HUB WEALTH MANAGEMENT

2017 Hub Wealth Management Federal Budget Summary

Last night, Treasurer Scott Morrison outlined the Federal Government's 2017/18 Budget. Our summary focuses on key implications for clients of Hub Wealth. That means we have a particular interest in announcements on superannuation, investment, tax and the broader economic outlook. As we have learnt many times, these announcements are only proposals. They have yet to be drafted into legislation and then passed through both houses of parliament. In that process, some will change materially and some may disappear altogether.

Key Features

Assuming the proposals outlined are legislated, this budget does not have major implications for most of our clients. Headline issues include:

Superannuation No changes to legislation passed in November 2016 that implemented significant reforms. The timing of those reforms as at 30 June 2017 also remains the same. People over 65 downsizing their home from July 2018 will be able to contribute up to $300,000 per person to superannuation with no entry tax, work test or impact on their $1.6 million cap.
A First Home Savers Scheme providing ability to salary sacrifice and then access funds for housing to a maximum $30,000 to promote first home ownership.

Taxation No changes to existing marginal tax rates. Medicare levy will increase by 0.5% from July 2019 to fund the NDIS. Removal of some residential property investment deductions.

Aged Care Several measures were outlined aiming to improve the productivity and funding for aged care. From 2017/18, there will also be funding support for home-based palliative care.

Economic Outlook The Budget assumes continued low inflation and interest rates with reducing unemployment. Conversely, it assumes wages and economic growth both improve from current low levels. A budget surplus is forecast for 2020/21. This is a very positive outlook, but the Australian economy is notoriously difficult to predict.

Social Security Restoration of the pensioner concession card to those who lost it this year; earlier repayment of HELP debt; and tightening of rules to access various payments.

Superannuation

Contributions from downsizing the home

Date of effect: 1 July 2018

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

- apply on a per person basis
- be in addition to the ordinary non-concessional contribution cap, and
- be available where the home has been owned for at least 10 years.

Unlike other non-concessional contributions, it will not be necessary to meet a work test or have a 'total super balance' under $1.6 million. The amount contributed will not be exempt from the assets test used to assess eligibility for the Age Pension.

First home super saver scheme

Date of effect: From 1 July 2017

First home buyers will be able to save for a deposit by making voluntary concessional and non-concessional super contributions. Contributions will be limited to $15,000 per year (up to a total of $30,000) and will count towards the relevant contribution cap.

Withdrawals can be made from 1 July 2018. Concessional contributions plus assumed earnings withdrawn will be taxed at the person's marginal tax rate, less a 30% tax offset. The Government has provided an online estimator to help individuals calculate the potential benefit of the scheme.

SMSF borrowings

Date of effect: When law is passed

Broadly, when new limited recourse borrowing arrangements are established, the loan balance will be included in an individual's 'total super balance'. This impacts measurement of contribution caps, eligibility for Government co-contribution or spouse tax offset, etc.

Taxation

Medicare levy increase

Date of effect: 1 July 2019

The Medicare levy will increase from 2% to 2.5% pa to fully fund the National Disability Insurance Scheme. This increase will flow to a range of other taxes such as Fringe Benefits Tax.
In 2016/17, no Medicare levy is paid if income is below $21,655 for individuals or $36,541 for couples ($47,670 for a couple/$34,244 for singles eligible for seniors and pensions tax offset).

Small business accelerated depreciation

Date of effect: 1 July 2017

The ability for small businesses with an annual turnover of $10 million or less to claim an immediate deduction for eligible assets costing less than $20,000 each is extended for 12 months.

HELP thresholds and rates

Date of effect: 1 July 2018

The annual income threshold at which Higher Education Loan Program (HELP) repayments commence will be reduced to $42,000 (currently $54,869). Also, the repayment rate will start at 1% and increase progressively to 10%.

Major bank levy

Date of effect: 1 July 2017

A major bank levy will be introduced for authorised deposit taking institutions (ADIs) with licensed entity liabilities of at least $100 billion. This will not apply to deposits. The annualised rate is 0.06%. This is projected to raise $6.2 billion over the forward estimates.

Additional Capital Gains Tax Discount for Investment in Affordable Housing

Date of effect: 1 July 2017

Resident individuals investing in qualifying housing (rented to low income tenants, at a discounted rate, managed through a registered provider, held for minimum 3 years) will be eligible for an additional 10% CGT discount, increasing from 50% to 60%. A similar provision will apply from July 2018 for Managed Investment Trust investment in affordable housing.

