The 2017-18 Budget – Summary for August 2017 SuperTime

Restoration of Pension Cards and One-off Energy Assistance Payment
Those retirees who lost their pension cards on 1 January 2017 due to the change to the age pension assets test taper rate will now be issued with new pension cards to restore some of the benefits lost. They will also keep their Commonwealth Seniors Health Cards. They will not get the one-off energy assistance payment (see below). Note that if they later become eligible for a part age pension (when they have run down some of their assets), they will have to re-apply for the age pension.

There will be a one-off energy assistance payment to recipients of the age pension and disability support pension, as well as veterans, on 20 June 2017. These measures were contained in the Social Services Legislation Amendment (Energy Assistance Payment and Pensioner Concession Card) Act 2017.
Comment: SCOA welcomes these measures. However, we will have to continue to lobby for a more realistic assets test taper rate to encourage people to save for their old age.

The Future Fund
Budget Paper No. 2 says that the Government has decided that drawdowns from the Future Fund will not commence in 2020-21, and the Government will decide next year whether drawdowns will occur in 2021-22. However, the Government has also announced that it will delay drawing down from the fund until at least 2027 (see www.futurefund.gov.au), to allow the Future Fund to grow to cover the cost of all unfunded liabilities. At present the Future Fund has assets of nearly $130 billion, compared to the latest estimate of the unfunded superannuation liabilities of around $169 million. Up to now, the Future Fund has delivered a return of 7.7% per annum. The Government recently announced that it intends to reduce the objective of the Future Fund by 50 basis points to CPI + 4, or 5% per annum.
Comment: SCOA welcomes the decision to defer drawdowns from the Future Fund.

The NDIS and the Medicare Levy
The Government plans to increase the Medicare levy by half a percentage point from 2.0 to 2.5 per cent of taxable income from 1 July 2019 to ensure that the National Disability Insurance Scheme is fully funded. Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased. The Government also plans to increase the Medicare levy low-income threshold for singles, families, seniors and pensioners from the 2016-17 financial year. The increases are in line with the CPI. For single seniors and pensioners, the threshold will be increased to $34,244. The family threshold for seniors and pensioners will be increased to $47,670 plus $3,356 for each dependent child or student. Legislation to increase the Medicare Levy is still being developed. The ALP would like to see higher Medicare levy low-income thresholds.

Comment: While SCOA welcomes the increase in funding for the NDIS, we do not think that those who are too old to benefit from the NDIS should be expected to help pay for it.

First Home Super Saver Scheme

The Government will encourage home ownership by allowing 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 tax rates less a 30 per cent offset. When non-concessional earnings are withdrawn, they will not be taxed, however it is expected that the earnings will be taxed at the taxpayer's marginal tax rate less 30%. Up to $15,000 per year and $30,000 in total can be contributed within existing caps on concessional and non-concessional contributions. Withdrawals will be allowed from 1 July 2018 onwards. Both members of a couple can take advantage of this measure (but it is not clear what would happen if one member of a couple had previously bought a home). Legislation to implement the proposal has yet to be introduced.
Comment: This measure could be helpful to those nearing retirement and wanting to buy their first home.

Limit Plant and Equipment Depreciation for Landlords

Investors who purchase plant and equipment for their residential property after 9 May 2017 will be able to claim a deduction over the effective life of the asset. However, subsequent owners of the property will be unable to claim deductions for plant and equipment purchased by previous owners of the property.

New Bank Tax

The new bank tax will apply only to banks with liabilities of at least $100 billion. It will apply to the Commonwealth Bank, the National Australia Bank, Westpac, ANZ and the Macquarie Bank. It will be calculated quarterly at 0.015 per cent, giving an annual rate of 0.06 per cent. The Australian Bankers Association says that the cost will come from either the customers or the shareholders. However, the Government hopes that competitive pressure from the smaller banks not affected by this measure will discourage the banks from lowering the interest that they pay to depositors or by raising the interest rates that they charge borrowers. So it looks as if shareholders will receive smaller dividends. Note that the proposed levy will not deliver franking credits to shareholders.
Comment: It is not yet clear how this measure would be applied.

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 the first time since 2004) for certain diagnostic imaging items. However, Health Department

figures released after the Budget show that 113 GP benefit items, including chronic disease management, will have their indexation frozen until July 2020.

Contributing the Proceeds of 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 transfer balance cap for making non-concessional contributions. The measure will apply to 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 (but it is not clear what would happen if only one member of the couple had lived in the house for more than ten years).
Comment: Note that the additional contribution to superannuation will still be counted in the assets test for the age pension. The tax advantages of being able to out more money into superannuation are far less than the reduction in age pension entitlement due to more assessable assets. However, this measure may be attractive to self-funded retirees with considerable superannuation assets.

Abandoned Previously Announced Budget Repair Measures
The following measures have been abandoned because the Parliament did not pass the relevant legislation:

- 2014-15 and 2015-16 proposals to increase Pharmaceutical Benefits Scheme co-payments and safety net thresholds;
- 2014-15 Budget measure "Simplifying Medicare safety net arrangements";
- 2015-16 Budget measure "Australian Working Life Residence – tightening proportionality requirements"; and
- 2015-16 MYEFO measure titled "Medicare Benefits Schedule – changes to diagnostic imaging and pathology services bulk billing incentives".

The working life residence measure would have reduced the point at which work residency rules would apply from 26 weeks to 6. It would have reduced their pension rate by 1/35th for every year below 35 a non-Australian born pensioner has lived in Australia, and would have reduced pension supplements.

Note, however, that the 2014-15 proposal to increase the age pension age to 70 has not been dropped, even though it has failed to pass the Senate.

Pension Residency
From 1 July 2018, people not born in Australia will need to have 15 years of continuous Australian residency before becoming eligible for either the age or disability support pension, unless they have 10 years of continuous Australian residency, with five of those during their working life, or 10 years continuous residency without having received an activity tested income support payment for a cumulative period of five years.
Comment: If migrants reach reach Age Pension age before they have satisfied the above criteria, will they be able to receive any form of pension at all?