

# Federal Budget 2018-19

**TaxBanter**

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# Introduction

On 8 May 2018, the Treasurer, Scott Morrison, delivered his third Federal Budget and the third Budget of the Turnbull Government.

## Background

### A country stalled

This time last year it seemed like the nation was transitioning to a slower economy as the vestiges of the mining boom and the memory of big Budget surpluses receded into the past and while the ideas boom had yet to deliver any significant benefits. We were dealing with growing Budget deficits and the continued need for Budget repair, resigning ourselves to piecemeal policies that tinkered at the edges in place of the grand promise of sweeping tax reform — albeit that GST was not to be touched — that would make taxes lower, simpler and fairer.<sup>1</sup>

The Innovation Agenda that Malcolm Turnbull announced in 2015<sup>2</sup> was not embraced by voters as the next big thing that would bring the next wave of economic prosperity to Australia. Innovation connotes change and change instils uncertainty. Public confidence in the Prime Minister's flagship policy would have been further diminished if they had read the Auditor-General's incisive criticisms of the policy logic of the agenda.<sup>3</sup>

Although it may be premature to expect any demonstrable results from the innovation agenda, it is notable that in 2017 Australia fell from its 19<sup>th</sup> to 23<sup>rd</sup> position on the Global Innovation Index 2017. The ranking is based on inputs and outputs. Although Australia is ranked 12<sup>th</sup> based on its inputs — i.e. based on an analysis of the country's institutions, human capital and research, infrastructure, market and business sophistication — it is 30<sup>th</sup> on the output side. Output is measured on knowledge and technology and creative metrics.<sup>4</sup>

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<sup>1</sup> This was a promise made by Tony Abbott as the leader of the Liberal party in May 2013 in the lead up to the election which the Coalition won. He promised that a Coalition government would finish the job that the Henry Review started. The discussion paper titled *Re:think* was released in March 2015 and it too, like the Report of the Henry Review, was shelved.

<sup>2</sup> The innovation agenda was announced on 7 December 2015 with the tag line 'Welcome to the ideas boom'. The innovation policy entailed expenditure of \$1.1 billion over four years of which \$459 million was allocated to research infrastructure, tax incentives for people investing in the early stages of research commercialisation and for the CSIRO's innovation fund. The Auditor-General's report is available here: [www.anao.gov.au/work/performance-audit/design-and-monitoring-national-innovation-and-science-agenda](http://www.anao.gov.au/work/performance-audit/design-and-monitoring-national-innovation-and-science-agenda)

<sup>3</sup> The Auditor-General's report said that much of the policy advice to government was 'general in nature and did not present quantitative or in-depth analysis of problems, expected impacts or how outcome would be measured.'

<sup>4</sup> Tony Yoo, 'Innovation nation? Australia tumbles to 23<sup>rd</sup> place in a benchmark index of global innovation' which is available here: [www.businessinsider.com.au/australia-keeps-slipping-down-the-global-innovation-ladder-2017-6](http://www.businessinsider.com.au/australia-keeps-slipping-down-the-global-innovation-ladder-2017-6)

The bold ideas of lower tax rates, no CGT discount and the end of work-related deductions which Malcom Turnbull advocated more than a decade ago also receded into the distant recesses of memory when he became Prime Minister.<sup>5</sup> The next best thing to actual tax reform is a tax cut. But even the proposed phasing in of a reduction to the corporate tax rate to 25 per cent — at a cost of about \$50 billion<sup>6</sup> — has been languishing in the House of Representatives and now the Senate<sup>7</sup> where negotiations are still underway with the two resistant senators, Tim Storer and Derryn Hinch.<sup>8</sup>

It seems that the nation has stalled rather than stabilised.

Just as nature abhors a vacuum, so the vacuum around tax reform and in particular economic reform was filled by a series of scandals that kept the media enthralled and the public distracted from having to deal with the mundane economics of day-to-day living. We read about the senator who resigned following revelations about his allowing Chinese donors to pay for his travel and legal bills; the deputy Prime Minister who resigned after the public outrage over his hypocrisy about traditional family values and the dual citizenship debacle that paralysed Parliament for months. More recently, the revelations from the Royal Commission — whose establishment was for a long time resisted by the Prime Minister and others in the Government — about the unethical, and potentially criminal, conduct of some of our biggest financial institutions would have dissipated any public support for a reduction in corporate taxes for them.

To be fair, these scandals were aired over the last twelve months but the shocking conduct took place over a number of years under the watch of other Prime Ministers and Governments. To gain some perspective about how Australia compares relative to other countries we only need to look at the decline in Australia's score on Transparency International's<sup>9</sup> annual Corruption Perception Index. Since 2012<sup>10</sup>, Australia has managed to slip eight points; however we are still ranked as the 13<sup>th</sup> least corrupt nation in the world.<sup>11</sup>

Things which have been cited as contributing to Australia's poor showing on the index include: 'the misuse of travel allowances, inadequate regulation of foreign political donations, conflicts of interest in planning approvals, revolving doors and a culture of mateship, inappropriate industry lobbying in large scale projects such as mining, and the misuse of power by leading politicians ...'.<sup>12</sup>

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<sup>5</sup> Tony Abbott was deposed as Prime Minister on 14 September 2015. See the article by Joanna Mather, Sally Rose, Kate Cowling and Agnes King titled 'Liberal leadership: Malcolm Turnbull's yesteryear tax reforms' in the *Australian Financial Review*, 15 September 2015.

