# Budget 2017-18

The Balancing Act
A special client update

# The Balancing Act

The problems that any Australian Government is expected to resolve and the wish list they are supposed to fulfil, is extensive regardless of which party is in power. As author John Lydgate wrote:

**"You can please some of the people all of the time, you can please all of the people some of the time, but you can't please all of the people all of the time."**

This Budget delivers a series of measures to attempt to please as many people as possible. It tackles the issues currently in focus across the Australian community – gaps in healthcare, first home ownership, foreign workers, investment and bank accountability to name a few of the pressure points. It also delivers an economic 'sugar hit' in the form of $75 billion in infrastructure projects. Key measures include:

**Business**

- Extension of the $20,000 immediate deduction until 30 June 2018
- Contractors in the courier and cleaning industries face greater compliance
- Access to small business CGT concessions tightened
- Banks slugged with 'major bank levy'

**Superannuation**

- Super concessions for over 65s to downsize – up to $300,000 per member
- The ability for would-be first home owners to salary sacrifice into super to save a deposit

**Investors**

- An array of housing affordability measures including: a CGT discount increase to 60% for investments in affordable housing, and Managed investment Trust investment opportunities in affordable housing
- Deductibility of investment property travel costs to end and restrictions on depreciation deductions
- A series of restrictions on foreign property investments

**Individuals & Families**

- Medicare levy increase to 2.5% from 1 July 2019
- Help with energy bills for some social security recipients
- Demerit system for jobseekers

Overall the 2017-18 Budget will not offend anyone (except perhaps the banks) and there are plenty of give-aways. The only danger is the level of optimism in the economic projections in a climate of uncertainty.

# For Business

## $20k immediate deduction extended for another year

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| Date of effect | Extended until 30 June 2018 |

The $20,000* immediate deduction threshold for assets purchased by businesses with an aggregated turnover of under $10 million will be extended until 30 June 2018. Assets will need to be used or installed ready for use by 30 June 2018 to qualify for the higher threshold.

Assets costing $20,000 or more can be allocated to a pool and depreciated at a rate of 15% in the first year and 30% for each year thereafter. If the closing balance of the pool, adjusted for current year depreciation deductions (ie, these are added back), is less than $20,000 at 30 June 2018 then the remaining pool balance can be written off as well.

The instant asset write-off only applies to certain depreciable assets. There are some assets, like horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc., that don't qualify.

The current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2018.

From 1 July 2018, the immediate deductibility threshold will revert back to $1,000.

** $20,000 exclusive of GST for GST registered businesses. $20,000 inclusive of GST for businesses not registered for GST.*

## Contractors in the courier and cleaning industries face greater compliance

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| Date of effect | 1 July 2018 |

The building industry has faced enhanced compliance and reporting for some time through the taxable payments reporting system. Now it's the turn of contractors in the courier and cleaning industry.

Under the taxable payments reporting system, businesses are required to report payments they make to contractors (individual and total for the year) to the ATO.

Businesses in these industries will need to collect information from 1 July 2018, with the first annual report required to be lodged in August 2019. Details required to be maintained by the business include:

- ABN (where known)
- Name
- Address
- Gross amount you paid for the financial year (this is the total amount paid including GST)
- Total GST included in the gross amount you paid.

**See also**

- Media Release - Release of the interim report into the black economy

## Small business CGT concessions tightened

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| Date of effect | 1 July 2017 |

The small business CGT concessions will be tightened to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business.

The Government is concerned that some taxpayers are accessing the concessions for assets which are unrelated to their small business, for instance through arranging their affairs so that their ownership interests in larger businesses do not count towards the tests for determining eligibility for the concessions.

The small business CGT concessions will continue to be available to small business taxpayers with aggregated turnover of less than $2 million or business assets less than $6 million. The higher small business entity turnover threshold of $10 million will not apply to these concessions.

## Banks slugged with 'major bank levy'

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| Date of effect | 1 July 2017 |

A major bank levy will be imposed on Authorised Deposit taking Institutions (ADIs), with licensed entity liabilities of at least $100 billion raising an estimated $6.2 billion over 4 years.

This levy impacts on Australia's top 5 financial institutions: Commonwealth, Westpac, ANZ, NAB and Macquarie Bank.

Customer deposits of less than $250,000 and additional capital requirements imposed on the banks by regulatory authorities are excluded from their assessed liabilities for the levy.

The levy will be calculated quarterly as 0.015% of an ADI's licensed entity liabilities, excluding Additional Tier 1 capital and deposits of individuals, businesses and other entities protected by the Financial Claims Scheme. Liabilities subject to the levy will, for example, include: corporate bonds; commercial paper; certificates of deposit; and Tier 2 capital instruments.

To prevent financial institutions affected by the changes from simply increasing interest rates on mortgages to fund the levy, the Australian Competition and Consumer Commission (ACCC) will undertake a residential mortgage pricing inquiry until 30 June 2018. As part of this inquiry, the ACCC will be able to require relevant ADIs to explain changes or proposed changes to residential mortgage pricing, including changes to fees, charges, or interest rates by those ADIs.

