BUDGET 2017–18

Insights and analysis into the Federal Budget 2017–18

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The Rocky Horror Budget: "It's just a jump to the left, and a step to the right."

A dearth of pre-Budget leaks left the Australian public shivering with antici... pation for the Honourable Scott Morrison's delivery of Budget 2017-18, his second as Treasurer. Taking his cue from former Foreign Minister Alexander Downer , the Treasurer channelled his inner Dr Frank N Furter by taking a "jump to the left" this evening, and delivering a centre-left "tax and spend" budget.

With an emphasis on themes of fairness, security, and opportunity, key 2017-18 Budget initiatives focussed on housing affordability, securing funding for the National Disability Insurance Scheme (NDIS) and spending on infrastructure. Whilst the Rocky Horror Picture Show movie had Dr Frank N Furter making unwelcome advances on average couple Brad and Janet, it is likely that the average Australian will generally welcome the essential services being delivered by the Government in Budget 2017 – 2018. The average Australian will "put their hands on their hips" with respect to the increase in the Medicare levy to 2.5% and the accelerated Higher Education Contribution Scheme repayments, however they are likely to at least appreciate that the funding will go towards better education, training, support for the disabled and more affordable housing.

Foreign investors and multinational organisations are the "Frankenstein" that the Treasurer is seeking to prevent from leaving the castle, or at least not leaving without paying their fair share of tax. For foreign owners of residential property, the Treasurer has introduced a charge for properties that have been vacant for at least 6 months per year, changes denying access to the main residence CGT exemption from 9 May 2017, an increased CGT withholding rate to 12.5% (up from 10%) and a reduced CGT withholding threshold of $750,000 (down from $2 million).

Large multinational organisations will need to consider the implications of the extension of the Multinational Anti-Avoidance Law (MAAL) to interposed partnerships and foreign trusts, as well as the implications of the OECD BEPS action item relating to hybrid mismatches.

Australian resident property investors were also on the Federal Treasurers dance card. Whilst there is once again no changes to negative gearing or the 50% CGT discount for residential rental properties, from 1 July 2017 travel costs relating to inspecting, maintaining or collecting rent for a residential property will no longer be tax deductible. In addition, rental property owners will only be able to claim depreciation on plant and equipment they purchase themselves, reducing the ability for investors to use a quantity surveyor's report to claim deductions for prior owners' expenditure on assets within the property.

Small businesses with turnover of less than $10 million received a 12 month extension to the instant write-off for assets costing less than $20,000, with this measure being retained until 30 June 2018. Other than this measure, small business owners asked for nothing in Budget 2017-18, and seemingly received it in abundance from the Treasurer.

The Treasurer also reaffirmed the Government's 10 year plan to reduce the corporate tax rate to 25%. With US President Donald Trump aspiring towards a 15% corporate tax rate for the US, the Government needs to remind the Opposition that we are no longer in the Junior Chamber of Commerce, and that Australia's high corporate tax rate could quickly see us become uncompetitive in the global economy.

Successive Federal Budgets have failed to deliver the significant tax reform that the Australian business community yearns for and, in that regard, this Budget has not let us down. So let's do the time warp again!

Con Paoliello
Director, Tax Services

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CORPORATIONS

The Budget 2017-18 has not focused greatly on corporate taxation, however items in the Budget which may impact the corporate sector include:

- The extension by 12 months of the instant write-off for small business entities on plant and equipment costing less than $20,000 (for further details see our Small Business commentary);
- Introduction of a levy for businesses who use certain skilled migrant visas;
- Expansion of the taxable reporting system to payments made to contractors in the courier and cleaning industries.

The Government did make mention in the Budget paper of its intention to continue with its plan of reducing the company tax rate for all companies to 25% by 2026/27 as part of its "Ten Year Enterprise Tax Plan". It acknowledges that Australia's corporate tax rate is one of the highest of the OECD countries and if not changed there will be significant impact on the competiveness of Australian businesses and their ability to attract foreign investment.

To see discussion on international tax changes which will impact those corporates with turnover in excess of $1 billion, please refer to International section of this paper.

To further support the position of encouraging Australian businesses to hire local talent from March 2018, businesses that employ foreign workers on certain skilled visas will be required to pay a levy which will support the proposed "Skilling Australians Fund".

The levy payable will be as follows:

- For businesses with a turnover of less than $10 million the levy will be $1,200 per visa per year for each employee on a Temporary Skill Shortage Visa and they will be required to make a payment of $3,000 for each employee being sponsored for a permanent Employer Nomination Scheme visa (subclass 186) or a permanent Regional Sponsored Migration Scheme visa (subclass 187);
- For businesses with a turnover of more than $10 million the above amounts increase to $1,800 and $5,000 respectively.

The "Skilling Australians Fund" will support skilling Australian workers and prioritise apprenticeships and traineeships for occupations in high demand, occupations with a reliance on skilled migration pathways, industries and sectors of future growth and trade apprenticeships in regional and rural areas. Such support will benefit the wider Australian economy not just those operating through a company structure.

The taxable payments reporting system which currently applies to the building and construction sector will be expanded from 1 July 2018 to include contractors in the cleaning and courier industry. This measure is aimed at improving tax compliance within the sector and businesses will be required to report payments made to these contractors to the Australian Taxation Office ("ATO"). Businesses will need to ensure they collect the relevant information from their contractors from 1 July 2018 with their first reporting obligation under this system required in August 2019.

Combatting fraud in the precious metals industry

The Government has been concerned about GST fraud in the precious metals industry for some time. In recent times, some people have been prosecuted for their part in this fraudulent behaviour.

In an effort to overcome this, the ATO initially sought to amend their interpretation of the GST law by reading into it words that were not there. This was met with protests from the tax advisory sector, and the interpretation was removed. The changes set out in the Budget were subsequently announced on 31 March 2017 and take effect from 1 April 2017. The ATO has already been working with industry to ensure they understand their obligations.

