Federal Budget 2017-18 Update

Small Business

How the Budget may affect small businesses

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.

Summary: What's in and what's out

- Small businesses with a turnover up to $10 million can write off expenditure up to $20,000 for a further year
- No changes to negative gearing or capital gains tax
- Depreciation deductions for plant and equipment on residential investment properties will be limited
- Accommodation and travel deductions for residential rental property will be disallowed
- An annual foreign worker levy of $1,200 or $1,800 will apply per worker per year on temporary work visas and a $3,000 or $5,000 one-off levy for those on a permanent skilled visa
- The Government will spend $75 billion in infrastructure funding and financing over the next 10 years
- A $472 million Regional Growth Fund will be established.

Overview

The main change for small businesses with aggregate annual turnover of less than $10 million was the extension of the ability to immediately deduct eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2018. Certain assets are not eligible, for example horticultural plants and in-house software.

Assets valued at $20,000 or more can continue to be placed in the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools). From 1 July 2018, the thresholds for the immediate deduction of assets and the value of the pool will revert to $1,000.

A major new levy on the five biggest banks with liabilities above $100 billion will raise $6.2 billion over the Budget forward estimates. It will not apply to additional Tier 1 capital and deposits of individuals, businesses and other entities protected by the Financial Claims Scheme. The Australian Competition and Consumer Commission will undertake a residential mortgage pricing inquiry until 30 June 2018 in conjunction with the levy.

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Legislation to support a reduction in the company tax rate over 10 years starting on 1 July 2016 passed Parliament on 9 May 2017. The first companies to benefit were those with turnover of less than $10 million, which moved to the 27.5% rate on 1 July 2016. The tax rate for companies with annual turnover below $25 million will be 27.5% from 1 July 2017 and those with turnover of less than $50 million will be taxed at 27% from 1 July 2018.

Legislation to support an increase in the tax offset for unincorporated small businesses over 10 years to 16% from 5% passed Parliament on 9 May 2017. This offset applies to the tax payable on the business income and it benefits unincorporated small businesses that do not receive a reduced company tax rate.

Housing and superannuation

Individuals will be able to make voluntary contributions to their superannuation accounts to help buy their first home from 1 July 2017. Generally, pre–tax contributions (personal deductible or salary sacrifice) of up to $15,000 per year and $30,000 in total can be made. First-home super saver scheme contributions must be made within the concessional contributions cap ($25,000 in 2017-18) and will be taxed at 15%.

Contributions and deemed earnings can be withdrawn from 1 July 2018 and will be taxed at the member's marginal rate less a 30% tax offset. Non-concessional contributions can also be made but will not benefit from the tax concessions apart from earnings being taxed at the concessional super rate of 15% and these will be tax-free when withdrawn.

Housing supply target

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.

In Melbourne, Defence Department land at Maribyrnong will be released for a new suburb that could cater for 6,000 new homes. A new National Housing Finance and Investment Corporation will be established by 1 July 2018, to provide long-term, low-cost finance for more affordable rental housing.

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 six months each year. As well, developers also won't be allowed to sell more than 50% of new developments to foreign investors.

Education and health care

This Budget will invest $18.6 billion in extra schools funding over the next 10 years, in accordance with the Gonski needs-based standard. Funding for each student across all sectors will grow at an average of 4.1% a year.

However, university fees will rise by $2,000 to $3,600 for a four-year course and students will have to start paying back their debt when they earn more than $42,000 from July next year, down from the current level of $55,000. A 2.5% efficiency dividend will be applied to universities for the next two years.

In health care, the Medicare levy will increase on 1 July 2019 by 0.5% to 2.5% of taxable income to help fund the $22 billion National Disability Insurance Scheme (NDIS). The Treasurer says all Australians have a role to play in supporting the disability scheme, even if they aren't directly affected.

The Budget lifts the freeze on the indexation of the Medicare Benefits Schedule and reinstates bulk billing for diagnostic imaging and pathology services. Hospital funding will increase by an additional $2.8 billion over four years and an additional $115 million will be spent on mental health initiatives.

Another $1.4 billion will be spent on health research over the next four years.

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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