2017-18 Federal Budget Update – a quiet night for SMSFs.

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Overview

Self managed superannuation funds (SMSFs) can breathe a sigh of relief after the Government handed down a Budget that largely left superannuation untouched. Technical amendments already announced and superannuation changes that formed part of the Government's housing affordability measures were the key superannuation measures in the 2017-18 Budget. This will be a relief for SMSF trustees, with many of them still working through last year's Budget changes to superannuation which take effect on 1 July 2017.

The Government is increasing its revenue take through two significant taxation changes – increasing the Medicare Levy to 2.5% from 1 July 2018 and a levy on major banks. Together these two revenue measures bring in $14.4 billion in revenue over the forward estimate periods, with the Government allocating the $8.2 billion from the Medicare Levy increases to funding the National Disability Insurance Scheme.

The revenue measures are complimented by major savings in higher education, better targeting of assistance to families and jobseekers and improving access to cheaper medicines.

On the expense side of the Budget, the Government have committed to major spending on school funding, a Skilling Australians Fund supporting ongoing jobs training, new medicine listings on the Pharmaceutical Benefits Scheme, supporting the Medicare scheme and extending the immediate deducibility rules for small businesses.

As expected, housing affordability is a centrepiece of the 2017-18 Budget, with a raft of measures introduced to improve affordability. However, while some tax deductions related to housing investment have been trimmed, negative gearing and the capital gains tax discount have gone largely untouched.

The Budget has Australia with an estimated deficit of $29.4 billion (1.6% of GDP) in 2017-18. A $7.4 billion (0.4% of GDP) surplus is predicted in 2020-21 – continuing the recent tradition of Government's forecasting a return to surplus in the last year of the Budget's forecasting period. The return to surplus is forecasted on an increase of growth to 3 per cent in 2018-19 forwards.

The following is a summary of the key superannuation, financial services, small business, housing and personal income tax changes.

Superannuation

Contributing the proceeds of downsizing to superannuation

From 1 July 2018, the Government will allow people aged 65 and over who are downsizing their homes to make a non-concessional contribution (NCC) of up to $300,000. The NCC will be additional to existing contribution caps and will be exempt from the existing age test, work test and the $1.6 million total superannuation balance test for making NCCs.

This measure will apply to sales of a principal residence owned for the past ten or more years and both members of a couple will be able to take advantage of this measure for the same home. This will allow a couple to contribute up to $600,000 from the sale of their home to superannuation outside of the existing caps and balance restrictions.

SMSF Association view: The SMSF Association welcomes this measure as it will allow people to make a significant top up contribution to their SMSFs to allow them to fund a dignified and secure retirement. While the measure may not be a significant trigger to encourage downsizing, we welcome the ability for older Australians to top up their superannuation where downsizing their home provides them with funds to do so.

First Home Super Saver Scheme

Individuals saving for their first home will be able to make voluntary contributions to superannuation from 1 July 2017, which along with associated deemed earnings can be withdrawn from 1 July 2018 onwards to fund a first home deposit.

Under the new rule up to $15,000 per year and $30,000 in total can be contributed, within existing contribution caps for the purpose of funding a house deposit. Both members of a couple can take advantage of this measure to buy their first home together.

Concessional contributions and earnings that are withdrawn will be taxed at marginal rates less a 30 per cent offset.

SMSF Association view: While we would have preferred that superannuation not be used as a savings vehicle to fund first home deposits, this measure is a welcome compromise. As the measure only allows extra voluntary contributions and associated deemed earnings to be withdrawn, the potential erosion of young superannuation savers retirement savings which the SMSF Association has been concerned about has been minimised. A positive aspect to this is measure is it will allow superannuation funds, including SMSFs, a greater opprtuity to engage younger Australians in their superannuation.

Integrity of limited recourse borrowing arrangements

As the Government has already announced, it is proceeding with amendments to the transfer balance cap and total superannuation balance rules for limited recourse borrowing arrangements (LRBAs). The outstanding balance of an LRBA will now be included in a member's annual total superannuation balance and the repayment of an LRBA from a member's accumulation account will be a credit in the member's transfer balance account.

SMSF Association view: We have strong concerns regarding the proposed changes regarding LRBAs and the total superannuation balance and are working with Government and Treasury to improve the draft legislation recently released for these changes.

Integrity of non-arm's length arrangements

The Government will amend the non-arm's length income rules to prevent members using related party transactions on non-commercial terms to increase superannuation savings. They will do this by ensuring that expenses that would normally apply in a commercial transaction are included when considering whether the transaction is on a commercial basis.

SMSF Association view: Generally we do not oppose appropriate integrity provisions for superannuation funds but it will be important to see the draft legislation for these changes to fully understand their impact.