The changes provide that entities buying gold, silver and platinum that have been supplied as a taxable supply for GST purposes will be required to apply a reverse charge – they will remit the GST to the ATO instead of the seller. Changes are also made to clarify that gold, silver and platinum are not second hand goods.

Another example of the reverse charge arrangements to try to overcome perceived fraudulent behaviour.

Winners

If the proposed reduction in the corporate tax rate eventuates big business will initially be a winner, however our proposed rate reduction may not go far enough to match those of our OECD counterparts leaving Australian corporate entities at a competitive disadvantage on the international stage. In this Budget, the Government has shifted its focus from the corporate sector to areas of the economy experiencing difficult times such as small businesses and those seeking to acquire their first home.

Losers

The introduction of a levy for businesses using skilled migrants will increase with labour costs for those affected businesses. The expansion of the taxable reporting system to payments made to contractors and couriers will add an administrative burden on all businesses who use these services. One questions the cost/benefit of such a move considering the amount of red tape businesses already have to endure.

INTERNATIONAL

Enhancements to Multinational Anti Avoidance Law

The Multinational Anti Avoidance Law ("MAAL") enacted in 2015 has been further strengthened to negate the use of foreign trusts and partnerships in corporate structures. MAAL only applies to significant global entities with:

- an annual global income exceeding A$1 billion; or
- a member of an accounting consolidated group where the global parent entity has an annual global income of more than A$1 billion.

The key changes proposed include:

- corporate structures that involve the interposition of partnerships that have any foreign resident partners;
- trusts that have any foreign resident trustees; and
- foreign trusts that temporarily have their central management and control in Australia.

The amendment will apply retrospectively from 1 January 2016.

Winners

The Federal Government and Australia's revenue base.

Losers

Multinationals seeking to minimise their global tax exposure through tax minimisation schemes.

Hybrid Mismatch Rules

Further to intentions raised in Budget 2016–17, the Government has confirmed the OECD hybrid mismatch arrangement rules will be applied to regulatory capital.

This measure implements one of the key action items from the OECD Base Erosion and Profit Shifting package. Specifically, the measure will be:

- preventing returns on Additional Tier 1 ("AT1") capital from carrying franking credits where such returns are tax deductible in a foreign jurisdiction; and
- where the AT1 capital is not wholly used in the offshore operations of the issuer, requiring the franking account of the issuer to be debited as if the returns were to be franked.

The measure will apply (subject to transitional arrangements) to returns on AT1 instruments paid from the later of 1 January 2018 or six months after Royal Assent.

Transitional arrangements will apply to AT1 instruments issued before 7.30 pm (AEST) on 9 May 2017 such that the measure will not apply to returns paid before the next call date of the instrument occurring after 7.30 pm (AEST) on 9 May 2017.

Winners

The Federal Government and Australia's revenue base.

Losers

Financial institutions that utilise hybrid entities in aggressive tax minimisation structures to exploit the different tax treatments of their regulatory capital across international borders will be targeted.

CASE STUDY

An advance of $10M is made by Granny Smith Limited to its foreign subsidiary, Pink Lady Pty Ltd at 5% p/a interest. The advance is treated as equity in Granny Smith Limited's tax jurisdiction but as debt in Pink Lady Pty Ltd's tax jurisdiction.

This scenario allows Pink Lady Pty Ltd to claim a tax deduction for $500,000 in interest payments it makes to Granny Smith Limited without Granny Smith Limited being liable for tax on receipt of that $500,000 in its own tax jurisdiction.

The proposed changes to the hybrid mismatch rules will ensure alignment of the tax treatment in both jurisdictions.

SMALL-TO-MEDIUM BUSINESS

- The extension of the immediate write off of plant and equipment costing less than $20,000 extended for acquisitions prior to 30 June 2018;
- Extension of Payment Reporting to couriers and cleaners;
- Small business CGT breaks to be tightened

Extension of Immediate Write off

The extension of the immediate write off by small business will be welcomed. This together with the change of the definition to businesses with an aggregated turnover of less than $10m (passed by Senate but not yet by the House of Representatives), will provide an immediate deduction and hence a lower tax bill to a broader range of businesses.
For equipment vendors that has a cost of less than $20,000, they may experience a lift in sales or at least be able to maintain existing sales levels.

Extension of Payment Reporting

Currently the Taxable Payments Reporting System (TPRS) applies mainly to the Building and Construction Industry. This requires the reporting of payments to sub-contractors by contractors within that that sector.

The expansion of the reporting requirements to couriers and cleaners is an anti-avoidance measure to reduce tax leakage associated with the black economy.

Small Business CGT

While the definition of small business for many measures has been lifted for those with an aggregated turnover of less than $10 million the Government has left the turnover threshold for the Small Business Capital Gains Tax Concessions at less than $2 Million.
This will lead to confusion by small business operators as to what concessions they have access to.

In addition, the Government announced the Small Business Capital Gains Tax Concession will be tightened to deny eligibility for assets which are unrelated to the small business.

The Budget papers cite as an example arrangements where ownership interests in larger businesses do not count towards the test for determining eligibility for the concession.

How these measures or what these measures will be, is not explained.

Also of interest is the statement that this is an integrity measure and not expected to raise additional tax revenue

Prohibition on sales suppression technology and software

In a move to combat the cash economy, the Government will act to prohibit the manufacture, distribution, possession, use or sale of electronic point of sale (POS) sales suppression technology and software. The prohibition will have effect from the date of Royal Assent of the enabling legislation.

Sales suppression technology and software allow businesses to understate their incomes by untraceably deleting selected transactions from electronic records in POS equipment. Income earned from these transactions and tax owing from this income is not reported to the ATO. The revenue risks such technologies pose have been highlighted by the OECD.

It is not known how this prohibition will be implemented, or if it will overcome those who are determined not to report certain cash transactions.

Winners

Winners will be those small business wishing to acquire plant and equipment costing less than $20,000.

