Federal Budget 2017-18 Update

Wealth Builders

How the Budget may affect wealth builders

The announcements in this update are proposals unless stated otherwise. These proposals need to successfully pass through Parliament before becoming law and may be subject to change during this process.

What you need to know

- First-home buyers have the opportunity to save a deposit through voluntary contributions to superannuation
- No changes to negative gearing or capital gains tax
- Accommodation and travel deductions will be disallowed for residential rental property
- Small businesses with a turnover up to $10 million can write off expenditure up to $20,000 for a further year
- Depreciation deductions for plant and equipment on residential investment properties will be limited
- The Medicare Levy will increase by 0.5% to 2.5% of taxable income on 1 July 2019
- Budget projected to return to balance in 2020–21 and remain in surplus over the medium term
- Capital gains tax rules for foreign investors will be tightened
- Foreign investment rules will be changed to discourage investors from leaving properties vacant.

Overview

To address the desire for many first home buyers to enter the market, the Budget proposes they will be able to use voluntary contributions to their existing superannuation funds to save for a house deposit. Contributions and earnings will be taxed at 15%, rather than marginal rates, and withdrawals will be taxed at their marginal rate, less 30 basis points. Contributions will be limited to $30,000 per person in total and $15,000 per year. Both members of a couple can take advantage of the scheme. Non-concessional contributions can also be made but will not benefit from the tax concessions apart from earnings being taxed at 15%.

The States will be required to deliver on housing supply targets and reform their planning systems and a $1 billion National Housing Infrastructure Facility will aim to remove infrastructure impediments to developing new homes.

States and Territories will be encouraged to transfer stock to the community housing sector and managed Investment trusts will be allowed to develop and own affordable housing. The incentive for investors will include a capital gains tax discount of 60%, and direct deduction of welfare payments from tenants.

There are no changes to negative gearing, but tougher rules on foreign investment in residential real estate remove the main residence capital gains tax exemption and tighten compliance. An annual levy of at least $5,000 will also apply to all future foreign-owned properties that are vacant for at least 6 months each year. In addition, it is proposed that developers also won't be allowed to sell more than 50% of new developments to foreign investors, which may make it easier for Australian residents to enter the market.

What's next?

Most changes must be legislated and passed through Parliament before they apply. If you think you may be impacted by some of the Budget's proposed changes, you should consider seeking professional advice. A financial adviser can give you a clear understanding of where you stand and how you can manage your cash flow, super and investments in light of proposed changes.

If any of these proposals raise questions, concerns or potential opportunities for you, we encourage you to please speak with your financial adviser today.

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