



Budget implications for families

Federal Budget Update 2017–18

The announcements in this update are proposals unless stated otherwise. These proposals need to successfully pass through Parliament before becoming law and may be subject to change during this process.

What you need to know

- The Medicare Levy will increase by 0.5% to 2.5% from 1 July 2019
- The Government will spend \$37.3 billion on child care over four years
- Additional education funding has been set at \$18.6 billion over 10 years
- University student fees will increase by 7.5% by 2021
- University graduates will start repaying their loans when they reach an income level of \$42,000 a year, down from approximately \$55,000
- Family Tax Benefit Part A payments will not be indexed for two years
- Doctors will be encouraged to prescribe generic drugs to save the Pharmaceutical Benefits Scheme \$1.8 billion over five years
- No changes to negative gearing.

Overview

Medicare Levy

In health care, the Medicare Levy will increase on 1 July 2019 by 0.5% to 2.5% of taxable income to help fund the \$22 billion National Disability Insurance Scheme. Treasurer Scott Morrison says all Australians need to support the disability scheme, even if they aren't directly affected.

Child care

The Government will invest \$37.3 billion in child care over four years to help about 1 million families, including those that need before and after school care for their children. A single, simplified, means-tested child care subsidy will provide more support for the families who need it the most from 2 July 2018.

The subsidy will introduce hourly rate caps and remove unnecessary regulation to allow providers to offer more flexible hours of care. The child care subsidy will be payable only to families with incomes below \$350,000 per annum (in 2017-18 terms) from 2 July 2018. The upper income threshold of \$350,000 per annum will be indexed annually by CPI from 1 July 2018.

A further \$428 million will be provided to extend the National Partnership Agreement on Universal Access to early childhood education for the 2018 school year to allow access to a quality preschool education.

Schools funding

This Budget will invest \$18.6 billion in extra schools funding over the next 10 years, in accordance with the Gonski needs-based standard. Funding for each student across all sectors will grow at an average of 4.1% a year.

However, university fees will rise by \$2,000 to \$3,600 for a four-year course and students will have to start paying back their debt when they earn more than \$42,000 from July next year, down from the current level of approximately \$55,000. A 2.5% efficiency dividend will be applied to universities for the next two years.

University fees

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First-home buyers

First-home buyers will be able to use voluntary contributions to their existing superannuation funds to save for a house deposit. Contributions and earnings will be taxed at 15%, rather than marginal rates, and withdrawals will be taxed at their marginal rate, less 30% tax offset. Contributions will be limited to \$30,000 per person in total and \$15,000 per year. Both members of a couple can take advantage of the scheme. Non-concessional contributions can also be made but will not benefit from the tax concessions apart from earnings being taxed at 15%.

Housing supply targets

The States will be required to deliver on housing supply targets and reform their planning systems and a \$1 billion National Housing Infrastructure Facility will aim to remove infrastructure impediments to developing new homes.

In Melbourne, Defence Department land at Maribyrnong will be released for a new suburb that could cater for 6,000 new homes. A new National Housing Finance and Investment Corporation will be established by 1 July 2018, to provide long-term, low-cost finance for more affordable rental housing.

States and Territories will be encouraged to transfer stock to the community housing sector and managed Investment trusts will be allowed to develop and own affordable housing. The incentive for investors will include a capital gains tax discount of 60%, and direct deduction of rent from welfare payments from tenants.

Contribution of home sale proceeds into super

Australians over the age of 65 will be able to make a non-concessional contribution of up to \$300,000 each into their superannuation fund from the proceeds of the sale of their principal home from 1 July 2018.

Family Tax Benefits

The current Family Tax Benefit Part A payments will not be indexed for two years from 1 July 2017. Indexation will resume on 1 July 2019. A 30¢ in the dollar income test taper will apply under Method 1 for Family Tax Benefit Part A families with household incomes above the Higher Income Free Area (currently \$94,316) from 1 July 2018. Entitlements under Family Tax Benefit Part A may be worked out using two income tests, with the one giving the highest rate applying. Method 1 sometimes produces a higher result for larger families.

What's next?

Most changes must be legislated and passed through Parliament before they apply. If you think you may be impacted by some of the Budget's proposed changes, you should consider seeking professional advice. A financial adviser can give you a clear understanding of where you stand and how you can manage your cash flow, super and investments in light of proposed changes.

If any of these proposals raise questions, concerns or potential opportunities for you, we encourage you to please speak with your financial adviser today.

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