Losers

There appear to be no losers from the provisions specifically relating to SME's. However other Budget measures such as the levy to be imposed on Banks may lead to higher banking and borrowing costs.

CASE STUDY

Sam and Samara currently own a company, Sunrise Bakers Pty Ltd, through which they operate two bakeries in Western Australia. During the 2017–18 year the company has an aggregated turnover of $4,500,000 and taxable income of $490,000.

Sunrise Bakers Pty Ltd purchased 2 new baking ovens costing $18,600 each (exclusive of GST) on 24 June 2018 in order to expand the baking capacity of the bakeries and to increase the sales to nearby restaurants and hotels.

Due to the ovens costing less than $20,000 each, the company will be entitled to an immediate tax deduction of $37,200 in the 2017–18 year. This will reduce the company's taxable payable by $10,230.

The immediate tax deduction for assets costing less than $20,000 is now set to cease as at 30 June 2018.

INDIVIDUALS

- The 2% budget deficit levy on incomes over $180,000 will not be extended beyond its initial 3 years. The levy will cease at the end of the 2016–17 year.
- The Medicare Levy will increase by 0.5% to 2.5% from 1 July 2019.
- The Medicare Levy low-income threshold for singles will be increased to $21,655 in the 2016– 17 year. The family income threshold (for couples with no children) will be increased to $36,541. The threshold will increase by a further $3,356 for each dependent child.
- A new set of repayment thresholds for students with a Higher Education Loan Program (HELP) debt will be introduced from 1 July 2018. HELP debtors will be required to start repaying their debt when their annual income reaches $42,000 with a 1% repayment rate (under current legislation the repayment threshold for the 2017–18 year starts at $55,874 with a 4% repayment rate).
- HELP debt repayment thresholds which are currently linked to Average Weekly Earnings (AWE), will be changed to align with the Consumer Price Index (CPI) from 1 July 2019.
- Restrictions on depreciation deductions on plant and equipment will be introduced for owners of residential investment properties.
- Travel expenses relating to inspecting, maintaining or collecting rent for a residential rental property will be disallowed from 1 July 2017.
- Increase in the CGT discount from 50% to 60% on eligible residential rental properties.

2016–17
(including the 2% temporary budget deficit levy, but excluding the 2% Medicare levy)

Taxable income $	Tax payable $
0 – 18,200	Nil
18,201 – 37,000	Nil + 19% of excess over 18,200
37,001 – 87,000	3,572 + 32.5% of excess over 37,000
87,001 – 180,000	19,822 + 37% of excess over 87,000
180,001+	54,232 + 47% of excess over $180,000

2017–18

(excluding the 2% Medicare Levy)

Taxable income $	Tax payable $
0 – 18,200	Nil
18,201 – 37,000	Nil + 19% of excess over 18,200
37,001 – 87,000	3,572 + 32.5% of excess over 37,000
87,001 – 180,000	19,822 + 37% of excess over 87,000
180,001+	54,232 + 45% of excess over $180,000

Income Tax Rates

Marginal tax rates will largely remain unchanged except for the cessation of the 2% budget deficit levy for taxpayers with a taxable income of $180,000 or more. For a taxpayer with a taxable income of $250,000 the removal of the levy with result in a reduction in tax of $1,400.

The Medicare Levy will increase by 0.5% to 2.5% which means an increase in tax payable for taxpayers with a taxable income in excess of the Medicare low income thresholds. A taxpayer with a taxable income of $60,000 will pay an extra $300 per year in tax.

HELP repayment rates and thresholds

The current and proposed repayment rates and thresholds for 2018–19 are as follows:

Repayment rate	Current 2018–19 thresholds	Proposed new 2018–19 thresholds
1%	–	$42,000
1.5%	–	$44,520
2%	$51,957	$47,191
2.5%	–	$50,022
3%	–	$53,024
3.5%	–	$56,205
4%	$57,730	$59,577
4.5%	$64,307	$63,152
5%	$70,882	$66,941
5.5%	$74,608	$70,598
6%	$80,198	$75,215
6.5%	$86,856	$79,728
7%	$91,426	$84,512
7.5%	$100,614	$89,852
8%	$107,214	$94,957
8.5%	–	$100,655
9%	–	$106,694
9.5%	–	$113,096
10%	–	$119,882

Changes to HELP Repayment Thresholds and Rates

Students will start to repay their HELP debts sooner under the proposed changes to the repayment thresholds and rates.

A new set of thresholds and repayment rates will be introduced from 1 July 2018 with the minimum repayment threshold commencing at $42,000 with a repayment rate of 1% (reduced from the budgeted threshold of $55,874 with a repayment rate of 4%).

The maximum repayment threshold will increase to $119,882 with a repayment rate of 10% (increased from $107,214 with a repayment rate of 8%).

In real terms this means a student with an annual taxable income of $42,000 in 2018–19 will be required to make a minimum repayment of $420 toward their HELP debt. A student with an annual taxable income of $119,882 in the same year will be required to make a minimum repayment of $11,988.20. For single income taxpayers with dependent children, the increase in the repayment thresholds may cause significant financial pressure, particularly when combined with the high cost of housing and child care costs. Here's hoping the proposed budget measures for housing affordability and child care assistance will help ease the burden for struggling students trying to improve their education and employment skills.

Residential Investment Property Owners – The Big Losers

Residential investment property owners will be the big losers with proposed changes to deductions for;

- depreciation on plant and equipment; and
- deductions for travel expenses associated with inspecting, maintaining or collecting rent for a residential rental property.

Depreciation on Plant & Equipment

From 1 July 2017, the Federal Government will limit deductions for depreciation of plant and equipment to outlays actually incurred by investors in residential investment properties. In the past, taxpayers who purchased a residential investment property could claim a deduction for depreciation of plant and based on depreciation reports provided by licensed quantity surveyors irrespective of tax deductions claimed by previous owners.

