Federal Budget Update

HENDERSON EDELSTEIN
CHARTERED ACCOUNTANTS

PERSONAL TAXATION

No change to personal tax rates; Budget deficit levy to end

The 2017–2018 Federal 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, and will cease on 30 June 2017.

The tax rates for foreign residents for 2017–2018 will be the same as those for 2016–2017, except that the top marginal rate will be 45%, reflecting the removal of the 2% temporary budget deficit levy.

The currently legislated low income tax offset (LITO) rates have not changed.

Medicare levy increase 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.

The increase in the Medicare levy is estimated to raise $8.2 billion over the forward estimates, being the net impact across all heads of revenue, not just the Medicare levy. The Government said it will credit $9.1 billion to the NDIS Savings Fund Special Account when it is established.

Low income thresholds for 2016–2017

The Medicare levy low-income threshold for singles will be increased to $21,655 (up from $21,335 for 2015–2016). For couples with no children, the family income threshold will be increased to $36,541 (up from $36,001 for 2015–2016). The additional amount of threshold for each dependent child or student will be increased to $3,356 (up from $3,306).

For singles eligible for the Seniors and Pensioners Tax Offset, the Medicare levy low-income threshold will be increased to $34,244 (up from $33,738 for 2015–2016). The family threshold for seniors and pensioners will be increased to $47,670 plus $3,356 for each dependent child or student.

Higher Education HELP changes confirmed

The Budget confirmed the announcement on 1 May 2017 by the Minister for Education and Training, Simon Birmingham, of the Higher Education Reform Package to take effect generally from 1 January 2018. These include:

- an increased maximum student contribution from 1 January 2018;
- no up-front fees or deregulation of fees;
- a new set of repayment thresholds from 1 July 2018, changing repayment timings and quantities for all current and future Higher Education Loan Program (HELP) debtors;
- a new minimum repayment threshold at $42,000 of income from 1 July 2018 with a lower 1% repayment rate, and a new maximum threshold of $119,882 of income with a repayment rate of 10%;
- phasing in increased maximum student contributions by 1.8% each year between 2018 and 2021, cumulating in a 7.5% increase; and
- from 1 July 2019, indexation of HELP repayment thresholds, currently linked to Average Weekly Earnings (AWE), will be changed to align to the Consumer Price Index (CPI).

The Minister said that taxpayer-funded student loans stand at more than $52 billion and, without changes to address this situation, around a quarter of that is expected to go unpaid.

Changes to FTB Part A payments

The Budget confirmed that, 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.

Changes to dollar income test taper

The Government will implement a consistent 30 cents in the dollar income test taper for Family Tax Benefit Part A families with a household income in excess of the Higher Income Free Area (currently $94,316) from 1 July 2018. This will ensure that higher income families are subject to the same income test taper rates.

Proposed Part A rate increase not proceeding

The Government will achieve savings of $1.9 billion over four years from 2017–2018 by not increasing the maximum rate of Family Tax Benefit Part A, which was announced as part of the 2015–2016 Mid-Year Economic and Fiscal Outlook.

BUSINESS TAXATION

Major bank levy from 1 July 2017

The Government will introduce a major bank levy for authorised deposit-taking institutions (ADIs) with licensed entity liabilities of at least $100 billion from 1 July 2017. The threshold will be indexed to grow in line with nominal gross domestic product.

The levy will be calculated quarterly as 0.015% of an ADI's licensed entity liabilities as at each APRA mandated quarterly reporting date (for an annualised rate of 0.06%).

Liabilities subject to the levy will include items such as corporate bonds, commercial paper, certificates of deposit, and Tier 2 capital instruments. The levy will not apply to the following liabilities: additional Tier 1 capital and deposits of individuals, businesses and other entities protected by the Financial Claims Scheme.

The levy is expected to raise $6.2 billion over the forward estimates period, net of interactions with other taxes (principally corporate income taxes). The Government believes this represents a fair additional contribution from Australia's major banks and will assist with budget repair.

Government commits to remainder of 10-year package to reduce company tax rate

The Budget confirmed the Government's intention to re-introduce the remaining elements of its 10-year Enterprise Tax Plan.

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 Representatives as part of the Budget sittings. 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.

In the 2016–2017 financial year, the reduced corporate tax rate of 27.5% will apply for businesses with an aggregated turnover of less than $10 million; $25 million turnover in 2017–2018; and $50 million turnover from 2018–2019. This effectively implements the first three years of the Government's plan.

As per the trajectory in the Budget, the corporate tax rate will also be further reduced in stages, starting from 1 July 2024, so that it will eventually fall to 25% by the 2026–2027 financial year for businesses with an aggregated turnover of less than $50 million.

Small business measures

In addition to the reduced company tax rate, the Enterprise Tax Plan Bill includes measures to:

- increase the small business entity aggregated turnover threshold to $10 million from 1 July 2016 – but the threshold for accessing the CGT small business concessions will remain at $2 million; and
- increase the unincorporated small business tax discount from 5% to 16% over a 10-year period –- the threshold for accessing the discount will be $5 million (aggregated turnover).

The increase in the small business entity aggregated turnover threshold will enable a greater number of businesses to access concessions such as the simplified depreciation and trading stock rules and a two-year (instead of four-year) review period for amending assessments.

GST

New residential premises: purchasers to pay GST

Purchasers of newly constructed residential properties (or new subdivisions) will be required to remit the GST directly to the ATO as part of settlement.

Currently, GST is included in the purchase price and it is the developer who remits any GST. However, some developers are failing to remit the GST (despite having claimed GST credits on their construction costs).

The Budget Papers state that, as most purchasers use conveyancing services to complete their purchase, they should experience minimal impact from these changes. No mention is made of the additional administrative cost to the conveyancers or indeed the purchasers.

