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2017-18 Federal Budget …
… at a glance

Earlier this evening the Treasurer, Mr Scott Morrison, delivered his second Budget announcing the Government will live within its means and bring the budget back to a balance by 2020-21.

Australia's journey to broader based growth after the mining investment boom is now well advanced. In its 26th year of consecutive growth, the nation is well placed to build on the hard won growth secured in recent years and rising optimism about the global outlook.

Real GDP growth is expected to rebound to 2¾ per cent in 2017-18 after slowing in 2016-17 as a result of weather related factors in early 2016-17 and Tropical Cyclone Debbie more recently. Growth is forecast to increase to 3 per cent in 2018-19.

This Budget seeks to build on that impressive growth story, ensuring that all Australians have the opportunity to enjoy the benefits of a prosperous economy. It seeks to make the right choices to secure better days ahead for Australians, and those right choices are clear.

The Government is living within its means, bringing the budget back to balance, by:

- Pursuing a return to balance by 2020-21 and providing an improving fiscal outlook as the foundation for a growing, thriving economy;
- Strengthening requirements for welfare recipients;
- Reducing opportunities for multinational tax avoidance and addressing issues presented by the black economy to ensure all individuals and businesses who earn income in Australia pay their fair share of tax to help fund essential government services;
- Introducing a major bank levy on banks with liabilities greater than $100 billion to assist with budget repair; and
- Making careful and fair decisions and ensuring the Government delivers on its commitments.

Executive summary

Reduced pressure on housing affordability

- First home owner scheme: The Government will encourage home ownership by allowing first home buyers to build a deposit inside superannuation. Voluntary contributions of up to $15,000 per year and $30,000 in total will attract concessional tax treatment under the scheme. The scheme commences on 1 July 2017, and contributions and deemed earnings, net of tax, can be withdrawn from 1 July 2018.
- Contributing downsizing proceeds to super: Older Australians will be able to contribute downsizing proceeds into superannuation. From 1 July 2018, individuals aged 65 and older will be able to make a non-concessional contribution of up to $300,000 using proceeds from the sale of a principal residence held for at least 10 years into their superannuation. These downsizing contributions will not be subject to the existing contribution caps.
- Affordable housing through Managed Investment Trusts (MIT): MITs will be provided with concessional tax treatment from 1 July 2017 if they invest in affordable housing that is available to be rented for at least 10 years.

- Further, from 1 January 2018, the Government will provide an additional 10% CGT discount, increasing the discount to 60%, to resident individuals who elect to invest in qualifying affordable housing providing the investment is held for at least three years.
- From 1 July 2017, the Government will disallow deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property.

Superannuation – other announcements

- From 1 July 2017, the use of limited recourse borrowing arrangements (LRBA) will be included in a member's total superannuation balance and transfer balance cap.
- From 1 July 2018, opportunities for members to use related party transactions on non-commercial terms to increase superannuation savings will be reduced.
- Current tax relief for merging superannuation funds will be extended until 1 July 2020.

Taxation

- The Medicare levy will be increased from 2% to 2.5% of taxable income from 1 July 2019 to ensure the National Disability Insurance Scheme (NDIS) is fully funded. Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased.
- The Medicare levy low-income thresholds will increase for singles to $21,655. The family threshold will be increased to $36,541 plus $3,356 for each dependent child or student. For single seniors and pensioners, the threshold will be increased to $34,244. The family threshold for seniors and pensioners will be increased to $47,670 plus $3,356 for each dependent child or student.
- The immediate deductibility threshold for small businesses will be extended by 12 months to 30 June 2018 for businesses with aggregated annual turnover less than $10 million. Small businesses will be able to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2018.
- With effect 1 July 2017 the small business capital gains tax (CGT) concessions will be amended to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business.

