2017-18 FEDERAL BUDGET BRIEF

OVERVIEW

The Budget commits to fiscal restraint to achieve a surplus of $7.4 billion in 2020-21. Major economic and financial services announcements include:

- $74 billion in infrastructure spending over the next decade;
- A 0.5% increase in the Medicare Levy from 2019 to fund the NDIS;
- A housing affordability package that enables saving through super without adversely impacting the SG regime;
- A 6 basis point annual levy, paid quarterly, on five banks with liabilities over $100 billion.

<u>Headline economic figures</u>

- The budget predicts real GDP growth will lift to 2 ¾ per cent in 2017-18, shaking off a number of weather related events, before returning to a trend rate 3 per cent in 2018-19.
- Unemployment is expected to reduce over the budget estimates period from 5 ¾ per cent in 2016-17 to 5 ½ per cent in 2018-19.
- The underlying cash balance is expected to improve from a deficit of 1.6 per cent of GDP in 2017-18 to reach a projected surplus of 0.4 per cent of GDP in 2019-20. This represents a slightly faster pace of fiscal consolidation over the budget estimates and projects period compared to MYEFO.
- Over the medium term the underlying cash balance will remain in surplus, peaking at 0.5 per cent of GDP in 2024-25, before moderating to 0.4 per cent of GDP by 2027-28.

<u>Key items for FSC</u>

- A 6 basis point levy on banks with assessed liabilities of more than $100 billion, which does not apply to superannuation funds or life insurers, to raise $6.2 billion over four years;
- A banking executive accountability regime will be introduced requiring senior executives to be registered with APRA. If in breach with relevant laws they can be deregistered and disqualified from holding executive positons and potentially be stripped of their bonuses.
- There is a package of reforms for first home buyers that allow consumers to:
    - Save a home deposit by making voluntary contributions to their existing super account; and
    - Allowing someone to downsize and make a contribution of up to $300 000 without it counting towards the non-concessional or $1.6 million caps.
- A one stop shop for consumer to resolve financial services disputes through the creation of the Australian Financial Complaints Authority (AFCA).

SUPERANNUATION

<u>Superannuation and housing</u>

There are three measures in the Government's housing package that relate to superannuation:

a) <u>Saving a deposit through super</u>
   Consumers will be assisted in saving for their first home by allowing them to make voluntary contributions from 1 July 2017 into their existing superannuation account. The scheme

allows voluntary contributions of $15 000 each year, up to $30 000 total, in concessional contributions (15% tax). These contributions count towards the existing caps regime.

The consumer can withdraw from 1 July 2018, through a condition of release, the principle, plus any growth, to buy their first home. This is intended to not introduce any new administrative complexities for funds and will be administered by the ATO. A couple can each withdraw and combine their savings for a single house.

The withdrawn amount (calculated as the $30 000 contribution, less contributions tax, multiplied by a deemed SIC growth rate) will be subject to the consumer's marginal tax rate less a 30% rebate. This is expected to reduce most young people's effective tax rate to close to 0% on the withdrawn amount. (Paper 2, p30)

b) Downsizing
Consumers can sell their home after 1 July 2018 and contribution up to $300 000 of the proceeds to their superannuation account provided they are over 65 years.

The contribution will not be counted for the purpose of the non-concessional or $1.6 million caps, but will continue to be counted for social security purposes. (Paper 2, p28)

c) MIT investment in affordable housing
MITs will be provided concessional tax treatment after 1 July 2017 if they invest in affordable housing that is available to be rented for at least 10 years. The investor will receive a 60% discount on CGT if they hold the investment for more than three years.

At least 80% of the income of the assets held by the MIT must be derived from affordable housing. (Paper 2, p26)

Tax relief for merging superannuation funds

Existing arrangements for tax relief for merging funds will be extended to 1 July 2020 (Paper 2, p21)

ASIC industry funding model

$112.6 million over three years will be recovered by regulated industries from 1 July 2017 to fund ASIC. (Paper 2, p22)

BANK LEVY AND ACCOUNTABILITY

Major Bank Levy
From 1 July 2017, the Government will impose a major bank levy on Australia's largest Banks. The levy will apply to all ADIs with licensed entity liabilities of at least $100 billion. The FSC understands this includes the four major banks and Macquarie Bank.

