

# Federal Budget Update 2017/18

## Federal Budget Client Summary

*The announcements in this update are proposals unless stated otherwise. These proposals need to successfully pass through Parliament before becoming law and may be subject to change during this process.*

- Budget projected to return to balance in 2020–21 and remain in surplus over the medium term
- Growing consensus that the global economic outlook is improving
- First-home buyers allowed to save a deposit through voluntary contributions to superannuation
- No changes to negative gearing or capital gains tax
- The Medicare Levy will increase by 0.5 % to 2.5 % of taxable income on 1 July 2019
- Non-concessional contributions to superannuation funds of up to \$300,000 allowed from sale of principal residence
- Small businesses with a turnover up to \$10 million can write off expenditure up to \$20,000 for a further year
- Education funding set at \$18.6 billion over 10 years
- University student fees will increase by 7.5 % by 2021
- University graduates will start repaying their loans when they reach an income level of \$42,000 a year, down from \$55,000
- \$75 billion in infrastructure funding and financing over the next 10 years
- A \$472 million Regional Growth Fund will be established
- Doctors will be encouraged to prescribe generic drugs to save the Pharmaceutical Benefits Scheme (PBS) \$1.8 billion over five years
- \$350 million to help returned soldiers
- A one-off energy bill payment for pensioners worth \$75 for singles and \$125 for couples
- \$321 million over four years for the Australian Federal Police
- An annual foreign worker Levy of \$1,200 or \$1,800 will apply per worker per year on temporary work visas and a \$3,000 or \$5,000 one-off Levy for those on a permanent skilled visa

### Overview

The economic plan Treasurer Scott Morrison delivered on Tuesday 9 May has housing affordability as the centerpiece. His 2017 Federal Budget had a number of significant announcements:

- Using superannuation to help fund the deposit for first-home buyers
- Allowing non-concessional contributions for those downsizing the family home
- Increasing the Medicare Levy by 0.5%
- Changes to eligibility for concession cards and income support payments.

The Budget also announced \$75 billion in infrastructure funding and financing over the next 10 years. This will include \$5.3 billion in equity funding for the second Sydney airport at Badgery's Creek and \$8.4 billion in equity funding for the inland rail link between Melbourne and Brisbane.

Another \$18.6 billion will be spent on education over the next 10 years, with funding for each student across all sectors growing at an average of 4.1 % a year. Small businesses with a turnover up to \$10 million will continue to be able to immediately write off expenditure up to \$20,000 for another year.

### Housing and superannuation

While Mr Morrison says "there are no silver bullets to make housing more affordable", he promised a range of measures to boost the supply of land for new housing, help first-home buyers and further restrict foreign investment.

### First-home buyers

First-home buyers will be able to use voluntary contributions to their existing superannuation funds to save for a house deposit. Contributions and earnings will be taxed at 15%, rather than marginal rates, and withdrawals will be taxed at their marginal rate, less a 30% tax offset. Contributions will be limited to \$30,000 per person in total and \$15,000 per year. Both members of a couple can take advantage of the scheme. Non-concessional contributions can also be

made but will not benefit from the tax concessions apart from earnings being taxed at 15%.

### **Housing supply**

The States will be required to deliver on housing supply targets and reform their planning systems and a \$1 billion National Housing Infrastructure Facility will aim to remove infrastructure impediments to developing new homes. In Melbourne, Defence Department land at Maribyrnong will be released for a new suburb that could cater for 6,000 new homes. A new National Housing Finance and Investment Corporation will be established by 1 July 2018 to provide long-term, low-cost finance for more affordable rental housing.

States and Territories will be encouraged to transfer stock to the community housing sector and Managed Investment Trusts will be allowed to develop and own affordable housing. The incentive for investors will include a capital gains tax discount of 60%, and direct deduction of welfare payments from tenants.

### **Contribution of home sale proceeds into super**

Australians over the age of 65 will each be able to make a non-concessional contribution of up to \$300,000 into their superannuation fund from the proceeds of the sale of their principal home.

### **Negative gearing**

There are no changes to negative gearing, but tougher rules on foreign investment in residential real estate remove the main residence capital gains tax exemption and tighten compliance. An annual Levy of at least \$5,000 will also apply to all future foreign-owned properties that are vacant for at least six months each year. As well, developers also won't be allowed to sell more than 50% of new developments to foreign investors.

### **Education and health care**

#### **Schools funding**

This Budget will invest \$18.6 billion in extra schools funding over the next 10 years, in accordance with the Gonski needs-based standard. Funding for each student across all sectors will grow at an average of 4.1% a year.

#### **University fees**

However, university fees will rise by \$2,000 to \$3,600 for a four-year course and students will have to start paying back their debt when they earn more than \$42,000 from July next year, down from the current level of \$55,000. A 2.5 % efficiency dividend will be applied to universities for the next two years.

#### **Medicare Levy**

In health care, the Medicare Levy will increase on 1 July 2019 by 0.5% to 2.5% of taxable income to help fund the \$22 billion National Disability Insurance Scheme (NDIS). The Treasurer says all Australians have a role to play in supporting the disability scheme, even if they aren't directly affected.

The Budget lifts the freeze on the indexation of the Medicare Benefits Schedule and reinstates bulk billing for diagnostic imaging and pathology services. The Pensioner Concession Card will be reinstated for those pensioners who were no longer entitled to the pension following the changes to the pension assets test from 1 January 2017. Hospital funding will increase by an additional \$2.8 billion over four years and an additional \$115 million will be spent on mental health initiatives. Another \$1.4 billion will be spent on health research over the next four years.

### **What's next?**

Most changes must be legislated and passed through Parliament before they apply. If you think you may be impacted by some of the Budget's proposed changes, you should consider seeking professional advice. A financial adviser can give you a clear understanding of where you stand and how you can manage your cash flow, super and investments in light of proposed changes.

**If any of these proposals raise questions, concerns or potential opportunities for you, please speak with your financial adviser today, or contact us for an obligation-free discussion today.**