



FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

BUDGET WRAP

2017

Overview

The Federal Treasurer, Scott Morrison, has released his second Budget. We focus on those measures that are likely to be of greatest interest to financial planners or their clients.

From 1 July 2019, the Medicare levy will be increased to 2.5% to fund the National Disability Insurance Scheme.

As expected, a focus is housing affordability. Some key measures include, from 1 July 2018:

- A person aged 65 or over will be able to make a non-concessional contribution to superannuation of up to \$300,000 from the proceeds of selling their home.
- First home buyers will be able to withdraw voluntary contributions to superannuation made from 1 July 2017, along with associated deemed earnings, for a first home deposit.

Also expected was the introduction of a new one-stop shop for external dispute resolution for financial services and superannuation. This new arrangement will replace the existing ombudsman schemes and the Superannuation Complaints Tribunal.

The following summary provides an outline of these and other key measures of interest for financial planners and their clients. As with any legislative change, much will remain unclear until legislation is passed. This is what we know so far.

Financial Services

A more accountable and Competitive Banking System - improving external dispute resolution

The Australian Financial Complaints Authority (AFCA), a new one-stop shop for external dispute resolution, will be introduced. AFCA will provide financial services consumers, small businesses and retail investors with access to a free, fast and binding dispute resolution service.

Key points about AFCA:

- Replaces Financial Ombudsman Service, the Credit and Investments Ombudsman and the Superannuation Complaints Tribunal
- It will handle all financial and superannuation disputes
- AFCA will hear individual consumer/investor and small business disputes of higher values than are currently permitted
- Those who have wrongfully suffered losses will have access to more appropriate levels of compensation
- Established 1 July 2018
- Industry-funded
- Australian Financial Services Licensees will need to be members
- Decisions will be binding on all firms.

Internal dispute resolution

To increase accountability, the Government will also legislate to require financial firms to report to the Australian Securities and Investments Commission (ASIC) on internal dispute resolution outcomes.

Finalisation of the Industry Funding Model for the Australian Securities and Investment Commission

The Government will recover \$112.6 million from all entities regulated by the Australian Securities and Investments Commission (ASIC) through a statutory levy, with effect from 1 July 2017. The statutory levy will recover costs associated with:

- the promotion of financial literacy
- the administration of unclaimed moneys
- the operation of the North Queensland Insurance Aggregator
- activities funded by ASIC's Enforcement Special Account.

This extends the 2016-17 Budget measure, Australian Securities and Investments Commission — Improving Outcomes in Financial Services, by ensuring that all of ASIC's regulatory costs are recovered from those entities that create the need for regulation.

Australian Securities and Investments Commission - improving financial literacy

Over four years from 2017-18, the Australian Securities and Investments Commission (ASIC) will be given an additional \$16 million to broaden its financial literacy program. The cost will be partially offset by an increase of \$12.0 million over three years from 2018-19 in the statutory levy amount recovered from entities regulated by ASIC.

Major banking levy

The Government will introduce a major bank levy (the levy) for Authorised Deposit-taking Institutions (ADIs), from 1 July 2017. The levy will be an annualised rate of 0.06 per cent on loan facilities such as corporate bonds, commercial paper, certificates of deposit, and Tier 2 capital instruments. The levy will raise \$6.2 billion over the forward estimates period, on the basis that this represents a fair additional contribution from our major banks and will assist with budget repair.

Superannuation

Contributing the proceeds of downsizing to superannuation

A person aged 65 or over will be able to make a non-concessional contribution to superannuation of up to \$300,000 from the proceeds of selling their home from 1 July 2018. These contributions are:

- in addition to those permitted under existing rules and caps
- exempt from the existing age test, work test and the \$1.6 million balance test for making non-concessional contributions.

The measure:

- applies to sales of a principal residence owned for the past ten or more years
- is available to both members of a couple for the same home.

Integrity of limited recourse borrowing arrangements

From 1 July 2017, the use of limited recourse borrowing arrangements (LRBA) will be included in a member's total superannuation balance and transfer balance cap.

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

Integrity of non-arm's length arrangements

From 1 July 2018, the non-arm's length income provisions that apply to superannuation will ensure that expenses that would normally apply in a commercial transaction are included when considering whether the transaction is on a commercial basis. This will limit the opportunities for members to use related party transactions on non-commercial terms to increase superannuation savings.

Extending tax relief for merging superannuation funds

The current tax relief for merging superannuation funds, which was due to lapse on 1 July 2017, will be extended until 1 July 2020. The relief, which has been available since December 2008, provides for superannuation funds to transfer capital and revenue losses to a new merged fund, and to defer taxation consequences on gains and losses from revenue and capital assets.

This measure will ensure that superannuation fund members' balances are not reduced by tax when superannuation funds merge, and will remove tax as an impediment to mergers and facilitate industry consolidation.

Tax

Increasing the Medicare levy low-income thresholds

The Medicare levy low-income thresholds for singles, families and seniors and pensioners will be increased from the 2016-17 income year as follows:

- Singles – increased to \$21,655
- Family – increased to \$36,541 plus \$3,356 for each dependent child or student
- For single seniors and pensioners – increased to \$34,244
- For seniors and pensioners – increased to \$47,670 plus \$3,356 for each dependent child or student.

