

# A Clear Direction Financial Planning

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## 2017 Budget - Personal Finance Summary

The 2017 Federal Government Budget address has been delivered in Canberra overnight. This summary is focussed on the major changes to individual and family personal finances grouped into three main areas – tax planning, retirement planning and government benefit planning.

### Tax Planning

- Increasing the Medicare levy from 2 to 2.5 % from 1 July 2019.
- Tightening of tax deductions on residential investment properties.
- Introduction of the First Home Superannuation Saver Scheme.
- Higher Education Loan Program (HELP) repayment thresholds to be reduced from 1 July 2018.
- Business tax incentives
  - Confirmation of reduction in company tax rates to 25% over ten years.
  - Extension of the \$20,000 instant asset write-off for small business to 30 June 2018.

### Retirement Planning

- Contributing the Proceeds from Home Downsizing into Superannuation.

### Government Benefit Planning

- Reinstatement of the Pensioner Concession Card.

## TAX PLANNING

### Increasing the Medicare from 2 to 2.5% from 1 July 2019

From 1 July 2019 the Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income with the extra funds directed to the National Disability Insurance Scheme (NDIS) Savings Fund.

#### Strategy Thought

This is effectively a tax increase and provides greater incentive to seek taxable income deductions through strategies such as salary sacrifice into superannuation.

### Tightening of Tax Deductions on Residential Property Investments

The government will disallow travel deductions for residential investment properties and will limit deductions for plant and equipment forming part of residential property investments to expenses investors have directly incurred themselves. All plant and equipment forming part of residential investment properties prior to 9 May 2017 (including contracts already entered into at Budget night) will continue to be deductible until either the property is sold or the item reaches the end of its effective life.

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

## **First Home Superannuation Saver 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Government will allow future voluntary contributions to superannuation made by first home buyers from 1 July 2017 to be withdrawn for a first home deposit, along with associated deemed earnings. Concessional contributions and earnings that are withdrawn will be taxed at marginal rates less a 30 per cent offset.

Under the measure up to \$15,000 per year and \$30,000 in total can be contributed, within existing caps. Contributions can be made from 1 July 2017. 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.

### **Strategy Thought**

Those who are likely to become first home buyers in coming years will likely benefit from making tax deductible contributions into superannuation. This might also be an opportunity for parents to assist first home buyer family members through assisting them to make these contributions.

## **Higher Education Loan Program (HELP) Repayment Thresholds to be reduced**

The new set of thresholds will contain a minimum repayment threshold on annual income in 2018-19 of \$42,000 (currently \$55,874) with a one per cent repayment rate, and a maximum income threshold of \$119,882 from which a repayment rate of ten per cent applies. From 1 July 2019 onwards, all HELP thresholds will be indexed by the Consumer Price Index (CPI), instead of Average Weekly Earnings (AWE). Currently the maximum repayment threshold for the 2017/18 year is \$103,766 with a repayment rate of 8%.

## **Business Tax Incentives**

### **Ten Year Enterprise Tax Plan**

The Government plans to reduce the company tax rate to 25 per cent by 2026-27. These tax cuts have been legislated for companies with an annual turnover of less than \$50 million with the government planning to extend these tax cuts to all companies.

### **Strategy Thought**

For those with incorporated businesses it will be useful to determine whether funds are held and invested through the business structure rather than be paid out in the form of company dividends and distributions.

### **Immediate tax deductibility threshold for small businesses**

The Government is extending the \$20,000 immediate deductibility threshold for a further 12 months to 30 June 2018. The concession is available to all small businesses with aggregate annual turnover less than \$10 million.

[\[Return to Page 1\]](#)

## RETIREMENT PLANNING

### Contributing the Proceeds of Home Downsizing to Superannuation

The Government will allow a person aged 65 or over to make a non-concessional contribution of up to \$300,000 from the proceeds of selling their home from 1 July 2018. These contributions will be in addition to those currently permitted under existing rules and caps and they will be exempt from the existing age test, work test and the \$1.6 million balance test for making non-concessional contributions.

This measure will apply to sales of a principal residence owned for the past ten or more years and both members of a couple will be able to take advantage of this measure for the same home.

#### Strategy Thought

This change will potentially provide an incentive for those over 65 to consider downsizing the family home and use any available proceeds to increase superannuation balances and get these funds into a concessional taxed structure.

## GOVERNMENT BENEFIT PLANNING

### Reinstatement of the Pensioner Concession Card

The Government will reinstate the Pensioner Concession Card for pensioners who were no longer entitled to the pension following changes to the pension assets test from 1 January 2017. Reinstating the Pensioner Concession Card will enable pensioners to access Commonwealth subsidised hearing services. As a result, affected parties will regain access to state and territory-based concessions that were withdrawn after the change.

## CONCLUDING COMMENTS

Overall the budget has provided fewer changes in terms of personal finance outcomes this year compared to prior years but has raised a number of considerations.

If you would like to discuss any of the details contained in the budget and how those details impact your personal situation, please do not hesitate to be in contact.

***This document has been prepared as a brief summary of the 2017 Federal Budget as it impacts on personal finances. It is a publication of A Clear Direction Financial Planning. It contains general financial information. Readers should check this information with a professional financial adviser before acting on any of the material contained in this document.***

[\[Return to Page 1\]](#)