Investors who purchase plant and equipment (e.g. dishwashers, window treatments, light fittings etc) after 9 May 2017 will be able to claim depreciation over the effective life of the asset. Subsequent owners of the property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property.

The proposed changes will apply on a prospective basis with existing investments grandfathered, so if you are concerned that you will no longer be able to claim a deduction using your quantity surveyor report, don't panic. Plant and equipment as forming part of residential investment properties as of 9 May 2017 (including contracts entered into at 7.30pm AEST on 9 May 2017) will continue to give rise to deductions for depreciation until either the taxpayer no longer owns the asset or the asset reaches the end of its useful life.

Travel Expenses

In response to Federal Government concerns that owners of residential investment properties may be claiming travel costs without correctly apportioning costs or have claimed private travel costs, travel expenses relating to inspecting, maintaining or collecting rent for a residential rental property will be disallowed from 1 July 2017.

This may have a significant impact on residential investment property owners who self manage properties they own in rural areas, mining towns or interstate. Taxpayers who legitimately incur travel expenses to regularly inspect or undertake maintenance at properties in rural, remote or interstate locations may need to find a reputable property manager to manage the property in order to obtain a deduction for costs associated with holding and renting the property.

CGT discount increased for affordable housing investments

The CGT discount will be increased from 50% to 60% for Australian resident individuals investing in qualifying affordable housing.

The conditions to access the 60% discount include:

- the housing must be provided to low to moderate income tenants
- rent must be charged at a discount below the private rental market rate
- the affordable housing must be managed through a registered community housing provider; and
- the investment must be held for a minimum period of three years.

Whilst the 10% increase in the CGT discount appears to be an incentive to invest in affordable housing, the rather onerous conditions may deter those taxpayers seeking to generate market rental income and/or a capital return on their investment.

Winners

High income earners with a taxable income of $180,000 or more will be the real winners with the removal of the 2% budget deficit levy.

Losers

Students and owners of residential investment property owners will be the main losers under the proposed budget changes.

CASE STUDY

Rob and Cathy own a number of rental properties in Port Hedland in Western Australia. The properties are owned as joint tenants. With the downturn in the mining sector, rental income generated from the properties has decreased substantially so in order to reduce costs, Rob and Cathy have decided to manage the properties without the assistance of a rental property manager. Rob and Cathy travel to Port Hedland once a quarter to inspect the properties, undertake maintenance and collect outstanding rent where necessary.

Typical costs incurred by Rob and Cathy each quarter include:

Flights	2,000
Accommodation	700
Meals	500
Car Hire	600
	3,800

Rob and Cathy incur travel expenses relating to the properties of approximately $15,200 per year. Prior to 1 July 2017, Rob and Cathy have claimed a tax deduction of approximately $7,600 each in relation to the rental properties.

Assuming Rob and Cathy both have an average tax rate of 30%, a tax deduction of $7,600 would result in a reduction of tax payable of $2,280 each. If Rob and Cathy continue to manage the properties post 1 July 2017, they will have additional tax payable between them in the 2018 year of $4,560.

GST & INDIRECT TAX FOR INDIVIDUALS

- GST Reverse charge to apply to certain property transactions;
- Removing the double taxation of GST on digital currency;

The Budget 2017-18 contained only a few GST measures, most of which were very specific and targeted.

Significantly, two of the measures announced change the basic way the GST is collected and remitted by placing the obligation on the buyers (rather than the sellers) to remit the GST, a so-called reverse charge. This could potentially increase GST compliance costs.

Perhaps the most interesting and wide ranging measure is the so-called integrity measure with regards to property transactions.

GST on property transactions

From 1 July 2018, the Government will strengthen compliance with the GST law by requiring purchasers of newly constructed residential properties or new subdivisions to remit the GST directly to the ATO as part of settlement. Under the current law (where the GST is included in the purchase price, the developer remits the GST to the ATO), some developers are failing to remit the GST to the ATO despite having claimed GST credits on their construction costs. The Government is of the view that, as most purchasers use conveyancing services to complete their purchase, they should experience minimal impact from these changes.

This is a quantum change to the way that the GST system works and puts the responsibility to remit the GST onto the purchaser who is unlikely to be "carrying on an enterprise" or registered for GST.

GST — removing the double taxation of digital currency

The Government will align the GST treatment of digital currency (such as Bitcoin) with money, from 1 July 2017.

Digital currency is currently treated as intangible property for GST purposes. Consequently, consumers who use digital currencies as payment can effectively bear GST twice: once on the purchase of the digital currency, and again on its use in exchange for other goods and services subject to GST.

This measure will ensure purchases of digital currency are no longer subject to the GST. The government expects that removing double taxation on digital currencies will remove an obstacle for the Financial Technology (Fintech) sector to grow in Australia.

Winners

The Government

Losers

- Cash economy
- Purchasers of newly constructed residential properties or new subdivisions

CASE STUDY

Mikaela and Joey engage a well-known home builder to build their dream home. The house and land package they agree to is for a total value of $850,000. Under the proposed new legislation, after 1 July 2018, Mikaela and Joey will have to remit the GST included in the amount to the ATO.

Normally it would be the builder who has the liability to remit the GST.

This raises some interesting practical aspects.

How do Mikaela and Joey know whether or not the seller has a GST liability, especially if they are buying land from a developer? How do they know how much GST is included in the amount, as the builder may have calculated the GST liability using the margin scheme? Even if they do use a conveyancing service to complete their purchase, how is the amount remitted, and how is the amount matched with the builder? Who will be liable if the GST is incorrect?

FOREIGN RESIDENT HOUSING INVESTMENT

- The Government has taken aim at foreign property owners under the guise of affordable housing measures.

After the former Labor Government removed the 50% CGT Discount for non-residents in the 2012-13 Budget, the Coalition Government has upped the ante by ensuring that foreign residents and temporary residents reach further into their pockets where they hold real property in Australia.