The measure is proposed to start on 1 July 2018.

Interestingly, the net impact of this measure appears quite significant. It is estimated to increase GST revenue by $660 million and associated payments to the States and Territories, net of administrative costs, by $1.6 billion over the four-year forward estimates period. The difference is due to the timing of when GST is collected and recognised.

HOUSING AFFORDABILITY

Overview

The 2017–2018 Budget contained a number of measures designed to improve Australians' access to secure and affordable housing across the housing spectrum. These include:

- strengthening the CGT rules to reduce the risk that foreign investors avoid paying CGT in Australia;
- introducing a 50% cap on pre-approved foreign ownership in new developments;
- applying an annual charge to foreign owners who leave residential property unoccupied or not available for rent for six months or more each year;
- easing restrictions that are contributing to the supply of housing falling behind population growth and encouraging a more responsive housing market;
- improving outcomes in social housing and homelessness;
- assisting first home buyers to build a deposit inside superannuation; and
- allowing older Australians to contribute downsizing proceeds into superannuation.

Increased CGT discount for investments in affordable housing

From 1 January 2018 the CGT discount for individuals will be increased from 50% to 60% for gains relating to investments in qualifying affordable housing.

To qualify for the higher discount, housing must be provided to low to moderate income tenants, with rent charged at a discount to the private rental market rate. Tenant eligibility will be based on household income thresholds and household composition.

The affordable housing must be managed through a registered community housing provider and the investment held for a minimum period of 3 years. Any period before the time a property was purchased when it was used for affordable housing purposes will count towards the buyer's qualifying investment period (provided the previous owner did not claim the additional discount).

The additional discount will be pro-rated for periods where the property is not used for affordable housing purposes.

The higher discount will flow through to resident individuals investing in qualifying affordable housing through a managed investment trusts.

The increased discount is not limited to investments in new affordable housing. This means that investors who elect to supply their existing properties for affordable housing will qualify for the additional discount provided the investment meets the eligibility requirements.

The Government will consult further on the implementation of this policy, including on the precise definition of affordable housing and tenant eligibility, and what qualifies as rent charged below the market rate.

SUPERANNUATION

No major new super measures, but 1 July reforms loom large

The Government did not announce any new major superannuation measures in the Budget. This will be a welcome relief for the super industry, which already has enough on its plate with major reforms set to start on 1 July 2017. As is the case with any large-scale changes such as the 1 July 2017 super reforms, refinements are often necessary to address unanticipated consequences as part the implementation process.

Super changes announced

A range of superannuation measures were announced in the Budget, including:

- the current tax relief for merging superannuation funds will be extended until 1 July 2020;

- the non-arm's length income provisions will be amended from 1 July 2018 to reduce opportunities for members to use related-party transactions on non-commercial terms;
- limited recourse borrowing arrangements will be included in a member's total super balance and the $1.6 million pension transfer balance cap from 1 July 2017;
- a person aged 65 or over to make a non-concessional contribution of up to $300,000 from the proceeds of selling their home from 1 July 2018; and
- a first home super saver scheme will allow future voluntary contributions to superannuation to be made by first home buyers from 1 July 2017 to be withdrawn for a first home deposit, along with associated deemed earnings.

Super contributions of proceeds up to $300,000 from downsizing a home

The Government will allow a person aged 65 or over to make a non-concessional contribution of up to $300,000 from the proceeds of selling their home from 1 July 2018. These contributions will be in addition to those currently permitted under existing rules and caps and they will be exempt from the existing age test, work test and the $1.6 million total superannuation balance test for making non-concessional contributions (which applies from 1 July 2017).

The measure will apply to sales of a principal residence owned for the past 10 years or more. Both members of a couple will be able to take advantage of this measure for the same home. The measure seeks to reduce a barrier to downsizing for older people to enable more effective use of the housing stock by freeing up larger homes.

Note that the proceeds from downsizing a home in this manner are not proposed to be exempt from the Age Pension assets test.

First home super saver scheme

The Government will encourage home ownership by allowing future voluntary contributions to superannuation made by first home buyers from 1 July 2017 to be withdrawn for a first home deposit, along with associated deemed earnings.

Concessional contributions and earnings that are withdrawn will be taxed at marginal rates less a 30% offset. Combined with the existing concessional tax treatment of contributions and earnings, this will provide an incentive that will enable first home buyers to build savings more quickly for a home deposit.

Under the measure up to $15,000 per year and $30,000 in total can be contributed, within existing caps. Contributions can be made from 1 July 2017. Withdrawals will be allowed from 1 July 2018 onwards. Both members of a couple can take advantage of this measure and combine savings for a single deposit to buy their first home together.

This measure is expected to have a cost to revenue of $250 million over the forward estimates. The ATO will be provided with $9.4 million to implement the measure.

A previous scheme, the First Home Saver Accounts (FHSA) scheme, was abolished from 1 July 2015, although people still have until 30 June 2017 to make claims for government contributions. The scheme operated on the basis that people made contributions to a FHSA which then resulted in a government contribution, the amount of which depended on how much the individual's personal contribution was. To claim a government contribution, the person must have been a resident of Australia for tax purposes.

The main features of that FHSA were as follows:

- The government made a 17% contribution on the first $6,000 a person deposited each financial year. For example, a personal contribution of $1,000 would result in a government contribution of $170.
- The interest a person earned on their account was only taxed at a rate of 15%.
- The person had to save at least $1,000 each year over at least four financial years before they could withdraw the money. The four years did not have to be consecutive.
- The maximum account balance was capped at $90,000. After savings reached this level, only interest and earnings could be added to the balance.