2017 FEDERAL BUDGET COMMENT

The Turnbull / Morrison Labor Budget

Politics in this country is beyond a farce. Now we have two major political parties competing to see who can send us broke the fastest. The stand for nothing Turnbull Government are inept at developing and selling any coherent conservative free enterprise policy, and have defaulted to a Budget designed to appease the 'progressives', silence the Labor Party, and survive a Senate stacked with unrepresentative attention seekers. The unbridled trajectory of this nation is toward deficits and debt, uncontrolled spending, big government, a dysfunctional tax system, and ongoing reliance on high immigration and foreign ownership to bolster the almighty GDP, a particularly shallow benchmark. The long term effect of poor leadership and voter disengagement is an uncontrollable senate. More than ever the Budget, good or bad, is hardly worth the paper it's written on because it will change dramatically at the whims of a few people that nobody really voted for. There is still uncertainty about Budget measures announced last year and in previous years!

What an easy target the big banks are! A 0.06% levy on deposits with major banks is a tax on everybody. We are all exposed to this whether it is by lower deposit rates, increased lending costs, or because we are invested in banks directly or through compulsory superannuation savings. The justification in double taxing the banks is simply that they have financial strength to contribute more to budget repair. No planning, no consultation. Morrison did however manage to leak this selectively the day before the budget allowing some close followers to exit their bank positions. The criminality of this should be investigated including share trades of those closely associated with LNP and treasury.

Knowing you will have had enough of hearing and reading about the budget, we have tried to outline announced measures in simple terms and focus on the practical implications for our client base. We hope you will find some value in this.

Jacqui Lambie, de facto Treasurer of Australia
Source: RenewEconomy

Source: Vanity Fair

SUMMARISED KEY POINTS: FOR OUR CLIENTS

PERSONAL TAX RATES AS ANNOUNCED

Personal income tax rates and thresholds (residents) excluding Medicare Levy				
	2016-17		*2017-18*	
	Threshold	*Rate*	*Threshold*	*Rate*
1st rate	$0 - $18,200	0%	$0 - $18,200	0%
2nd rate	$18,201 - $37,000	19.0%	$18,201 - $37,000	19.0%
3rd rate	$37,001 - $87,000	32.5%	$37,001 - $87,000	32.5%
4th rate	$87,001 - $180,000	37.0%	$87,001 - $180,000	37.0%
5th rate**	$180,001 and over	47.0%	$180,001 and over	45.0%

- 2% Budget Deficit Levy dropped from 1 July 2017 as scheduled
- Medicare Levy to increase from 2% to 2.5% from 1 July 2019
- New accelerated HELP repayment rates to apply from 1 July 2018 ranging from 1% for income of $42,000 scaling up to 10% for income of $119,882 and above.

Comment:

- *High income tax rates are 'so last century'!*
- *Morrison would have lost credibility if he had kept the "temporary" 2% deficit levy going so he decided to steal the money from the unpopular major banks instead. Labor and some Senate flunkies support keeping it so it may remain anyway.*

REVISED SCHEDULE OF COMPANY TAX RATE REDUCTIONS

Financial year	Aggregated turnover less than	Company tax rate
2016-17	$10m	27.5%
2017-18	$25m	27.5%
2018-19	$50m	27.5%
2019-20 to 2023-24	$50m	27.5%
2024-25	$50m	27%
2025-26	$50m	26%
2026-27+	$50m	25%

IMPORTANT: ***Lower Company Tax Rates only apply to companies that are small business entities (SBEs) with an annual aggregated turnover under the above thresholds.***

Comment:

- *The company tax reductions apply only to companies that operate a business. The original 2016 Budget plan to roll these tax cuts out to all companies including passive investment companies was curtailed by the Senate. A company tax rate of 30% will continue to apply to non-SBE companies.*

- *Because dividends from companies are ultimately taxed at personal tax rates of the end recipient, a cut in the company tax rate really only provides relief to the extent profits are reinvested in the business.*
- *Having multiple classifications of companies and multiple tax rates is just a nuisance adding to complexity.*

REVISED SCHEDULE OF SMALL BUSINESS TAX DISCOUNT

Financial year	Aggregated turnover less than	Offset rate	Cap
2016-17 to 2023-24	$5m	8%	$1,000
2024-25	$5m	10%	$1,000
2025-26	$5m	13%	$1,000
2026-27+	$5m	16%	$1,000

Comment:

- *This discount applies to the end income tax related to non-company business entities to roughly equalise other entity types for the company rate reductions.*
- *These rates were also revised through the intervention of the Senate.*
- *Despite the increase in the offset rate, the current cap of $1,000 per individual remains unchanged.*

SMALL BUSINESS ENTERPRISE (SBE) MEASURES

- The Small Business turnover threshold for various SBE small business tax incentives remains at the $10m level applying from 1 July 2016. The exception is the Div. 152 Small Business Capital Gains Tax (CGT) Concessions which use a $2m turnover threshold or alternative $6m Net Asset Value test.
- The $20,000 Instant Asset Write Off is extended for a year to end on 30 June 2018. It will also be possible to write off balances of <$20k in SBE depreciation pools up until 30 June 2018. The thresholds revert to $1,000 on 1 July 2018.
- There will be a revision of the Small Business CGT Concessions for “integrity” purposes. The full scope of this will not be known until legislation is released. The changes seem to be directed to the situation where ownership interests of between 20%-40% in large businesses can qualify for the concessions if owned by an entity that itself qualifies as an SBE under the $2m turnover threshold.