**More information**

- Media Release - Building an accountable and competitive banking system

## Levy on businesses employing foreign workers on skilled visa

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| Date of effect | March 2018 |

Businesses that employ foreign workers on certain skilled visas will pay a levy that will be channelled into the *Skilling Australians Fund*. The new levies replace and increase the existing training benchmark financial obligations, generating an estimated gain of $1.2 billion over 4 years.

**For businesses with a turnover less than $10 million p.a.**

Businesses with turnover of less than $10 million per year will make an upfront payment of $1,200 per visa per year for each employee on a Temporary Skill Shortage visa and make a one off payment of $3,000 for each employee being sponsored for a permanent Employer Nomination Scheme (subclass 186) visa or a permanent Regional Sponsored Migration Scheme (subclass 187) visa.

**For businesses with a turnover of $10 million or more p.a.**

Businesses with turnover of $10 million or more per year will be required to make an upfront payment of $1,800 per visa year for each employee on a Temporary Skill Shortage visa and make a one off payment of $5,000 for each employee being sponsored for a permanent Employer Nomination Scheme (subclass 186) visa or a permanent Regional Sponsored Migration Scheme (subclass 187) visa.

## Who collects the GST on residential property & subdivisions

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| Date of effect | 1 July 2018 |

Under new integrity measures, property developers will no longer manage the GST on sales of newly constructed residential properties or new subdivisions. Instead, the Government will require purchasers to remit the GST directly to the ATO as part of the settlement process.

It seems that under current law (where the GST is included in the purchase price and the developer remits the GST to the ATO), some developers are failing to remit the GST to the ATO despite having claimed GST credits on their construction costs.

The Government expects that as most purchasers use conveyancing services to complete their purchase, they should experience minimal practical impact from these changes.

The practical effect for developers is that they will not have the GST they would have collected to assist with cashflow between the period between settlement and when they would normally remit it to the ATO.

Many new residential properties and subdivided lots are sold under the GST margin scheme which allows the developer to calculate the GST based on the difference between their purchase price and sale price rather than GST applying to the full sale proceeds. It is not clear how this will work under the proposed new rules and whether the purchaser will be able to rely on calculations performed by the developer to meet their obligations with the ATO.

## Indexation returned to Medical Benefits Scheme

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| Date of effect | From 2017-18 |

Indexation will be reintroduced for elements of the Medicare Benefits Schedule:

- bulk billing incentives for General Practitioners will be indexed from 1 July 2017;
- standard consultations by General Practitioners and specialist attendances will be indexed from 1 July 2018; and
- specialist procedures and allied health services will be indexed from 1 July 2019.

In addition, from 1 July 2020, indexation will be introduced for certain diagnostic imaging items on the MBS, including for computed tomography scans, mammography, fluoroscopy and interventional radiology.

## Large multinationals laws tightened further

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| Date of effect | 1 January 2016 |

The multinational anti avoidance law will be enhanced so that it applies to:

- corporate structures that involve the interposition of partnerships that have any foreign resident partners;
- trusts that have any foreign resident trustees; and
- foreign trusts that temporarily have their central management and control in Australia.

The amendments apply from the date the multinational anti-avoidance laws began.

## Removing double tax on Bitcoin

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| Date of effect | 1 July 2017 |

The GST treatment of digital currencies such as Bitcoin will be aligned to prevent consumers who use these currencies paying GST twice.

Digital currency is currently treated as intangible property for GST purposes rather than Australian currency. Consequently, consumers who use digital currencies as payment can effectively bear GST twice: once on the purchase of the digital currency and again on its use in exchange for other goods and services that are subject to GST.

# For Business

The use of the superannuation regime to provide incentives to resolve public housing issues is an interesting measure and one that will spark a lot of debate and interest.

## Encouraging the over 65s to downsize

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| Date of effect | 1 July 2018 |

If you are 65 or over, the Government will allow you to make a non concessional contribution of up to $300,000 from the proceeds of selling your home from 1 July 2018. This non-concessional contribution will be excluded from the existing age test, work test, and the $1.6 million balance threshold (but will not be exempt from the $1.6m transfer balance cap).

Interestingly, the Government is enabling "both members of a couple" to take advantage of the concession for the same home.  So, if you have joint ownership of the property and meet the other criteria, both people can make a non-concessional contribution up to $300,000 ($600,000 per couple).

The measure will apply to sales of a principal residence owned for the past ten or more years.

Sale proceeds contributed to superannuation under this measure will count towards the Age Pension assets test.

See Reducing Pressure on Housing Affordability fact sheet

## First home owners to use super contributions to save for a deposit

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| Date of effect | 1 July 2017 - contributions / 1 July 2018 – withdrawals |

Under the First Home Super Savers Scheme, would be first home owners will be able to withdraw voluntary contributions they make to super for a deposit.  In practice, first home buyers will be able to save for a deposit by salary sacrificing into their superannuation fund over and above their normal compulsory superannuation contributions.

