Federal Budget 2017/18 – update

10 May 2017

Last night, Federal Treasurer Scott Morrison handed down his second Federal Budget.

Here's a roundup of some of the key proposals put forward, and a look at how they might affect your financial goals — whether you're starting out in your working life, building a career and family, or enjoying the fruits of your labour in retirement.

Remember, at this stage these are just proposals and not yet law. As such, they could change as legislation passes through parliament.

Superannuation

1. First Home Super Saver Scheme

Proposed effective date: 1 July 2017

From 1 July 2017, individuals will be able to make voluntary contributions (eg salary sacrifice and non-concessional contributions) of up to $15,000 per year and $30,000 in total, to their super account to purchase a first home. These limits apply to each individual so a couple can contribute up to $30,000 per year and $60,000 in total.

Voluntary contributions under this scheme must be made within existing super caps.

Withdrawals of the contributed amounts along with the deemed earnings will be allowed from 1 July 2018. The amount of earnings that can be released will be calculated using a deemed rate of return based on the 90-day Bank Bill rate plus three percentage points (currently this equates to 4.78%).

The withdrawals of concessional contributions and associated earnings will be taxed at the individual's marginal tax rate, less a 30% tax offset. When non-concessional amounts are withdrawn, they will not be taxed, but we anticipate that the earnings will be taxed at the individual's marginal tax rate, less a 30% tax offset.

The First Home Super Saver Scheme will be administered by the Australian Tax Office (ATO), which will determine the amount of contributions that can be released and will instruct super funds to make these withdrawal payments. The ATO will also be responsible for compliance to ensure that people purchase their first home after they withdraw from super for their deposit.

2. Contributing the proceeds of property downsizing to super

Proposed effective date: 1 July 2018

Currently, if you are aged 65 to 75 and want to make voluntary super contributions, you must satisfy a work test. If you are over 75, you are generally unable to contribute to your super.

The government proposes that from 1 July 2018, people aged 65 and over will be able to make a non-concessional contribution into their super of up to $300,000 from the proceeds of selling their home, irrespective of their age, work status or total super balance.

Both members of a couple will also be able to take advantage of this measure for the same home, meaning $600,000 per couple can be contributed to super under this measure.

To be eligible, the property must be a principal place of residence owned for a minimum of 10 years.

These contributions will be in addition to any other concessional or non-concessional contributions you are eligible to make.

Taxation – general

3. Marginal tax rates remain unchanged

Marginal tax rates are unchanged from 2016-17. As legislated, the Temporary Budget Repair Levy - which is an additional 2% on the top marginal tax rate - will expire on 30 June 2017.

Resident and non-resident marginal tax rates for 2017-18 are shown in the table below.

Residents		Non-residents	
Income	Marginal tax rate (%)	Income ($)	Marginal tax rate (%)
0 – 18,200	0	0 – 87,000	32.5
18,201 – 37,000	19	0 – 87,000	32.5
37,001 – 87,000	32.5	0 – 87,000	32.5
87,001 – 180,000	37	87,001 – $180,000	37
> 180,000	45	> 180,000	45

Note: Medicare levy may also apply, see below.

4. Increase to Medicare levy

Proposed effective date: 1 July 2019

The Medicare levy, which is still assessed on taxable income, is proposed to increase from 2% to 2.5% from 1 July 2019.

The increase in the Medicare levy will be used to fund the National Disability Insurance Scheme (NDIS).

Other tax rates that are linked to the top marginal tax rate (ie 47.5% following the increase) will also rise, such as the fringe benefits tax rate.

5. Increasing the Medicare levy low-income thresholds

Proposed effective date: 1 July 2016

The Medicare levy thresholds for low income singles, families, seniors and pensioners will increase in the 2016-17 income year. The increases are based on movements in the consumer price index (CPI) so that low income earners are generally not liable for the Medicare levy.

The threshold for singles will increase to $21,655. The family threshold will increase to $36,541 plus $3,356 for each dependent child or student.

For senior singles and pensioners, the threshold will increase to $34,244. The family threshold for seniors and pensioners will increase to $47,670, plus $3,356 for each dependent child or student.

6. Residential investment property – disallowance of deduction for travel expenses and limitation on deductible depreciation

Proposed effective date: Various

From 1 July 2017, travel expenses incurred in inspecting, maintaining or collecting rent on your residential investment properties will no longer be tax deductible. As a residential property investor, you will continue to be able to deduct fees paid to real estate agents or other property managers for these services.

In a separate proposal, depreciation deductions for plant and equipment – such as dishwashers and ceiling fans – in residential investment properties will be limited to the actual expenditure you incur.

This is an integrity measure designed to ensure that successive purchasers of a property cannot depreciate an asset beyond its true cost.

Taxation – small business

7. Instant asset tax write-off extension

Proposed effective date: 1 July 2017

The government has announced a further extension until 30 June 2018 of the accelerated depreciation rules.

These rules include allowing businesses with annual aggregated turnover of less than $10 million to immediately deduct purchases of eligible assets costing less than $20,000 where first used, or installed ready for use, by 30 June 2018.

8. Company tax rate reduction

Legislated from: 1 July 2016

Federal Parliament has now also finalised passage of legislation to reduce the company tax rate.

The first step involves reducing the corporate tax rate for companies that are small business entities, from 28.5% to 27.5%, for the 2016-17 income year. Small business entities are classified as companies that carry on a business and have an annual aggregated turnover of less than $10 million.

Other companies remain subject to the 30% corporate tax rate.

The second step involves subsequent increases in this annual aggregated turnover threshold so that progressively larger companies with annual aggregated turnover under $50 million will qualify for the 27.5% corporate tax rate.

