Federal Budget

The 2017/18 Federal budget, handed down on 9 May 2017, proposes to address the housing affordability crisis with a package of tax, superannuation and other measures; and as anticipated does not contain any major tax reform measures of which you need to be aware.

The following matters are worth noting:-

Housing Affordability Measures

- A limited amount of an individual's superannuation contributions, of up to $15,000 per year and $30,000 in total, made from 1 July 2017 may be withdrawn from 1 July 2018 onwards for a first home deposit. The contributions must be made within an individual's existing contribution caps ($25,000 pa concessional and $100,000 pa non-concessional.)

  The withdrawal of these contributions and related deemed earnings will be taxed at an individual's marginal tax rate less a 30% tax offset.

- 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 principal residence. They must have owned their principal residence for at least 10 years. This measure will apply from 1 July 2018 and is available to both members of a couple for the same home.

  These contributions are in addition to existing rules and caps and are exempt from the age test, work test and the $1.6m total superannuation balance test for making non-concessional contributions.

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

- Plant and equipment depreciation deductions will be limited to outlays actually incurred by investors in residential real estate properties from 1 July 2017. Subsequent investors will have their acquisitions reflected in the cost base for capital gains tax purposes, and will not obtain continuing depreciation deductions.

  These changes will apply on a prospective basis, with existing investments grandfathered, including where contracts have been entered into before 7.30pm (AEST) on 9 May 2017.

- The CGT discount for Australian resident individuals investing in qualifying affordable housing will be increased from 50% to 60% from 1 January 2018.

Individuals

- The 2% budget deficit levy will cease on 30 June 2017, as originally legislated, and will not be extended.

  Accordingly, the maximum individual marginal tax rate for taxable incomes exceeding $180,000 will drop from 49% to 47% (including the 2% Medicare levy) from 1 July 2017.

- A new set of repayment thresholds and rates under the higher education loan program (HELP) will be introduced from 1 July 2018.

  A new minimum repayment threshold of $42,000 will be established with a 1% repayment rate. Currently, the minimum repayment threshold for the 2017/18 year is $55,874 with a repayment rate of 4%.

  A maximum threshold of $119,882 with a 10% repayment rate will also be introduced. Currently, the maximum repayment threshold for the 2017/18 year is $103,766 with repayment rate of 8%.

- The Medicare levy will be increased from 2.0% to 2.5% 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. All revenue generated be the Medicare levy will be used to support the National Disability Insurance Scheme (NDIS) and to guarantee Medicare.

Small Business

- The $20,000 instant asset write-off for small business will be extended by 12 months to 30 June 2018, for businesses with an aggregated annual turnover of less than $10m.

  Small businesses will be able to immediately deduct purchases of eligible depreciating assets costing less than $20,000 provided they are first used, or installed ready for use, by 30 June 2018. Only a few assets are ineligible (such as horticultural plants and in-house software).

  Depreciating assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the general small business pool (the pool) and depreciated at 15% in the first income year, and 30% for 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).

- Access to the small business CGT concessions will be tightened from 1 July 2017 to deny eligibility for assets which are unrelated to the small business. Very little detail has been released on this, and hopefully it has no impact on plain vanilla situations.

Superannuation

- 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.

- Opportunities for members to use related party transactions on non-commercial terms to increase superannuation savings will be reduced from 1 July 2018.

- There are superannuation concessions relating to the Housing Affordability Measures referred to earlier in this newsletter.

GST

- Purchasers (instead of vendors) of newly constructed residential properties or new subdivisions will be required to remit the GST directly to the ATO as part of settlement from 1 July 2018.

Foreign Residents

- Foreign and temporary tax residents will be denied access to the CGT main residence exemption. Existing properties held before 7.30 pm (AEST) on 9 May 2017 will be grandfathered until 30 June 2019.

- The foreign resident CGT withholding rate will be increased to 12.5% and will apply to Australian real property and related interests valued at $750,000 (currently $2m) or more, from 1 July 2017.

