2017 Budget: what it means for you

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The Federal Treasurer, the Hon. Scott Morrison MP, delivered his second Federal Budget on 9 May 2017.

With some considerable focus on affordable housing, there are minimal impacts on personal income taxation, superannuation and social security entitlements for most of us.

This summary provides coverage of the key issues of most interest in relation to you.

Highlights

Personal income tax

- temporary Budget Repair Levy still to cease 30 June 2017
- Medicare levy to increase to 2.5 per cent from 1 July 2019
- removal of certain residential rental property deductions
- increase in CGT discount to 60 per cent for qualifying affordable housing.

Foreign residents

- lower threshold for withholding tax for residential property disposals

Business owners

- limiting access to small business capital gains tax concessions

Superannuation

- first home super saver scheme to commence 1 July 2017
- home downsizing superannuation contributions where over age 65.

Social Security

- energy assistance payment

Personal income tax

Increase in the Medicare levy

The Medicare levy will increase by half a percentage point from 2.0 to 2.5 per cent of taxable income from 1 July 2019. Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax 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.

Temporary Budget Repair Levy expiry

There is no announced change to cessation of the Temporary Budget Repair Levy (TBRL) on 30 June 2017. This means that the top marginal tax rate (where taxable income exceeds $180,000), including the Medicare levy, will reduce from 49.0 percent to 47.0 per cent from 1 July 2017, and increase to 47.5 per cent from 1 July 2019.

Disallow certain deductions for residential rental property

From 1 July 2017, deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property will be disallowed.

Investors will not be prevented from engaging third parties such as real estate agents for property management services. These expenses will remain deductible.

Also from 1 July 2017, plant and equipment depreciation deductions will be limited to outlays actually incurred by investors in residential real estate properties. Plant and equipment items are usually mechanical fixtures or those which can be ‘easily’ removed from a property such as dishwashers and ceiling fans.

Expanding tax incentives for investments in affordable housing

From 1 January 2018, the CGT discount will increase from 50 per cent to 60 per cent for resident individuals who elect to invest 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 below the private rental market rate. The affordable housing must be managed through a registered community housing provider and the investment held for a minimum period of three years.

Foreign residents

Lower threshold for withholding tax for residential property disposals

From 1 July 2016, foreign investors were subject to a withholding tax where they sold a residential property for $2 million or more. The obligation to withhold falls on the purchaser of the property.

From 1 July 2017, this threshold will reduce to $750,000. As median house prices in both Sydney and Melbourne exceeded $750,000 in the December 2016 quarter[1], a far greater number of purchasers will need to be conscious of these rules to avoid any penalties for failure to withhold.

This obligation to withhold applies where:

- the purchaser knows or has reasonable grounds to believe the vendor is a foreign resident
- the purchaser doesn't reasonably believe the vendor is an Australian resident and
  - has a record about the purchase indicating that the vendor has an address outside Australia, or
  - is authorised to provide a financial benefit (eg make a payment) to a place outside Australia (whether to the vendor or to anybody else).

Business owners

Integrity measures limiting access to small business capital gains tax concessions

Measures will be introduced to ensure that taxpayers do not arrange their affairs in a way that means ownership interests in larger businesses do not count towards the small business CGT tests.

This will ensure that the small business concessions are available to the appropriate group of taxpayers.

Superannuation

First home super saver scheme

From 1 July 2017 individuals will be able to make voluntary contributions to superannuation of up to $15,000 per year and $30,000 in total, to be withdrawn for the purpose of purchasing a first home. Both voluntary concessional and non-concessional contributions will qualify.

These contributions (less tax on concessional contributions) along with deemed earnings can be withdrawn for a deposit from 1 July 2018. When withdrawn, the taxable portion will be included in assessable income and will receive a 30 per cent offset.

Features associated with this measure include:

- contributions will count towards existing concessional and non-concessional contribution caps
- earnings will be calculated based on the 90 day Bank Bill rate plus three percentage points.

- the ATO will administer this scheme, calculate the amount that can be released and provide release instructions to superannuation funds.
- the amount withdrawn (including the taxable component) will not flow through to income tests used for tax and social security purposes, such as for the calculation of HECS/HELP repayments, family tax benefit or child care benefit.

Example from Budget Fact Sheet 1.4

Michelle earns $60,000 a year and wants to buy her first home. Using salary sacrifice, she annually directs $10,000 of pre-tax income into her superannuation account, increasing her balance by $8,500 after the contributions tax has been paid by her fund. After three years, she is able to withdraw $27,380 of contributions and deemed earnings on those contributions. Her withdrawal is taxed at her marginal rate (including Medicare levy) less a 30 per cent offset. After paying $1,620 of withdrawal tax she has $25,760 that she can use for her deposit. Michelle has saved around $6,240 more for a deposit than if she had saved in a standard deposit account.

Michelle's partner Nick has the same income and also salary sacrifices $10,000 annually to superannuation over the same period. Together they have $51,520 that they can put towards a deposit, $12,480 more than if they had saved in a standard deposit account.

Contributing the proceeds of home downsizing to superannuation

It is proposed that from 1 July 2018, people aged 65 and over will be able to make a non-concessional contribution of up to $300,000 from the proceeds of selling their home. These contributions will be in addition to the existing contribution caps.

Features associated with this measure include:

- the property must have been the principal place of residence for a minimum of 10 years
- both members of a couple will be able to take advantage of this measure for the same home, meaning $600,000 per couple can be contributed to superannuation through the downsizing cap
- amounts will count towards the transfer balance cap when used to commence an income stream
- contributions will be subject to social security means testing when added to a superannuation account.

Contribution eligibility requirements, such as the work test and restrictions on contributions from age 75 will **not** apply to these contributions. The requirement to have a total superannuation balance of less than $1.6 million to be eligible to contribute will also not apply.

Example from Budget Fact Sheet 1.5

George and Jane, both retired and aged 76 and 69, sell their home to move into more appropriate accommodation. The sale proceeds are $1.2 million. They can both make a non-concessional contribution into superannuation of $300,000 ($600,000 in total), even though Jane no longer satisfies the standard contribution work test and George is over 75. They can make these special contributions regardless of how much they already have in their accounts.

Example 2 from Budget Fact Sheet 1.5

John and Sarah, who are still working part-time at age 65, decide to sell the large family home after all the children move out. The sale proceeds are $1.4 million. They are both able to make a non-concessional contribution of $300,000 ($600,000 in total) into superannuation. This is regardless of how much they have in their accounts already. They may also be able to make additional contributions to their superannuation using the sale proceeds under standard contribution arrangements.

Social security

Energy Assistance Payment

A one-off Energy Assistance Payment will be made in 2016-17 of $75 for single recipients and $125 per couple for those eligible for qualifying payments on 20 June 2017 and who are a resident in Australia.

Qualifying payments include the Age Pension, Disability Support Pension, Parenting Payment Single, the Veterans' Service Pension and the Veterans' Income Support Supplement, Veterans' disability payments, War Widow(er)s Pension, and permanent impairment payments under the *Military Rehabilitation and Compensation Act 2004* (including dependent partners) and the *Safety, Rehabilitation and Compensation Act 1988*.