Other measures

- A new one-stop Dispute Resolution body, the Australian Financial Complaints Authority (AFCA) will be established from 1 July 2018. AFCA will be an industry funded complaints resolution body for all financial and superannuation disputes and will replace the Financial Ombudsman Service, the Credit and Investments Ombudsman and the Superannuation Complaints Tribunal (SCT).
- The Government will provide additional funding of $28.6 million over four years from 2017-18 to the Australian Prudential Regulation Authority (APRA) to undertake new regulatory activities to support a stable, efficient and competitive financial system.
- From 1 July 2017 the Government will introduce a major bank levy for Authorised Deposit-taking Institutions (ADIs), with licensed entity liabilities of at least $100 billion. The levy will be calculated at an annualised rate of 0.06 per cent. It is understood this levy will only apply to the four major banks and Macquarie Bank.
- A one-off Energy Assistance Payment of $75 for single recipient and $125 per couple will be paid for those eligible for qualifying payments on 20 June 2017 and who are resident in Australia.
- The Government will reinstate the Pensioner Concession Card for pensioners who were no longer entitled to the pension following changes to the pension assets test from 1 January 2017.

Reducing pressure of housing affordability

First home super saver scheme

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 per cent offset. 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 to buy their first home together.

Contributing the proceeds of downsizing to superannuation

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 $1.6 million balance test for making non-concessional contributions.

This measure will apply to sales of a principal residence owned for the past ten or more years and both members of a couple will be able to take advantage of this measure for the same home.

This measure reduces a barrier to downsizing for older people. Encouraging downsizing may enable more effective use of the housing stock by freeing up larger homes for younger, growing families.

Affordable housing through Managed Investment Trusts

The Government will encourage investment into affordable housing by enabling Managed Investment Trusts (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.

MITs allow investors to pool their funds to invest in primarily passive investments and have them managed by a professional manager. The MIT will be able to acquire, construct or redevelop the property but must derive at least 80 per cent of its assessable income from affordable housing. Qualifying housing must be provided to low to moderate income tenants, with rent charged at a discount below the private rental market rate. This measure will apply from income years starting **on or after 1 July 2017**.

Under the MIT withholding tax regime, non-resident investors are generally subject to a reduced rate of tax if they are a resident of a country with which Australia has an effective exchange of information treaty. Non-resident investors are generally subject to a 15 per cent final withholding tax rate on fund payments from the MIT. Resident investors are taxed at their marginal tax rates, with capital gains remaining eligible for the capital gains tax discount.

Up to 20 per cent of the income of the MIT may be derived from other eligible investment activities permitted under the existing MIT rules in the income tax law. If this is breached, or less than 80 per cent of the MIT's income is from affordable housing in an income year, the non-resident investor will be liable to pay withholding tax at 30 per cent on investment returns for that income year. Properties held for rent as affordable housing for less than 10 years will be subject to a 30 per cent withholding tax rate on the net capital gains arising from the disposal of those assets.

Expanding tax incentives for investments in affordable housing

From **1 January 2018**, the Government will provide an additional ten percentage points capital gains tax discount, increasing the discount from 50 per cent to 60 per cent, to resident individuals who elect to invest in qualifying affordable housing.

To qualify for the higher discount, housing must be provided to low to 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 held for a minimum period of three years.

The higher discount would flow through to resident individuals investing in qualifying affordable housing Managed Investment Trusts (see Affordable housing through Managed Investment Trusts above).

Disallow the deduction of travel expenses for residential rental property

From 1 July 2017, the Government will disallow deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property.

This is an integrity measure to address concerns that many taxpayers have been claiming travel deductions without correctly apportioning costs, or have claimed travel costs that were for private travel purposes. As part of the Government's strategy to improve housing outcomes, this measure will provide confidence in the tax system by ensuring tax concessions are better targeted.

This measure will not prevent investors from engaging third parties such as real estate agents for property management services. These expenses will remain deductible.

Superannuation – other announcements

Superannuation — integrity of limited recourse borrowing arrangements

From 1 July 2017, the Government will improve the integrity of the superannuation system by including the use of limited recourse borrowing arrangements (LRBA) in a member's total superannuation balance and transfer balance cap.

Limited recourse borrowing arrangements can 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 transfer balance cap. The outstanding balance of a LRBA will now be included in a member's annual total superannuation balance and the repayment of the principal and interest of a LRBA from a member's accumulation account will be a credit in the member's transfer balance account.

