# Federal Budget Analysis 2017

On the 9th May 2017, Scott Morrison handed down his second Federal Budget as Treasurer. After substantial changes affecting superannuation, allocated pensions and the age pension in recent years, the Budget measures this year focus more on housing affordability and infrastructure building.

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.

## Summary


- Individuals aged 65 or older will be able to make non-concessional (after-tax) super contributions of up to $300,000 from 1st July 2018, using the proceeds from the sale of the family home.
- First home buyers will be able to save for a deposit from 1st July 2017 by making voluntary concessional and non-concessional super contributions.
- The Medicare levy will increase from 2% to 2.5% pa from 1st July 2019 to fully fund the National Disability Insurance Scheme.
- Individuals who lost entitlement to the Pensioner Concession Card due to assets test changes in January 2017 will be reissued with the card.
- Eligible pensioners will be entitled to a one-off Energy assistance payment of $75 for singles and $125 per couple to be paid from 26th June 2017.


## Superannuation

### Additional super contributions for down-sizers

From 1st 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.

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.

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.

### 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 1st 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 1st 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. Please note, this measure is applied per person, meaning both members of a couple buying their first home will be eligible to apply for this scheme.

## Social Security

### 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 20th June 2017 and who reside in Australia. The payment will be automatically paid in the week commencing 26th June 2017 and is not taxable and will not be counted as income.

Qualifying payments include the Age Pension, Disability Support Pension, Parenting Payment, Veterans’ Service Pension, Veterans’ disability payments and War Widow(er)s Pension.

### 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 1st 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; 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.

### 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 1st January 2017.

These former pensioners will receive the PCC from 9th October 2017 and they will retain the Commonwealth Seniors Health Card to ensure they continue to receive the Energy Supplement.

## Taxation

### Increase of 0.5% to Medicare levy

From 1st 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.

### Reduced residential property deductions

From 1st 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.

## Small Business

### Amend small business capital gains tax concessions

The Government will amend the small business capital gains tax (CGT) concessions to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business. This measure will take effect from 1st July 2017.

### Extending immediate deductibility for small business

Small businesses, with aggregate annual turnover of less than $10 million, can immediately deduct purchases of eligible assets up until 30th 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.

# Other measures

## Major bank levy

From 1st 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 Tuesday 9th 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 30th 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 1st 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).

# Already legislated changes for next financial year

Please note the below changes are now legislated and will take effect on the 1st July 2017.

1. **Making pre-tax (concessional) contributions**

Currently the total amount an individual can contribute to superannuation pre-tax (made up of employer and salary sacrifice contributions) is capped at $35,000 per year if you are aged 50 or over and $30,000 per year if you are aged under 50 years old.

The pre-tax cap will reduce to $25,000 per year from 1st July 2017, regardless of age.

2. **After-tax (non-concessional) contributions**

From 1st July 2017, the cap on after-tax contributions will reduce from the current $180,000 per year to $100,000 per year. From 1st July, individuals will only be able to make after-tax contributions if their total superannuation balance is less than $1.6 million.

Currently if individuals are aged under 65, they can bring forward up to three years of after-tax contributions, or up to $540,000 in a lump sum contribution. This limit will reduce from $540,000 to $300,000 from 1st July 2017.

3. **Allocated pensions**

From 1st July 2017, the maximum amount an individual can have in invested in a tax free allocated pension will be $1.6 million. A 'special value' is calculated to determine an amount that will apply to a person's $1.6 million limit in respect of a lifetime defined pension. The 'special value' is determined by multiplying the annual entitlement amount by a factor of 16.

If individuals exceed this cap they will be required to either move the excess amount back to the superannuation accumulation phase or withdraw the amount as a lump sum by 1st July 2017 to avoid incurring penalty tax.

Individuals currently invested in a transition-to-retirement (TTR) allocated pension from 1st July 2017, will incur 15% tax on the earnings of the fund (compared to its current tax-free status). Income paid from allocated pensions remain tax free for Australians aged over 60 years old.

## Any questions?

We hope you have found this useful. We will continue to keep you informed as to whether these proposed Budget changes are actually adopted. If you have any questions, or wish to discuss anything please call us on 03 9544 1004.

All the best,

Andrew Shaw BBus, Grad Dip SIA, CFP

Principal

nab financial planning Mount Waverley Pty Ltd