Property owners:
What the 2017 Federal Budget means for you

If you're invested in property – or if you're looking to buy your first home or downsize – the federal government has proposed some initiatives that might impact you. Here's what you need to know.

Although this year's Federal Budget was a far cry from the wide-ranging super and tax reforms proposed in 2016, there were still some proposals that could affect your financial position.

Several of these initiatives apply to current and future homeowners and also property investors. So if you think you might be impacted, it's a good idea to ask your financial adviser to review and update your property strategy.

Using super to buy your first home

The federal government has proposed a First Home Super Saver Scheme to make it easier for first home buyers to enter the property market. If legislated, this proposal will be effective from 1 July 2017.

Under the scheme, if you're a first home buyer you'll be able to make extra voluntary pre-tax contributions (including salary sacrifice or personal tax-deductible contributions) of up to $15,000 per financial year and $30,000 in total to save towards a home deposit. These contributions are generally taxed at the low rate of 15% through your super fund. Along with your employer's compulsory contributions, these contributions also count towards your general concessional contributions cap of $25,000 per annum.

From 1 July 2018, you'll then be able to withdraw these extra contributions, plus earnings, when you're ready to buy your first home. When you take the money out of super, it will be taxed at your marginal tax rate (including Medicare levy) minus a 30% tax offset.

You can choose to instead make after tax contributions under this scheme (subject to the $15,000 per financial year/$30,000 total cap). However, after tax contributions are not taxed when made, or withdrawn.

But while the First Home Super Saver Scheme could help you become a homeowner sooner, remember that you can't use these extra contributions to save for anything else. If you don't end up using the money to buy a home, it will generally be locked away in your super until retirement.

You also won't be able to use these extra contributions to invest for growth, as the amount of earnings that can be released under the scheme will be calculated using a set rate of return.

Downsizing your home in retirement

Once you've retired and your kids have left the nest, you might be thinking of swapping the family home (your primary place of residence) for a smaller property better suited to your needs.

A new government proposal will allow Australians aged 65 or over to put up to $300,000 from the sale of their home into super as a non-concessional contribution – as long as they've owned their home for at least 10 years. This contribution won't be subject to normal contribution eligibility requirements (e.g. the requirement to meet a work test if you're aged 65 to 74), existing contributions caps or the restrictions on non-concessional contributions for people with super balances over $1.6 million.

If this proposal is legislated, it will take effect on 1 July 2018 – so it's worth planning ahead now if you're thinking of downsizing in the near future.

But while it may give you the chance to boost your super for retirement, remember that the extra contribution will be fully assessable under the age pension assets test, and a deemed amount of income will apply under the income test. This means it could impact how much you and your partner are entitled to.

So before making a decision, ask your financial adviser whether it's the right option for you.

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Investing in affordable housing

To encourage investment in quality affordable housing, the government plans to raise the capital gains tax (CGT) discount from 50% to 60% as of 1 January 2018. So when you sell a residential investment property, you may be eligible for the extra discount if you've rented the property to low-to-moderate income tenants at a discounted rate.

To qualify, you'll need to hold the investment for at least three years and it must be managed through a registered community housing provider. If there are times when the property isn't used for affordable housing, then the additional discount will be pro-rated to exclude those periods.

And if you invest in a managed investment trust with a portfolio that includes affordable housing, you'll also be eligible for the 60% discount once you've held the investment for at least three years.

Claiming deductions on residential property

If you're invested in residential property, as of 1 July 2017 you'll no longer be able to claim a tax deduction on travel expenses when you collect rent, conduct inspections or perform property maintenance. This applies to all types of property investors, including SMSFs, family trusts and companies.

Also from that date, there are changes to depreciation deductions for residential plant and equipment – for instance, dishwashers or ceiling fans. Only the investors who actually purchase these items will be able to claim a deduction for their depreciation in value; subsequent property owners won't be able to claim.

Tax changes for foreign property owners

The government has proposed significant changes to CGT rules for foreign and temporary tax residents. If legislated, these changes will be effective from Budget Night (9 May 2017).

If you're a property owner and are a foreign or temporary resident for tax purposes, you'll no longer be able to access the 'CGT main residence exemption' on any property bought after 9 May 2017. However, you can still claim the exemption on current properties up until 30 June 2019.

What's more, from 9 May 2017 if you're the foreign owner of residential property and it isn't occupied or available on the rental market for at least six months of the year, you'll have to pay a yearly levy of at least $5,000.

But that's not all: on 1 July 2017, the CGT withholding rate where a foreign tax resident disposes of certain Australian property rose from 10% to 12.5%, while the threshold for the CGT withholding obligation dropped from $2 million to $750,000.

So if you're a foreign or temporary tax resident, the combined impact of these reforms may have a significant impact on your investments. Be sure to speak to your financial adviser if you need help to adjust your investment strategy.

Speak to us for more information

If you would like to know more, talk to your Count financial adviser. They can give you more detailed information on the best approach for your situation.

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