Changes that will impact on foreign resident and temporary residents include:

- Removal of the main residence exemption for foreign residents and temporary residents from 7:30pm on 9 May 2017, with transitional arrangements in place for existing holdings until 30 June 2019;
- A levy being charged on properties acquired by foreign residents after 9 May 2017 where the property is not occupied or not genuinely available on the rental market for at least 6 months per year;
- A 50% limit will be placed on foreign ownership in new multi-storey developments with at least 50 dwellings;
- The foreign resident CGT withholding rate will be increased from 10% to 12.5%, with the withholding threshold being lowered from $2 million to $750,000.

Winners

The Coalition Government will be winners through increased taxes and levies on foreign resident and temporary resident property owners.

Renters may benefit through foreign resident investors making previously untenanted properties available for lease.

Losers

Foreign residents are being asked to reach into their wallets again, with the removal of the CGT main residence exemption and the levy on underutilised rental properties.

Despite being labelled a "foreign resident CGT withholding tax", the rules currently treat all vendors of property worth more than $2 million as non-residents until they obtain a certificate from the ATO proving they are a resident. With the threshold being reduced to $750,000, more Australian resident vendors will now be inconvenienced by having to apply for and receive an exemption certificate prior to settlement, or else risk losing 12.5% of their sale proceeds at settlement.

CASE STUDY

Magenta is a temporary resident working in Australia on a working visa. On 1 June 2017 he buys a house in Carlton in Melbourne, Victoria to live in whilst he works as a concierge at an upmarket hotel.

He leaves Australia to return home to Transylvania in June 2018, leaving the property vacant as he is contemplating returning to Australia in the near future.

Family issues cause Magenta to abandon his plans to return to Australia, and in February 2019 he places his Carlton property on the market for sale.

If Magenta was an Australian resident, he would have been entitled to a full CGT exemption on sale of his property.

Instead, Magenta will be liable for CGT on any gain on sale the property, despite it being his main residence, and he will not be entitled to the 50% CGT discount to reduce his capital gain despite holding the property for more than 12 months.

Magenta will be liable for the underutilised property levy in the 2018 year, as he did not have the property available for rent for more than 6 months of the year.

Finally, he will lose 12.5% of the sale proceeds due to the foreign resident CGT withholding tax being applied at settlement. The tax is non final, and Magenta can lodge an Australian income tax return to claim a credit for the tax against his actual CGT liability.

SUPERANNUATION

- Following an upheaval in Budget 2016-17, superannuation was limited to only minor adjustments this year, to the relief of retirees everywhere. Small, positive changes to assist retirees looking to downsize, and first home buyers have left individuals with the confidence that the superannuation system hasn't yet again been subject to change.

Principal Residence

As part of an extensive housing affordability package, individuals 65 and over will be able to contribute up to $300,000 as a non-concessional contribution to superannuation from the proceeds of the sale of their primary residence. The real benefit of this for many is that the contribution can be made without consideration of the new $1.6 million total superannuation balance test, the work test restrictions or any concerns with breaching the non-concessional cap. Importantly, the property must have been owned for 10 years or more to be able to access the concession, and the contribution may be made for both members of a couple who own the home.

While this appears to be a move in the right direction towards addressing the housing affordability issues, it may not result in the property availability that is being desired.

First Home Super Saver Scheme

In an attempt to assist younger people to set foot in the housing market as homeowners, Budget 2017-18 offers the opportunity for individuals to make additional salary sacrificed contributions to superannuation to help towards a house deposit. Contributions up to $15,000 per year within the existing caps can be made, up to a total of $30,000. The positive for many is the lower tax rate of 15% applied to contributions and earnings, with withdrawals (including associated earnings on the deposits) only attracting tax for those on tax rates of above 30%.

Although the initiative may allow people to build a deposit faster in a tax effective environment, it is only a small portion of the overall savings they may need to buy their house.

Winners

First home buyers with some spare income, and retirees looking to downsize.

Losers

For once – no one!

CASE STUDIES

Principal Residence:
Craig and Sharon are retired, both over 65 and looking to sell their $1.2 million property overlooking the coast. Craig has $1 million in his superannuation fund, while Sharon has $1.7 million in her superannuation fund. They have been toying with the idea of selling their house but were not sure about what to do with the additional proceeds. Without the changes announced in Budget 2017-18, neither member would be able to make additional contributions to superannuation. Under these announcements, both Craig and Sharon will be able to contribute up to $300,000 to their superannuation funds, without having to consider:

- Needing to meet the work test prior to making a contribution;

- Whether Craig or Sharon has a total superannuation balance of $1.6 million or more

Super Saver Scheme:
Robert and Sarah have been trying to save for a deposit on their first home with limited luck. Following the Budget 2017-18 announcements, Robert does a budget and decides they are able to salary sacrifice an additional $10,000 a year from Sarah's salary to help them to save for their deposit. They do this for three years, using all of Sarah's $30,000 limit. After 4 years they find a property they love and withdraw the $30,000 plus associated earnings from super. At the time of making the withdrawal, Sarah is earning $60,000 a year. Her withdrawal from superannuation is taxed at her marginal rate less a 30% rebate. Sarah will have saved approximately $6,240 more for a deposit after taking into account deemed earnings and withdrawal tax, however, this saving is in a difficult to access environment and can only be used to purchase her first home.

INNOVATION

> The Federal Government did not announce any significant changes regarding innovation in the Budget

The R&D Tax Incentive is the primary Federal Government support program for innovation and there were no changes included in the Budget. Highly anticipated changes to the R&D Tax Incentive, in response to the Finkel-Ferris-Fraser (FFF) Review, were not included.