The $100 billion threshold will be indexed to grow in line with nominal GDP. For those institutions over the threshold the levy will apply to all liabilities captured in the definition of the tax base.

a) Rate that will apply and relevant tax base
The levy will be calculated quarterly as 0.015 per cent of an ADI's licensed entity liabilities, excluding Additional Tier 1 capital and deposits of individuals, businesses and other entities protected by the Financial Claims Scheme.

Liabilities subject to the levy will, for example, include: corporate bonds; commercial paper; certificates of deposit; and Tier 2 capital instruments. We understand the Levy will be deductable.

The levy is not intended to capture non-bank ADI's such as life insurance companies, nor should it capture superannuation funds.

Banking Executive Accountability Regime

The Government has announced its intention to legislate a new Banking Executive Accountability Regime, which includes:

- New Registration Requirements: prior to appointing senior executives and directors ADIs will need to advise APRA. Upon appointment, these people must be registered with APRA and a map of the role and responsibilities of the ADI's senior executives provided to the regulator;

- New Powers and Penalties**:** additional expectations will be established for how banks and their executives conduct their business consistent with good prudential outcomes, with a new civil penalty enforced by APRA for ADIs that fail to meet those expectations; stronger powers will also be given to APRA to remove the disqualify senior executives and directors from all APRA-regulated institutions; and
    - The civil penalty will be a maximum of $200 million for larger ADIs and $50 million for smaller ADIs;
    - APRA will also be able to impose penalties if ADIs do not appropriately monitor suitability of their executives to hold senior positions.

- Remuneration: a requirement for a minimum of 40 per cent of an ADI executive's variable remuneration – and 60 per cent for certain executives such as the CEO – to be deferred for a minimum period of four years to ensure executives are more accountable; and stronger powers for APRA to require ADIs to review and adjust their remuneration policies when APRA believes such policies are producing inappropriate outcomes.

These measures will apply to non-ADI businesses within an ADI group structure, including superannuation funds and life insurance businesses. Stand-alone superannuation funds not in a group structure will not be captured, with the exception of APRA's increased powers to disqualify directors and executives.

Additional funding of $4.2 million will be given to APRA over four years. The cost of this additional funding will be offset by an increase in the APRA Financial Institutions Supervisory Levies. Levies will also be increased by a further $1.0 million a year should APRA require additional resourcing to enforce breaches of the new requirements.

DISPUTE RESOLUTION

Australian Financial Complaints Authority
A one stop shop for consumer to resolve financial services disputes through the creation of the AFCA from 1 July 2018. It will be industry funded with the expected cost to be confirmed.

The AFCA will absorb FOS and the SCT, however matters brought to the AFCA will be treated in the same way as comparable matters currently brought before those existing organisations. For example, superannuation related matters determined by the AFCA will be binding, as they are at the SCT. (Paper 2, p162)

No announcement on a compensation scheme of last resort. The Ramsay Review will report on the merits and potential design of a compensation scheme of last resort and the issues involved in providing access to redress for past disputes in the second half of this year.

The Government included its response, and agreed to each of the 11 Ramsay recommendations. They commit to the Ramsay consultation process continuing to consider the limits on compensation caps.

OPEN DATA

The Government will provide $1.2 million in 2017-18 to the Department of the Treasury to undertake an independent review into the most appropriate implementation model for an open banking regime.

An open banking regime would require the banking sector to share product and customer data when requested by the customer.

ACCC and FINANCIAL SYSTEM COMPETITION

The Government will provide $13.2 million over four years from 2017-18 to the ACCC to establish a unit in the ACCC to undertake regular inquiries into specific financial system competition issues.

COMPANY TAX

The Government recommits to reducing the company tax rate for all businesses to 25% by 2026-27.