<sup>6</sup> The reported estimated cost varies from \$50 billion to \$65 billion.

<sup>7</sup> The *Tax Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017* was introduced into the House of Representatives on 11 May 2017 and into the Senate for the first time on 12 February 2018.

<sup>8</sup> The Government needs to convince either these two independent Senators or the two Centre Alliance senators.

Source: [www.news.com.au/national/breaking-news/tax-cuts-doomed-company-directors-head/news-story/97082af5ba2b9cc825d51352241415ea](http://www.news.com.au/national/breaking-news/tax-cuts-doomed-company-directors-head/news-story/97082af5ba2b9cc825d51352241415ea)

<sup>9</sup> Transparency International is a politically non-partisan organisation with more than 100 national chapters. Its aim is to 'stop corruption and promote transparency, accountability and integrity at all levels and across all sectors of society.

<sup>10</sup> The Index in its current form began in 2012. The index ranks 180 countries on a scale of zero (very corrupt) to 100 (very clean).

<sup>11</sup> New Zealand is considered to be the least corrupt nation on earth (score of 89) followed closely by Denmark (88).

<sup>12</sup> Peter Ryan, Senior Business Correspondent, quoting Transparency International Australia's chief executive Serena Lillywhite in his article titled 'Australia slips in corruption index, ranks as 13<sup>th</sup> least-corrupt nation.' 22 February 2018. [www.abc.net.au/news/2018-02-22/australia-slips-in-global-corruption-rank/9472114](http://www.abc.net.au/news/2018-02-22/australia-slips-in-global-corruption-rank/9472114)



Transparency International Australia's chairman Anthony Whealy QC said. 'The Government has simply not faced up to the need to have an independent corruption agency at a national level.' Even a group of prominent former judges have called for the establishment of a national integrity body (i.e. a national anti-corruption Commission).<sup>13</sup>

It has been an interesting 12 months.

## Achievements in the last 12 months

Even with the distraction of having to sort out the problems of their own making, our members of Parliament have pushed ahead with implementing some of the agenda that was set at the last Budget. The theme of last year's Budget was putting Australia on a journey to broader-based growth and securing more and better paying jobs for Australians ('jobs and growth').

The following measures announced at the 2017–18 Budget are now law:

### ***Concessions to reduce the pressure on housing affordability***

- Taxpayers can — from 1 July 2017 — save money inside their superannuation fund and use up to \$30,000 for the purchase of their first home after 1 July 2018<sup>14</sup>
- Individuals aged over 65 can contribute the proceeds of downsizing the family home into superannuation — but not until 1 July 2018<sup>14</sup>

### ***Measures to reduce taxpayers' propensity to overclaim expenses or avoid paying tax***

- Denying deductions for travel expenses relating to investment properties for all but certain excluded entities such as corporate tax entities, superannuation funds that are not SMSFs and other public investment entities<sup>15</sup> — from 1 July 2017<sup>16</sup>
- Limiting deduction for depreciation on plant and equipment in residential rental properties to expenditure actually incurred by the investor — from 1 July 2017<sup>16</sup>
- Requiring purchasers of new residential premises or subdivisions of potential residential land to withhold from the contract price an amount on account of GST and remit it to the ATO on or before settlement — from 1 July 2018<sup>17, 18</sup>

### ***Measures that change how the tax burden is shared***

- Requiring foreign owners of residential dwellings to pay an annual fee equivalent to the relevant foreign investment application fee for the property's purchase if the dwelling is not occupied or available on the rental market for at least six months per year — for properties acquired from 7.30 pm (AEST) on 9 May 2017<sup>16</sup>
- Extending the small business \$20,000 immediate deductibility threshold for a further 12 months to 30 June 2018

<sup>13</sup> Matt Peacock, *Federal ICAC: Former judges call for national anti-corruption watchdog* 3 November 2017. See: [www.abc.net.au/news/2017-11-02/former-judges-call-for-federal-icac/9112396](http://www.abc.net.au/news/2017-11-02/former-judges-call-for-federal-icac/9112396)

<sup>14</sup> The *Treasury Laws Amendment (Reducing Pressure on Housing Affordability Measures No. 1) Act 2017* which received Royal Assent on 13 December 2017.

<sup>15</sup> Such entities include public unit trusts, managed investment trusts and unit trusts or partnerships of which all the members are entities that are themselves excluded entities. This rules out individuals, discretionary trusts and SMSFs.

<sup>16</sup> The *Treasury Laws Amendment (Housing Tax Integrity) Act 2017* which received Royal Assent on 30 November 2017.

<sup>17</sup> Transitional rules apply for contracts entered into before 1 July 2018 and which settle after that date but before 1 July 2020.

<sup>18</sup> The *Treasury Laws Amendment (2018 Measures No. 1) Act 2018* which received Royal Assent on 29 March 2018.

