mks wealth management

Impact of the May 2017 Federal Budget

Item	Description	Client Impact
Superannuation		
Given the significant number of superannuation changes announced in the May 2016 Federal Budget, we welcome the fact that there were minimal superannuation changes announced in the May 2017 Federal Budget. ***However, individuals are advised to ensure that they fully understand the comprehensive suite of superannuation changes coming into force from 1 July 2017 and that they have taken appropriate action by 30 June 2017 to ensure that opportunities have been maximised and any potential penalties avoided.***		
1. Non-Concessional (after tax) Contributions ("NCC") – Proceeds from Downsizing **Effective 1 July 2018**	Individuals aged 65 and over will be able to make a non-concessional (post-tax) contribution into their superannuation of up to $300,000 per person ($600,000 per couple) from the proceeds of selling their principal place of residence that they have owned for a minimum of 10 years. Individuals with balances over $1.6m or have contributed over $100,000 after tax in the year will generally be unable to make after tax contributions to super. This will be an exception to those rules. Furthermore, individuals aged between 65 and 74 are required to pass a work test to contribute and those aged 75 and above are barred from contributing. This will also be an exception to that rule.	• There is a deterrent to downsizing for those on an Age Pension given that the proceeds (invested in super) count towards the Age Pension Assets Test and the investment earnings deemed under the Income Test. • The incentive may be of more benefit to wealthy older Australians wishing to contribute more money into super. • The proceeds, once contributed to super, will not be able to be converted to a pension if the $1.6m (pension) cap has already been utilised. • Individuals may be able to instead invest tax free in their own name.

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		• Important details are to still be clarified in relation to this measure, including the timing of selling and settling a house sale and the impact of the timing of turning 65.
2. Limited Recourse Borrowing Arrangements ("LRBA") **Effective 1 July 2017**	The outstanding balance of a LRBA (ie the loan balance) will be included in a member's annual total superannuation account for the purposes of the $1.6m pension transfer balance cap. In addition, the repayment of the principal and interest of a LRBA from a member's accumulation account will be a credit in the member's pension transfer balance account.	• Individuals with an existing pension account and with an existing LRBA will need to act quickly to ensure that they do not inadvertently breach the pension $1.6m cap. • Individuals with an existing LRBA or those contemplating one in the future will need to consider the impact of this change on their ability to access a tax-free pension with their other assets.

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<table>
<tr><th>Item</th><th>Description</th><th>Client Impact</th></tr>
<tr><td>Taxation</td><td></td><td></td></tr>
<tr><td>1. Personal Income Tax</td><td>
<table>
<tr><th>Income</th><th>2016/17</th><th>2017/18</th></tr>
<tr><td>$0 to $18,200</td><td>Nil</td><td>Nil</td></tr>
<tr><td>$18,201 to $37,000</td><td>19%</td><td>19%</td></tr>
<tr><td>$37,001 to $87,000</td><td>32.5%</td><td>32.5%</td></tr>
<tr><td>$87,001 to $180,000</td><td>37%</td><td>37%</td></tr>
<tr><td>$180,001 +</td><td>45%</td><td>45%</td></tr>
</table>
</td><td>• The Temporary Budget Repair Levy of 2% ceases on 30 June 2017.

• Consequently, those on incomes over $180,000 could consider deferring taxable income to the 2017/18 tax year.</td></tr>
<tr><td>2. Medicare Levy

Effective 1 July 2019</td><td>The Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income.