If the individual is self-employed or their employer will not allow contributions to be salary sacrificed the Government will allow these people to claim a deduction for voluntary contributions made under the scheme.

The Government will allow future voluntary contributions to superannuation made by first home buyers from 1 July 2017 to be withdrawn for a first home deposit, along with associated deemed earnings. The earnings that can be released will be calculated using a deemed rate of return based on the 90-day Bank Bill rate plus 3 percentage points (the same way the Shortfall Interest Charge is calculated).

Concessional contributions and earnings that are withdrawn will be taxed at marginal rates less a 30% offset. Combined with the existing concessional tax treatment of contributions and earnings, this is intended to provide an incentive that will enable first home buyers to build savings more quickly for a home deposit. In reality, the benefits of using the scheme could be relatively small for those on low income levels as salary sacrificing arrangements and additional deductions tend to be much more beneficial for those on higher incomes.

Under the measure, up to $15,000 per year and $30,000 in total can be contributed within existing caps. Withdrawals will be allowed from 1 July 2018 onwards. Both members of a couple can take advantage of this measure to buy their first home together.

It will be interesting to see how popular this scheme is with first home buyers. Some individuals may be wary of contributing additional funds into superannuation especially if they are not absolutely confident that they will be able to save a deposit for a home in the near future.

See Reducing Pressure on Housing Affordability fact sheet

## Tax relief extended for merging super funds

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| Date of effect | Extension of existing relief until 1 July 2020 |

The current tax relief for merging superannuation funds will be extended until 1 July 2020.

Since December 2008, tax relief has been available for superannuation funds to transfer capital and revenue losses to a new merged fund, and to defer taxation consequences on gains and losses from revenue and capital assets. This tax relief was due to lapse on 1 July 2017.

## Crackdown on related party transactions

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| Date of effect | 1 July 2018 |

The Government is concerned that related party transactions on non-commercial terms are being used to increase superannuation savings.

As a result, the non arm's length income provisions will be amended to ensure expenses that would normally apply in a commercial transaction are included when considering whether the transaction is on a commercial basis.

# Investors

The Government is very keen for private investors – including large scale investors and superannuation funds – to be a part of the solution to Australia's housing affordability crisis. A series of new measures target investment opportunities to expand the availability of affordable rental properties.

See also **Encouraging the over 65s to downsize** and **First home owners to use super contributions to save for a deposit.**

In addition, a series of measures target excessive deductions by property investors.

See also **Who collects the GST on residential property & subdivisions.**

## CGT concession for investments in affordable housing

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| Date of effect | From 1 January 2018 |

The Capital Gains Tax (CGT) discount will be increased for individuals who choose to invest in affordable housing.  The current 50% discount will increase by 10% to 60% for resident individuals who elect to invest in qualifying affordable housing. Non-residents are no longer eligible for the CGT discount.

To qualify for the higher discount, housing must be provided to low to moderate income tenants, with rent charged at a discount below the private rental market rate. The affordable housing must be managed through a registered community housing provider and the investment held for a minimum period of 3 years. The additional 10% discount will be pro-rated for periods where the property is not used for affordable housing purposes.

The higher discount would also flow through to resident individuals investing in qualifying affordable housing held by Managed Investment Trusts. See **Investment opportunities for Managed Investment Trusts in affordable housing** below.

See Boosting affordable housing for Australians through investment tax incentives fact sheet

## Investment opportunities for Managed Investment Trusts in affordable housing

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| Date of effect | Income years starting on or after 1 July 2017 |

Managed Investment Trusts (MIT) will be able to set up to acquire, construct or redevelop property to hold as affordable housing. In order for investors to receive concessional taxation treatment through a MIT, the affordable housing must be available for rent for at least 10 years.

This is one area of the property market where the Government is actively encouraging rather than discouraging foreign investors.

MITs allow investors to pool their funds to invest in primarily passive investments and have them managed by a professional manager. The MIT will be able to acquire, construct or redevelop the property but must derive at least 80% of its assessable income from affordable housing. Qualifying housing must be provided to low to moderate income tenants, with rent charged at a discount below the private rental market rate.

Under the MIT withholding tax regime, non resident investors are generally subject to a reduced rate of tax if they are a resident of a country with which Australia has an effective exchange of information treaty. Non resident investors are generally subject to a 15% final withholding tax rate on fund payments from the MIT. Resident investors are taxed at their marginal tax rates, with capital gains remaining eligible for the capital gains tax discount.

Up to 20% of the income of the MIT may be derived from other eligible investment activities permitted under the existing MIT rules in the income tax law. If this is breached, or less than 80% of the MIT's income is from affordable housing in an income year, the non resident investor will be liable to pay withholding tax at 30% on investment returns for that income year.