## The corporate tax rate cuts

The Government's strategy for increasing jobs and growth and prosperity generally was contained in its *Ten Year Enterprise Tax Plan* which was announced as part of the 2016–17 Budget. The proposed cuts to the corporate tax rate — which were to be progressively introduced so that all corporate entities would be eligible for a tax rate of 25 per cent by 2026–27 — have been implemented only in part. This strategy was predicated on the theory that the companies would pass on the tax savings to the rest of the economy by way of increased investment and/or by employing more workers and/or paying increased wages. Not all members of Parliament were convinced that companies would generally respond in this way, particularly those companies that were owned mainly by foreign residents.

That part of the Enterprise Tax Plan that has been enacted will allow corporate entities with a turnover of less than \$50 million to qualify for the lower tax rate of 27.5 per cent for the 2018–19 income year.<sup>19, 20</sup>

The proposed extension of the tax cut to other companies and its progressive reduction to 25 per cent for all companies, has still to be passed. The Bill which contains this proposal is scheduled for debate in the Senate on Thursday 10 May 2018.

Big Business — i.e. the very companies that are likely to benefit from the proposal are not optimistic that it will be passed.<sup>21</sup> Business leaders have variously called for broader (wholesale) tax reform. Other respected business leaders such as Mr David Gonski, chairman of the ANZ Bank, noted that the bank 'was not about to up stumps to another country if it did not like the corporate tax rate in Australia so that would not impact its investment decision.'<sup>22</sup> Mr Gonski also noted that for SMEs a change in the corporate tax rate may change investment decisions.

Given that the 2018–19 Budget is likely to be the last Budget before the next Federal election, pressing for the extension of the reduction in company tax rates to all companies may, as business leader Ms Elizabeth Proust warned, result in the Turnbull Government losing the election.<sup>22</sup>

Mr Turnbull may, for now, concede defeat on the proposed extension of the tax rate cut to all companies. Under current law, companies with an aggregated turnover of less than \$50 million could expect to have their 27.5 per cent tax rate reduced progressively from 27 per cent in 2024–25 to 25 per cent in 2026–27. It seems that this status quo will not upset too many voters.

Meanwhile, even though the corporate tax rate for the big end of town remains at 30 per cent, the Treasurer, Scott Morrison announced in February 2018 that Australia has delivered solid growth entering its 27<sup>th</sup> year of uninterrupted economic expansion diversifying its base as the non-mining economy continues to strengthen. More than 400,000 jobs, of which 300,000 were full-time, were created in 2017.<sup>23</sup> This, as well as other indicia of economic growth exceeding expectations, provides a springboard for the Government to deliver tax relief to voters.

<sup>19</sup> The *Treasury Laws Amendment (Enterprise Tax Plan) Act 2017* received Royal Assent on 19 May 2017.

<sup>20</sup> There is legislation currently before the Senate that proposes to replace the existing condition for eligibility for the lower corporate tax rate from the requirement that the company must meet the aggregated turnover threshold and carry on a business with the requirement that it meets the aggregated turnover threshold and no more than 80 per cent of its assessable income is *base rate entity passive income*. The proposal is contained in the *Treasury Laws Amendment (Enterprise Tax Plan Base Rate Entities) Bill 2017*.

<sup>21</sup> This was the opinion of Elizabeth Proust, chair of the Australian Institute of Company Directors, as reported by Amy Remeikis on 2 May 2018 in her article 'Company tax cut plan doomed, chair of directors group says' which is available here: [www.theguardian.com/australia-news/2018/may/02/company-tax-cut-plan-doomed-head-of-directors-group-says](http://www.theguardian.com/australia-news/2018/may/02/company-tax-cut-plan-doomed-head-of-directors-group-says)

<sup>22</sup> Michael Smith 'Big Business challenges Turnbull's tax agenda' in the *Australian Financial Review*, 9 March 2017 which is available here: [www.afr.com/brand/business-summit/big-business-challenges-turnbulls-tax-agenda-20170309-guucyj](http://www.afr.com/brand/business-summit/big-business-challenges-turnbulls-tax-agenda-20170309-guucyj)

<sup>23</sup> The Treasurer, Scott Morrison, 'Realising our year of opportunity through lower taxes and more open and competitive banking', address to the Citibank A50 Australian Economic Forum Sydney, 9 February 2018.

Those voters are also employees who have been struggling on wages that barely keep pace with inflation.<sup>24</sup> The lack of growth in wages is also of concern to the Government because flatlining wages mean that revenue collections will also be affected.

Recognising the incongruity of offering tax relief while also proceeding with the proposed increase to the Medicare levy<sup>25</sup>, the Treasurer has had to abandon the 'landmark reform to protect Australians in need through fully funding the National Disability Insurance Scheme (NDIS)'.<sup>26, 27</sup> Moreover, the tax relief for individuals may make the proposed cut in the corporate tax rate more palatable.

The Government has steadfastly maintained that the benefits of a reduction in the corporate tax rate will manifest in increased wages for workers but unless there is some adjustment to the income thresholds for the different tax rates the increased wages may simply result in a greater windfall to the Government as a result of bracket creep.<sup>28</sup>

The tax relief may also be necessary if the Government is to abide by its self-imposed cap of 23.9 per cent on the tax-to-GDP ratio — i.e. the Treasurer promised that he would not let taxes increase above 23.9 per cent of the GDP.