Superannuation — integrity of non-arm's length arrangements

From 1 July 2018, the Government will further improve the integrity of the superannuation system by reducing opportunities for members to use related party transactions on non-commercial terms to increase superannuation savings.

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

Extending tax relief for merging superannuation funds

The Government will extend the current tax relief for merging superannuation funds until 1 July 2020. This measure is estimated to have an unquantifiable cost to revenue over the forward estimates period.

Since December 2008, tax relief has been available for 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.

The tax relief will be temporarily extended as the Productivity Commission completes a review into the efficiency and competitiveness of Australia's superannuation industry.

Extending this relief will ensure superannuation fund members' balances are not reduced by tax when superannuation funds merge. It will remove tax as an impediment to mergers and facilitate industry consolidation. Consolidation should lead to better retirement outcomes through reduced costs.

Taxation

Personal income tax — increase in the Medicare levy — National Disability Insurance Scheme

The Government will increase the Medicare levy by half a percentage point from 2.0 to 2.5 per cent of taxable income **from 1 July 2019** to ensure the National Disability Insurance Scheme (NDIS) is fully funded. Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased.

This measure is estimated to have a gain to tax revenue of $8.2 billion over the forward estimates period. This is the net impact across all heads of revenue, not just the Medicare levy.

The Government will use all revenue generated by the Medicare levy to support the NDIS and to guarantee Medicare. In particular, the Government will credit $9.1 billion over the forward estimates period to the NDIS Savings Fund Special Account when it is established.

Low-income earners will continue to receive relief from the Medicare levy through the low-income thresholds for singles, families, seniors and pensioners. The current exemptions from the Medicare levy will also remain in place.

Personal income tax — increasing the Medicare levy low-income thresholds

The Government will increase the Medicare levy low-income thresholds for singles, families and seniors and pensioners **from the 2016-17 income year**. The increases take account of movements in the CPI so that low-income taxpayers generally continue to be exempted from paying the Medicare levy.

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

Guaranteeing Medicare — establishing the Medicare Guarantee Fund

The Government will establish the Medicare Guarantee Fund (the Fund) as a special account **from 1 July 2017** to guarantee the Government's commitment to the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS) into the future.

The Fund will be credited each year with revenue raised from the Medicare levy (excluding amounts to fund the National Disability Insurance Scheme) as well as a portion of personal income tax receipts sufficient to cover the costs of the MBS and the PBS.

These amounts will be held in the Fund for the sole purpose of funding the MBS and PBS.

Extending the immediate deductibility threshold for small businesses

The Government will extend the 2015-16 Budget measure Growing Jobs and Small Business — expanding accelerated depreciation for small businesses by 12 months to 30 June 2018 for businesses with aggregated annual turnover less than $10 million.

Small businesses will be able to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2018. Only a few assets are not eligible (such as horticultural plants and in-house software).

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the

pool) and depreciated at 15 per cent in the first income year and 30 per cent 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).

The current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2018.

This measure will improve cash flow for small businesses, providing a boost to small business activity and investment for another year.

From 1 July 2018, the immediate deductibility threshold and the balance at which the pool can be immediately deducted will revert back to $1,000.

Improving the small business capital gains tax concessions

The Government will amend the small business capital gains tax (CGT) concessions to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business. This measure will take effect **from 1 July 2017**. This measure is estimated to have an unquantifiable gain to revenue over the forward estimates period.

The concessions assist owners of small businesses by providing relief from CGT on assets related to their business which helps them to re-invest and grow, as well as contribute to their retirement savings through the sale of the business. However, some taxpayers are able to access these concessions for assets which are unrelated to their small business, for instance through arranging their affairs so that their ownership interests in larger businesses do not count towards the tests for determining eligibility for the concessions.

The small business CGT concessions will continue to be available to small business taxpayers with aggregated turnover of less than $2 million or business assets less than $6 million.