Properties held for rent as affordable housing for less than 10 years will be subject to a 30% withholding tax rate on the net capital gains arising from the disposal of those assets.

## Deductibility of investment property travel costs to end

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| Date of effect | From 1 July 2017 |

The days of writing-off the costs of travel to and from your residential investment property are about to end. The Government has moved to disallow deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property.

It seems that policing this area to ensure taxpayers apportion expenses correctly (and don't claim a deduction for their holidays), just got too hard.

## Depreciation deductions limited

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| Date of effect | From 1 July 2017 / Grandfathering from 7:30pm, 9 May 2017 |

The Government is concerned that some plant and equipment items in residential rental properties are being depreciated by successive investors in excess of their actual value.

This integrity measure will limit plant and equipment depreciation deductions to outlays actually incurred by residential rental property owners. Acquisitions of existing plant and equipment items will be reflected in the cost base for CGT purposes for subsequent investors.

Investors who directly purchase plant and equipment for their residential investment property after 9 May 2017 will be able to claim depreciation deductions over the effective life of the asset. However, subsequent owners of a property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property. The portion of the purchase price that reflects the value of these items will simply form part of the cost base of the property and will reduce capital gains made on future disposal of the property.

These changes apply on a prospective basis, with existing investments grandfathered. Plant and equipment forming part of residential investment properties at 9 May 2017 (including contracts already entered into) will continue to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.

Plant and equipment items are usually mechanical fixtures or those that can be 'easily' removed from a property such as dishwashers and ceiling fans.

## Foreign investors targeted

### Foreign investors charged for leaving properties vacant

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| Date of effect | From 7:30PM (AEST) on 9 May 2017 |

Foreign owners of residential Australian property will incur a charge if their property is not occupied or genuinely available on the rental market for at least 6 months per year. The charge will be levied annually and will be equivalent to the relevant foreign investment application fee imposed on the property at the time it was acquired by the foreign investor. The charge imposed is expected to be at least $5,000.

This measure will apply to foreign persons who make a foreign investment application for residential property from the Budget announcement, 7:30PM (AEST) on 9 May 2017. This suggests that the new rules do not appear to apply to existing properties.

### Capital gains tax changes imposed on foreign and temporary residents

The Government has announced a series of changes to how the Capital Gains Tax regime applies to foreign and temporary tax residents.

### Capital gains tax changes imposed on foreign and temporary residents

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| Date of effect | From 7:30PM (AEST) on 9 May 2017 |

Foreign and temporary residents will be excluded from the main residence exemption.  The main residence exemption excludes private homes from capital gains tax.

Generally, a full exemption should be available if the following conditions are met:

- The taxpayer is an individual who is selling a dwelling or an ownership interest in a dwelling;
- The dwelling has been the taxpayer's home for the entire ownership period;
- The dwelling has not been used to produce assessable income; and
- The dwelling is situated on land that is 2 hectares or less.

The exemption is currently available regardless of the residency status of the vendor or whether the property is located in Australia or overseas. These new measures change the position to prevent foreign and temporary residents from accessing the main residence exemption.

Existing properties held prior to 9 May will be grandfathered until 30 June 2019. However, it remains to be seen whether partial relief will be available to those who have been residents of Australia for part of the period they owned the property and whether this change will apply to Australian residents who were classified as a foreign resident for part of the ownership period.

### Foreign resident CGT withholding rate increased and threshold reduced

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| Date of effect | From 1 July 2017 |

When someone buys Australian real property (ie, land and buildings) they are currently required to remit 10% of the purchase price directly to the ATO as part of the settlement process unless the vendor provides a certificate from the ATO indicating that they are an Australian resident. These rules do not currently apply if the property is worth less than $2 million.

From 1 July 2017 the CGT withholding rate under these rules will increase by 2.5% to 12.5%.

Also, the CGT withholding threshold for foreign tax residents will reduce from $2 million to $750,000, capturing a much wider pool of taxpayers and property transactions.

## Australian property held through companies and trusts

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| Date of effect | From 7:30PM (AEST) on 9 May 2017 |

When a non-resident or temporary resident sells shares in a company or units in a trust this is not generally subject to Australian CGT unless:

- The taxpayer and their associates hold at least 10% of the shares in the company or units in the trust; and
- More than 50% of the total market value of the company or trust's assets is attributable to land and buildings in Australia and certain mining, quarrying or prospecting rights relating to Australia (the principal asset test).

The principal asset test will be changed to take into account assets held by associates of the company or trust rather than only considering assets held by the company or trust. The change will apply from the Budget announcement (7:30PM (AEST) on 9 May 2017).

This will ensure that foreign residents cannot avoid an Australian CGT liability by splitting indirect interests in Australian real property.

## Foreign ownership in new dwellings restricted

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| Date of effect | From 7:30PM (AEST) on 9 May 2017 |

A 50% cap will be imposed on foreign ownership in new developments. In effect, any new development will need to ensure that less than 50% of the purchasers are foreign residents.