Social Security

Pensioner Concession Card

Date of effect: From 1 July 2017

Individuals who lost entitlement to the Pensioner Concession Card as a result of the 1 January 2017 Assets Test changes will be reissued with the card.

Energy Assistance Payment

Date of effect: 20 June 2017

Eligible pensioners will be entitled to a one-off Energy Assistance Payment of $75 for singles and $125 per couple. Eligible recipients include Australian residents who qualify for the Age Pension, Disability Support Pension and Service Pension.

Residency requirements for pensioners

Date of effect: 1 July 2018

To be eligible for the Age Pension and Disability Support Pension (DSP), claimants will need to have 15 years of continuous Australian residence unless they have either:

- 10 years continuous Australian residence, with 5 years being during their working life, or
- 10 years continuous Australian residence, without having received an activity tested income support payment for a cumulative period of 5 years.

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

Family Tax Benefit – Part A

Date of effect: 1 July 2018

A single taper rate of 30 cents in the dollar will apply to income that exceeds the Higher Income Free Area ($94,316 in 2016/17). Currently, two tests are applied and the higher payment determines the entitlement.

Family Tax Benefit – Part A and B

Date of effect: 1 July 2017

The payment rates will not be indexed for two years. Indexation will resume on 1 July 2019.

Liquid Assets Waiting Period

Date of effect: 20 September 2018

The maximum Liquid Assets Waiting Period (LAWP) will increase from 13 to 26 weeks. The LAWP is a period an individual will be ineligible to receive Government income support. The new maximum period will apply to:

- singles without dependents with liquid assets of more than $18,000, or
- couples, or singles with dependents, with liquid assets of more than $36,000.

Liquid assets are readily available assets such as bank accounts, terms deposits, shares and managed funds.

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Aged Care

Date of effect: 1 July 2017

An aged care workforce taskforce is to be established to explore options to improve productivity and develop strategy, including for regional and remote areas.

Date of effect: 1 July 2018

The Commonwealth Home Support Program and Regional Assessment Services funding arrangements will be extended. The CHSP and RAS contribute to essential home support services such as Meals on Wheels, personal care, nursing, domestic assistance, etc.

Date of effect: 1 July 2018

From 2017/18, the Government will provide palliative care services for people who would prefer to be care for in their homes rather than in a hospital, supporting greater choice at end-of-life.

Economic and Market Implications

Key elements include the proposed tax on the major banks, changes to education funding for schools and universities, affordable housing measures and infrastructure spending.
From an economic perspective, it does make sense to borrow to fund projects that will increase the capacity and productivity of the economy – especially if these projects can then generate reasonable returns and/or be sold to recycle the capital. However, it is often very difficult to evaluate what the actual economic benefit of a major project is, what the actual total cost will be, etc. Also, does this mean that “bad debt” includes spending on hospitals and education? That is arguably also an investment in the productive future of the country.

Fundamentally, we have a problem that many categories of age-related spending will grow faster than GDP. Healthcare and social security are examples. This can only be addressed by some combination of reduced spending and/or increased taxes. It is also conceivable that some debt is never repaid: the UK has a public debt to GDP ratio of 40% (twice ours) for more than 400 years.

The package of housing affordability measures includes the First Home Super Saver Scheme, encouragements to older downsizers (up to $300,000 super contribution per person exempt from age/work test and caps), and incentives for investment in affordable housing (extra 10% DGT discount). There is also a reduction in some gearing deductions (travel expenses) and depreciation, plus a removal of principal place of residence exemption for non-residents. These may impact at the margin. There is no change to negative gearing or CGT, which would make a more significant impact, but also be potentially contentious disruptive. Fundamentally, the biggest factor remains interest rates. The outlook papers suggest that the Government does not expect any rapid rises in rates.

The Budget is now a $460 billion business. It forecasts a return to surplus in the 2020/21 year. Net debt rises from 18.6% of GDP in 2016/17 to a peak of 19.8% by 2018/19 before falling to 8% by 2028/29. The Budget assumes continued low inflation (2% in 2017/18), low interest rates and reducing unemployment (from 5.75% to 5.25% in 2020/21). Wages growth is assumed to increase from 2% to 4.5% over the next 3 years and real GDP improves from 1.75% now to 3% by 2020/21. This is a very positive outlook, but the Australian economy is notoriously difficult to predict due to the impact of global forces such as commodity prices. (*Apologies we have not included graphs this year: Treasury must be economising, as all were provided in very ugly black and white only!*).

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Disclaimer

The information contained in this Federal Budget Analysis is current as at 10 May 2017 and is prepared by Hub Wealth Management Pty Ltd AFSL 393 606.

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