Pensioner Concession Card — reinstatement

The Government will provide $3.1 million in 2017-18 to reinstate the Pensioner Concession Card for pensioners who were no longer entitled to the pension following changes to the pension assets test from 1 January 2017.

Extending tax relief for merging superannuation funds

The Government will extend the current tax relief for merging APRA-regulated superannuation funds until 1 July 2020. Since December 2008, tax relief has been available for superannuation funds to transfer capital and revenue losses to a new merged fund, and to defer taxation consequences on gains and losses from revenue and capital assets. Extending this relief will ensure superannuation fund members' balances are not reduced by tax when superannuation funds merge.

Financial services

Major Bank Levy

The Government will introduce a major bank levy for Authorised Deposit-taking Institutions (ADIs), with licensed entity liabilities of at least $100 billion, from 1 July 2017. The $100 billion threshold will be indexed to grow in line with nominal GDP.

The levy will be calculated quarterly as 0.015 per cent of an ADI's licensed entity liabilities as at each mandated quarterly reporting date (for an annualised rate of 0.06 per cent). Liabilities subject to the levy will include items such as corporate bonds, commercial paper, certificates of deposit, and Tier 2 capital instruments. The levy will not apply to the following liabilities: additional Tier 1 capital and deposits of individuals, businesses and other entities protected by the Financial Claims Scheme.

The levy will raise $6.2 billion over the forward estimates period. The Government believes this represents a fair additional contribution from major banks to assist with budget repair.

Australian Financial Complaints Authority

The Government will introduce a new, single body external dispute resolution scheme for financial services from 1 July 2018. The Australian Financial Complaints Authority (AFCA) will deal with all financial disputes, including superannuation, and provide access to free, fast and binding dispute resolution.

The new body AFCA will be able to hear disputes of a higher value so that more consumers and small businesses will have their disputes heard, and if they have wrongfully suffered a loss, access fair compensation. Financial firms will be required to be members of AFCA, and its decisions will be binding on all firms.

Finalisation of the Industry Funding Model for the Australian Securities and Investments Commission

The Government will recover $112.6 million over the forward estimates period from all entities regulated by the Australian Securities and Investments Commission through a statutory levy, with effect from 1 July 2017. The regulations implementing the industry funding model are currently out for consultation.

Australian Securities and Investments Commission — improving financial literacy

The Government will provide additional funding of $16.0 million to the Australian Securities and Investments Commission (ASIC) over four years from 2017-18 to broaden ASIC's financial literacy program.

Small business

Extending the immediate deductibility threshold for small businesses

The Government will extend the 2015-16 Budget measure which expanded accelerated depreciation for small businesses by 12 months to 30 June 2018. The rules apply to businesses with aggregated annual turnover less than $10 million. This will allow small businesses to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2018.

Tax Integrity Package — improving the small business capital gains tax concession

From 1 July 2017, the Government will amend the small business capital gains tax (CGT) concessions to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business. These changes are aimed at ensuring taxpayers do not access the concessions for assets which are unrelated to their small business, for instance through arranging their affairs so that their ownership interests in larger businesses do not count towards the tests for determining eligibility for the concessions.

Housing affordability

The Government has included a broad housing affordability package in the 2017-18 Budget. In addition to the superannuation measures discussed above, key components of the housing affordability package are:

- The Government will look to the supply of housing and encourage a more responsive housing market by:
    - Providing $1 billion to fund infrastructure, such as water infrastructure, that will speed up the supply of housing.
    - Working with the States and Territories to deliver planning and zoning reform to speed up development.

- Releasing suitable Commonwealth land for housing development.
    - Investing in transport infrastructure across Australia.
    - Specifying housing supply targets in new agreements with the States and Territories.
- The Government will attempt to create the right incentives to improve housing outcomes by:
    - Improving the targeting of housing tax concessions.
    - Strengthening the capital gains tax rules so that foreign investors pay their fair share of capital gains tax.
    - Reforming foreign investment rules to discourage investors from leaving their property vacant.
- The Government will improve outcomes in social housing and homelessness by:
    - Requiring States and Territories to meet social and affordable housing targets under revised funding arrangements.
    - Providing $375 million to give funding certainty to providers of homelessness services.
    - Establishing a National Housing Finance and Investment Corporation to operate an affordable housing bond aggregator.
    - Providing tax incentives to increase private investment in affordable housing.

Personal Income Tax

Medicare Levy increased from 2.0 to 2.5%

The Government will increase the Medicare levy by half a percentage point from 2.0 to 2.5 per cent of taxable income from 1 July 2019. The increase is being made to ensure the National Disability Insurance Scheme (NDIS) is fully funded.

Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased.

Temporary Budget Repair Levy

The Temporary Budget Repair Levy will expire on 30 June 2017 as originally announced in the 2014-15 Federal Budget.