In his address to Bloomberg Sydney in August 2017, Scott Morrison said that the Government's view is that the problem to be solved is growth, not how to carve it up, but how to make it bigger.<sup>29</sup>

Forty per cent of households in Australia pay no tax, after taking account of tax and welfare benefits received. The top one per cent of income tax payers account for 17 per cent of income tax revenue, while the top ten per cent account for almost half.

We cannot increase wages if we extinguish aspiration and incentive by taxing even harder those who succeed to create value, investment and jobs in our economy. This becomes self-defeating for our economy.

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<sup>24</sup> Eryk Bagshaw in 'Wages flatline for 10 million Australians despite small general lift' in the *Sydney Morning Herald* on 21 February 2018 gives as examples the price of electricity which has risen at six times the rate of an average pay rise; the cost of sending children to high school rose by 4.1 per cent, double the average wage increase, while fuel also rose by 10.4 per cent over the same period.

<sup>25</sup> The increased Medicare levy which was proposed to apply from 1 July 2019 was to raise about \$8 billion over four years.

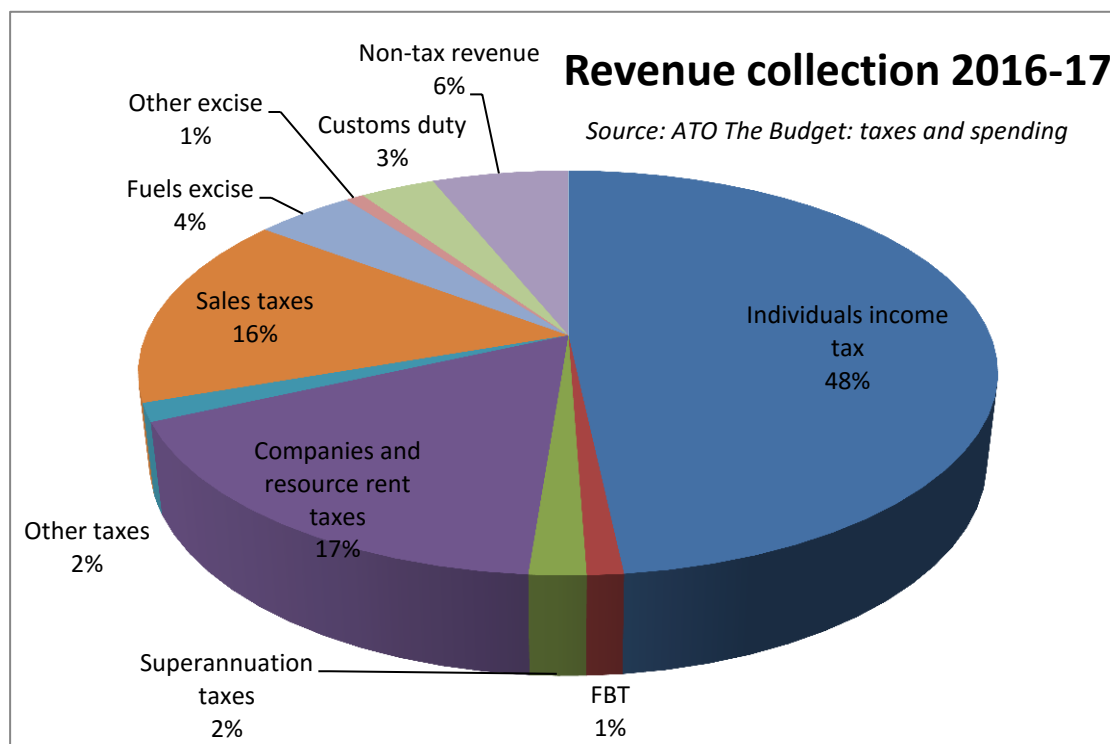
<sup>26</sup> Scott Morrison, Second reading Speech, *Medicare Levy Amendment (National Disability Insurance Scheme Funding) Bill 2017*, 17 August 2017.

<sup>27</sup> The *Medicare Levy Amendment (National Disability Insurance Scheme Funding) Bill 2017* which was introduced into Parliament on 17 August 2017 and which is currently before the Senate will not proceed.

<sup>28</sup> This process by which increases in wages push workers into higher tax brackets and therefore into paying a greater proportion of their wage increase in tax is also referred to as *fiscal drag*.

<sup>29</sup> The Treasurer, Scott Morrison, 'The economics of opportunity', address to Bloomberg, Sydney, 31 August 2017.

## Where revenue comes from



In the lead up to Budget night, the question of how we pay for such concessions and benefits and for health, education, infrastructure and all the things that we need to equip us to be part of the new non-mining economy becomes a greater concern, especially since the measures in question will increase the size of the deficit and the national debt.