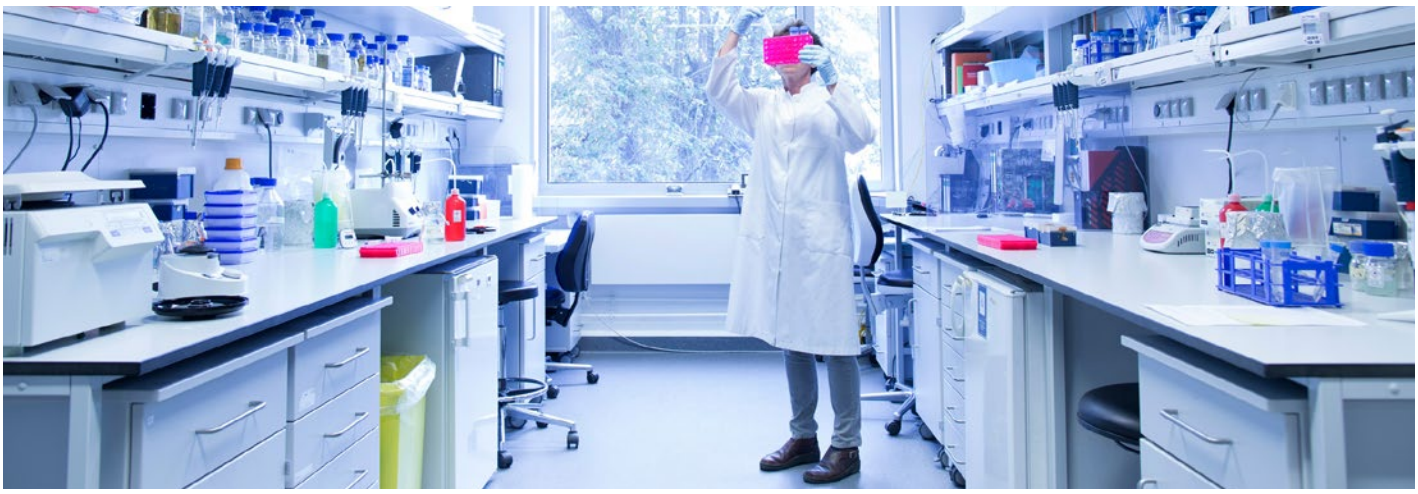
Minor changes were made to other innovation support programs, the largest target industry group being Advanced Manufacturing, with a particular emphasis on South Australia and Victoria.

While innovation companies will be relieved that the R&D Tax Incentive has not been cut back, there will be an overall feeling of disappointment that no substantial improvements to supporting innovation have been made as well as concerns that a future response to FFF Review may still bring bad news.

Winners

Capital Raising Start-ups:
Positive announcements for the start-up sector in the Budget includes extending crowd-sourced equity funding. The Government proposes to make it easier for start-ups and innovative small businesses to raise capital. Current rules require the use of a public company structure. The Government has released draft legislation to extend crowd-sourced equity funding (CSEF) to proprietary companies. This will open up CSEF for a wider range of businesses and provide additional sources of capital.

Proprietary companies using CSEF will be able to have an unlimited number of CSEF shareholders. Shareholders will be protected by the higher governance and reporting obligations that CSEF proprietary companies will need to meet.



Advanced Manufacturing:
The Government will provide $101.5 million over five years from 2016-17 to establish an Advanced Manufacturing Fund (the Fund) to promote research and capital development for high technology manufacturing businesses. This includes:

- $47.5 million for a new Advanced Manufacturing Growth Fund. The funding is for up to a third of the project cost of capital upgrades to establish and expand high value manufacturing in South Australia and Victoria;

- $4.0 million for the Advanced Manufacturing Growth Centre to support small scale and pilot research projects in advanced manufacturing, benefiting small firms and early stage researchers;

- $20.0 million under the Cooperative Research Centre Projects initiative for larger scale advanced manufacturing research projects, of up to $3.0 million in funding over three years;

- $10.0 million to establish Innovation Labs in South Australia and Victoria to serve industry in a variety of roles including test centre facilities and business capability development;

- $5.0 million to maintain engineering excellence by investing in student research at universities, technology institutions and in industry to continue the flow of highly trained engineers to the automotive design and engineering sector; and

- $13.5 million tariff reduction on imported vehicle prototypes and components used by Australian motor vehicle design and engineering services that operate in a global network.

FinTech:

Fintech was a particular focus for the Government in the Budget but with little direct support. Enhancements to the financial services regulatory sandbox will be introduced to enable testing of new financial products, and services without having to comply with all of the usual licensing requirements.

Losers

R&D Tax Incentive Companies, Ongoing Uncertainty and Inflated Budget:

Highly anticipated changes to the R&D Tax Incentive in response to the Finkel-Ferris-Fraser (FFF) Review were not included. This is positive news for innovative companies, as the changes were widely viewed as damaging and unnecessary by industry, however it is unknown if the Government will respond separately to the FFF Review at a later time.

The cost of the R&D Tax Incentive is predicted to increase from $2.9 billion in 2017-18 to $3.7 billion by 2020-21. Based upon the current Budget figures, industry feedback given during FFF consultation that Budget modelling grossly overstates the cost of the R&D Tax Incentive still has not been incorporated. Therefore, pressure for the Government to make changes will remain on the program, due to perceived fiscal sustainability issues.

INDUSTRIES

AGRIBUSINESS

In 2016 the government introduced measures to increase the small business entity aggregated turnover threshold to $10m from 1 July 2016, increase the unincorporated small business tax discount from 5% to 16% over a 10 year period and reduce small business company tax rates to 27.5%.

In 2017 the Government have extended the $20,000 instant asset write off threshold until 30 June 2018 and have recommitted to reducing the corporate tax rate over 10 years to 25% for all companies.

