AGED CARE STEPS


**9 May 2017**

The Government handed down the 2017 Federal Budget on 9 May. It is no surprise that the main focus of the Budget was to address the issues of affordable housing and job growth.

After the massive overhaul of superannuation in last year's Budget, no further changes were announced this year apart from the opportunities for clients saving for a first home or downsizing in retirement to make contributions.

Aged care implications for clients was also unchanged in this Budget, but that is also not surprising given that the Government is currently undertaking the five-year review of the 2012 Budget changes that applied from 1 July 2014. Funding for the Commonwealth Home Support Program has been extended to 1 July 2020 by which time this program may be more effectively merged with the home care packages program

Perhaps next year is one to watch for changes to aged care.

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| Note: | The measures included in this paper are currently proposals announced in the Budget. The analysis and interpretation is based on information in the Budget release and may be limited in the available details. Further information may be needed to clarify the rules and impacts. Changes may also be made as the measures progress through Parliament. |

## Impacts for Older Australians

A downsizing proposal provides an interesting opportunity for older clients.

As clients age they may wish to downsize their homes. This may enable them to move to more suitable accommodation as well as release equity to help fund living expenses – which may include much needed cashflow to help pay for home care services.

From 1 July 2018, clients who are age 65 or older will be able to make non-concessional superannuation contributions up to $300,000 using the proceeds from the sale of a home they have held for at least 10 years. Couples will be able to contribute up to $300,000 each.

Some of the features of this new downsizing cap include:

- A limit of $300,000 for each owner from sale proceeds
- The work test does not apply to contributions made under this cap
- Clients over age 75 can contribute under this cap
- Clients with more than $1.6 million in superannuation will be able to make these contributions but are still limited to investments of $1.6 million into income streams
- The full superannuation fund balance will be fully assessed for Centrelink/Veterans' Affairs and aged care purposes.

The benefit of this strategy is that earnings on the invested funds will be taxed at only the 15% superannuation tax rate, or be tax-free if rolled over into an income stream, rather than the client's marginal tax rate.

Clients who downsize their home (and have available transfer balance caps) may be able to use surplus proceeds from the sale of their home to purchase income streams or lifetime annuities to fund lifestyle and care needs. If the transfer balance cap has already been exceeded, the contributions can remain in the accumulation phase of superannuation.

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| **Client conversations** | This announcement provides an opportunity for advisers to start the conversation (or revisit previous discussions) with older clients on strategy options to fund retirement and aged care needs.<br><br>Clients who create surplus funds from the sale of their home may wish to consider using superannuation to reduce tax on investment earnings. If the equity released exceeds $300,000 (or $600,000 for a couple) alternative options need to also be considered.<br><br>Discussion with clients on strategy options should take into account aged care needs now and in the future and consider the increasing range and opportunities in home care.<br><br>Options for investing excesses (after superannuation) include:<br><br>• Ordinary money annuity – to provide a regular and secure income stream to fund living expenses and home care services.<br><br>• Low risk (and low returning) investments like cash and term deposits for clients who favour security of capital.<br><br>• Australian shares to take advantage of the franking credits and capital growth to help deal with longevity risk and/or future aged care needs, subject to the client's risk tolerance and investment time horizon. |

## Impacts for first home buyers

Saving for a first home has become increasingly difficult for many young Australians.

From 1 July 2017, first home buyers may gain a boost in savings capacity. First Home Super Saver Scheme proposals may allow these clients to make voluntary contributions into superannuation as an option to save some of their home deposit.

Contributions under the scheme are proposed to be limited to a total of $30,000 (with no more than $15,000 in any one year). However, these amounts are included in the relevant contributions cap.

These contributions can be made via salary sacrifice or personal deductible contributions. This allows savings for a home deposit to be accumulated from pre-tax earnings with tax of only 15% deducted in the fund. It is important to ensure that total concessional contributions in any year (including these contributions) do not exceed the $25,000 concessional contribution cap.

When the client is ready to buy a house (on or after 1 July 2018) they can withdraw the contributions as well as the deemed earnings. Deemed earnings will be calculated by the ATO based on the 90-day Bank Bill rate plus 3%. The ATO will advise super funds of the amount that can be released.

Withdrawals of concessional contributions and earnings will be taxed at marginal tax rates less a 30% tax offset. The overall effect is a 15% tax saving on the amount contributed and the earnings.

Clients can use the government calculator at www.budget.gov.au/estimator to calculate the potential benefit of using this option.

## Impacts for property investors

The good news for property investors is that the rumours around changes to negative gearing and capital gains tax discounts were just that and did not eventuate.

**Deductible expenses**

Despite the wins, a couple of losses are proposed in this year's budget in relation to deductible expenses.

Tax deductions will cease to be allowed for travel to inspect or manage residential investment properties. This minimises the abuse where investors had a holiday and claimed it as an investment management expense.

Depreciation deductions for plant and equipment (ie items that can be easily removed such as carpets and dishwashers) will be limited only to expenses directly incurred by investors.

### Renting as affordable housing

Investors who are willing to rent residential investment properties from 1 January 2018 to eligible tenants on low to moderate incomes at below market rents, may qualify for extra CGT concessions.

If eligible, instead of a 50% CGT discount, investors (individuals and trusts) may be eligible for a 60% CGT discount on realised capital gains from the sale of the property. The additional discount cannot be claimed by superannuation funds.

To qualify for this additional 10% CGT discount the property must be managed through a registered community housing provider for a period of at least three years. The CGT discount is pro-rated for periods where the property is not used for affordable housing.

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| **Client conversations** | While not strictly limited to first home purchasers, this may be an option for younger clients to buy a more affordable investment property to get a start on the property ladder.<br><br>It may also provide an opportunity for clients with excess funds to invest in a tax effective income producing asset that has the potential to provide capital growth (depending on the quality, location and fundamentals of the property). |

## Impacts for non-residents

Concerns exist around the impact of foreign investors purchasing residential property in Australia, so a number of measures have been proposed that may change some of the investment decisions made by these people.

These measures include:

- Non-residents and temporary residents will not be eligible for the main residence capital gains tax (CGT) exemption – so CGT will be payable on growth in all property. This measure is effective immediately from 9 May 2017, but the exemption can be claimed on existing properties until 30 June 2019
- CGT withholding tax rates will be increased from 10% to 12.5%
- Foreign owners who leave residential property vacant (or not available for rent for more than 6 months of the year) will be charged a fee of at least $5,000 to encourage them to rent the properties – applies to any foreign investment applications from 9 May 2017
- Foreign ownership in new developments will be limited to 50%

## Impacts for individual taxpayers

The Temporary Debt Repair Levy which imposed a 2% tax levy on higher income earners (earning over $180,000) will end on 30 June 2017. No extension was announced in this Budget.

However, the Medicare levy is proposed to increase by 0.5% to 2.5% from 1 July 2019. This levy increase will be used to help fund the National Disability Insurance Scheme.

Higher income earners may wish to defer realising income until 1 July 2017 when the highest marginal tax rate reduces back to 47%.