Fortunately for the Government, the last few months have seen increased revenue flows of about \$10 billion that have been attributed to stronger than forecast commodity prices and good employment growth. A further \$27 billion is expected over the next three years even without any government initiatives.<sup>30</sup>

The challenges which Australia faced when the Turnbull Government took charge have not changed<sup>31</sup>:

- an aging population that is living longer;
- a declining participation rate; and
- slowing productivity (about working more efficiently or producing more or better goods and services with the same level of resources).

We can add to these, the rapid and substantial increase in population and the pressure that it is placing on infrastructure generally.<sup>32</sup>

<sup>30</sup> Ian Verrender, Business editor, 'Malcolm Turnbull's choice: Debt and deficit, or defeat' ABC News, 7 May 2018. See: [www.abc.net.au/news/2018-05-07/turnbulls-choice-debt-and-deficit-or-defeat/9733142](http://www.abc.net.au/news/2018-05-07/turnbulls-choice-debt-and-deficit-or-defeat/9733142)

<sup>31</sup> These challenges were identified in the 2015 Intergenerational Report which was released on 5 March 2015. The Report assesses the long-term sustainability of current Government policies, analyses the key drivers of economic growth — population, participation (i.e. the proportion of people aged 15 years and over who are actively engaged in the workforce) and productivity and what the projected changes in these drivers will mean for our standard of living. See: <https://treasury.gov.au/publication/2015-intergenerational-report/>

<sup>32</sup> Australia's population has increased by 40 per cent from 1990. Melbourne is said to be growing at about 120,000 per year — per David Scott in 'Australian population growth is picking up speed again, thanks to immigration' *Business Insider Australia* 27 September 2017. See: [www.businessinsider.com.au/australias-population-growth-just-hit-the-accelerator-2017-9](http://www.businessinsider.com.au/australias-population-growth-just-hit-the-accelerator-2017-9)

## The MYEFO updates

The Mid-Year Economic and Fiscal Outlook (MYEFO) 2017–18, which updates the economic and fiscal outlook from the previous Budget, was released on 18 December 2017. It takes into account the decisions made since the release of the Budget, and therefore revises the Budget aggregates. It stated that:

- the deficit for 2017–18 has improved to \$23.6 billion (1.3 per cent of GDP)<sup>33</sup>; but is still projected to return to surplus of \$10.2 billion (0.5 per cent of GDP) by 2020–21<sup>34</sup>;
- expected total receipts have been revised up by around \$3.6 billion in 2017–18 and \$2.8 billion over the four years to 2020–21 since the Budget, to be mainly driven by upwards revisions to forecasted company tax and superannuation fund taxes;
- company tax forecasts have been revised upwards due to stronger than expected collections, increased company profitability and successful ATO enforcement activity; however, lower forecasts for wages and unincorporated business income are expected to impact income tax receipts from individuals;
- net debt is expected to peak at 19.2 per cent of GDP in 2018–19<sup>35</sup> and reduce to 17.2 per cent of GDP in 2020–21<sup>36</sup>; and
- the Government is now not expected to need to borrow for recurrent spending from 2017–18, a year earlier than expected at Budget time.

### Key income tax measures

The more significant key tax policy decisions which have been made since the 2017–18 Federal Budget include the following:

Tax measure	Details
<b>Main residence CGT exemption for temporary residents</b>	The proposal to deny the benefit of the main residence CGT exemption to foreign residents in relation to CGT events happening on or after 7.30 pm by legal time in the ACT on <b>9 May 2017</b> <sup>37</sup> was amended to ensure that temporary tax residents who are Australian residents will be unaffected.
<b>Passive investment companies excluded from lower company tax rate</b>	It is proposed that <b>from the 2017–18 income year</b> , passive investment companies — i.e. if more than 80 per cent of the company's assessable income for the income year constitutes certain items of passive income — will not be eligible for the lower company tax rate (27.5 per cent for 2017–18). <sup>38</sup>

<sup>33</sup> The forecast deficit at the 2017–18 Budget was \$29.4 billion (1.6 per cent of GDP).

<sup>34</sup> This is an increase over the \$7.4 billion (0.4 per cent of GDP) surplus forecast in the Budget.

<sup>35</sup> Down from the Budget estimate of 19.8 per cent.

<sup>36</sup> This is \$10.9 billion less than the Budget estimate.

<sup>37</sup> Existing dwellings held prior to 7.30 pm by legal time in the ACT on 9 May 2017 will remain eligible for the CGT main residence exemption until 30 June 2019. This measure is contained in the *Treasury Laws Amendment (Reducing Pressure on Housing Affordability Measures No. 2) Bill 2018* which was introduced into Parliament on 8 February 2018.

<sup>38</sup> The *Treasury Laws Amendment (Enterprise Tax Plan Base Rate Entities) Bill 2017* was introduced into Parliament on 18 October 2017 and proposes to give effect to the changes by modifying the statutory definition of 'base rate entity'. The Bill was still before the Senate as at Budget time.

