MAY 2017 BUDGET SUMMARY

Key measures include:

1. Individuals aged 65 or older will be able to make non-concessional (after-tax) super contributions of up to $300,000 from 1 July 2018, using proceeds from the sale of the family home.

Proposed effective date: 1 July 2018

Currently, individuals aged 65 to 75 who want to make voluntary superannuation contributions must satisfy a work test. People over age 75 are generally unable to contribute to superannuation.

It is proposed from 1 July 2018, people aged 65 and over will be able to make a non-concessional contribution into their superannuation of up to $300,000 from the proceeds of selling their home, irrespective of their age, work status, and total superannuation balance. For a couple this means $600,000 can be contributed. This measure will only apply to a principal place of residence held for a minimum of 10 years. These contributions will be in addition to any other concessional or non-concessional contributions individuals are eligible to make.

The $1.6 million total superannuation balance assessment will not apply to these contributions, once the contribution is made, only individuals who have remaining transfer balance cap space available can convert their contributions into a retirement phase pension account where earnings are tax-free.

Please note, there does not appear to be any special social security concessions associated with this measure and as such, social security clients may be adversely impacted.

2. First Home Super Saver Scheme

Proposed effective date: 1 July 2017

Individuals will be able to make voluntary contributions (e.g. salary sacrifice, personal tax deductible, and non-concessional contributions) of up to $15,000 per year and $30,000 in total, to their superannuation account to purchase a first home. A couple combined can therefore contribute $60,000 in total.

Voluntary contributions under this scheme must be made within existing superannuation 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. The withdrawals of concessional contributions and associated earnings will be taxed at the individual's marginal tax rates less a 30% tax offset. When non-concessional amounts are withdrawn, they will not be taxed.

3. Marginal tax rates remain unchanged

Marginal tax rates will remain unchanged from 2016-17. The Temporary Budget Repair Levy (TBRL) will expire on 30 June 2017. The TBRL is an additional 2% on the top marginal tax rate.

The Low-Income Tax Offset (LITO) remains unchanged which gives resident taxpayers an effective tax free threshold of $20,542 in 2017-18.

The Seniors and Pensioners Tax Offset (SAPTO) of up to $32,279 for singles and up to $28,974 for each member of a couple, also remains unchanged.

4. Increase to Medicare Levy

Proposed effective date -1 July 2019

The Medicare levy is proposed to increase from 2% to 2.5% from 1 July 2019 and is still assessed on taxable income. The increase in the Medicare levy will be used to assist the funding of the National Disability Insurance Scheme (NDIS).

5. Increasing the Medicare levy low-income thresholds

Proposed effective date: 1 July 2016

The Medicare levy thresholds for low-income singles, families and seniors and pensioners will increase in the 2016-17 income year. 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. Pensioner Concession Card reinstated

Proposed effective date: 2017-18

Due to the assets test changes that came in 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 clients 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.**

7. One off Energy Assistance Payment

Proposed effective date: 20 June 2017

Individuals in receipt of a qualifying income support payment will receive 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.

8. 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 residential investment properties will no longer be tax deductible. Residential property investors will continue to be able to deduct fees paid to real estate agents or other property managers for these services.

Depreciation deductions for plant and equipment in residential investment property will be limited to the actual expenditure incurred by the investor. Such fixtures include dishwashers and ceiling fans. This is an integrity measure designed to ensure that successive purchasers of a property cannot depreciate an asset beyond its actual cost. This measure will apply on a prospective basis with plant and equipment forming part of residential investment properties as at 9 May 2017 continuing to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.

Investors who purchase plant and equipment for a residential investment property after 9 May 2017 will be able to claim depreciation over the effective life of the asset. However, subsequent owners of the property will not be eligible to claim such depreciation allowances.

9. Reducing pressure on Housing Affordability

Proposed effective date: Various

Several other measures aimed at reducing pressure on housing affordability are proposed. These include:

- Affordable housing through Managed Investment Trusts (MITs) – these own and make housing available to tenants at a discount to market rentals for a period of at least 10 years will receive concessional tax treatment on investment returns. Effective 1 July 2017.

- An annual charge on foreign owners of underutilised residential property – the proposed charge will apply to foreign owners of a residential property which is not occupied or genuinely available for rental for at least six months per year. This annual charge will be equivalent to the foreign investment application fee (e.g. $10,100 for a residential property valued from $1 million to $2 million). This will encourage foreign owners to make a residential investment property available to Australian tenants. Applies to foreign investors who apply after 9 May 2017.

- Capital Gains Tax (CGT) changes for foreign investors – foreign and temporary tax residents will not be eligible for the CGT main residence exemption. Those who already own a qualifying property as at 9 May 2017 will have the exemption only until 30 June 2019. The existing 10% CGT withholding rate, for foreign tax residents who sell a property, will be increased to 12.5% from 1 July 2017. The CGT withholding threshold will also decrease to $750,000 (currently $2 million) effective 1 July 2017.

- Increase the CGT discount to 60% for investors in affordable housing – the housing must be offered to low/moderate income tenants at a discount to private/market rent and be managed through a registered community housing provider and the investment held for at least three years. Effective 1 July 2018.

- Restrict foreign ownership in new residential developments to 50%. This proposal aims to increase the stock of new housing developments available for purchase by Australians. The 50% cap broadly applies from 9 May 2017.