Federal Budget 2017-18 – what it means for you

On Tuesday 9 May 2017, the Treasurer, Scott Morrison, released the Government's 2017-18 Budget. After substantial changes affecting both pre and post retiree clients in recent Budgets, including the changes to superannuation and income streams announced in the 2016-17 Budget effective from 1 July 2017, the Budget this year appears less likely to significantly impact retirement planning.

It's important to note that at this point in time, these proposed measures are not yet law and are therefore subject to change.

Superannuation

Additional super contributions for downsizers

From 1 July 2018, individuals aged 65 and over will be able to make an after-tax super contribution of up to $300,000 ($600,000 for couples combined) from the proceeds of the sale of their home.

To facilitate this measure the Government will remove the existing contribution rules for those aged 65 and over making contributions under the new downsizing cap, including:

- removing the gainful employment requirement between age 65 and 74;
- removing the restriction on contributions from age 75; and
- removing the restriction applying from 1 July 2017 on non-concessional contributions by a person with a total superannuation balance of over $1.6 million.

This measure will only apply following the sale of a principal home held for a minimum of 10 years.

This new measure will not attract any special Centrelink treatment but it will allow eligible individuals to make contributions above the super caps, without being subject to work or age test requirements.

First home super saver scheme

To reduce pressure on housing affordability the Government will allow voluntary superannuation contributions to be withdrawn for a first home deposit.

- From 1 July 2017, individuals can make voluntary contributions of up to $15,000 per year, up to $30,000 in total, to superannuation for the purposes of this measure. Voluntary contributions can be made before or after tax and are subject to the relevant contribution caps.
- From 1 July 2018 those voluntary contributions (along with deemed earnings) can be withdrawn for a first home deposit.
- Withdrawals will be taxed up to an individual's marginal rate, less a 30% offset. Withdrawals of after-tax contributions will not be taxed.
- The measure is applied per person, meaning both persons in a couple buying their first home will be eligible to apply this scheme.

The amount of earnings released will be calculated using a deemed rate of return based on the 90 day Bank Bill rate plus 3 percentage points.

Integrity of limited recourse borrowing arrangements

From 1 July 2017 the outstanding balance of a limited recourse borrowing arrangement (LRBA) will be included in a person's annual total superannuation balance. This will affect a person's ability to make non-concessional contributions and use the segregated method in an SMSF.

Integrity of non-arm's length arrangements

The Government will amend non-arm's length income provisions to ensure expenses that would normally apply in a commercial transaction are included when considering whether a transaction is on a commercial basis.

This integrity measure will apply from 1 July 2018 to ensure the 2016-17 Superannuation Reform Package operates as intended by reducing opportunities for related party transactions on non-commercial terms to be used to increase superannuation savings.

Social security

Pensioner Concession Card reinstatement

From 9 October 2017 the Government will reinstate the Pensioner Concession Card (PCC) for former pensioners who lost their Age Pension as a result of the 1 January 2017 Age Pension changes. Those affected will receive the PCC and retain the Commonwealth Seniors Health Card, to ensure they continue to receive the Energy Supplement. Where they received the Low Income Health Care Card, that card will be deactivated.

Energy Assistance Payment

From 26 June 2017, the Government will make a one-off Energy Assistance Payment of $75 for single recipients and $125 per couple for those eligible for qualifying payments on 20 June 2017, and who reside in Australia. The payment is not taxable and will not be counted as income.

- Qualifying payments include:
- Age Pension
- Disability Support Pension
- Parenting Payment Single
- Veterans' Service Pension, Veterans' Income Support Supplement, Veterans' disability payments
- War Widow(er)s Pension, and permanent impairment payments under the Military Rehabilitation and Compensation Act 2004 (including dependent partners) and the Safety, Rehabilitation and Compensation Act 1988.

Revised residency requirements for pensions

The Government will revise the residency requirements for claimants of the Age Pension and the Disability Support Pension (DSP) from 1 July 2018. Generally, claimants will now need to have 15 years of continuous Australian residence before being eligible to receive the Age Pension or DSP unless certain conditions or an exemption applies.

Working age payments reforms

The Government will progressively consolidate seven working age payments and allowances into a new JobSeeker Payment or transition recipients to Age Pension.

The working age payments affected are:

- Newstart Allowance
- Sickness Allowance
- Widow Allowance
- Partner Allowance
- Widow B Pension
- Wife Pension
- Bereavement Allowance.

Liquid assets waiting period increasing

From 20 September 2018, the period that a person must wait before being paid an allowance (for example Newstart), if they have 'liquid' assets will increase from 13 weeks to 26 weeks.

Family Tax Benefits

The Government will continue to keep the Family Tax Benefit (FTB) payment rate fixed until 1 July 2019. Indexation in line with the Consumer Price Index will resume from that date.