Tax measure	Details
<b>Deductible Gift Recipient (DGR) reform</b>	<p>Funding of \$5.7 million<sup>39</sup> to be provided for the Australian Charities and Not-for-profits Commission (ACNC) and the ATO to improve governance, reduce complexity and boost integrity of the DGR framework.</p> <p>From <b>1 July 2019</b><sup>40</sup>:</p> <ul style="list-style-type: none"> <li>■ non-government entities with DGR status will be automatically registered as charities with the ACNC, with transitional arrangements; and</li> <li>■ certain Commonwealth schemes<sup>41</sup> will be integrated with the ACNC Charity Register and be administered by the ACNC.</li> </ul>
<b>GST on low value imported goods</b>	The start date of the 2016–17 Budget measure <i>Applying GST to Low Value Goods Imported by Consumers</i> was deferred from 1 July 2017 to <b>1 July 2018</b> . <sup>42</sup>
<b>GST withholding on new residential premises — transitional arrangements</b>	A two-year transitional arrangement <sup>43</sup> for the measure that requires purchasers of new residential premises and new residential subdivisions to remit the GST directly to the ATO as part of the property settlement from <b>1 July 2018</b> will exclude transactions where the contract is signed before 1 July 2018 and settled before 1 July 2020.
<b>Affordable housing through managed investment trusts (MITs)</b>	The requirement that at least 80 per cent of a MIT's income is derived from affordable housing has been removed — from <b>1 July 2017</b> , MITs will be able to hold any level of affordable housing for the purpose of deriving long term rent, provided other income is derived from another eligible activity. <sup>44</sup>

After the 2017–18 Budget overhaul of the superannuation concessions when it seemed reasonable to expect that there could be very little left to change, we were presented with the following policy decisions designed to close in on recalcitrant employers:

- closing of salary sacrifice loopholes — employers will not be able to use employees' salary sacrifice contributions to satisfy their superannuation guarantee (SG) obligations and to reduce the earnings base on which SG obligations are calculated — from 1 July 2018;
- extension of Single Touch Payroll (STP) reporting to small employers (with fewer than 20 employees) — from 1 July 2019;
- providing the ATO with the funds and the power to improve processes for recovering unpaid SG; to address SG non-compliance; and to impose stronger SG penalties.

<sup>39</sup> Over the 2018–19 to 2020–21 income years.

<sup>40</sup> The proposals were announced by the Minister for Revenue and Financial Services, Kelly O'Dwyer, on 5 December 2017.

<sup>41</sup> The Register of Environmental Organisations, Register of Harm Prevention Charities, Register of Cultural Organisations and Overseas Aid Gift Deduction Scheme.

<sup>42</sup> The *Treasury Laws Amendment (GST Low Value Goods) Bill 2017* received Royal Assent as Act No. 77 of 2017 on 22 June 2017.

<sup>43</sup> This measure was enacted by the *Treasury Laws Amendment (2018 Measures No. 1) Bill 2018* which received Royal Assent as Act No. 23 of 2018 on 29 March 2018.

<sup>44</sup> On 14 September 2017, the Government released exposure draft legislation titled *Treasury Laws Amendment (Reducing the Pressure on Housing Affordability Measures No. 2) Bill 2017: additional CGT discount and providing affordable housing through MITs*.



## ► Understanding the jargon

The following terminology which is used in connection with Federal Budget matters is briefly explained to aid understanding.

Term	Explanation
Budget deficit	<p>The last time Australia had a Budget surplus was in 2006. Every year since the GFC, we have had Budget deficits — i.e. the Federal Government has spent more money than it has collected. This is expected to continue until at least 2020–21.<sup>45</sup></p> <p>Australia also has a structural deficit which means that, all other things being equal, the Government's general level of spending exceeds the general levels of taxation. The solution requires either a change in the Government spending level or a change in the level of taxation.</p>
Vertical fiscal imbalance	<p>This refers to the problem created by the Federal Government having most of the revenue raising power while the States and Territories have most of the obligations to provide services, especially in the big spending areas such as health care, education and infrastructure.</p> <p>The Prime Minister's recent attempts to change this balance were rebuffed by most of the States and Territories.</p>
Horizontal fiscal imbalance	<p>Australia's horizontal fiscal imbalance is a result of the differing capacities of the States to raise revenue and differing cost structures in delivering their services.</p> <p>There is an equalisation scheme under which the Federal Government uses the GST revenue to allocate funds between the States on the basis of their needs and capacity to raise revenue.</p>
Government debt	<p>As a result of spending more than it raises by taxation, the Federal Government must borrow. Government gross debt is expected to be about \$531 billion at the end of 2017–18 before increasing to \$583 billion at the end of the forward estimates.<sup>46</sup> Interest paid on this debt is about \$13.4 billion per year.<sup>47</sup></p>