But farmers might be more concerned with the impact on costs associated with other measures such as:

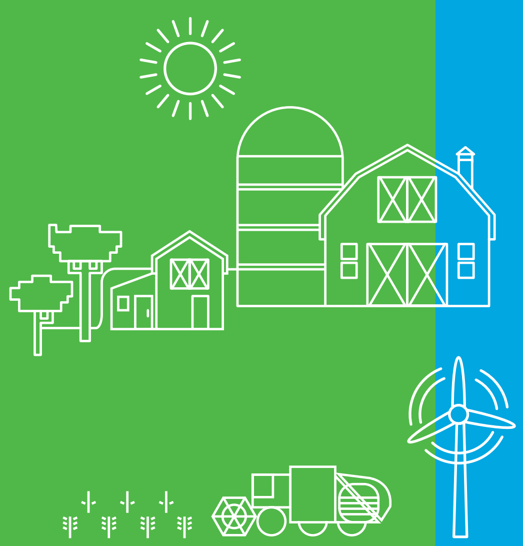
1. A major bank levy from 1 July 2017. The 0.06% levy on a banks liabilities will raise significant revenue for the government but the charge may be passed on to customers.

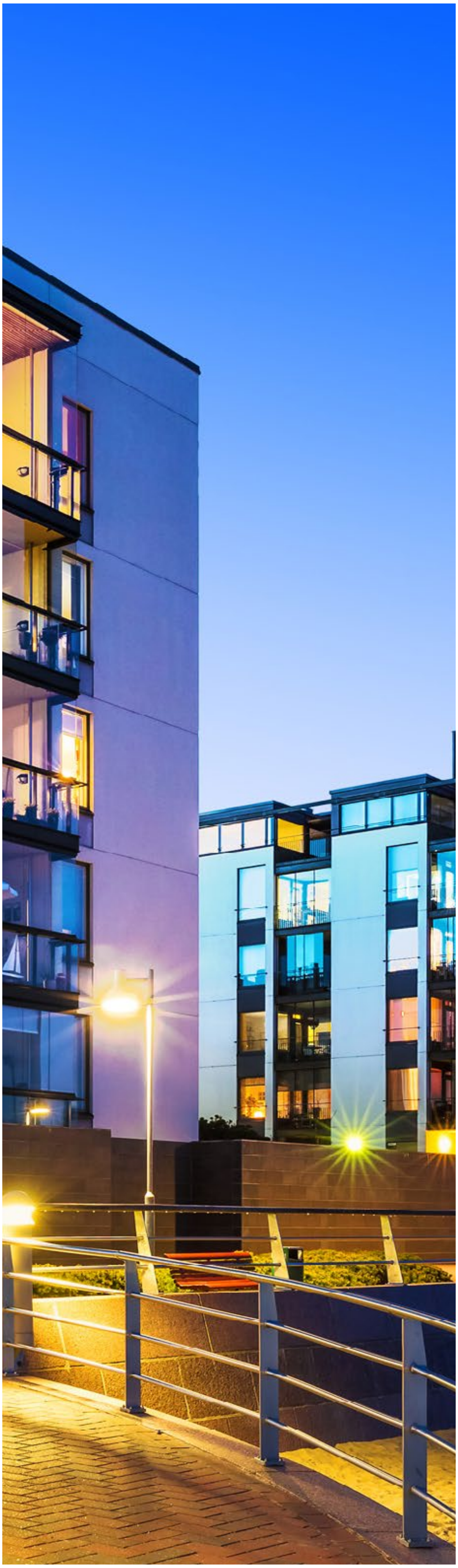
2. The new levy on visa's shall make solving regional skilled staff shortages more difficult. The extensive list of specialist skills includes, for example, diesel mechanics and that could result higher costs being passed on to farmers. For a business of less than $10m turnover per year, they will be required to make an upfront payment of $1,200 per visa per year for each employee on a Temporary Skill Shortage visa and make a one off payment of $3,000 for each employee being sponsored for a permanent Employer Nomination Scheme (Subclass 186) visa or a permanent Regional Sponsored Migration Scheme (subclass 187) visa. Businesses above $10m pay $1,800 and $5,000 comparatively.

3. Medicare levy increase from 2% to 2.5% from 1 July 2019.

There is assistance for first home buyers who may salary sacrifice up to $30,000 in superannuation to build a deposit. This could be useful for young farmers looking for a career on the family farm and needing a home.

The budget impact on farmers in 2017 was probably unlikely to be significant given the substantial tax benefits from the increase to $10m threshold in the 2016 budget. That measure has only recently been passed by the Senate and is still to become law. The accelerated depreciation rates from this measure in the machinery intensive agricultural industry will realise huge tax savings for many farmers in the next few years encouraging investment in efficiency and new technology.





PROPERTY & CONSTRUCTION

The Budget included many announcements which will impact the Property and Construction sector, these include;

- Introducing Legislation to enable Managed Investment Trusts ("MIT") to invest in affordable housing;
- Increasing the Capital Gains Tax discount for individuals investing in affordable housing from 50% to 60% (for further details see our Individual commentary;
- Reduction in the company tax rate to 27.5% from 1 July 2017 to businesses with a turnover of less than $25 million;
- The Government reaffirmed access and extended the immediate asset write-off for small businesses with an aggregated turnover of less than $10 million;
- Introducing a levy on businesses that employ foreign workers on certain skilled visas (for further details see our Corporate commentary);
- From 1 July 2018, purchasers of newly constructed residential properties (or new subdivisions) will be required to remit the GST directly to the Australian Taxation Office rather than paying this to the developer (for further details see our commentary on GST).

Overall the Government is committing more than $70 billion to build transport infrastructure across Australia. Part of this promise is a $10 billion National Rail Programme which will be established to provide improved railways for cities and regions.

In Western Australia, the Government is investing $1.6 billion in infrastructure which includes funding for better road access to the Fiona Stanley Hospital.

In New South Wales, an investment of $5.3 billion will made to build a second international airport in Western Sydney.

From an industry perspective, Budget 2017–18 announced that it will work with State and Territory Governments to get more homes built and improve access to affordable housing for Australians.

