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Economos' 2017-18 Budget Wrap

Introduction

Last night, Treasurer Scott Morrison handed down his second Budget. Although this year's Budget was relatively light in terms of major proposed tax measures, there are a number of tax and integrity measures worth highlighting.

Key Budget Proposals for individuals and SMEs

1. Increase in Medicare Levy to cover NDIS funding gap

The Government announced a 0.5% increase in the Medicare Levy from 1 July 2019 (FY2020) to ensure that the National Disability Insurance Scheme (NDIS) is fully funded.

2. Extension of small business immediate write-off

The Government announced the extension of the 2015-16 Budget measure allowing small businesses (turnover less than $10,000,000) to immediately write-off eligible assets costing less than $20,000.

3. Increase in CGT discount for certain investments in affordable housing

From 1 January 2018, there will be a 60% CGT discount for resident individuals that invest in qualifying affordable housing (rental accommodation provided to low and moderate income tenants and managed by a registered community housing provider) for a minimum of three years. This extends to indirect investments in qualifying affordable housing through certain Managed Investment Trusts.

4. First Home Super Saver Scheme

The Government announced that first home buyers will be able to salary sacrifice into their superannuation from 1 July 2017 (FY2018) to be withdrawn, along with associated earnings, to purchase their first home. The measure is aimed at building home deposits faster and the contributions will be taxed at 15% on the way in (instead of the taxpayer's marginal tax rate) and at their marginal tax rate, less a 30% offset, on the way out. However, these contributions are subject to an annual cap of $15,000 and the total cap of $30,000.

5. **GST integrity measures for property transactions**

In a proposal with significant implications for property developers, as an integrity measure from 1 July 2018 (FY2019), purchasers of newly constructed residential premises or new subdivisions will have to remit the GST directly to the ATO as part of settlement. That is, the GST component will by-pass the developer entirely and will be paid straight to the ATO.

Just how this measure will apply is yet to fully detailed, for example, will the developer have to calculate the GST component and the purchaser remits that specific amount? Alternatively, will the purchaser have to effectively withhold and remit $1/11^{th}$ of the total value and the developer will claim back any overpaid GST amounts (for example, on account of the application of the margin scheme) in the next Business Activity Statement?

If it is the latter, could the ATO retain the excess and apply it against other tax obligations the developer may have?

6. **Small business CGT concessions**

The Government announced that, from 1 July 2017 (FY2018) the small business CGT concessions will be amended to ensure that they can only be accessed in relation to assets used in a small business or ownership interests in a small business.

The Budget papers state that some taxpayers are able to access the small business CGT concessions for assets which are un-related to their small business by arranging their affairs so that their ownership interests in larger business do not count towards the tests for determining eligibility for the concessions.

7. **Extension of Taxable Payments Reporting System (TPRS) to the courier and cleaning industries**

In an effort to combat perceived cash economy leakages in the courier and cleaning industry (which, like the building and construction industry currently subject to TPRS, involves a large number of contractors and sub-contractors), from 1 July 2018 (FY2019), businesses will be required to report payments they make to contractors (both individual contractors and the total for the income year) to the ATO.

This is a data-matching tool and payments reported by businesses can be cross-checked against the income returned by the relevant service providers (couriers or cleaners).

8. **Increase in Medicare Levy low-income thresholds**

From 1 July 2016 (FY2017), the Medicare Levy low-income thresholds for singles, families, seniors and pensioners will increase as follows:

Taxpayer	New Threshold
Single	$21,655
Family	$36,541 + $3,356 for each dependent child or student
Single (Seniors & Pensioners)	$34,244
Family (Seniors & Pensioners)	$47,670 + $3,356 for each dependent child or student

9. Prohibition on sales suppression technology

Point of sale (POS) sales suppression technology is aimed at untraceably deleting certain transactions to artificially under-report income. Under the proposed measures, the manufacture, distribution, possession, use or sale of electronic equipment will be prohibited.

10. No travel-related deductions to inspect rental properties

From 1 July 2017 (FY2018), property investors will no longer be able to deduct travel expenses to inspect, maintain or collect rent for a residential rental property.

11. Limiting plant and equipment deductions for property investors

From 1 July 2017 (FY2018), depreciation deductions on plant and equipment items held by property investors such as dishwashers and ceiling fans will be limited to the amount actually incurred to combat the current situation in which some items of plant and equipment are being 'over-depreciated' by successive owners.

Budget measures for large organisations

The Government also announced various measures aimed at large organisations and multi-national enterprises (MNEs), for example:

- the Major Bank Levy – from 1 July 2017 (FY2018), Authorised Deposit-Taking Institutions with licenced liabilities of at least $100 billion will be subject to a levy, calculated quarterly at 0.015% of its licenced liabilities (0.06% annualised);
- changes aimed at eliminating hybrid mismatches regarding cross-border transactions relating to regulatory capital requirements (Tier 1 Capital) – hybrid mismatches arise where the nature of the relevant entity is treated differently for tax purposes in two or more jurisdictions facilitating unintended tax outcomes;
- toughening the MNE anti-avoidance laws (introduced on 1 January 2016) to cover interposed partnerships and trusts to ensure the integrity of the original policy intent of the legislation;
- from 1 July 2017 (FY2018), Affordable Housing Managed Investor Trusts (MITs) may acquire, construct or redevelop affordable housing but must derive at least 80% of its assessable income from affordable housing (see above), which must be available for at least 10 years.

Other measures

Other Budget measures include:

- a charge on foreign owners of residential property will apply where the property is not occupied or genuinely available on the rental market for at least 6 months per year and will apply to foreign persons who make a foreign investment application for residential property from 7:30pm (AEST) on 9 May 2017;

- denying foreign and temporary tax residents access to the CGT main residence exemption from 7:30pm (AEST) on 9 May 2017 (although existing properties will be grandfathered until 30 June 2019);

- from 1 July 2017 (FY2018):

  - the CGT withholding tax rate for foreign tax residents will be increased from 10% to 12.5%; and

  - the CGT withholding threshold for foreign tax residents will be reduced from $2m to $750,000;

- from 1 July 2018 (FY2019), in order to encourage downsizing to free up suitable housing stock, individuals aged 65 years or over may make a non-concessional contribution to their superannuation fund of up to $300,000 from the proceeds selling their home and will not count towards the general contributions caps and will be exempt from the existing age test, work test and $1.6m balance test for making non-concessional contributions.

If you have any questions about any of the proposed Budget measures and how it affects you or your business, get in touch with James Meli, our Director of Tax on (02) 9266 2209.

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