Budget 2017: What Scott Morrison's moves could mean for investors

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Federal budgets have two elements: first, political discussion; and second, how does this affect me as an investor?

Let's look chiefly at the actual measures that affect investors — keeping in mind at this stage they are proposals only and individual measures may or may not be passed by parliament.

Superannuation

After last year's dramatic changes few measures were announced that further affect superannuation.

But it is important to note last year's changes take effect in just a few weeks on July 1, 2017, and it is imperative that if there is any lack of clarity investors should take advice from their taxation adviser. The only significant change to super rules announced in the budget is the action on "assisted downsizing".

Those aged 65 and over will be able to make a non-concessional contribution of up to $300,000, in addition to their existing caps, from the proceeds of selling their home.

Contribution eligibility requirements, such as the work test and restrictions on contributions from 75 will not apply to these contributions. The requirement to have a total super balance of less than $1.6 million to be eligible to contribute will also not apply.

Features associated with this measure include:
• The property must have been the principal place of residence for a minimum of 10 years;
• Both members of a couple will be able to take advantage of this measure for the same home, meaning $600,000 a couple can be contributed to super through the downsizing cap;
• Amounts will count towards the transfer balance cap when used to start an

income stream;
• Contributions will be subject to social security means testing when added to a super account.

The government also announced it would reduce opportunities for members to use related-party transactions on non-commercial terms to increase super savings.

First-home super saver scheme

The government is proposing that individuals may make voluntary contributions to super of up to $15,000 a year capped at $30,000 in total, for buying a first home. Both voluntary concessional and non-concessional contributions will qualify. Contributions along with deemed earnings can be withdrawn for a deposit from July 1, 2018, with the taxable portion being included in assessable income, which will receive a 30 per cent offset.

Higher Education Loan Program (HELP)

The repayment criteria will be changed through revised repayment rates of between 1 per cent and 10 per cent. A new minimum repayment threshold of $42,000 and a maximum of $119,882 (indexed) will apply.

Medicare Levy

This will increase 0.5 per cent, from 2 per cent to 2.5 per cent from July 1, 2019.

Temporary budget repair levy

This is due to expire on June 30. The top marginal tax rate will effectively fall for taxpayers whose income exceeds $180,000, including the Medicare Levy, from 49 to 47 per cent from July 1, but increase to 47.5 per cent from July 1, 2019, when adjusting for the Medicare Levy increase.

Residential property

A number of deductions for residential rental property have been disallowed.
• Travel expenses — deductions for inspecting, maintaining or collecting rent for a residential rental property will be disallowed for properties held

interstate and internationally.
• Plant and equipment depreciation deductions will be limited to outlays incurred by investors in residential real estate properties, while acquisitions of existing plant and equipment will be reflected in the cost base for capital gains tax for subsequent investors.
• Foreign and temporary tax residents will not be eligible for the CGT main residence exemption. Those who already own a qualifying property as at May 9 will have the exemption only until June 30, 2019. We are still trying to clarify the status for expatriates.
• The existing 10 per cent CGT withholding rate for foreign tax residents who sell a property will rise to 12.5 per cent from July 1.
• The CGT withholding threshold will also fall to $750,000 (now $2m) from July 1.

Small business

The small businesses asset write-off for assets under the $20,000 threshold has been extended to June 30, 2018. Measures that are yet to be fully determined will be introduced to ensure taxpayers do not arrange their affairs in a way that means ownership interests in larger businesses do not count towards the small business taxation tests. This is to ensure the small business concessions are available to the appropriate group of taxpayers.

Affordable housing

The CGT discount rises from 50 to 60 per cent for resident individuals who elect to invest in qualifying affordable housing.

Managed investment trusts

Affordable housing will now be an eligible investment within the flow-through tax environment of a managed investment trust. The affordable housing must be available to rent for 10 years, with the trust deriving at least 80 per cent of assessable income from affordable housing.

The government will not proceed with a number of unlegislated components of previous Coalition budgets, often called “zombie measures”.

It’s not important to go into these as they were unlegislated. What is important is that what I have detailed are proposals only and, as mentioned earlier, are subject to being passed not just by the House of Representatives but by the Senate where the government does not hold a majority. Given the noise out of Canberra since the budget, some of what I have discussed could become another set of zombie measures.

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