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FEDERAL *Budget* 2017

What the Federal Budget Tax measures mean for you.

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KEY INITIATIVES

The theme of this year's Federal Budget is 'to let people realise their dreams'.

The Budget contains measures to stimulate investments by small business and increase housing affordability. For individuals, there will be a tax cut due to the scheduled termination of the 2% temporary budget repair levy from 1 July 2017. However, the Medicare Levy will be increased to fund the National Disability Scheme from 1 July 2019.

Continued on from last year, the Government will introduce additional measures to address multinational tax avoidance.

Personal tax

Personal income tax measures include:

- The temporary budget repair levy of 2% tax on earnings over $180,000 will not be extended, and will terminate as scheduled on 1 July 2017.
- An increase of 0.5% to the Medicare Levy from 2.0% to 2.5% from 1 July 2019.
- The top marginal tax rate, including Medicare Levy, will therefore decrease to 47% from 1 July 2017 and then increase to 47.5% from 1 July 2019.
- These changes will affect other taxes that are linked to the top personal tax rate, such as the fringe benefits tax and certain withholding taxes.
- The Medicare levy low-income threshold for singles, families and seniors and pensioners will increase.
- The use of limited recourse borrowing arrangements will be included in a member's total superannuation balance and transfer balance cap from 1 July 2017.

Housing affordability measures

- Individuals will be able to make additional contributions into their superannuation fund of up to $15,000 per year and $30,000 in total, subject to the existing cap, that can be subsequently withdrawn from 1 July 2018 for a first home deposit. The withdrawals will be taxed at the individual's marginal tax rate, less a 30% tax offset.
- For housing investors, negative gearing remains unchanged. However, deductions for travel expenses relating to residential rental properties will be disallowed and depreciation for plant and equipment will only be limited to outlay actually incurred. Subsequent investors will not be able to claim depreciation deductions for expenses incurred by the previous owners.
- The CGT discount for Australian resident individuals investing in qualifying affordable housing will be increased from 50% to 60%, and the conditions are:
  - The housing must be provided to low to moderate income tenants;
  - The rent must be 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 must be held for a minimum period of three years.
- Managed investment trusts will be able to invest in affordable housing, allowing investors to receive concessional tax treatments, subject to a number of conditions, including a requirement that the affordable housing must be available for rent for at least 10 years.
- Foreign and temporary tax residents will be denied access to the CGT main residence exemptions.
- The CGT withholding tax rate for foreign tax residents will be increased from 10% to 12.5% and will apply to Australian real property and related interests valued at $750,000 or more (currently $2m) from 1 July 2017.
- An annual vacancy levy of at least $5,000 will be imposed on foreign owners of under-utilised residential property that is not occupied or genuinely available on the rental market for at least 6 months per year. The annual rate will be equivalent to the relevant foreign investment application fee imposed on the property when it was first acquired. This applies to foreign investment applications made after 9 May 2017.
- A person aged 65 or over can make a non-concessional contribution into superannuation of up to $300,000 from the proceeds of selling their home, if they have owned the home for at least 10 years.
- The Government will introduce a 50% cap on foreign ownership in new developments through a condition on New Dwelling Exemption Certificates that are granted to property developers to enable sale of dwellings to foreign investors.

Small businesses

- The $20,000 instant asset write-off for small businesses will be extended by 12 months to 30 June 2018.

KEY INITIATIVES

Integrity measures for multinationals

- Further to the measures announced last year, the Government remains committed to combating multinational corporations who use structured arrangements to avoid paying Australian tax. To combat this activity, the Government has announced the following:
  - Extending the multinational anti-avoidance law to prevent tax minimisation through the use of foreign trusts and partnerships in corporate structures (this amendment will be retrospective and effective from 1 January 2016);
  - Further anti-hybrid mismatch rules to apply to banks and financial institutions from 1 January 2018;
  - Extended funding for the ATO's Black Economy Taskforce until 30 June 2018; and
  - Extending the funding period out to 30 June 2021 to enable the ATO to target serious and organised crime in the tax system.

Other business tax measures

- Extension of the taxable payments reporting system (TRPS) whereby businesses will be required to report payments to contractors in the courier and cleaning industries from 1 July 2018.
- Businesses that employ foreign workers on specified skilled visas will be required to pay an upfront levy per employee (the quantum of the levy varies depending on the type of visa - $1,200 or $3,000 for businesses with a turnover of less than $10m pa or $1,800 or $5,000 for other businesses). The levy will go to a new Skilling Australians Fund.
- Introduction of a major bank levy for banks with assets greater than $100bn.

GST compliance

- Purchases of new residential properties or new subdivisions will be required to remit the GST directly to the ATO as part of the property settlement from 1 July 2018 (currently the developer is required to remit the GST to the ATO). This is an integrity measure to ensure the GST is collected.

INDUSTRY REACTION

The Tax Institute welcomes the Budget as a positive step towards delivering the Government's agenda of jobs and growth, guaranteeing essential services, addressing cost of living pressures and living within their means.

"While the Tax Institute welcomes measures to increase resources to Treasury and the ATO to aid better tax policy formulation and tax system administration, which is in line with our submissions to the Budget process, the Government has not taken the opportunity to reduce rates, broaden the base or bring genuine simplification to the tax system", said The Tax Institute's President Matthew Pawson.

The Tax Institute's Senior Tax Counsel Professor, Robert Deutsch, said: "For individual investors, while the increase to the CGT discount to 60% for providing affordable housing will likely be a very attractive proposition, the overall effect of this measure may be to increase the effect of negative gearing as rental income will be limited but investment costs will likely stay the same."

He added "The First Home Super Saver Scheme is also a significant measure and appears to be attractive on its face. However, upon closer inspection, the relative saving of only paying tax at the super fund rate on the relevant contributions has only marginal utility to first home buyers who are likely to be on lower income tax rates. Downsizing by older Australians has also been made more attractive by allowing $300,000 of the net sale proceeds from the family home, or $600,000 for couples, to be put into super tax-free." said Professor Deutsch.

Professor Deutsch also said: "The Tax Institute applauds the Government for otherwise leaving super relatively unscathed by the Treasurer's scalpel."

The Medicare levy is also being increased. Professor Deutsch said: "While the increase in the Medicare Levy from 2% to 2.5% will impact taxpayers from 2019 who are required to pay it, for lower income earners the increase in the low-income threshold will alleviate some of the burden."

The Tax Institute also supports the extension of the immediate deductibility rules allowing small businesses an immediate deduction for eligible assets costing less than $20,000 to 30 June 2018 as this is a significant boost for small businesses. Additional incentives to the States and Territories to reduce red tape for taxpayers, particularly small businesses, are also welcome.

In conclusion, Mr Pawson said: "Notwithstanding the positive intentions set out in this Budget, The Tax Institute remains of the view that the Government, and Parliament as a whole, have an overriding responsibility to deliver a stronger, fairer and more simplified tax system for Australia."

Source: Tax Institute of Australia Media release 9 May 2017
https://www.taxinstitute.com.au/timediarelease/good-budget-bad-budget-full-of-positive-intentions-but-a-missed-opportunity-for-tax-reform

Important NAB information