Increase in the Medicare levy - National Disability Insurance Scheme

The Medicare levy will be increased from 2.0 to 2.5 per cent of taxable income from 1 July 2019 to ensure the National Disability Insurance Scheme (NDIS) is fully funded. Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased.

Child care rebate - upper income threshold

The Government will achieve savings of \$119.3 million over three years from 2018-19 by better targeting the Child Care Subsidy only to families with incomes below \$350,000 per annum (in 2017-18 terms). The upper income threshold of \$350,000 per annum will be indexed annually by CPI from 1 July 2018.

Disallow the deduction of travel expenses 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. This measure will not prevent investors from engaging third parties such as real estate agents for property management services. These expenses will remain deductible.

Limit plant and equipment depreciation deductions to outlays actually incurred by investors

From 1 July 2017, plant and equipment depreciation deductions will be limited to outlays actually incurred by investors in residential real estate properties.

These changes will apply on a prospective basis, with existing investments grandfathered. Plant and equipment forming part of residential investment properties as of 9 May 2017 (including contracts already entered into at 7:30PM (AEST) on 9 May 2017) will continue to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.

Investors who purchase plant and equipment for their residential investment property after 9 May 2017 will be able to claim a deduction over the effective life of the asset. However, subsequent owners of a property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property.

Improving the 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 1 July 2017.

Extending the immediate deductibility threshold for small businesses

Small businesses will be able to immediately deduct purchases of eligible assets costing less than \$20,000 first used or installed ready for use by 30 June 2018. Only a few assets are not eligible (such as horticultural plants and in-house software).

Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. The pool can also be immediately deducted if the balance is less than \$20,000 over this period (including existing pools).

The current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2018.

Social Security

Consistent Income Treatment for Families Receiving Family Tax Benefit Part A

From 1 July 2018, a consistent 30 cents in the dollar income test taper will apply for Family Tax Benefit Part A families with a household income in excess of the Higher Income Free Area (currently \$94,316).

This will ensure that higher income families are subject to the same income test taper rates.

Family Tax Benefit Part A rate increase - not proceeding

The increase in the maximum rate of Family Tax Benefit (FTB) Part A from 2017-18 announced as part of the 2015-16 MYEFO measure titled *Family Payment Reform — a new families package* will *not* proceed.

Family Tax Benefit payment rates

The current Family Tax Benefit (FTB) payment rates will be maintained for two years at their current levels from 1 July 2017. Indexation of the FTB payment rates will resume on 1 July 2019.

Energy Assistance Payment

There will be one-off Energy Assistance Payment 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 resident in Australia.

Qualifying payments include:

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

Enhanced Residency Requirements for Pensioners

Residency requirements for claimants of the Age Pension and the Disability Support Pension (DSP) will be revised. From 1 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 (16 years of age to Age Pension age); 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.

Liquid Assets Waiting Period - increasing self-reliance

The maximum Liquid Assets Waiting Period will increase from 13 weeks to 26 weeks from 20 September 2018 when a claimant's liquid assets are equal to or exceed \$18,000 for singles without dependants or \$36,000 for couples and singles with dependants.

Pensioner Concession Card - reinstatement

The Pensioner Concession Card will be reinstated for pensioners who were no longer entitled to the pension following changes to the pension assets test from 1 January 2017. Reinstating the Pensioner Concession Card will enable pensioners to access Commonwealth subsidised hearing services.

Working Age Payments Reform

Seven working age payments and allowances will be consolidated into a new JobSeeker Payment. Key points:

- On 20 March 2020, Newstart Allowance and Sickness Allowance recipients will transition to the new JobSeeker Payment.
- JobSeeker Payment will be set at the same rate as Newstart Allowance and current mutual obligation exemptions for Sickness Allowance will be retained.
- Widow Allowance will be closed to new recipients from 1 January 2018 and will cease on 1 January 2022, when all remaining recipients have reached Age Pension eligibility age. Widow Allowance recipients transferring to the Age Pension will receive a higher payment rate.
- Partner Allowance, which has been closed to new recipients since 20 September 2003, will cease on 1 January 2022, when all remaining recipients have reached the eligibility age for the higher payment Age Pension.
- Widow B Pension, which has been closed to new recipients since 20 March 1997, will cease on 20 March 2020. Recipients will transition to the Age Pension with no change to their payment rate.
- Wife Pension, which has been closed to new recipients since 1 July 1995, will cease on 20 March 2020. Most recipients will transition to the Age Pension or Carer Payment at the same payment rate. Australian residents who do not qualify for these payments will transition to the new JobSeeker Payment. Transitional arrangements will ensure that those who transfer to the JobSeeker Payment have their rates preserved; however, those aged under 55 will be required to meet mutual obligation requirements.
- Bereavement Allowance will be closed to new recipients from 20 March 2020 and will be replaced by the new JobSeeker Payment. Existing recipients of Bereavement Allowance will not be impacted by the change. Newly bereaved people on the new JobSeeker Payment will receive a triple payment in the first fortnight and current mutual obligation exemptions will be retained.

