Management & Taxation Consultants

InfoConnect

Newsletter from the Aspiron Consulting Group

Federal Budget Edition 2017/18

Welcome to this special 2017/18 Federal Budget edition of ***InfoConnect***, the newsletter from the Aspiron Consulting Group.

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The 2017/18 Federal Budget

The 2017/18 Federal Budget was handed down on 9 May 2017 by the Federal Treasurer, Mr Scott Morrison . The Budget Papers forecast the economy to rebound and grow at 2.75% in 2017/18 and 3% in 2018/19 supported by growth in household consumption, exports, and a transition to non-mining business investment.

Consistent with recent trends, the 2017/18 Federal Budget did not announce any "Big-ticket" fundamental tax reform, although a number of significant tax changes were announced targeting housing affordability, strengthening the integrity of existing tax rules and extension of previously announced tax concessions.

Below is a summary of the major tax related measures announced in the Budget that affect some of our clients. It is not a full list of Budget announcements. In order to get the advice most specific for your circumstances, it is essential you consult with your tax adviser.

Tax Changes affecting Individuals

The 2017/18 Budget contained no changes to the personal income tax rates and thresholds, nor to the Low Income Tax Offset (LITO) rates.

For high income earners, the Treasurer confirmed that the 2% Budget Deficit Levy on incomes over $180,000 will not be extended. It will end on 30 June 2017.

In the meantime, the tax scales for the 2016/17 and 2017/18 income years for residents are as follows (*including the 2% temporary budget deficit levy (for 2016/17) but excluding Medicare Levy of up to 2%*).

Tax scales	2016/17 (Current)		2017/18 (Proposed)	
	Threshold $	Marginal rate	Threshold $	Marginal rate
1st rate	18,201	19%	18,201	19%
2nd rate	37,001	32.5%	37,001	32.5%
3rd rate	87,001	37%	87,001	37%
4th rate	180,001	47%	180,001	45%

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Increase in the Medicare Levy from 1 July 2019 - The Government has proposed to increase the Medicare Levy from 2% to 2.5% from 1 July 2019 to ensure the National Disability Insurance Scheme is fully funded and to guarantee Medicare. Low income earners will continue to receive relief from the Medicare Levy (see below)

Medicare levy low income threshold - The Government has proposed to increase the Medicare low income thresholds from 1 July 2016 as follows:

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

Changes to Higher Education HELP repayment percentage and thresholds - The Government has revised the income thresholds for repayment of HELP debt, repayment rates and the indexation of repayment thresholds from 1 July 2018. a new minimum threshold $42,000 will be established with a 1% repayment rate and a maximum threshold of $119,882 with a 10% repayment rate.

Restriction on depreciation deductions - The Government will, from 1 July 2017, limit "plant and equipment" depreciation deduction to outlays actually incurred by investors in residential real estate properties. 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 deduction for plant and equipment purchased by a previous owner of that property.

No deduction for residential rental property travel expenses - The Government will deny deductions for travel expenses relating to inspecting, maintaining, or collecting rent for a residential rental property from 1 July 2017.

Increased CGT discount for resident individuals investing in qualified affordable housing - The Government will, effective 1 January 2018, increase the CGT discount from 50% to 60% for resident individuals who elect to invest in qualified affordable housing. To qualify for the higher CGT discount, housing must be provided to low or 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 must be held for a minimum of three years.

Tax Changes affecting Small & Medium Businesses

Extension of the $20,000 immediate write-off - The Government will extend the current instant asset write-off ($20,000 threshold) for business entities that have aggregated annual turnover less than $10 million (SBE) by 12 months to 30 June 2018.

This means SBEs will be able to immediate deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2018. Similarly SBEs which have a general depreciation pool balance of less than $20,000 may also be able to write off the pool balance.

Restriction to access to Small Business CGT Concessions - The Government will amend the Small Business CGT concession rules to ensure that the concessions can only be accessed in relation to assets used in a Small Business or ownership interest in a small business. Note that access to the Small Business CGT Concessions is limited to business taxpayers with aggregated turnover of less than $2m or business assets of less than $6m.

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Tax Changes affecting non-residents and temporary residents

CGT change for foreign investors — The Government will extend Australia's foreign resident capital gains tax (CGT) regime by:

- Denying foreign and temporary tax residents access to the CGT main residence exemption from 7:30pm on 9 May 2017 (with existing holdings being grandfathered until 30 June 2019);
- Increasing the CGT withholding rate for foreign tax residents from 10% to 12.5% from 1 July 2017; and
- Reducing the CGT withholding threshold for foreign tax residents from $2m to $750,000 from 1 July 2017.

Further, the integrity of the foreign resident CGT regime will be improved by applying the principal asset test on an associate inclusive basis from 7:30pm on 9 May 2017 for foreign tax residents with indirect interest in Australian real property.