Other measures

Improved External Dispute Resolution framework

The Government will introduce a new framework for dispute resolution. A new one-stop shop, the Australian Financial Complaints Authority (AFCA) will provide financial services consumers, small businesses and retail investors with access to a free, fast and binding dispute resolution service. Australian Financial Services Licensees will be required to be members of AFCA, and its decisions will be binding on all firms. AFCA will hear individual consumer/investor and small business disputes of higher values than are currently permitted under the existing three schemes, and those who are found to have wrongfully suffered losses will have access to more appropriate levels of compensation.

Following the independent review of the External Dispute Resolution framework chaired by Professor Ian Ramsay, the Government will improve consumer outcomes for dispute resolution with the establishment of AFCA **from 1 July 2018**. AFCA will be an industry funded complaints resolution body for all financial and superannuation disputes and will replace the Financial Ombudsman Service, the Credit and Investments Ombudsman and the Superannuation Complaints Tribunal (SCT).

Australian Prudential Regulation Authority — supporting an efficient financial system

The Government will provide additional funding of $28.6 million over four years from 2017-18 (including $2.3 million in capital) to the Australian Prudential Regulation Authority (APRA) to undertake new regulatory activities to support a stable, efficient and competitive financial system. This will protect the financial interests of depositors, insurance policyholders and superannuation fund members including by responding to new financial system activities and products.

This will be offset by a $26.8 million increase over four years from 2017-18 in the Financial Institutions Supervisory Levies collected by APRA. The levies include amortisation.

Major bank levy — introduction

The Government will introduce a major bank levy (the levy) for Authorised Deposit-taking Institutions (ADIs), with licensed entity liabilities of at least $100 billion, **from 1 July 2017**. The $100 billion threshold will be indexed to grow in line with nominal gross domestic product.

The levy will be calculated quarterly as 0.015 per cent of an ADI's licensed entity liabilities as at each Australian Prudential Regulation Authority (APRA) mandated quarterly reporting date (for an annualised rate of 0.06 per cent).

Liabilities subject to the levy will include items such as corporate bonds, commercial paper, certificates of deposit, and Tier 2 capital instruments. The levy will not apply to the following liabilities: additional Tier 1 capital and deposits of individuals, businesses and other entities protected by the Financial Claims Scheme.

The levy will raise $6.2 billion over the forward estimates period, net of interactions with other taxes (principally corporate income taxes). This represents a fair additional contribution from our major banks and will assist with budget repair.

It will complement prudential reforms being implemented by the Government and APRA and provide a more level playing field for smaller banks and non-bank competitors.

To facilitate the introduction of the levy, the Australian Competition and Consumer Commission (ACCC) will undertake a residential mortgage pricing inquiry until 30 June 2018. As part of this inquiry, the ACCC will be able to require relevant ADIs to explain changes or proposed changes to residential mortgage pricing, including changes to fees, charges, or interest rates by those ADIs.

A More Accountable and Competitive Banking System — improving competition

The Government will provide $1.2 million in 2017-18 to the Department of the Treasury to undertake an independent review into the most appropriate implementation model for an open banking regime.

An open banking regime would require the banking sector to share product and customer data when requested by the customer. This will provide consumers with greater choice and also support greater competition in financial services. The review will consider appropriate privacy and consumer protections.

The Government will also provide $13.2 million over four years from 2017-18 to the Australian Competition and Consumer Commission (ACCC) to establish a unit in the ACCC to undertake regular inquiries into specific financial system competition issues. This implements a recommendation of the House of Representatives Standing Committee on Economics report, Review of the Four Major Banks.

The cost of the additional funding to the ACCC is offset by an increase in the Australian Prudential Regulation Authority Financial Institutions Supervisory Levies of $13.2 million over four years from 2017-18.

Energy Assistance Payment

The Government will provide a one-off Energy Assistance Payment in 2016-17 of $75 for single recipients and $125 per couple for those eligible for qualifying payments on **20 June 2017** and who are resident in Australia.

Qualifying payments include the Age Pension, Disability Support Pension, Parenting Payment Single, the Veterans' Service Pension and the 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.