BANK BASHING – UNFORTUNATELY EVERYBODY GETS HURT

The Government will introduce a major bank levy (the levy) for Authorised Deposit taking Institutions (ADIs), with licensed entity liabilities of at least $100bn, from 1 July 2017. The $100bn threshold will be indexed to grow in line with nominal gross domestic product. The levy will be calculated quarterly as 0.015% of an ADI's licensed entity liabilities as at each APRA mandated quarterly reporting date (for an annualised rate of 0.06%). It is estimated that this tax will impact the big four banks and Macquarie and result in additional tax of around 5% of earnings.

Comment:

- *This was leaked before being announced on Budget night resulting in falls of up to 4% in major bank shares on 9th May. Somehow the Financial Review was able to confirm the policy before* *the markets closed, prior to the announcement. At best this is negligent on the part of the Government, at worst it is criminal insider trading.*

NEW BUSINESS LEVY ON SKILLED VISAS

- From March 2018 the following annual up-front levies will be payable by businesses on each worker employed under certain skilled visa categories.
- In conjunction with this the Government will devote $1.5bn over 4 years to a "Skilling Australians Fund" in support of certain apprenticeships and traineeships in target areas.

Annual Levy Per Person by Visa Category	Business Turnover Level	
	< $10m	> = $10m
Temporary Skill Shortage (TSS) Visa *(Replacement for 457)*	$1,200 p.a.	$1,800 p.a.
Permanent Employer Nomination Scheme *Subclass 186*	$3,000 p.a.	$5,000 p.a.
Permanent Regional Sponsored Migration Scheme *Subclass 187*	$3,000 p.a.	$5,000 p.a.

Comment:

- *Isn't that what Donald Trump would do?*
- *Here's hoping the new slush fund will be run better than the widely rorted VET FEE HELP Scheme.*

THE 'BLACK ECONOMY' IS RECEIVING SOME ATTENTION

- From 1 July 2018 the Taxable Payments Reporting System (TPRS) will be extended to the businesses in the cleaning and courier industries engaging contractors. Affected businesses must report to the ATO details of total payments to each contractor in case they 'forget' to disclose the income in their tax return. This system already applies to businesses operating 50% or more in the building and construction industry in relation to payments to trade contractors.
- An additional $32m of funding has been allocated to the ATO for targeting the 'Black Economy'. Specific focus will be on business with turnovers from $2m - $15m which have "disengaged" from the tax system by simply ignoring their tax obligations.
- An additional $28.2m will be allocated to the ATO to fight against organized crime in the tax system.
- The Government will outlaw creation of, distribution of and use of 'sales suppression software' which enables users to untraceably remove transactions from their POS systems.

Comment:

- *This is apparently in response to a report to the treasury by the Black Economy Taskforce.*
- *Some of these problems would disappear if the focus of tax was moved away from taxes on income to using other bases such as transactions or assets.*

GST CHANGES

- Digital currency such as Bitcoin will be treated the same as money for GST from 1 July 2017 to prevent double taxation outcomes.
- From 1 July 2018 GST will be collected directly from purchasers of new residential premises rather than suppliers. This is a significant and unexpected change perhaps to do with the timing or collectability of GST from developers. This will add a new level of administration to the conveyancing function.

Comment:

- *Treasury must be hedging against more developers going broke or paying their GST late. This will be difficult to implement and administer particularly when the Margin Scheme is applied by the developer and the amount of the GST ends up being some other rate than 10%.*

HOUSING AFFORDABILITY ATTACK ON PROPERTY INVESTORS

- Commencing from Budget night (9 May 2017) the Government will introduce an annual charge on foreign owners of residential property where the property is not occupied or genuinely available on the rental market for at least 6 months per year. The charge will be equivalent to the relevant foreign investment application fee imposed on the property at the time it was acquired by the foreign investor. Currently these charges range upward from $5,000 for properties purchased for up to $1m. For example the fee for a property worth $9,999,000 is $91,300.

Comment:

- *According to the* 2015-16 Foreign Investment Review Board Annual Report *released recently, "investment" by foreigners in residential property during 2015-16 was a staggering $72.4b which is predominantly Chinese nationals buying into Sydney and Melbourne. It is hard to believe that the Treasury in a December 2016 working paper concluded that this inflow into real estate has not impacted prices.*

- From 1 July 2017 property investors (in respect of properties acquired after 9 May 2017) will no longer be able to claim plant, equipment, and furniture depreciation based on an allocation of the purchase price for items existing at purchase. At present it is possible to depreciate these items (including immediate write off of items <$300), based on a reasonable apportionment or a depreciation report prepared by a quantity surveyor. This new restriction will not apply to properties acquired before Budget night.

