2017 Federal Budget
SUMMARY REPORT

Get closer.

Introduction

We are pleased to present the 2017 PKF Federal Budget Report.

After some major surprises in 2016, the government decided this year that leaking before budget night was a safer way to go, so there were very few 'jaw droppers'.

With Australia's AAA rating under the microscope, the government is seeking to maintain its commitment to budget repair (return to surplus by 2020/21), while ensuring adequate investment in infrastructure and education for future generations.

The government's $70billion "planes, trains and automobiles" infrastructure package includes an investment of $5.3 billion to develop Western Sydney Airport and an additional $8.4 billion investment in the Australian Rail Track Corporation to deliver Melbourne to Brisbane Inland Rail.

Gonski 2.0 will result in more investment in schools, however, universities and independent schools are faced with reduced funding and university students will need to payback their HECS debt earlier.

As predicted, housing affordability was front and centre but the Treasurer concedes there is "no silver bullet". The new National Housing Finance and Investment Corporation will administer a $1 billion National Housing Infrastructure Facility, which will provide financial assistance to local government. The government will also introduce a 'ghost house levy' for vacant foreign-owned houses and enable first-home buyers to salary sacrifice savings for a deposit invested in a super fund.

On the hit list are the big banks with a new levy on bank liabilities that will raise $6.8B over the forward estimate period. The government will also continue its focus collecting tax from foreign companies with extension of the multinational anti-avoidance laws to prevent the use of foreign trusts and partnerships in corporate structures to minimise Australian income tax.

Finally, the medicare levy will be increased from 2.0 to 2.5 per cent effective 1 July 2019 raising an additional $8.2 billion in tax revenue over the forward estimates period.

PKF AUSTRALIA TAXATION COMMITTEE
10 MAY 2017

At a glance

- Underlying cash deficit of $29.4b in 2017/18 with return to surplus of $7.4b in 2020/21
- Economic growth to slow temporarily to 1.75% in 2016/17 as a result of Cyclone Debbie and other weather-related events
- Signals encouraging signs that the global economy will strengthen over the next few years
- Economy to rebound and grow by 2.75% in 2017/18 and 3 per cent in 2018/19
- Spending as a proportion of GDP to fall to 25% by end of the forward estimate period
- Establishment of a Medicare Guarantee Fund
- 0.5% increase in the Medicare levy to fund the Commonwealth's contribution to the National Disability scheme

- Proposes to address the housing affordability crisis with a package of tax, superannuation and other measures
- New levy on banks and additional resources to recover tax from foreign multinationals. ■

Top 15 Budget Measures

1 FIRST HOME BUYER INCENTIVE

From 1 July 2017, first home-buyers will be able to make voluntary contributions (within their existing caps) into their superannuation fund of up to $15,000 per year and $30,000 in total.

2 RETIREES INCENTIVE SELLING HOME

From 1 July 2018, a person aged 65 or over will be able to make a non-concessional contribution (on top of existing caps) into superannuation of up to $300,000 from the proceeds of selling their principal residence (held for 10 year plus).

3 DEDUCTIONS FOR TRAVEL EXPENSES – REAL ESTATE

Removal of deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property effective from 1 July 2017.

4 CONCESSIONAL TAX TREATMENTS FOR MANAGED INVESTMENT TRUSTS

From 1 July 2017, MITs will be able to invest in affordable housing and gain access to concessional tax treatments, provided certain conditions are met, primarily that properties are let as affordable housing for at least 10 years.

5 REMOVAL OF CGT MAIN RESIDENCE EXEMPTION FOR FOREIGN RESIDENTS

Individuals who are foreign or temporary tax residents no longer having access to the CGT main residence exemption from budget night onwards.

6 CGT WITHHOLDING TAX FOR FOREIGN RESIDENTS

From 1 July 2017, the CGT withholding rate that applies to foreign tax residents selling Australian real estate will be increased from 10% to 12.5% with the value threshold being reduced from $2m to $750,000.

7 LEVY FOR VACANT FOREIGN-OWNED PROPERTIES

Foreign investors that hold a vacant residential property, or property that is not genuinely available on the rental market for at least six months per year, will be charged an annual levy of at least $5,000.

8 CAP ON FOREIGN-OWNERSHIP FOR NEW DEVELOPMENTS

Foreign investor demand will be further quelled with a 50% cap on foreign ownership in new developments as a condition on new dwelling exemption certificates

9 TAXABLE PAYMENTS REPORTING SYSTEM

The government will extend the taxable payments reporting system (TPRS) to contractors in the courier and cleaning industries effective from 1 July 2018.

10 INSTANT ASSET WRITE OFF

The $20,000 instant asset write-off for small business will be extended by 12 months to 30 June 2018, for businesses with an aggregated annual turnover of less than $10m.

11 GST ON NEW RESIDENTIAL PROPERTY

Purchasers of newly constructed residential properties or new subdivisions will be required to remit the GST directly to the ATO as part of settlement from 1 July 2018.

12 LIMITED RECOURSE BORROWING ARRANGEMENTS

From 1 July 2017 the outstanding balance of an LRBA will now be included in a member's annual total superannuation balance and the repayment of the principal and interest of an LRBA from a member's accumulation account will be a credit in the member's transfer balance account.

13 TAX RELIEF FOR MERGING SUPERANNUATION FUNDS

The current tax relief for merging superannuation funds which was due to lapse on 1 July 2017 will be extended until 1 July 2020.

14 MEDICARE LEVY INCREASE

The Medicare levy will be increased from 2.0% to 2.5% of taxable income from 1 July 2019. Other tax rates linked to the top personal tax rate, e.g. FBT, will also be increased.

15 MAJOR BANK LEVY

A major bank levy will be introduced for authorised deposit taking institutions (ADIs), with licensed entity liabilities of at least $100b, from 1 July 2017. ■

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We are a respected global family of legally independent firms bound together by a shared commitment to quality, integrity and the creation of clarity in a complex regulatory environment.

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