Enhanced Residency Requirements for Pensioners

The Government will revise the residency requirements for claimants of the Age Pension and the Disability Support Pension (DSP). **From 1 July 2018**, claimants will be required to have 15 years of continuous Australian residence before being eligible to receive the Age Pension or DSP unless they have either:

• 10 years continuous Australian residence, with five years of this residence being during their working life (16 years of age to Age Pension age); or

• 10 years continuous Australian residence, without having received an activity tested income support payment for a cumulative period of five years.

Existing exemptions for DSP applicants who acquire their disability in Australia will continue to apply.

Pensioner Concession Card — reinstatement

The Government will reinstate the Pensioner Concession Card for pensioners who were no longer entitled to the pension following changes to the pension assets test from 1 January 2017. Reinstating the Pensioner Concession Card will enable pensioners to access Commonwealth subsidised hearing services.

Working Age Payments Reforms

The Government will consolidate seven working age payments and allowances into a new JobSeeker Payment and to strengthen the participation requirements for job seekers.

The new arrangements will deliver a more equitable social security system by ensuring people in similar circumstances have similar participation requirements and payments.

On 20 March 2020, Newstart Allowance and Sickness Allowance recipients will transition to the new JobSeeker Payment to better reflect the expectation that working age people with a capacity to work should be in employment, looking for work or improving their skills to gain employment. The new JobSeeker Payment will be set at the same rate as Newstart Allowance and current mutual obligation exemptions for Sickness Allowance will be retained.

In order to simplify the welfare system, Widow Allowance will be closed to new recipients from 1 January 2018 and will cease on 1 January 2022, when all remaining recipients have reached Age Pension eligibility age. Widow Allowees transferring to the Age Pension will receive a higher payment rate.

Partner Allowance, which has been closed to new recipients since 20 September 2003, will cease on 1 January 2022, when all remaining recipients have reached the eligibility age for the higher payment Age Pension.

Widow B Pension, which has been closed to new recipients since 20 March 1997, will cease on 20 March 2020. Recipients will transition to the Age Pension with no change to their payment rate.

Wife Pension, which has been closed to new recipients since 1 July 1995, will cease on 20 March 2020. Most recipients will transition to the Age Pension or Carer Payment at the same payment rate. Australian residents who do not qualify for these payments will transition to the new JobSeeker Payment. Transitional arrangements will ensure that those who transfer to the JobSeeker Payment have their rates preserved; however, those aged under 55 will be required to meet mutual obligation requirements.

Bereavement Allowance will be closed to new recipients from 20 March 2020 and will be replaced by the new JobSeeker Payment. Existing recipients of Bereavement Allowance will not be impacted by the change. Newly bereaved people on the new JobSeeker Payment will receive a triple payment in the first fortnight and current mutual obligation exemptions will be retained.

Eligibility for the Pensioner Concession Card and the Health Care Card will not be affected by these changes.

A new more equitable participation framework will apply from 20 September 2018. Key elements include aligning the participation requirements for recipients aged 30 to 49 with those for recipients under 30, and recipients aged 55 to 59 will only be able to meet up to half of their participation requirements through

volunteering. Recipients aged between 60 and Age Pension age will have a new activity requirement of 10 hours per fortnight that can be met through volunteering. The current jobactive program will be enhanced to support both mature age and inexperienced job seekers to increase their chances of finding employment, including through a new Career Transition Assistance Program.

Healthy Heart Initiative — targeted activities

The Government will increase options for people to improve activity levels and healthy lifestyles:

• $10.0 million for the Prime Minister's Walk for Life Challenge to increase access to walking programs and other programs run by the Heart Foundation, including for children in schools, and to promote innovative uses of technology to support increased physical activity; and

• $5.0 million over four years from 2017-18 for General Practitioners to support Australians to achieve a healthy lifestyle through increased physical activity and better nutrition.

Further information?

Copies of Mr. Morrison's speech together with supporting Budget papers can be found online at www.budget.gov.au

Source: Budget Paper No 1, *Budget Strategy and Outlook 2017-18* and Budget Paper No 2, *Budget Measures 2017-18* (9 May 2017)

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