The cap will be a condition of New Dwelling Exemption Certificates from the night of the Budget announcement (7:30PM (AEST) on 9 May 2017). New Dwelling Exemption Certificates are granted to property developers and act as a pre approval allowing the sale of new dwellings in a specified development to foreign persons without each foreign purchaser seeking their own foreign investment approval. The current certificates do not limit the amount of sales that may be made to foreign purchasers.

## Foreign investment framework changes

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| Date of effect | From 1 July 2017 |

The Government intends to make a series of changes to Australia's foreign investment framework, including:

- refining the type of developed commercial property subject to the lower $55 million threshold by removing low sensitivity applications from the meaning of sensitive land;
- improving the treatment of residential applications by allowing failed off the plan purchases to be considered as 'new'; overcoming limitations with the existing exemption certificate system for individual residential real estate purchases and amending the treatment of residential land used for a commercial purpose;
- streamlining and simplifying foreign investment business application fees, including legislating existing fee waiver arrangements;
- introducing a new exemption certificate that applies to low risk foreign investors;
- clarifying the treatment of developed solar and wind farms; and
- restoring the previous arrangement where companies with significant foreign custodian holdings (that is, legal rather than equitable interest holders) are not subject to notification requirements.

In general the changes should streamline the rules.

# Individuals & Families

## Increase in the Medicare Levy

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| Date of effect | 1 July 2019 |

From 1 July 2019, the Medicare Levy will increase to 2.5% of taxable income (up from 2%) raising an estimated $8.2 billion across the 3 years from introduction.

Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased.

Low income earners will continue to receive relief from the Medicare levy through the low income thresholds for singles, families, seniors and pensioners. The current exemptions from the Medicare levy will also remain in place.

The measure is to inject funds into a savings fund for the National Disability Insurance Scheme.

## Medicare low-income threshold increased

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| Date of effect | 2016-17 income year |

The Medicare levy low-income thresholds for singles, families and seniors and pensioners will increase to take account of movements in the CPI:

| | **2016-17 Threshold** |
|---|---|
| Singles | $21,655 |
| Families | $36,541 plus $3,356 for each dependent child or student |
| Single seniors and pensioners | $34,244 |
| Family threshold for seniors and pensioners | $47,670 plus $3,356 for each dependent child or student |

## Help with energy bills

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| Date of effect | 20 June 2017 |

As part of the deal to pass the Enterprise Tax Bill containing the business tax reductions and other measures for small business, the Government agreed to assist with energy bills.

A one off Energy Assistance Payment will be made in 2016 17 of $75 for single recipients and $125 per couple for those eligible for qualifying payments on 20 June 2017 and who are resident in Australia.

Qualifying payments include the Age Pension, Disability Support Pension, Parenting Payment Single, the Veterans' Service Pension and the Veterans' Income Support Supplement, Veterans' disability payments, War Widow(er)s Pension, and permanent impairment payments under the *Military Rehabilitation and Compensation Act 2004* (including dependent partners) and the *Safety, Rehabilitation and Compensation Act 1988.*

## Child care subsidy limited

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| Date of effect | From 2018-19 income years |

The Child Care Subsidy will be limited to families with incomes below $350,000 per annum. This upper income threshold will be indexed annually from 1 July 2018.

## Indexation paused on Family Tax Benefit payments

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| Date of effect | 1 July 2017 |

The Family Tax Benefit payment rates will remain static for the next two years until indexation resumes on 1 July 2019.

## Family Tax Benefit A changes

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| Date of effect | 1 July 2018 |

A consistent 30 cents in the dollar income test taper for Family Tax Benefit Part A families with a household income in excess of the Higher Income Free Area (currently $94,316) will apply from 1 July 2018.

In addition, the increase to the Family Tax Benefit A announced as part of the 2015-16 Mid Year Economic review will not proceed.

## Tougher residency requirements for pensioners

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| Date of effect | 1 July 2018 |

The residency requirements will be strengthened for access to the Age Pension and the Disability Support Pension.

Claimants will be required to have 15 years of continuous Australian residence before being eligible to receive the Age Pension or DSP unless they have either:

- 10 years continuous Australian residence, with five years of this residence being during their working life (16 years of age to Age Pension age); or
- 10 years continuous Australian residence, without having received an activity tested income support payment for a cumulative period of five years.

Existing exemptions for DSP applicants who acquire their disability in Australia will continue to apply.

## Penalties introduced for Work for the Dole and jobseekers

A new demerit system will be introduced to tackle deliberately non-compliant job seekers. Each failure without a reasonable excuse will result in payment suspension until re-engagement, and accrual of demerit points. Individuals who accrue four demerits in six months will enter a three strike Intensive Compliance Phase, in which they will face escalating penalties.

They will:

- lose 50% of their fortnightly payment for their first strike without a reasonable excuse;
- lose 100% of their fortnightly payment for their second strike; and
- have their payment cancelled for four weeks for their third strike.