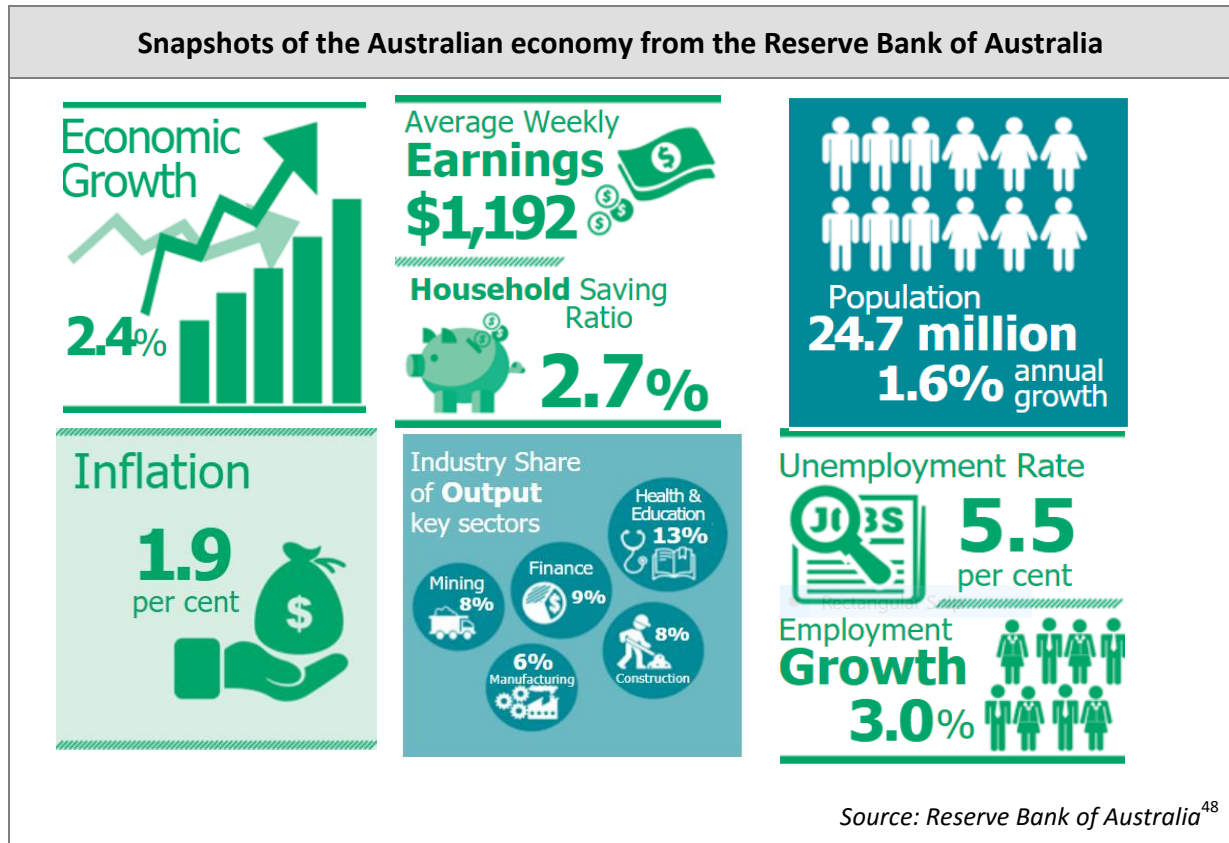
<sup>45</sup> Reported by Jessica Irvine in her article titled 'Why we should worry about fixing the budget' in the Sydney Morning Herald on 2 April 2016.

<sup>46</sup> Australian Government. MYEFO 2017–18, December 2017, at page 84.

<sup>47</sup> Australian Government. MYEFO 2017–18, December 2017, at page 28.

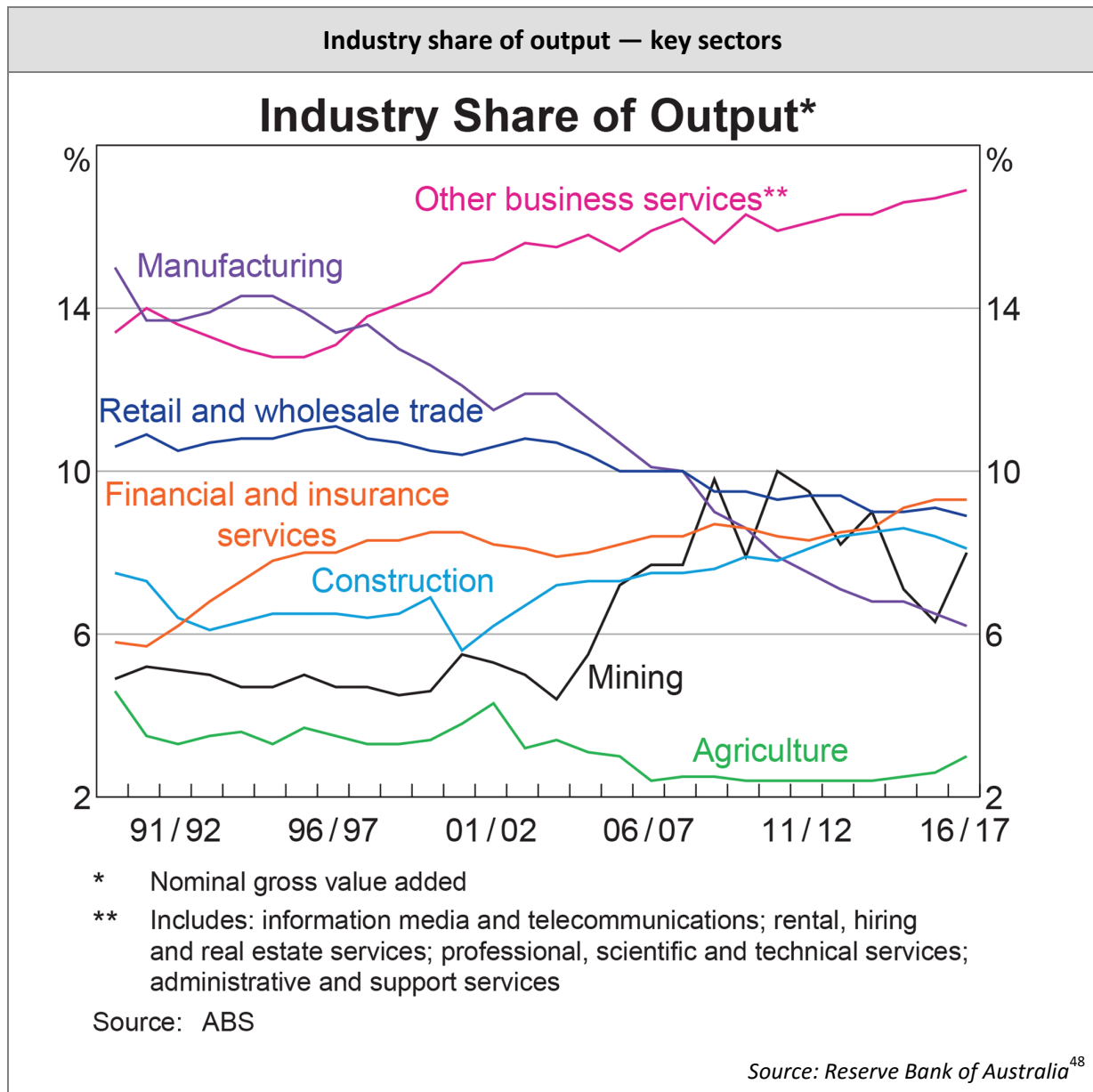
## ► Some facts about the Australian economy