A new more equitable participation framework will apply from 20 September 2018. Key elements include:

- Aligning the participation requirements for recipients aged 30 to 49 with those for recipients under 30.
- Recipients aged 55 to 59 will only be able to meet up to half of their participation requirements through volunteering.
- Recipients aged between 60 and Age Pension age will have a new activity requirement of 10 hours per fortnight that can be met through volunteering.

Housing Affordability

First home super saver scheme

From 1 July 2018, first home buyers will be able to withdraw voluntary contributions to superannuation made from 1 July 2017, along with associated deemed earnings, for a first home deposit.

Under the measure, up to \$15,000 per year and \$30,000 in total can be contributed, within existing caps. Concessional contributions and earnings that are withdrawn will be taxed at marginal rates less a 30 per cent offset. Both members of a couple can take advantage of this measure to buy their first home together.

Affordable housing through Managed Investment Trusts

The Government will enable Managed Investment Trusts (MITs) to invest in affordable housing. For investors to receive concessional taxation treatment through a MIT, the affordable housing must be available for rent for at least 10 years.

Key points:

- MIT will be able to acquire, construct or redevelop the property.
- Must derive at least 80 per cent of its assessable income from affordable housing.
- Up to 20 per cent of the income of the MIT may be derived from other eligible investment activities permitted under the existing MIT rules in the income tax law.
- Qualifying housing must be provided to low to moderate income tenants, with rent charged at a discount below the private rental market rate.

Under the MIT withholding tax regime:

- Non-resident investors are generally subject to a reduced rate of tax if they are a resident of a country with which Australia has an effective exchange of information treaty.
- Non-resident investors are generally subject to a 15 per cent final withholding tax rate on fund payments from the MIT.
- Resident investors are taxed at their marginal tax rates, with capital gains remaining eligible for the capital gains tax discount.

In addition:

- If the 20 per cent or 80 per cent requirements are not met, the non-resident investor will be liable to pay withholding tax at 30 per cent on investment returns for that income year (rather than the concessional rate of, generally, 15 per cent that would apply without breach).
- Properties held for rent as affordable housing for less than 10 years will be subject to a 30 per cent withholding tax rate on the net capital gains arising from the disposal of those assets.

This measure will apply from income years starting on or after 1 July 2017.

Expanding tax incentives for investments in affordable housing

From 1 January 2018, the capital gains tax discount for resident individuals who elect to invest in qualifying affordable housing will be 60% (rather than 50%).

To qualify for the higher discount:

- Housing must be:
 - » provided to low to moderate income tenants
 - » managed through a registered community housing provider and the investment held for a minimum period of three years.
- Rent must be charged at a discount below the private rental market rate.

Annual charge on foreign owners of underutilised residential property

Foreign owners of residential property that is not occupied or genuinely available on the rental market for at least six months per year, will be subject to a new charge. The charge will be levied annually and will be equivalent to the relevant foreign investment application fee imposed on the property at the time it was acquired by the foreign investor.

This measure will apply to foreign persons who make a foreign investment application for residential property from 7:30PM (AEST) on 9 May 2017.

Capital gains tax changes for foreign investors

Foreign resident capital gains tax (CGT) regime changes:

- Foreign and temporary tax residents will be denied access to the CGT main residence exemption from 7:30PM (AEST) on 9 May 2017, however existing properties held prior to this date will be grandfathered until 30 June 2019.
- CGT withholding rate for foreign tax residents will be increased from 10.0 per cent to 12.5 per cent, from 1 July 2017.
- CGT withholding threshold for foreign tax residents will be reduced from \$2 million to \$750,000, from 1 July 2017.
- the principal asset test will apply to an associate inclusive basis from 7:30PM (AEST) on 9 May 2017, for foreign tax residents with indirect interests in Australian real property.

Establishment of the National Housing Finance and Investment Corporation

The National Housing Finance and Investment Corporation (NHFIC) will be established to operate an affordable housing bond aggregator. The function of the aggregator is to provide cheaper and longer term finance for community housing providers.

Higher Education

A more sustainable higher education sector

This measure includes:

- introducing an efficiency dividend of 2.5 per cent in 2018 and 2019 on the Commonwealth Grant Scheme (CGS)
- rebalancing contributions toward course fees by increasing student contributions through the Higher Education Loan Program (HELP) by 7.5 per cent (1.82 per cent annually over four years from 2018), with a commensurate reduction in funding universities receive under CGS. Student contributions will increase for all Commonwealth supported students from 1 January 2018 regardless of when they began their study
- ceasing the Commonwealth loading for enabling programs and replacing it with a student contribution through HELP
- revising the income thresholds for repayment of HELP debt, repayment rates and the indexation of repayment thresholds from 1 July 2018. A new minimum threshold of \$42,000 will be established with a 1 per cent repayment rate and a maximum threshold of \$119,882 with a 10 per cent repayment rate.

For further information on the 2017 Federal Budget measures, please visit www.budget.gov.au.



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