## Working Age Payments consolidated

A new Jobseeker payment will transition and replace seven working age payments and allowances - Newstart Allowance, Sickness Allowance, Widow Allowance, Partner Allowance, Widow B pension, Wife Pension, and Bereavement Allowance. In addition, the Government intends to introduce new participation requirements.

## Regional and rural scholarships

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| Date of effect | From 2017-18 |

$24 million over four years has been set aside to establish a Rural and Regional Enterprise Scholarships program. At least 1,200 Rural and Regional Enterprise Scholarships of up to $20,000 each will be available for students undertaking undergraduate, post graduate or vocational education and training qualifications in priority fields of study including science, technology, engineering, mathematics and health.

## Previously announced measures

### Higher education fees increased

Student contributions to the Higher Education Loan Program will increase by 7.5% over 4 years from 1 January 2018.

In addition, the threshold at which students start to pay back student loans will be reduced from 1 July 2018. A new minimum threshold of $42,000 will be established with a 1% repayment rate and a maximum threshold of $119,882 with a 10% repayment rate.

Changes are also being made to the Commonwealth Grants Scheme with an efficiency dividend of 2.5% introduced in 2018 and 2019. In addition, access to the CGS will end for permanent residents and to most New Zealand residents – these students will be able to access concessional loans instead. The changes apply to students enrolled from 1 January 2018.

See A stronger, sustainable and student-focussed higher education system for all Australians

## Funding for schools

The Government is introducing a "needs based" funding model for schools. Recurrent funding will be based on a needs based Schooling Resource Standard of 20% for Government schools and 80% for non-Government schools. The standard provides a base amount of $10,953 in 2018 for every primary school student and $13,764 for secondary school students, plus loadings for students and schools that need extra support.

See True needs-based funding for Australia's schools

# Infrastructure & Investment

## $1bn National Housing Infrastructure Facility established

A $1 billion National Housing Infrastructure Facility will be established to provide financial assistance to local government from 2018 19 for infrastructure that supports new housing, particularly affordable housing.

The facility will be administered by the newly created National Housing Finance and Investment Corporation (NHFIC). The NHFIC will operate an affordable housing bond aggregator. The function of the bond aggregator is to provide cheaper and longer term finance for community housing providers by aggregating their borrowing requirements and issuing bonds to the wholesale market at a lower cost and longer tenor than bank finance.

See National Housing Infrastructure Facility fact sheet

## Advanced Manufacturing Fund established

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| Date of effect | From 2016-17 |

A $101.5 million Advanced Manufacturing Fund will promote research and capital development for high technology manufacturing businesses. The Fund will support:

- Establishing the Advanced Manufacturing Fund, to assist businesses establishing or expanding high value manufacturing operations in South Australia and Victoria;
- expansion of the Cooperative Research Centres program to fund additional Cooperative Research Centre Projects targeting advanced manufacturing;
- Establishment of two Advanced Manufacturing Laboratories to support automotive parts suppliers and related businesses;
- An Advanced Manufacturing Early Stage Research Fund to support small scale and pilot research projects in advanced manufacturing;
- Establishment of a virtual design and engineering hub to maintain the flow of highly trained engineers; and
- Extension of the current customs duty exemption available to motor vehicle producers for the importation of prototype motor vehicles and components to automotive service providers.

## Unlocking Commonwealth land

The Government is disposing of land suitable for residential housing and no longer required by the Commonwealth, beginning with surplus Defence land at Maribyrnong in Melbourne (127 hectares and large enough to develop 6,000 new homes less than 10kms from Melbourne CBD).

To facilitate this unlocking, a registry of the Commonwealth's land holdings online, including mapping their locations will be published from 1 December 2017.

This registry is intended to create opportunities for stakeholders and the public to propose better use of Commonwealth land — whether this might be to deliver more houses, community amenities, key services or employment hubs.

## Major investment in infrastructure projects

The Government has allocated a raft of funding for major infrastructure projects focused predominantly on transport connections.  These include:

- A potential acquisition of a larger share or outright ownership of the Snowy Hydro
- $843.8 million for Bruce Highway projects in Queensland including the Pine River to Caloundra upgrade, Wide Bay Highway and Bruce Highway intersection upgrade, Deception Bay interchange upgrade and Bruce Highway safety package;
- $45 million in additional funding for the Walkerston Bypass upgrade in Queensland, bringing the total Government commitment for the project to $120 million;
- $6 million in additional funding for the Mt Lindesay Highway upgrade in Queensland, bringing the total Government commitment for the project to $16 million; and
- $13.8 million for the Far North Collector Road in New South Wales.
- $1 billion to fund priority regional and urban infrastructure in Victoria to reduce travel times and improve transport connections between regional centres and metropolitan Melbourne, with the initial investments to include:

    - $500 million over three years from 2017 18 to upgrade regional rail, including $100.0 million for the Geelong Rail Line duplication, $100 million for the North East Rail Line upgrade, $195 million for Eastern Line duplication projects, $10 million for a Shepparton Line Passenger and Freight Upgrade Planning Study, and a further $95 million for the Avon River Bridge duplication;

    - $20.2 million in 2017 18 for the Murray Basin Rail; and

    - $30 million over two years from 2017 18 for business case development for the Tullamarine Rail Link.

