Karaco Budget Summary

Tax Implications

Items Announced Previously

- From 1 July 2016
  - Small business turnover threshold increases from $2m to $10m
    - Doesn’t extend to small business CGT concessions
  - Small business company tax rates decrease from 28.5% to 27.5%
  - Some dividends will not be franked to 30%
- From 1 July 2017
  - Superannuation contributions caps will decrease to $25k concessional, $100k non-concessional
  - Div 293 tax applies to individuals with income over $250k (was $300k)
  - ATO will be obliged to report tax debt to credit agencies
  - “Information” labels will no longer be required to completed on BAS’s
    - This includes the June 2017 BAS

Rental Property Owners

- From 1 July 2017, deductions for travel relating to residential rental properties will no longer be allowed
- Changes to depreciation
  - Previously, investment property owners could get a quantity surveyor to review their residential rental property, identify the existing depreciable assets and then claim deductions for the depreciation
  - This will not be available for properties purchased after 09/05/2017
  - Depreciation deductions will be available for assets purchased after 09/05/2017, but only for the original owner
  - What is "plant and equipment"?
  - Consider when transferring properties to related parties

Foreign Property Owners

- Foreign Resident Capital Gains Withholding
  - In effect since 1 July 2016
  - Obligation falls on purchaser of property to withhold 10% of the purchase price and remit it to ATO
  - Obligation extinguished in most cases when vendor provides a clearance or variation certificate from the ATO
  - Currently, properties under $2m are exempt
  - From 1 July 2017
    - Rate of withholding increases from 10% to 12.5%
    - Exemption threshold lowered from $2m to $750k

Foreign Property Owners cont.

- Main residence exemption
  - Exempts properties from capital gains tax where used as a main residence
  - From 9 May 2017, non-residents for tax purposes will not be able to claim the exemption
    - Existing properties still eligible for exemption until 30 June 2019
  - Can affect former Australian tax-residents now living/working overseas who own Australian property
  - Carve out for bequeathed property?

Foreign Property Owners cont.

- From 9 May 2017, foreign investors will be subject to a fee of at least $5,000 per annum if their property is not occupied or genuinely available for rent.
  - What does genuinely available for rent mean?

Property Developers

- From 9 May 2017, introduction of a 50% cap on foreign ownership in new housing developments
  - Only affects developments that are seeking a New Dwelling Exemption Certificate (i.e. exemption from the FIRB requirements)
    - Developments of 50 or more dwellings
    - Doesn’t include house and land packages or townhouses
    - Doesn’t affect developments where a certificate isn’t sought
  - Clarification on on-sell arrangements?
- From 1 July 2018, purchasers of newly build residential properties will remit GST on purchase directly to the ATO
  - Previously, the purchaser paid the vendor, who then paid the GST to the ATO

Small Business

- $20,000 immediate deduction for assets
  - Was due to end 30 June 2017
  - Now extended to 30 June 2018
  - Scheduled to revert back to $1,000 at 1 July 2018
- Tightening rules regarding small business CGT concessions
  - Targeted at those trying to "carve out" portions of their business to fit under the threshold

Minor Items

- Temporary budget deficit levy to end 30 June 2017
- Previously announced Family Tax Benefit Part A increase cancelled
  - Reduction of $28 per fortnight per child not immunised
- Child care rebate system to be combined into one payment
- Cleaners and couriers subject to new reporting requirements for payments to contractors from 1 July 2018

Higher Education Changes

Originally (2018-19)		Proposed (2018-19)	
Repayment Rate	Income Threshold	Repayment Rate	Income Threshold
2%	From $51,957 to $57,729	1%	From $42,000 to $44,519
4%	From $57,730 to $64,306	1.5%	From $44,520 to $47,190
4.5%	From $64,307 to $70,881	2%	From $47,191 to $50,021
5%	From $70,882 to $74,607	2.5%	From $50,022 to $53,023
5.5%	From $74,608 to $80,197	3%	From $53,024 to $56,204
6%	From $80,198 to $86,855	3.5%	From $56,205 to $59,576
6.5%	From $86,856 to $91,425	4%	From $59,577 to $63,151
7%	From $91,426 to $100,613	4.5%	From $63,152 to $66,940
7.5%	From $100,614 to $107,213	5%	From $66,941 to $70,597
8%	Above $107,214	5.5%	From $70,598 to $75,214
		6%	From $75,215 to $79,727
		6.5%	From $79,728 to $84,511
		7%	From $84,512 to $89,851
		7.5%	From $89,852 to $94,956
		8%	From $94,957 to $100,654
		8.5%	From $100,655 to $106,693
		9%	From $106,694 to $113,095
		9.5%	From $113,096 to $119,881
		10%	Above $119,882