Comment:

- *Based on the commentary it appears if you buy a property between now and 30th June you can still make these claims for FY2017 but not after that. The restriction does not apply to the 2.5% construction cost allowance. It will be still possible to access this write-off based on the original cost of construction (excluding the plant & equipment) either obtained from the builder / developer or estimated by a quantity surveyor.*

- Travel expense claims by owners related to inspecting, maintaining or collecting rent for a residential rental property will be disallowed from 1 July 2017.

Comment:

> - *Commercial/Industrial properties seem to be OK. Looks like Treasury is fed up with people making un-apportioned claims for travelling to their holiday homes.*

- There is to be an increased CGT discount from 50% to 60% from January 2018, for gains to investors in qualifying "affordable housing" provided (through a registered community housing provider) to low income tenants at a discount to market rates of rent, where the investment is held for a minimum of 3 years and pro-rated for periods where the property is not used for affordable housing purposes. Note, the additional discount will not be available to investors currently providing affordable housing through the National Rental Affordability Scheme (NRAS) until they cease to be covered by NRAS. According to supporting budget factsheets, this is because NRAS providers already receive an annual financial incentive to supply affordable housing.

Comment:

> - *This measure is "under further consultation" with "affordable housing" not defined, nor what qualifies as rent charged below the market rate. It sounds like a last minute thought bubble that will be difficult to implement and administer and hardly worthwhile.*

- The Government also intend to give tax concessions to investors in Managed Investment Trusts (MITs) that invest in "affordable housing". These arrangements will apply from 1 July 2017.
- Non-Residents and Temporary residents will be denied the CGT main residence exemption from Budget night on new properties and from 1 July 2019 on properties already owned as at Budget Night.

Comment:

> - *This is an interesting issue. Under current law, non-residents could theoretically trigger the exemption by living in the house and then disappear overseas and continue to benefit from the exemption under the absentee extension. This could be what the Chinese owners are doing with their empty units. Not sure they would need to be too worried about making capital gains though!*

- A cap of 50% will be applied to foreign ownership in new developments through a condition on New Dwelling Exemption Certificates
- The foreign resident CGT withholding regime will be extended from 1 July 2017 to reduce the CGT withholding threshold from $2m to $750,000 and to increase the CGT withholding rate for foreign tax residents from 10% to 12.5%.

Comment:

> - *Property buyers will need to be aware of the implications of buying a property over $750,000 from a non-resident. Unless a clearance certificate is provided by the non-resident, the purchaser is required to withhold an amount from the purchase price and pay that amount to the Australian Taxation Office.*

MESSIN' ABOUT IN SUPERANNUATION

30 June 2017 is a critical date in relation to the major superannuation changes arising out of the 2016 Budget. Please refer to our website for a summary of the impacts and contact us if you need clarification.

Effective from 1 July 2018 the Government has announced it will tighten up SMSF rules around the commerciality of related party transactions.

Comment:

- *Wait for the devil in the detail. Theoretically transactions between related parties such as for rent of a business premises from a SMSF already must be at an arm's length value for the fund to comply. This announcement implies there will be extra rules preventing people jacking up the rent or improving the property to stealthily get more into super.*

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 rules and 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.

Comment:

- *This is aimed at encouraging people to downsize and free up housing stock. It's a good opportunity to pop some more money in super. Whether it will influence downsizing decisions is questionable. Arguably it could encourage people to delay that decision until they qualify.*
- *The Government has confirmed that the additional superannuation will count towards the Age Pension Assets Test and will count towards the new superannuation pension Transfer Balance Cap.*

The Government will encourage home ownership by allowing future voluntary contributions to superannuation made by first home buyers from 1 July 2017 to be withdrawn for a first home deposit, along with associated deemed earnings. Concessional contributions and earnings that are withdrawn will be taxed at marginal rates less a 30% offset. Non-concessional contributions under the scheme can be withdrawn tax free. Combined with the existing concessional tax treatment of contributions and earnings, this will provide an incentive that will enable first home buyers to build savings more quickly for a home deposit. Under the measure up to $15,000 per year and $30,000 in total can be contributed, within existing caps. Contributions can be made from 1 July 2017. Withdrawals will be allowed from 1 July 2018 onwards. Both members of a couple can take advantage of this measure and combine savings for a single deposit to buy their first home together.

Comment:

- *The previous first home saving scheme, the First Home Saver Accounts was a complete failure.*
- *This seems to be a major imposition on superannuation fund administrators already changing their systems to cope with the 2016 Budget changes.*
- *It's messy though there are some benefits for home savers.*

MORE INFORMATION?

If you have any specific concerns about how the budget affects you please do not hesitate to contact Nick Chancellor. Most changes have July 2017 implementation and can be covered in year-end planning consultations.

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Currency of Income Tax Advice

Any taxation advice included in this correspondence is current to the date of writing. Taxation laws in Australia are complex and constantly changing. The government often changes rules effective from the date announced and in some cases retrospectively. If there is any delay in the use of this advice you should consider having it refreshed.

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