

Australia Federal Budget

May 2017

For distribution to authorised Financial Advisers only

Below is a summary of the Australian Federal Budget announcements applicable to personal wealth and finance.

General

There were no announcements in the Australian Federal Budget that would have a material adverse impact on Friends Provident International's propositions for Australian expatriates.

The Treasurer handed down the Budget 2017-18 at 7:30pm on Tuesday 9th May

Personal Income Tax

The Medicare low-income thresholds for singles, families and seniors and pensioners will increase with effect from the 2017 income year. For example, the threshold for singles will increase to AUD 21,665 and the threshold for families will be increased to AUD 36,541 (plus AUD 3,356 for each dependent child and student). From 1 July 2019 the Medicare Levy will also be increased from its current rate of 2% to a rate of 2.5% of taxable income.

The 2% Temporary Budget Repair Levy (TBRL) that applied to individuals with taxable income of AUD 180,000 ceases to apply from 1 July 2017, reducing the effective top marginal rate from 47% to 45%.

Other tax rates which are linked to the top personal tax rate will also be decreased (i.e. fringe benefits tax applicable from 1 April 2017).

Rental property travel deduction

From 1 July 2017 it will no longer be possible to claim a deduction for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property, according to the Government announcements.

Depreciation and residential properties

From 1 July 2017 depreciation deductions for plant and equipment in residential rental properties will be limited to outlays actually incurred by the investor. As a consequence depreciation can no longer be claimed against items in situ at the time of purchase (e.g. dishwashers, ceiling fans etc. installed by a previous owner). Grandfathering arrangements apply to existing investments as at 9 May 2017.

Foreign residential property ownership

Foreigners who make a foreign investment application for residential property from 7:30pm (AEST) on 9th May 2017 will have to pay an annual charge of at least AUD 5,000 where the property is not occupied or genuinely available on the rental market for at least 6 months per year. The charge will be equivalent to the application fee imposed on the property at the time it was acquired by the foreign investor.

Foreign investors – taxation of capital gains

Also from the same time and date, the capital gains tax (CGT) exemption for main residences will no longer be available for new acquisitions by foreign and temporary tax residents. A transitional period will apply to properties held before this time (until 30 June 2019).

Further, the CGT withholding rate for foreign tax residents will rise to 12.5% from 1 July 2017 (currently 10%) and the withholding threshold falling to AUD 750,000 (currently AUD 2m) from the same date.

Superannuation

In another change to superannuation, from 1 July 2018 people who are aged 65 or over will be able to make a non-concessional contribution to their superannuation where the funds are from the proceeds of 'downsizing' their principle residence. In order to qualify, the person must have owned the house for 10 or more years before sale, and this contribution will be capped at AUD 300,000 per individual. This allowance will be in addition to the existing contribution caps and will be exempt from the AUD 1.6m non-concessional contributions test. Both members of a couple will be able to take advantage of this measure for the same house (i.e. a potential AUD 600,000 per couple).

Also regarding superannuation, from 1 July 2017 contributions can be made to a 'first home super saver scheme'. The contributions and associated earning can be withdrawn later for a deposit for a first home. Up to AUD 15,000 per year (and AUD 30,000 in total) can be contributed. Contributions and earnings are taxed at 15%. Withdrawals can be made from 1 July 2018 onwards and will be taxed at marginal rates less a 30% offset. Both members of a couple will be able to take advantage of this measure to buy their first home together.

The above information is based on the Australian Federal Budget released on 9th May 2017 and is not guaranteed to become law.

2017 – 18 Income Tax rates and allowances

Taxable income (AUD)	Tax on this income
0-18,200	Nil
18,201-37,000	19%
37,001-87,000	32.5%
87,001-180,000	37%
180,001 and over	45%*

*The Temporary Budget Repair Levy which runs from 1 July 2014 to 30 June 2017 will not apply in the 2018 financial year, therefore the top marginal income tax rate will be 45%.