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GMS Flash Alert

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Australia - Key Things Employers and Expatriates Should Know About 2017 Budget

On 9 May 2017, the Commonwealth Treasurer delivered the Australian Federal Budget 2017-18.[1] The Budget contains several measures of concern to individuals, including expatriates, and their employers, such as the abolition of the 2-percent Temporary Budget Repair levy, the increase in the Medicare levy, and the cessation of the capital gains tax exemption on main residence sales for nonresidents and inbound temporary tax residents. Large employers need to be cognizant of a levy on visa sponsors. (All dollar figures expressed are Australian dollars.)

For coverage of last year's Budget, see GMS *Flash Alert* 2016-056, 5 May 2016.

WHY THIS MATTERS

It is important to note that the changes affecting individuals in the Budget represent a mixed bag of restrictions, tax decreases as well as increases. The specific impact will depend on each taxpayer's particular set of circumstances. In those cases where an assignee's tax burden increases, the employer's international assignment-related costs could rise accordingly, and where they decrease, those costs for employers could fall.

Certain employers bringing foreign employees into Australia, depending on the length of stay of the employee and visa type, could see their international assignment costs rise.

It is essential to get in front of these changes and to communicate quickly and clearly with key stakeholders, so that they can properly plan, budget, and make necessary adjustments.

Levy on Visa Sponsors for Skilling Australians Fund

From March 2018, large businesses will have:

- an up-front payment of $1,800 per year per employee on a Temporary Skill Shortage visa (the replacement for the subclass 457);
- A one-off levy of $5,000 for each employee sponsored for permanent residence.

Tax Rate Changes: TBRL, FBT, and Medicare Levy

The 2-percent Temporary Budget Repair levy (TBRL) for high income earners ends on 30 June 2017. Changes to balance sheets are required from 1 July 2017. Fringe Benefits Tax (FBT) rates have already been adjusted back to 47 percent.

The Medicare levy will increase from 2 percent to 2.5 percent from 1 July 2019. Changes to balance sheets are required from this date. Fringe Benefits Tax rates will be adjusted from 47 percent to 47.5 percent from 1 April 2020.

KPMG NOTE

The removal of the TBRL will likely offset the increased costs for visas referenced above.

Changes to Taxation of Australian Housing

Nonresidents and inbound temporary tax residents will be denied access to the capital gains tax (CGT) main residence exemption from 9 May 2017. Existing properties will be grandfathered until 30 June 2019. This exemption has been one of the key considerations influencing the decision to rent out a home while on assignment.

There has also been a reduction of the threshold for withholding tax (12.5 percent) on real property sales by nonresidents from $2 million to $750,000. This will bring more Australian-outbound assignees within the scope of these provisions.

KPMG NOTE

Policies on tax outcomes of personal investment decisions must be crystal clear. Is this an assignee problem? If so, from now on individuals who want to sell their property as a consequence of international assignments should be aware of the risk of not entering into the contract of sale before they leave.

Personal Income Tax: Brackets/Rates for 2017-2018

The Budget made no changes to personal income tax rates and brackets – they stay as they were for 2016-2017. See the table below.

2017-2018 resident tax rates

Taxable income ($)	Rate
0 – 18,200	0
18,201 – 37,000	19c for each dollar over $18,200
37,001 – 87,000	$3,572 plus 32.5c for each dollar over $37,000
87,001 – 180,000	$19,822 plus 37c for each dollar over $87,000
180,001+	$54,232 plus 45c for every dollar over $180,000

Note: Excludes 2.0 percent Medicare levy.

[AUD 1 = EUR 0.678 | AUD 1 = USD 0.736 | AUD 1 = GBP 0.572 | AUD 1 = JPY 83.72]

KPMG NOTE

The decision to not adjust the personal income tax scale for consumer price movements – which were quite low for 2016 at 1.5 percent – and accounting for individuals' salary (and other compensation) increases, could lead, all told, to "bracket creep," and therefore slightly higher taxation for such individuals.

For more details, see "Federal Budget 2017 – Review" on the Web site for the KPMG International member firm in Australia.

FOOTNOTE:

1 For the Budget speech and related documents, click here.

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