For companies with annual aggregated turnover under $50 million the tax rate will progressively reduce to 25% from the 2026-27 income year.

9. Unincorporated businesses – annual aggregated turnover threshold

Legislated from: 1 July 2016

This offset is available to unincorporated small businesses and is currently 5% of the individual's net small business income tax liability capped at a maximum offset of $1,000 per annum.

The annual aggregated turnover threshold from 1 July 2016 is to be increased to $5 million (up from $2 million) for unincorporated business looking to qualify for the small business income tax offset.

This small business income tax offset will progressively increase to 16% of an individual's tax liability related to their net small business income by the 2026–27 tax year.

For the 2016–17 to 2023–24 tax years, the tax offset is to increase to 8% (up from 5%).

Families and Social Security

10. Liquid Asset Waiting Period (LAWP) extended

Proposed effective date: 20 September 2018

Currently, if you apply for Youth Allowance, Austudy, Newstart or Sickness Allowance, you are required to serve a LAWP to reflect their available liquid assets. However, there is no LAWP if you have less than $5,000 (single) or $10,000 (couple) in liquid assets. If you exceed these thresholds, you may be required to serve a waiting period of between one and 13 weeks.

The government is proposing to increase the maximum LAWP from 13 weeks to 26 weeks.

11. Changes to Newstart activity tests for over 55s

Proposed effective date: 20 September 2018

A new participation framework will apply from 20 September 2018:

- If you are aged 55 to 59, you will only be able to meet up to half of your participation requirements through volunteering, and
- If you are aged between 60 and Age Pension age, your new activity requirement of 10 hours per fortnight can be met through volunteering.

12. Pensioner Concession Card reinstated

Proposed effective date: 2017-18

Due to the assets test changes that came in on 1 January 2017, some pension recipients were no longer entitled to a payment and as a result lost their Pensioner Concession Card (PCC). At the time those affected were issued with a Low Income Health Card and in some cases, a Commonwealth Seniors Health Card.

Although these cards provide you with access to discounted medication under the Pharmaceutical Benefits Scheme, they don't provide all the ancillary benefits that the PCC provided.

The government will reinstate the PCC to those who lost their payment as a direct result of the 1 January 2017 asset changes.

13. One-off energy assistance payment

Proposed effective date: 20 June 2017

If you currently receive a qualifying income support payment, you are eligible for a one-off payment of $75 for singles and $125 for couples combined to assist with energy bills.

Qualifying payments include the Age Pension, Disability Support Pension, Parenting Payment Single, Veterans' Service Pension, Veterans' Income Support Supplement, Veterans' Disability Payments, War Widow Pension, and permanent impairment payments under the Military Rehabilitation and Compensation Act 2004.

14. Changes to residency requirements for pensioners

Proposed effective date: 1 July 2018

Currently, to be eligible for the Age Pension and Disability Support Pension (DSP), you must have 10 years of total Australian qualifying residency. This must include at least one period of five years or more of continuous residency.

From 1 July 2018, applicants will require one of the following to be met instead:

- 15 years of continuous Australian residency
- 10 years of continuous Australian residency, with five of these years being during your working life (age 16 to 65), or

10 years of continuous Australian residency, without having received an activity-tested income support payment (e.g. Newstart) for a cumulative period of five years.

15. Reform of working age payments

Proposed effective date: Various

To simplify the social security system, seven working age payments will be combined or phased out completely.

From 20 March 2020, Newstart allowance and Sickness allowance recipients will transfer to a new Jobseeker Payment at the same rate.

Widow Allowance will be closed to new entrants as at 1 January 2018. The payment will cease to exist in January 2022 when all existing recipients will have reached Age Pension age.

Bereavement Allowance, which is a temporary 14-week benefit to compensate those adjusting to the loss of a partner, will cease from 20 March 2020. Jobseeker Allowance will have bereavement provisions built in from this point to allow exemptions from the activity test (ie looking for work) for 14 weeks.

The following payments, which are no longer open to new applicants, will cease.

- Wife Pension: Will cease from 20 March 2020 and recipients will transfer to Age Pension, Carer Payment or Jobseeker Payment depending on their circumstances. If you switch to the lower Jobseeker Payment, you will maintain your previous payment level.
- Partner Allowance: Will cease on 1 January 2022, when all current recipients have reached Age Pension age.
- Widow B Pension: Existing recipients will transition to Age Pension on 20 March 2020.

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Other

16. Earlier Budget measures being abandoned

Proposed effective date: Various

The government will not proceed with the unlegislated components (sometimes referred to as 'zombie measures') of measures reported prior to the 2016-17 Budget. This includes the following measures:

- Increasing the age of eligibility for Newstart allowance and Sickness allowance
- Cessation of the education entry payment and the pensioner education supplement
- Pharmaceutical Benefits scheme – increase in co-payments and safety net thresholds
- Australian Working Life Residence – tightening proportionality requirements
- Youth Employment strategy – revised waiting period for youth income support
- Family Payment reform:
  - phasing out end of year supplements and limiting FTB Part B to single families with a youngest child aged under 17 years, and
  - reducing FTB Part B for single parents with a youngest child aged 13–16
- Paid Parental Leave — removing the mandatory obligation for employers to administer payments
- The increase to Family Tax Benefit (Part A) of $10.08 per fortnight starting from 1 July 2018.

Like to know more?

To find out more about how the Budget could affect you, go to www.budget.gov.au or speak to us.

Again the proposals may change or be withdrawn as legislation passes through parliament.

What you need to know