McGrath INSURANCE SERVICES

McGrath Corporate Services Pty Ltd
T/A McGrath Insurance Services
ABN 14 124 381 808
Rowena McGrath – Authorised Rep (M3FS) 311956

Level 1, 101 Verney Road West, Graceville QLD 4075
PO Box 198, Sherwood QLD 4075

P 07 3379 2299
F 07 3379 2231
M 0409 239 480
E rowena@mcgrathinsuranceservices.com.au

www.mcgrathinsuranceservices.com.au

2017/2018
Federal Budget Summary

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.

- Budget projected to return to balance in 2020ï 21 and remain in surplus over the medium term
- Growing consensus that the global economic outlook is improving
- First-home buyers allowed to save a deposit through voluntary contributions to superannuation
- No changes to negative gearing or capital gains tax
- The Medicare Levy will increase by 0.5 % to 2.5 % of taxable income on 1 July 2019
- Non-concessional contributions to superannuation funds of up to $300,000 allowed from sale of principal residence
- Small businesses with a turnover up to $10 million can write off expenditure up to $20,000 for a further year
- Education funding set at $18.6 billion over 10 years
- University student fees will increase by 7.5 % by 2021
- University graduates will start repaying their loans when they reach an income level of $42,000 a year, down from $55,000
- $75 billion in infrastructure funding and financing over the next 10 years
- A $472 million Regional Growth Fund will be established
- Doctors will be encouraged to prescribe generic drugs to save the Pharmaceutical Benefits Scheme (PBS) $1.8 billion over five years
- $350 million to help returned soldiers
- A one-off energy bill payment for pensioners worth $75 for singles and $125 for couples
- $321 million over four years for the Australian Federal Police
- 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

Overview

The economic plan Treasurer Scott Morrison delivered on Tuesday 9 May has housing affordability as the centrepiece. His 2017 Federal Budget had a number of significant announcements:

- Using superannuation to help fund the deposit for first-home buyers
- Allowing non-concessional contributions for those downsizing the family home
- Increasing the Medicare Levy by 0.5%
- Changes to eligibility for concession cards and income support payments.

The Budget also announced $75 billion in infrastructure funding and financing over the next 10 years. This will include $5.3 billion in equity funding for the second Sydney airport at Badgeryôs Creek and $8.4 billion in equity funding for the inland rail link between Melbourne and Brisbane.

Another $18.6 billion will be spent on education over the next 10 years, with funding for each student across all sectors growing at an average of 4.1 % a year. Small businesses with a turnover up to $10 million will continue to be able to immediately write off expenditure up to $20,000 for another year.

Housing and superannuation

While Mr Morrison says ñthere are no silver bullets to make housing more affordableò he promised a range of measures to boost the supply of land for new housing, help first-home buyers and further restrict foreign investment.

First-home buyers

First-home buyers 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 a 30% tax offset. 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%.

Housing supply

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.

Contribution of home sale proceeds into super

Australians over the age of 65 will each be able to make a non-concessional contribution of up to $300,000 into their superannuation fund from the proceeds of the sale of their principal home.

Negative gearing

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 wonôt be allowed to sell more than 50% of new developments to foreign investors.

Education and health care Schools funding

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.

University fees

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.

Medicare Levy

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. The Pensioner Concession Card will be reinstated for those pensioners who were no longer entitled to the pension following the changes to the pension assets test from 1 January 2017.
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.

McGrath INSURANCE SERVICES

How the Budget may affect families

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.

- The Medicare levy will increase by 0.5%to 2.5% from 1 July 2019
- The Government will spend $37.3 billion on child care over four years
- Additional education funding has been set at $18.6 billion over 10 years
- University student fees will increase by 7.5% by 2021
- University graduates will start repaying their loans when they reach an income level of $42,000 a year, down from approximately $55,000
- Family Tax Benefit Part A payments will not be indexed for two years
- Doctors will be encouraged to prescribe generic drugs to save the Pharmaceutical Benefits Scheme $1.8 billion over five years
- No changes to negative gearing

Overview

Medicare levy

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. Treasurer Scott Morrison says all Australians need to support the disability scheme, even if they aren't directly affected.

Child care

The Government will invest $37.3 billion in child care over four years to help about 1 million families, including those that need before and after school care for their children. A single, simplified, means-tested child care subsidy will provide more support for the families who need it the most from 2 July 2018.

The subsidy will introduce hourly rate caps and remove unnecessary regulation to allow providers to offer more flexible hours of care. The child care subsidy will be payable only to families with incomes below $350,000 per annum (in 2017-18 terms) from 2 July 2018. The upper income threshold of $350,000 per annum will be indexed annually by CPI from 1 July 2018.

A further $428 million will be provided to extend the National Partnership Agreement on Universal Access to early childhood education for the 2018 school year to allow access to a quality preschool education.

Schools funding

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 per cent 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 approximately $55,000. A 2.5 per cent efficiency dividend will be applied to universities for the next two years.

First-home buyers

First-home buyers 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% tax offset. 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.

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 July 1, 2018, to provide long-term, low-cost finance for more affordable rental housing.

Housing supply targets

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 rent from welfare payments from tenants.

Contribution of home sale proceeds into super

Australians over the age of 65 will be able to make a non-concessional contribution of up to $300,000 each into their superannuation fund from the proceeds of the sale of their principal home from 1 July 2018.