- Foreign owners of vacant residential property, or property that is not genuinely available on the rental market for at least six months per year, will be charged an annual levy of at least $5,000. The measure will apply to persons who make a foreign investment application for residential property from 7.30pm (AEST) on 9 May 2017.

- A 50% cap on foreign ownership in new developments will be introduced through a condition on new dwelling exemption certificates. The cap will be included as a condition on new dwelling exemption certificates where the application was made from 7.30pm (AEST) on 9 May 2017.

New Superannuation Reforms - Things you might have missed

The changes to superannuation announced in the 2016 Federal Budget have been passed by Parliament. The media coverage has been prolific on how the changes will affect members with superannuation pension balances in excess of $1.6M and how you can no longer contribute as much to superannuation after 1 July 2017 but there were also other measures introduced that are just as important in your planning for 1 July 2017.

The main issues that you need to consider because of the changes include:

- Lower threshold for increased contributions tax (Div 293 tax)
  - Reviewing if your adjusted taxable income will be more than $250,000 from 1 July 2017.
  - If so, concessional contributions you make may be assessable for an additional 15%

- Personal contribution deductions – 10% employment income rule repealed
  - Reviewing if you have income available to contribute to your SMSF.
  - Determining if and when you would be able to claim a personal deduction for these contributions up to the annual cap of $25,000.
  - Reviewing any current salary sacrifice arrangement you may have for its necessity and benefits.

- Spousal contribution threshold increased
  - Reviewing if your spouse's salary is below the new threshold of $37,000.
  - Reviewing if your spouse's and your own superannuation balance may need to be rebalanced.
  - Determining if you have any available after tax income to contribute to your spouse's superannuation and be eligible for an offset.

- Catch up concessional contributions (First available from 1 July 2019)
  - Reviewing your work patterns to determine your future likely income streams
  - Reviewing if your total superannuation balance is under $500,000 to determine your eligibility to make catch up contribution payments in the future.

- Anti-detriment reduction repealed from 1 July 2017
  - Determining if your SMSF was intending to or currently funding a future anti-detriment payment.
  - If an SMSF member dies before 1 July 2017, anti-detriment payments will still be possible up until 30 June 2019

The changes mentioned above are all diverse and need specific discussion and review of your circumstances to determine their impact, so discussions with Leanne Connor or Tony Grosso are recommended.

Property Taxes

Earlier announcements have been confirmed in the Victorian Budget 2017/18 handed down on 2 May 2017.

Naturally these measures have to be legislated by the Victorian Parliament, and only then will the exact wording of the legislation be known.

These Measures Include:	Expected Start Date
1. Land Transfer duty (commonly known as Stamp duty) abolished for first home buyers purchasing a property up to $600,000 with a sliding scale of discount reducing to nil for a property valued at $750,000.	Applies to Contracts Entered into from 1 July 2017
2. Off-the-plan stamp duty concession will no longer apply to investment properties. There is uncertainty for existing contracts, which will not settle until after 1 July 2017.	Applies to Contracts Entered into from 1 July 2017
3. The existing stamp duty exemption for transfers of investment properties between spouses abolished	Applies to Contracts Entered into from 1 July 2017
4. A vacant residential property tax will be levied against owners who leave their properties vacant for more than 6 months in any calendar year. Exemptions are to apply for circumstances such as holiday homes and deceased estates.	Applies to Contracts Entered into from 1 January 2018
5. Property valuations for land tax purposes will be annually instead of every two years.	Applies to Contracts Entered into from 1 January 2019

Business with an Annual Turnover not exceeding $10m

1. Legislation has been passed to reduce the corporate tax rate to 27.5% from 2016/17 for companies carrying on business with an annual turnover not exceeding $10m.

2. The instant asset write off threshold of $20,000 for most depreciating assets applies to businesses with an annual turnover not exceeding $10 million in 2016/17, provided that the asset is first used or installed ready for use by 30 June 2017 This important concession of being able to write off 100% on acquisition previously applied only to businesses with an annual turnover of less than $2m. The Federal Budget has announced that this concession will be extended to 30 June 2018.