Lower rates and exemptions apply for those on low incomes.</td><td>• Consider bring forward taxable income from 2019/20 to 2018/19 especially if it is also combined with being in a lower tax bracket.</td></tr>
<tr><td>3. Residential property investments

As stated with existing investors grandfathered re depreciation</td><td>From a July 2017, the Government will disallow deductions for travel expenses related to owning a residential investment property. From 9 May 2017, plant and equipment depreciation deductions will be limited to those expenses actually incurred by investors.</td><td>• Existing property investors should consider the extent of depreciation deductions claimed to ensure that the tax benefits are maximised.</td></tr>
</table>

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4. First Home Super Saver Scheme **Effective 1 July 2017**	The Government will assist first home buyers to build a deposit inside superannuation by allowing voluntary contributions, per individual, of up to $15,000 p.a. and $30,000 in total to attract concessional tax treatment. These salary sacrifice amounts are amounts over and above employer Superannuation Guarantee Contributions. The contributions plus deemed earnings (based on the 90 Bank Bill Rate plus three percentage points) can be withdrawn for a first home deposit. Contributions will be taxed at 15% and earnings will be taxed as per an accumulation fund. Withdrawals can be made after 1 July 2017 and, if under 60, are taxed at the individual's marginal tax rate less 30% offset. The self-employed and those whose employer does not offer salary sacrifice can claim a personal tax deduction. After tax contributions can also be made. Voluntary contributions made under this scheme must be made within existing concessional contribution caps. Release of the contributions will be administered by the ATO.	• This appears to be a significant incentive for young people to save for their first home. • Opportunities exist where family trust distributions are being made to an adult child. • Those salary sacrificing when income is low and withdrawing monies whilst on the top tax rate may be worse off. • Care will need to be taken as the amounts will be preserved for retirement if the individual is not eligible to withdraw the contributions (eg if they do not qualify as a First Home Owner). • Superannuation funds will have one year to get their systems in order to allow withdrawals and tax them appropriately. Disclosure could be an issue.

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Item	Description	Client Impact
5. Other taxation initiatives	1. Small businesses with turnover of up to $10 million will continue to be able to immediately write off eligible depreciating assets up to $20,000 for a further year to 30 June 2018. 2. Annual foreign worker levy of $1,200 or $1,800 per worker p.a. for those on a temporary visa and a $3,000 or $5,000 one off levy for those on a permanent skilled visa. 3. Foreign investor levy of at least $5,000 p.a. on foreign owners who leave their properties unoccupied or not available for rent for 6 months or more each year. Effective from 9 May 2017. 4. The main residence CGT exemption for foreign and temporary tax residents that own Australian real estate will be removed. This is effective from 9 May 2017 with existing property owners being able to continue to claim the exemption until 30 June 2019. 5. To reduce the avoidance of foreign residents' Capital Gains Tax in Australia, the Government will bolster the withholding regime by increasing the rate from 10% to 12.5% and reducing the threshold from $2m to $750,000. This is effective from 1 July 2017. 6. The Government is introducing further integrity measures, including GST avoidance in the property sector (1 July 2018) and ensuring small business CGT concessions are not abused. 7. From 1 Jan 2018, an additional 10% (ie up from 50% to 60%) Capital Gains Tax discount to resident individuals investing in qualifying affordable housing. Affordable housing is where rent is being charged at below market rate and is made available to eligible tenants on low to moderate incomes.	

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Item	Description	Client Impact
Social Security		
1. Pensioner Concession Card	The Government is restoring the Pensioner Concession Card to those impacted by the pension assets test changes introduced earlier this year.	• Pensioners who lost their Age Pension will now be allowed to keep their Pensioner Concession Card. • This may happen automatically given that Centrelink will have access to the relevant data, however individuals may need to follow up once the legislation is implemented.
2. Other social security initiatives	1. The Government will introduce a new, single JobSeeker Payment, which will replace or consolidate seven existing payments and simplify a complex welfare system. From 20 March 2020, the JobSeeker Payment will progressively replace the Newstart Allowance; Sickness Allowance; Wife Pension; Partner Allowance; Bereavement Allowance; Widow B Pension; and Widow Allowance. 2. Lifting the freezing on the indexation of the Medicare Benefits Schedule. 3. Changes in respect of the Higher Education Loan Program (HELP) including changes to the rate of repayment of HELP debts from 1 July 2018.	

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