A key measure to encourage investment into affordable housing will be changes made to allow MIT's to invest in affordable residential housing. Currently MIT's investing in residential property are not be eligible for the MIT concessional treatment. Under proposed provisions:

- Investors will receive concessional tax treatment through an MIT if the affordable housing is available for rent for at least 10 years;
- MIT's will be able to acquire, construct or re-develop a property, however, the MIT must derive at least 80% of its assessable income from affordable housing;
- Qualifying housing must be provided to low or moderate income tenants at rental below the private rental market rate.

Other announcements in the Budget that will have an impact for the Property and Construction industry include:

- A new National Housing and Homelessness Agreement will be introduced aiming to level the supply of housing and population growth. This agreement will set housing supply targets and facilitate more planning and zoning.
- The Government will focus on factors obstructing development and areas facing above average population growth.
- An online Commonwealth land registry will be established that will provide more detailed information about Commonwealth land to external parties in a mapped format. This will allow and encourage proposals for higher value land use and housing development.
- The Government also intends to release surplus Commonwealth land.
- A 50% cap on pre-approved foreign ownership in new developments is being introduced (for further details see our Foreign Resident Housing Investment commentary).
- The Government will also provide $1.2 billion over 4 years from 1 July 2017 to establish a permanent Skilling Australians Fund to support the skilling of Australian workers. States and Territories will only be able to benefit from these funds if they are committed to training new apprentices and traineeships for occupations in high demand and in regional and rural areas.

MINING INDUSTRY

In good news for miners, there are very few changes contained in Budget 2017–18.

There are no immediate tax changes to businesses in the mining industry, with changes to the PRRT scheme proposed in the Callaghan Review being deferred whilst Treasury undertakes further consultation with members of the oil and gas industry.

The Callaghan Review recommendations included:

- Changes to uplift rates, transferability of expenditure and order of claiming deductions for new projects;
- A review of treatment of closing down expenditure;
- Requiring taxpayers to lodge PRRT annual returns as soon as they acquire an interest in an exploration permit, rather than when the project starts producing assessable receipts;
- The ability for the Commissioner to grant an administrative exemption from lodging PRRT returns where they are clearly unlikely to pay PRRT in the foreseeable future.

Winners

Miners, who have been spared from a Government raid on miner revenues or tax deductions.

Losers

Miners with turnover greater than $1 billion and have international structures – refer corporate and international sections.

A number of announcements from the budget 2016-17 have been either introduced or enacted bills. A summary of the key taxation measures and their status are listed below.

Measure	Summary	Start date	Status
Increased turnover threshold for small business income tax concessions	The small business entity turnover threshold will be increased from $2m to $10m from 1 July 2016. Businesses with an annual aggregated turnover of less than $10m will be able to access existing small business income tax concessions	1 July 2016	Introduced
Unincorporated small business tax discount rate increased and eligibility expanded	The small business tax offset will be increased in phases over 10 years from the current 5% to 16% with a first increase to 8% on 1 July 2016. The $1,000 cap remains unchanged.	1 July 2016	Introduced
Company tax rate cuts	The company tax rate will be progressively reduced to 25% for entities for businesses with an annual aggregated turnover of less than $50m from 2016/17	1 July 2016	Introduced
Early-stage innovative company incentives expanded	Amendments will be made to the tax incentives for investments in early stage innovative companies including: ▪ Reducing the investment holding period for the CGT exemption from three years to 12 months ▪ Imposing a time limit on incorporation and criteria for determining if a company is an innovation company under the definition of eligible business ▪ Requiring that the investor and innovation company are non-affiliates, and ▪ Limiting the investment amount for non-sophisticated investors to qualify for the tax offset to $50,000 or less per income year. Note: the above amendments expand the concessions available from the 2016/17 income year for investments in early stage innovative companies that were announced in 2015, which included: ▪ A 20% non-refundable tax offset capped at $200,000 per investor per year, and ▪ A 10-year CGT exemption where investments are held for three years	1 July 2016	Enacted

A LOOK AT THE 2016/17 BUDGET

Which measures were enacted?

Measure	Summary	Start date	Status
Personal income tax relief	The 37% marginal tax rate taxable income threshold will increase from $80,000 to $87,000.	1 July 2016	Enacted
Medicare levy surcharge and private health insurance rebate thresholds paused	The pause in the indexation of the income thresholds for the Medicare levy surcharge and the private health insurance rebate will continue for a further three years (from 2018/19 to 2020/21).	1 July 2018	Enacted
Division 293 tax income threshold	The Division 293 threshold will be lowered from $300,000 to $250,000.	1 July 2017	Enacted
Concessional contributions changes	The annual cap on concessional superannuation contributions will be reduced to $25,000 (currently $30,000 under age 50 and $35,000 for ages 50 and over).	1 July 2017	Enacted
Transition to retirement income streams	The tax exemption on earnings of assets supporting Transition to Retirement Income Streams will be removed	1 July 2017	Enacted
Lifetime non-concessional cap	A lifetime non-concessional contributions cap of $500,000 was proposed but will not proceed. Instead, from 1 July 2017, the cap is reduced to $100,000 for members between 65 and 75 years of age. Members under 65 years of age will have the option of contribution up to $300,000 over a three-year period, depending on their total superannuation balance. The new measures from 1 July 2017 replace previous annual caps that allow annual non-concessional contributions of up to $180,000 per year (or $540,000 every three years for individuals aged under 65).	3 May 2016 7:30pm (AEST)	Announced-Will not proceed
Tax deduction for personal superannuation contributions	All individuals up to age 75 (other than members of certain prescribed funds) will be allowed to claim an income tax deduction for personal superannuation contributions. This allows all individuals, regardless of their employment circumstances, to make concessional contributions up to the concessional cap.	1 July 2017	Enacted
Retirement transfer balance cap introduced	A balance cap of $1.6m on the total amount of accumulated superannuation an individual can transfer into the tax-free retirement phase will be introduced. Subsequent earnings on these balances will not be restricted.	1 July 2017	Enacted
GST on low value imports	GST will be extended to low value goods imported by customers from 1 July 2017.	1 July 2015	Introduced

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