- $600 million over two years from 2019 20 as part of a $10 billion National Rail Program to better connect our cities and regions and grow the economy.
- An additional $27 million over two year from 2017-18 for the Stronger Communities Programme to provide funding of between $5,000 and $20,000 for small capital projects that deliver social benefits to local communities across Australia.
- $40 million in local roads funding in South Australia.
- $1.2 billion for the Perth Freight Link to any future Western Australian (WA) Government which proceeds with the project

## Regional Growth Fund established

| | |
|---|---|
| Date of effect | From 2017-18 |

A $472.2 million Regional Growth Fund will be established over four years from 2017-18.

The Fund will include $272.2 million to provide grants of $10 million or more for major transformational projects that support long term economic growth and create jobs in regions undergoing structural adjustment.

In addition, $200 million will be provided to the Building Better Regions Fund (BBRF) to support the construction of community infrastructure and build the capacity of regional areas.

## Improved competition in banking

| | |
|---|---|
| Date of effect | 2017-18 |

The Department of Treasury will undertake an independent review into the most appropriate implementation model for an open banking regime.

An open banking regime would require the banking sector to share product and customer data when requested by the customer. This will provide consumers with greater choice and also support greater competition in financial services. The review will consider appropriate privacy and consumer protections.

The Government is also providing $13.2 million over four years from 2017 18 to the Australian Competition and Consumer Commission (ACCC) to establish a unit to undertake regular inquiries into specific financial system competition issues.

## Disaster relief extended

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|---|---|
| Date of effect | 2017-18 |

Provides an additional $26.1 million in to be matched by the State and Territory Governments will go towards projects that help mitigate the impacts of future disasters.

In addition, $5 million will go to the Queensland tourism industry to help overcome the impact of Tropical Cyclone Debbie.

# Regulation & Administration

## More money for the ATO

In his Budget speech, Treasurer Scott Morrison was keen to point out that the Australian Taxation Office (ATO) has, "...already raised $2.9 billion in tax liabilities this year against a group of just seven large multinational companies, and expects to raise more than $4 billion in total this financial year from large public companies and multinationals."

So, more funding to chase down tax evaders, tax cheats and general recalcitrants is in order.

Another $28.2 million has been set aside to assist the ATO target serious and organised crime in the tax system.  This amount is estimated to produce a net gain of $380.3 million over 4 years.

Plus:

- $3.7 million to implement the annual charge on foreign owners of underutilised residential property
- $1.5 million to implement the managed investment trust affordable housing measures
- $32 million to fund an additional year of the audit and compliance programs targeting the black economy

## APRA targets the behaviour of financial institutions

| | |
|---|---|
| Date of effect | From 2017-18 |

Banking executives will be required to be registered with the Australian Prudential Regulation Authority (APRA), APRA's powers will be strengthened to remove and disqualify senior executives, and new penalty provisions and deferral of remuneration for senior executives will apply under new measures to improve integrity within the banking system.

## Sales suppression technology banned

We have to admit, we didn't even know these products existed. Sales suppression technology and software allow businesses to understate their incomes by untraceably deleting selected transactions from electronic records in point of sale (POS) equipment.  If you do a Google search you can find quite a lot of it.

The end result is the Government don't like it and are moving to prohibit the manufacture, distribution, possession, use or sale of electronic POS sales suppression technology and software.

## Fines increased for breaching consumer law

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|---|---|
| Date of effect | 1 July 2018 |

The penalties under consumer law will increase to match the penalties under competition law.

For companies, this involves the greater of the maximum penalty ($10 million) or three times the value of the benefit received by the company from the act or omission, or if the benefit cannot be determined, 10% of the annual turnover in the preceding 12 months.

For individuals, this involves a maximum penalty of $500,000.

This measure requires agreement by the States and Territories.

## Previously announced measures

- ASIC recovers its costs - From 1 July 2017, the Government will recover $112.6 million over 4 years from all entities regulated by the Australian Securities and Investments Commission (ASIC) through a statutory levy. See the 20 April 2016 media release, Turnbull Government bolsters ASIC to protect Australian consumers

# Other

## Farm Business Concessional Loans Scheme extended

Eligibility to the Farm Business Concessional Loans Scheme will be extended to assist farmers and their partners who have received their full entitlement for the Farm Household Allowance (FHA) and who are not in receipt of any other form of Commonwealth income support.

Former FHA recipients will be eligible for loans of up to 50% of their current debt position to a maximum of $1 million for debt refinancing purposes only. Loan applications will be accepted on the basis of all existing eligibility criteria with the exception of the requirement to be in a rain deficient area.

