2017-18 Federal Budget

Scott Morrison handed down his second Federal Budget as Treasurer last night. The Budget projects a deficit for 2017-18 of $29.4 billion, and overall it presents a more optimistic outlook for the Australian economy than in recent years.

Our approach to reviewing the Budget highlights each year has always been to focus on the impact for small-medium business owners. This year however, the way in which this Budget is received by people in business will really depend on their own outlook.

There's very little in the Budget of any consequence for business. If you're a glass half-full person, that may be a relief. For the first time in a long time, there's no changes in tax rates, the heretofore perennial undermining of retirement confidence has abated, and there are few other measures that might negatively affect business owners. If you're a glass half-empty person though, no news for business may well be bad news, with only minor assistance measures and no wider structural reform.

Here's a few of the highlights.

- $20,000 instant asset write-off measure extended
- CGT small business concessions to be tightened
- Medicare levy to increase to 2.5%
- New, lower HELP repayment thresholds
- Changes to Family Tax Benefit Part A
- New restrictions on rental property claims
- Digital currencies to be treated as money for GST purposes
- GST on new residential properties to be remitted by purchaser
- Proceeds from downsizing a home for over 65s can be contributed to super
- First home super saver scheme

Small Business

- **$20,000 instant asset write-off measure extended** - As we had hoped, the $20,000 instant asset write-off measure for small businesses has been extended for another year. This allows 'small' businesses to claim an outright deduction for business assets costing less the $20,000, rather than depreciating them over a number of years. The provision was due to expire on 30th June 2017, but we now run for another year, to 30th June 2018. An additional piece of good news on this front is that, as a part of the new company tax rate reductions, the threshold to access this benefit has increased, from businesses with annual turnover of less than $2 million to those with turnover of less than $10 million. This means for one year at least, many more businesses will receive the cash flow benefit it delivers.

- **CGT small business concessions to be tightened** - There will be an amendment to the small business capital gains tax (CGT) concessions to ensure that they only apply to assets used in a small business. The details on this are a little vague at the moment, but the overall intention seems to be to prevent higher wealth individuals from restructuring their affairs to access concessions that are intended for smaller businesses.

Personal tax

- **Medicare levy to increase to 2.5%** - The Medicare Levy will increase to 2.5% from 1st July 2019, from the current rate of 2%. This is to help fully fund the NDIS and provide more certainty for the health system generally. While no tax increase is a good thing, this is a far more transparent way of funding Australia's future health costs than targeting providers through such stealth measures as the failed Medicare co-payment and the Medicare rebate freeze of recent years (which is thankfully now going to be slowly wound back - though not for optometric services).

- **New, lower HELP repayment thresholds -** From 1st July 2018, those with a Higher Education Loan Program (HELP, formerly HECS) debt will be required to start making repayments much earlier. The minimum annual income threshold where a repayment was required is currently $55,874 (for 2017-18), at a rate of 4%. For the 2018-19, this will drop to $42,000, at a rate of 1%. The rate will steadily increase to a maximum of 10% for those earning more than $119,882. The current maximum rate is 8%.

- **Changes to Family Tax Benefit Part A** - Family Tax Benefit Part A supplement payments will be reduced by $28 per fortnight for each child who does not meet the Government's immunisation requirements. Also, the previously announced increase to the maximum rate of Family Tax Benefit Part A (a part of the "Family Tax Reform - a new families package" announcement of 2015-16) will not proceed.

- **New restrictions on rental property claims** - Currently, when a rental property is purchased, an adjustment is made for tax purposes to identify and depreciate fixtures, plant and equipment etc. that came with it. The Government is concerned that the effect of this is that items may be 're-depreciated' by successive owners. For this reason, for properties purchased after Budget night, depreciation can only be claimed on rental property equipment actually purchased by the current owner, while subsequent owners will be prevented from claiming a depreciation deduction for plant and equipment that comes with the property from the previous owner.

  In addition, travel expenses associated with managing and maintaining a rental property will be disallowed from 1st July 2017.

GST

- **Digital currencies to be treated as money for GST purposes** - Digital currencies such as Bitcoin will now be treated as money for GST purposes (from 1st July 2017). These had previously been treated as a good, effectively, such that double GST may have been attracted - once when the currency was acquired and once when it was spent on items that attracted GST. This change will now ensure that GST is only paid when the digital currency is exchanged for goods and services subject to GST.

- **GST on new residential properties to be remitted by purchaser -** New housing developments have always attracted GST, however this has been included in the purchase price and remitted by the developer. However some developers have been failing to pay the GST. From 1st July 2018, the GST will now be paid by the purchaser, most likely as another component in the conveyancing process. Unfortunately this is another example of a now all too common strategy on the part of Government, in fixing a revenue problem by 'outsourcing' the cost to taxpayers and business rather than managing the problem internally.

Superannuation

- **Proceeds from downsizing a home for over 65s can be contributed to super** - From 1st July 2018, the Government will allow a person over 65 years of age to contribute up to $300,000 from the proceeds of downsizing a home to superannuation. This contribution will be in addition to the non-concessional contribution cap of $100,000 a year (from 1st July 2017), and the age and work tests won't apply. The home must have been owned as a principle place of residence for a minimum of 10 years, and both members of a couple can each take advantage of the measure for the same home.

- **First home super saver scheme** - To assist with housing affordability, the Government will allow first home owners to make additional, voluntary, salary sacrifice contributions to superannuation, which can later be withdrawn, together with the earnings on the balance, and used as a deposit for a house. There's a two-fold advantage here. Firstly, the contributions are only taxed at 15% in the fund, as opposed to the person's marginal tax rate outside of super. Secondly, the ongoing earnings are also only taxed at 15%. The cumulative effect may be significant, which is why there are limits. A maximum of $15,000 per annum can be contributed, up to a total of $30,000. When the time comes to make a withdrawal, the total will be taxable at marginal rates, but a 30% rebate will apply. Both members of a couple can access the measure separately, and the individual's contribution caps will apply to the total that can be put into super in any given year. A handy calculator to demonstrate the potential impact is available here, and there may be some opportunities available from a tax planning perspective, particularly where a parent intends to provide a child with a lump sum to help with a home deposit.

Our take...

After the tumult of the last few years, a relatively 'boring' budget is, in some ways, a relief. There are some good measures here for those in business, and quite possibly the best one of all is that they are finally being left alone! In particular, we welcome there being no significant changes to superannuation at all, but note that the biggest reforms in a decade are still to take effect on 1st July. To do any more with super at this point would likely be political suicide!

This Budget seems to be a clever ploy to pull the rug out from under the opposition. Reinforcing Medicare and the NDIS, improving housing affordability and putting money into education are measures that are traditionally more the domain of Labor. In recent times, so is attacking the banks. And that's a great example of why this Budget may be a precursor to something else.

Banks are businesses. Costs they incur - including Government levies - are passed onto consumers. Even legislating to prevent this would only result in lower profits, which in turn reduces the dividends paid to investors on the shares of the banks, including those who manage our retirement savings. One way or another, it's a tax on consumers rather than the banks. But the appearance of doing something, and raising some much needed revenue in the process, may well go some way to placating a community disgruntled with the level of fees, profits and immunity from consequence in the financial sector.

You didn't see it here first of course, but we echo the suspicions of many that this Budget is effectively a reboot for the Government. It's an attempt to put the disaster of the 2014 Abbott-Hockey Budget to rest once and for all. Strangely, a year out from the last Federal election, this feels like an election Budget.

Make of that what you will.

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