Medicare Levy

- From 1 July 2019, increases from 2% to 2.5%
- Taxes linked to the top personal rate, such as FBT will go up as a result
- Current exemptions to stay
- Low income thresholds to increase as of 1 July 2016
  - singles - $21,335 to $21,655
  - families - $36,001 to $36,541
  - single seniors and pensioners - $33,738 to $34,244
  - each dependent child-support - $3,306 to $3,356

Victorian State Budget

- From 1 July 2017
  - Stamp duty abolished for first home buyers for properties up to $600k. Concessional treatment between $600k and $750k
  - Existing off-the-plan stamp duty concessions to be removed
  - Stamp duty exemption will be removed from transfers of non-PPR property between spouses
- From 1 January 2018
  - Extra 1% land tax on properties left unoccupied for six months or more in a calendar year
- From 1 July 2018
  - Payroll tax threshold up from $575k to $625k

First Home Buyers

- From 1 July 2017, individuals will be able to make voluntary contributions of up to $15,000 p.a., and $30,000 in total to superannuation to purchase a first home
  - Must be voluntary – SGC (9.5%) contributions don't count
  - Couples can effectively double the concession
- Will be taxed concessionally going into the fund and while generating income in the fund
- Cannot exceed existing contribution caps

First Home Buyers cont.

- When can I take my funds out?
  - After 1 July 2018
- How much can I take out?
  - Operates on a deemed earnings basis, not actual earnings
  - Deemed earnings are bank bill rate plus 3%
  - Capped on actual balance
- Included in taxable income on withdrawal, but with 30% offset, presumably non-refundable
- Warning for parents with SMSF's
- Compliance enforcement mechanisms to be determined by ATO
- What is a first home?

Downsizers

- From 1 July 2018, people aged 65 or over can contribute the proceeds of the sale of their home into superannuation
- Capped at $300k per person (i.e. a couple can contribute $600k)
- Must have owned (and presumably resided in) home for 10 years
- Exempt from:
  - Age test
  - Work test
  - Contribution caps
  - Superannuation balance test
- Not exempt from transfer balance cap (how much you can put in pension phase)

Borrowing in a SMSF

- More regulations
  - Outstanding balance of loans to be included in member's annual superannuation balance
  - Repayment of loans will eat away at the $1.6m transfer balance cap (amount you can put into pension phase)

Tax on 'Big 5' banks

- 0.06% Annual levy on key funding sources with banks above $100 billion in debt.
- Will affect large deposits and corporate bonds.
- Will not affect smaller deposits below $250,000 covered by the government guarantee.
- Will raise over $6 billion over the next 4 years or 5% of bank profits.
- Who pays?
- Winners & losers?

Infrastructure spend

- $75b billion infrastructure spend to boost the economy
- Winners to be workers and companies across VIC, NSW & SE QLD.
- Building approvals down.

Year-end Planning

- Superannuation
  - Strategy to maximise after tax contribution caps before reducing.
  - Planning for the reduced pre tax contributions .
  - CGT relief for SMSF’s in pension phase.
  - Strategies to account for the $1.6m account balance limit.
  - Consideration to the $1.6m transfer balance cap of assets allowed to be in pension phase of $1.6m.
  - Tax changes on the TRIS strategy for those aged between 56 – 65.
  - Division 293 tax threshold falling from taxable income of $300k to $250k.
  - Reviewing if reversionary beneficiary pensions are in place before 1 July.
  - Government co-contribution

Year-end Planning

- Businesses
  - Write off bad debts
  - Write off obsolete stock
  - Payment summaries
  - Workcover & Payroll Tax reporting
  - Building industry – TPAR - ensure all contractor details are held and valid
  - Budgets for 2017-18
  - Business plans updated
- Everyone
  - Ensure valid logbooks are held
  - Ensure valid receipts are held
  - Ensure deductions are paid before 30 June