

Federal Budget 2017

Business impacts – Budget at a glance

Coming out of Budget lockup, here's a snapshot of the Australian Federal Budget 2017.



Economic and fiscal analysis

This table compares estimated budget outcomes as forecast in MYEFO 2016-17 as against Budget 2017.

	MYEFO 2016-17				Budget 2017-18				
	2016-17	2017-18	2018-19	2019-20	2016-17	2017-18	2018-19	2019-20	2020-21
Net operating balance (\$b)	(37.5)	(19.2)	(10.6)	(1.3)	(38.7)	(19.8)	(10.8)	7.6	17.5
Underlying cash balance (\$b)	(36.5)	(28.7)	(19.7)	(10.0)	(37.6)	(29.4)	(21.4)	(2.5)	7.4
GDP growth	2.0	2.75	3.0	3.0	1.75	2.75	3.0	3.0	3.0
Unemployment rate	5.5	5.5	5.25	5.25	5.75	5.75	5.5	5.5	5.25
Consumer price index	1.75	2.0	2.5	2.5	2.0	2.0	2.25	2.5	2.5

Source: MYEFO 2016-17, Federal Budget papers 2017-18

The new focus on net operating balance seeks to provide greater transparency in budget reporting by distinguishing between capital and recurrent expenditure and reporting the net operating balance alongside the underlying cash balance. A modest surplus in the underlying cash balance of \$7.4 billion is predicted for the 2020-21 year but there are warnings that notwithstanding encouraging signs in the global economy, important risks remain.



Business Tax

Top 5 changes

- Major bank levy**
Banks with liabilities of over \$100 million will be subject to an annualised 0.06 per cent levy on licenced entity liabilities, excluding certain deposits and hybrid regulatory capital. The levy will apply from 1 July 2017 and is expected to raise \$6.2 billion over the forward estimates.
- Small business asset write off extended**
The 2015-16 Budget measure to allow small businesses to immediately deduct purchases of eligible assets costing less than \$20,000 will be extended by 12 months to 30 June 2018.
- Allowing investment in affordable housing through Managed Investment Trusts**
From 1 July 2017, Managed Investment Trusts (MITs) will be able to acquire, construct or redevelop affordable housing (must be available for rent for at least 10 years). To qualify, the MIT must derive up to 80 per cent of its assessable income from affordable housing (otherwise 30% withholding tax will apply).
- Superannuation merger rollover relief extended**
Superannuation funds will welcome the extension of tax relief for merging superannuation funds to 1 July 2020.
- Application of the OECD hybrid mismatch rules to regulatory capital**
Banks will be prevented from franking returns on additional tier 1 capital where those returns are deductible in a foreign jurisdiction from 1 January 2018 or six months after Royal Assent. Transitional rules will apply to grandfather issuances made before 8 May 2017, up to the first call date.



KPMG observations

As anticipated, the Government released a “Reducing Pressure on Housing Affordability” package, which contains a number of modest measures, with a focus on first home buyers and increasing affordable housing stock for low to moderate income tenants, at the expense of foreign investors and investment property owners. There are no changes to negative gearing or reductions to the CGT discount.

There was nothing further on company tax cuts, but personal taxes will be hit by an increase in Medicare levy from 2% to 2.5% from 1 July 2019 to fund the NDIS (which partially offsets the roll off of the temporary debt levy).

Major banks are the big losers in this year’s Budget, with a new bank levy applying at an annualised rate of 0.06 per cent of liabilities, tax integrity rules for regulatory capital and a number of measures to increase banking competition and strengthen accountability. For non-banks, there is very little in the Budget by way of tax measures.

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