## Visa charges increase

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| Date of effect | 1 July 2017 |

The Government will index visa application charges in line with the forecast CPI published annually in the Budget. The measure is expected to generate $410 million over 4 years.

## Agricultural levy changes

A series of levy changes to agricultural levies and export charges. These are:

| | COMPONENT | LEVY | DATE OF EFFECT |
|---|---|---|---|
| Bananas levy | Plant Health Australia component | Increased by $0.04897 per kg to $0.05 cents per kg | 1 April 2017 |
| | Marketing component | Increased to $0.15 per kg | 1 April 2017 |
| Avocados | Plant Health Australia component | Levy of $0.01 per kg introduced | 1 April 2017 |
| | | Reduction of $0.01 per kg in the avocado R&D levy rate to 2.9 cents per kilogram. | 1 April 2017 |
| Seed cotton | R&D levy | $3.99 per tonne levy introduced | 1 April 2017 |
| | Plant Health Australia component | $0.07 per tonne levy introduced | 1 April 2017 |
| Tea Tree Oil | R&D levy | $0.25 per kg levy introduced | 1 July 2017 |
| Thoroughbreds | R&D levy | $10 per mare covered (paid by stallion owner) or returned (paid by the broodmare owner) per season | 1 July 2017 |
| Laying chickens | Emergency Animal Disease Response | Reduced from $0.014 per one day old chick to zero | 1 July 2017 |

## Tax on cigars and roll your own cigarettes goes up

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|---|---|
| Date of effect | Phased in over 4 years from 1 September 2017. |

The way tax applies to cigars and roll your own (RYO) cigarettes will be brought into line with other manufactured tobacco products resulting in an increase in the tax paid by $360 million over 4 years.

The excise and excise equivalent customs duty rates will be based on the assumption that the average tobacco content of a cigarette is 0.7 grams, rather than the current assumption of 0.8 grams. Since the average cigarette contains less than 0.8 grams of tobacco - the current tax treatment of RYO tobacco is more favourable relative to manufactured cigarettes.

# Economic Overview

The Government's economic forecasts are optimistic (and susceptible to change) with global growth expected to recover and Australia's economy to expand. However, the economic commentary in the Budget is littered with comments such as "uncertainties remain."

- Growth is expected to rebound to 2¾% after slowing in 2016-17 as a result of weather-related factors in early 2016-17 and more recently Tropical Cyclone Debbie.
- A deficit of $29.4 billion in 2017-18 returning to a projected surplus of $7.4 billion in 2020-21.
- Growth in payments restricted to less than 2% per year.
- The drag on growth from mining investment is expected to diminish.
- Non-mining business investment is forecast to grow by 4½% in both 2017-18 and 2018-19.
- Wages growth is expected to improve (2% before increasing to 2.5%) as domestic demand strengthens but the outlook for wage growth remains subdued in the near term, reflecting spare capacity in the labour market.
- Australia's major commodity exports rose sharply over the past six months and are providing a temporary boost to national income but this is not expected to sustain.
- Total exports forecast to increase by 5% in 2017-18 and 4% in 2018-19.
- Services exports forecast to grow by 4½% in 2017-18 and 4% in 2018-19.
- Rural exports are expected to grow by 6% in 2016-17. A return to average seasonal conditions is expected to underpin a fall in rural exports in 2017-18.
- Household consumption forecast to grow by 2¾% in 2017-18 and 3% in 2018-19.
- Employment growth is expected to be 1½% through the year to the June quarters of 2018 and 2019. The unemployment rate is forecast to decline modestly.
- Dwelling investment is expected to grow by only 1½% in 2017-18 and to fall by 4% in 2018-19 once the current elevated pipeline of building work comes to completion.
- Consumer prices are expected to grow by 2% through the year to the June quarters of 2017 and 2018 and by 2¼% through the year to the June quarter 2019.

# Links

**Budget documents**

- Budget 2017-18
- Budget Speech

**Media Releases**

- Reducing pressure on housing affordability
- Strengthening the integrity of Australia's tax system
- Release of the interim report into the black economy
- Budget boost for small business
- Consumer protection delivered by Budget
- Building an accountable and competitive banking system
- Ensuring the Government lives within its means
- Guaranteeing the essentials Australians rely on
- Stronger growth to create more and better paying jobs
- The right choices securing better days ahead

**Housing Affordability Fact sheets**

- A Comprehensive Plan to Address Housing Affordability
- National Housing Infrastructure Facility
- Unlocking Commonwealth Land
- First Home Super Saver Scheme
- Reducing barriers to downsizing
- Stronger rules for foreign investors owning Australian housing
- A new National Housing and Homelessness Agreement
- Establishing the National Housing Finance and Investment Corporation
- Encouraging Social Impact Investing
- Boosting affordable housing for Australians through investment tax incentives
- Housing package for Western Sydney