Annual Charge on foreign owners of underutilised residential properties — The Government will introduce a charge of at least $5,000 on foreign owners of residential properties where the property is not occupied or genuinely available on the rental market for at least 6 months per year. This measure will apply to foreign persons who make a foreign investment application for residential properties from 7:30pm on 9 May 2017.

Restricting foreign ownership in new developments to 50% — The Government will introduce a 50% cap on foreign ownership in new developments through a condition on the New Dwelling Exemption Certificate. The cap will be included as a condition on New Dwelling Exemption Certificates where the application was made from 7:30pm on 9 May 2017.

Superannuation Changes

First home superannuation saver scheme – The Government will encourage home ownership by allowing first homebuyers to "build a deposit" inside their superannuation fund, as follows:

- Voluntary superannuation contributions of up to $15,000 per year, and $30,000 in total, can be contributed by first homebuyers from 1 July 2017. The contribution must be within existing concessional and non-concessional caps. Concessional contributions are taxed at 15% in the fund and earnings are taxed at 15% in the fund.
- These contributions can be withdrawn, along with associated deemed earnings, for a first home deposit, from 1 July 2018 onwards. Concessional contributions and earnings that are withdrawn will be taxed at the taxpayer's marginal tax rate less a 30% offset. When non-concessional contributions are withdrawn, they will not be taxed.

Limited recourse borrowing arrangements (LBRAs) – The Government will, from 1 July 2017, include the use of LBRAs in a member's total superannuation fund balance and transfer balance cap.

According to the Government, LBRAs can potentially be used to circumvent contribution caps and effectively transfer growth in assets from the accumulation phase to the retirement phase that is not captured by the $1.6m personal transfer balance cap.

From 1 July 2017, the outstanding balance of a LBRA will be included in a member's annual superannuation balance. In addition, the repayment of the principal and interest of a LBRA from a member's accumulation account will be a credit in the member's pension transfer balance account.

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***Super contributions of proceeds up to $300,000 from downsizing a home* –** Effective 1 July 2018, 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 caps and they will be exempt from the existing age test, work test and the $1.6m 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.

***Extending tax relief for merging superannuation funds* –** The Government will extend the current tax relief for merging superannuation funds until 1 July 2020.

Since December 2008, tax relief has been available to 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 tax relief was due to lapse on 1 July 2017.

***Amending Non-arm's length income rules* –** The non-arm's length provisions for superannuation funds will be amended from 1 July 2018 to reduce any opportunities for members to use related-party transactions on non-commercial terms to increase superannuation savings.

Specifically, the non-arm's length provisions will be amended to ensure expenses that would normally apply in a commercial transaction are included when considering whether the transaction is on commercial basis.

GST and other taxes changes

***Aligning the treatment of digital currency (eg Bitcoin) with money* –** Effective 1 July 2017, the Government will align the GST treatment of digital currency (eg Bitcoin) with money.

Consequently, consumers who use digital currencies as payment will no longer bear GST twice, once on the purchase of the digital currency and again on its use in exchange for other goods and services subject to GST.

***Improving the integrity of GST on property transactions* –** From 1 July 2018, purchasers of newly constructed residential properties or new sub-divisions will be required to remit the GST directly to the ATO as part of settlement.

***Affordable housing through Management Investment Trusts (MIT)* –** Effective 1 July 2017, the Government will encourage investment into affordable housing by enabling MITs to invest in affordable housing .

In order for investors to receive concessional taxation treatment through a MIT, the affordable housing must be available for rent for at least 10 years.

The MIT will be able to acquire, construct, or redevelop a property, but must derive at least 80% of its assessable income from affordable housing. The qualifying housing must be provided to low to moderate income tenants at a rental below private rental market rates.

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About your adviser

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Principal

Alan is the Founder and Managing Director of Aspiron Consulting Group. Alan began his professional career in taxation and management consulting in 1996 and had worked in two of "Big 4" top global accounting firms both within Australia and abroad. Alan's speciality is in corporate and business taxation consulting and he regularly services clients across industries such as mining, manufacturing, distribution, financial services, IT Consulting, health, professional services and high-net worth individuals.

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How we are different

We believe that our **7 Points of Difference** below set us apart from our competitors:

1. **One dedicated professional** as your adviser and point of contact
2. We prefer to **agree our fees up front**, where possible, and as such you always know how much you are paying - **no surprises**
3. **Independent sounding board** for business decisions, without turning on the fee meter
4. We guarantee a **maximum initial response time of 36 hours** if we miss your call
5. We believe in a **simple and no-nonsense approach** on our advice. We aim at structuring our advice in **simple language** that you can understand
6. We take a **honest approach** in providing advice - we have the courage to tell you things you don't want to hear
7. Like many of our clients, we are also a small business and as such **we understand the challenges our clients are facing**. However, we have worked with some of the largest organisations in Australia to know the key issues that our clients are likely to face as they grow.

About Alecto Australia

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