Family Tax Benefits

The current Family Tax Benefit Part A payments will not be indexed for two years from 1 July 2017. Indexation will resume on 1 July 2019. A 30¢ in the dollar income test taper will apply under Method 1 for Family Tax Benefit Part A families with household incomes above the Higher Income Free Area (currently $94,316) from 1 July 2018. Entitlements under Family Tax Benefit Part A may be worked out using two income tests, with the one giving the highest rate applying. Method 1 sometimes produces a higher result for larger families.

McGrath INSURANCE SERVICES

How the Budget may affect wealth accumulators

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.

- 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 2020ï 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 a 30% tax offset. 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 wonõ 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.

McGrath INSURANCE SERVICES

How the Budget may affect high net worth individuals and families

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.

- Growing consensus that the global economic outlook is improving
- Australians over the age of 65 will be able to make a non-concessional contribution of up to $300,000
- No changes to negative gearing or capital gains tax
- Medicare Levy to increase by 0.5%to 2.5% of taxable income on 1 July 2019
- Improving the targeting of tax concessions by disallowing accommodation and travel deductions for residential rental property
- Limiting depreciation deductions for plant and equipment on residential investment properties
- Major banks with liabilities greater than $100 billion will pay a Levy, raising $6.2 billion over four years. The Levy will be used to support Budget repair
- Ordinary bank deposits and other deposits protected by the Financial Claims Scheme will be excluded from the Levy base. It will not be levied on mortgages
- $75 billion in infrastructure funding and financing over the next 10 years
- A $472 million Regional Growth Fund will be established
- Strengthening capital gains tax rules for foreign investors
- Reforming foreign investment rules to discourage investors from leaving their properties vacant
- 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.

Overview

The Budget papers say there are clear and growing signs that global economic conditions are improving. Chinese GDP growth has ticked up in early 2017 and the United States economy is performing well.

The outlook for business investment and industrial production in several major economies is picking up. Business and market sentiment have strengthened as confidence in global prospects has improved. The underlying cash balance is expected to improve from a forecast deficit of $29.4 billion in 2017ï 18 to a projected surplus of $7.4 billion in 2020ï 21.

Housing and investment property changes feature in the 2017 Budget. Australians over the age of 65 will be able to make a non-concessional contribution of up to $300,000 each into their superannuation fund from the proceeds of the sale of their principal home from 1 July 2018.

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 July 1, 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 were no changes to negative gearing but from 1 July 2017, accommodation and travel deductions for residential rental property will be disallowed and plant and equipment depreciation deductions for residential investment properties will be restricted to only those expenses directly incurred by investors.

A new major Levy for banks with liabilities of at least $100 billion will apply from 1 July 2017. The Levy will not apply to deposits of individuals, businesses and other entities protected by the Financial Claims Scheme. In conjunction with the introduction of the Levy, the Australian Competition and Consumer Commission will undertake a residential mortgage pricing inquiry until 30 June 2018.

McGrath INSURANCE SERVICES

How the Budget may affect retirees and pre-retirees

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.

- Over 65s will be able to make a non-concessional contribution of up to $300,000 each into their superannuation fund from the proceeds of the sale of their principal home from 1 July 2018.
- Pensioners will receive a one-off energy bill payment of $75 for singles and $125 for couples
- The pensioner concession card will be restored to those affected by the pension assets test change 1 January 2017
- The Medicare Levy will rise by 0.5% to 2.5% on 1 July 2019
- No material changes to Aged Care
- No changes to negative gearing
- Former Farm Threshold Allowance recipients eligible for loans.

Overview

Contribution of home sale proceeds into super

Australians over the age of 65 will be able to make a non-concessional contribution of up to $300,000 into their superannuation fund from the proceeds of the sale of their principal home.

Medicare Levy

The Medicare Levy will increase **on July 1, 2019** by 0.5% to 2.5% of taxable income to help fund the $22 billion National Disability Insurance Scheme. Treasurer Scott Morrison says all Australians have a role to play in supporting the scheme, even if they aren't directly affected.

The Budget lifts the freeze on the indexation of the Medicare Benefits Schedule, improving the incentives for GPs to bulk bill, 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 and $1.2 billion in new medicines will be made available, including for patients with chronic heart failure, funded by an agreement to decrease the cost of medicines for taxpayers.

Pensioner Concession Card

The Pensioner Concession Card will be reinstated for those pensioners who were no longer entitled to the pension following the changes to the pension assets test from 1 January 2017. Stricter residency rules will be put in place for access to The Age Pension and Disability Support Pension. The Liquid Asset Waiting Period will increase to 26 weeks from 13 weeks from 20 September 2018 for certain payments. However age pensions, disability support pensions and carer payments will not be affected by the increase as they are not subject to a Liquid Assets Waiting Period.

Seven working-age payments and allowances will be consolidated into one payment called a JobSeeker payment. The intent is to achieve a more equitable and consistent participation requirement for the affected payments. Pensioner Concession Card and Health Care Card eligibility will not be affected by the changes.

The Pensioner Education Supplement and Education Entry Payment will be aligned with the study loads undertaken effective from 1 January 2018. In addition, the Pensioner Education Supplement is not payable during semester breaks and end of year holidays.

People over the age of 60 and under the Age Pension age will have a lower activity test requirement for the Newstart Allowance.

Former Farm Household Allowance recipients who do not receive any other Commonwealth income support will be eligible for loans of up to 50% to refinance their debt to a maximum of $1 million.

Major bank Levy

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.

McGrath INSURANCE SERVICES

How the Budget may affect small and medium 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.

- 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.

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.