estate planning
- Personal risk insurance
- Business risk insurance.

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