From 1 July 2018, all families with total income over $94,316 will have their Family Tax Benefit (FTB) Part A reduced by 30 cents for every dollar above $94,316.

Taxation

0.5% increase in Medicare levy

From 1 July 2019, the Medicare levy will increase by 0.5% to 2.5% of taxable income. The increase ensures the National Disability Insurance Scheme (NDIS) is fully funded.

Increase to Medicare levy low-income thresholds

The 2016-17 financial year Medicare levy low-income threshold will be increased as follows:

Family status	2016-17	2015-16
Single	$21,655	$21,335
Single, eligible for seniors and pensioners tax offset (SAPTO)	$34,244	$33,738
Couple	$36,541	$36,001
Couple, eligible for SAPTO	$47,670	$46,966
Additional threshold for each dependent child	$3,356	$3,306

Reduced residential property deductions

From 1 July 2017, the Government will no longer allow deductions for travel expenses related to inspecting, maintaining or collecting rent for residential rental property. However, investors can continue to deduct those types of expenses incurred by third parties such as real estate agents and property management services.

In addition, from 1 July 2017, depreciation deductions on plant and equipment (for example dishwashers and fans) will be limited to outlays actually incurred on residential properties. For plant and equipment purchased after 9 May 2017, deductions are claimable over the effective life of the asset only by the investor who bought the items.

For investors with existing investments as at Budget night, grandfathering rules will apply, broadly allowing deductions to continue until either the investor no longer owns the asset or the asset reaches the end of its effective life.

Aged care

Strengthening aged care

The Government will make a number of changes impacting the operation of aged care:

From 1 July 2017 the establishment and support of an industry-led aged care workforce taskforce. The taskforce will explore options to improve productivity in the aged care workforce and contribute to the development of an aged care workforce strategy, including for regional and remote areas.

From 1 July 2018 the Commonwealth Home Support Program (CHSP) and Regional Assessment Services (RAS) funding arrangements will be extended. The CHSP and RAS contribute to essential home support services, such as meals (Meals on Wheels), personal care, nursing, domestic assistance, home maintenance, and community transport, to assist older people to keep living independently in their own home.

Greater choice for at home palliative care

From 2017-18, the Government will provide palliative care services for people who would prefer to be cared for in their homes rather than in a hospital or hospice setting. Funding will be provided through the Primary Health Care Networks, supporting greater choice for end-of-life care for Australians.

Small business

Extending the immediate deductibility threshold for small businesses

The Government will extend the accelerated depreciation rules for small businesses by 12 months to 30 June 2018. This allows small businesses, with aggregate annual turnover of less than $10 million, to immediately deduct purchases of eligible assets up until 30 June 2018, provided the asset costs less than $20,000. Assets valued over $20,000 or more can be depreciated at 15% in the first income year and 30% each income year thereafter.

Improving the small business capital gains tax concessions

From 1 July 2017, the Government will look at modifying the small business CGT concession rules to ensure that these concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business.

The Government has said that the revised rules will prevent taxpayers from accessing these concessions for assets that are not related to their small business by, for example, arranging their affairs so that their ownership interests in larger businesses do not count towards the eligibility requirements.
While the Government has not specifically detailed how the rules will be amended, they have said that they will not change the aggregated turnover threshold of $2 million or the maximum net asset value test threshold of $6 million.

Other Measures

Major bank levy

From 1 July 2017, the Government will introduce a levy for banks with licensed entity liabilities of at least $100 billion. The $100 billion threshold will be indexed to grow in line with nominal gross domestic product (GDP). Currently this will only affect the five largest banks but does not apply to superannuation funds and insurance companies.

The levy will be calculated quarterly as 0.015% of a bank's licensed entity liabilities (for an annualised rate of 0.06%).

Importantly, the levy will not apply to deposits of individuals, businesses and other entities protected by the Financial Claims Scheme. That means that banks will not incur this cost on funds held by an individual of up to $250,000.

Foreign investors and property

From 7.30pm on Tuesday 9 May 2017 there will be a number of changes affecting property investments by foreign residents. These include an additional charge if the property is left vacant for more than six months in a year, the removal of the main residence capital gains tax exemption (for properties purchases after Budget night) and from 1 July 2017, a 12.5% capital gains tax withholding regime for property transactions of $750,000 or above.

Pharmaceutical Benefits Scheme (PBS) and Repatriation Pharmaceutical Benefits Scheme (RPBS)

The Government has proposed a number of changes to the schemes including new listings and price amendments for both schemes. This will include building on existing statutory price reductions for medicines listed on the Pharmaceutical Benefits Scheme (PBS) to ultimately reduce out-of-pocket costs for medicines for Australians.

Further information can be found on the PBS website (www.pbs.gov.au).