



Federal Budget Update 2017/18

How the Budget may affect high net worth individuals and families

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.

- Growing consensus that the global economic outlook is improving
- Australians over the age of 65 will be able to make a non-concessional contribution of up to \$300,000
- No changes to negative gearing or capital gains tax
- Medicare Levy to increase by 0.5% to 2.5% of taxable income on 1 July 2019
- Improving the targeting of tax concessions by disallowing accommodation and travel deductions for residential rental property
- Limiting depreciation deductions for plant and equipment on residential investment properties
- Major banks with liabilities greater than \$100 billion will pay a Levy, raising \$6.2 billion over four years. The Levy will be used to support Budget repair
- Ordinary bank deposits and other deposits protected by the Financial Claims Scheme will be excluded from the Levy base. It will not be levied on mortgages
- \$75 billion in infrastructure funding and financing over the next 10 years
- A \$472 million Regional Growth Fund will be established
- Strengthening capital gains tax rules for foreign investors
- Reforming foreign investment rules to discourage investors from leaving their properties vacant
- 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 Budget papers say there are clear and growing signs that global economic conditions are improving. Chinese GDP growth has ticked up in early 2017 and the United States economy is performing well.

The outlook for business investment and industrial production in several major economies is picking up. Business and market sentiment have strengthened as confidence in global prospects has improved. The underlying cash balance is expected to improve from a forecast deficit of \$29.4 billion in 2017–18 to a projected surplus of \$7.4 billion in 2020–21.

Housing and investment property changes feature in the 2017 Budget. Australians over the age of 65 will be able to make a non-concessional contribution of up to \$300,000 each into their superannuation fund from the proceeds of the sale of their principal home from 1 July 2018.

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 July 1, 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.

There were no changes to negative gearing but from 1 July 2017, accommodation and travel deductions for residential rental property will be disallowed and plant and equipment depreciation deductions for residential investment properties will be restricted to only those expenses directly incurred by investors.

A new major Levy for banks with liabilities of at least \$100 billion will apply from 1 July 2017. The Levy will not apply to deposits of individuals, businesses and other entities protected by the Financial Claims Scheme. In conjunction with the introduction of the Levy, the Australian Competition and Consumer Commission will undertake a residential mortgage pricing inquiry until 30 June 2018.

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 contact us for an obligation-free discussion today (08) 9792 4800.