The Reserve Bank of Australia released the following monochromatic snapshots of the Australian economy on 2 May 2018:





The Reserve Bank has also provided a graph showing the trends in the industry sectors that contribute the most to output of the economy.



## Key information leading up to the 2018–19 Federal Budget

The Government's 2017–18 MYEFO reported an improvement of \$9.3 billion in the underlying cash position over the forward estimates as a result of upwards revisions to the forecasts for company tax and superannuation fund taxes. In particular, company tax forecasts were revised upwards to reflect stronger-than-expected collections, increased company profitability and successful ATO enforcement activity.<sup>49</sup>

<sup>48</sup> The Reserve Bank of Australia's Australian Economy Snapshot which was released on 2 May 2018 is available here: <https://www.rba.gov.au/chart-pack/regions-industry.html>

<sup>49</sup> Page 2 of the *Mid-Year Economic and Fiscal Outlook 2017–18*, December 2017.

	Estimates					
	Actual 2015–16	Actual 2016–17	Budget 2017–18	Budget 2018–19	Budget 2019–20	Budget 2020–21
Underlying cash position <sup>50</sup>	(\$39.6b)	(\$33.2b) <sup>51</sup>	(\$18.2b)	(\$14.5b)	\$2.2b	\$11.0b
Economic growth	2.6%	2.1%	2.75%	3.0%	3.0%	3.0%
Unemployment rate	5.7%	5.6%	5.5%	5.25%	5.25%	5.25%
CPI — inflation	1.0%	1.9%	2.0%	2.25%	2.5%	2.5%

## ► What we have been told so far ...

### **About jobs and growth**

The Government has said that it is still all about ‘jobs and growth’ but under a new slogan ‘Let’s keep Australia working’. The Government will continue to push for the enactment of the proposed reduction in the corporate rate of tax for the big end of town and stick to its theory that the proposed cuts will be good for jobs and growth and indeed for the survival of the Australian economy. We have been told that such benefits may begin to flow even before the tax cuts come into effect.<sup>52</sup>

### **Superannuation**

The changes to the superannuation regime in 2016 which have added \$6 billion plus to the revenue<sup>54</sup> mean that there are unlikely to be other major changes.

Fears about further tinkering with the superannuation system have been allayed by announcements that there will be positive announcements in the Budget in addition to the following:

- the Government will expand the limit on the maximum number of members in an SMSF from four to six<sup>53</sup>;
- SuperStream will be extended to include SMSF rollovers; and
- the 12 per cent superannuation guarantee will be deferred until 2025<sup>54</sup>

<sup>50</sup> Underlying cash position — a reduction in the underlying cash balance means that the government must borrow more and as a consequence the interest cost on the higher public debt increases.

<sup>51</sup> As announced by the Treasurer on 26 September 2017. See: [www.news.com.au/finance/economy/federal-budget/federal-government-announces-final-budget-deficit-has-dropped-to-332-billion/news-story/3e37b3df62aa45485be719e096915706](http://www.news.com.au/finance/economy/federal-budget/federal-government-announces-final-budget-deficit-has-dropped-to-332-billion/news-story/3e37b3df62aa45485be719e096915706)

<sup>52</sup> Phillip Coorey ‘Early benefits from company tax cuts’ in *The Australian Financial Review* 7 May 2018 at page 4.

<sup>53</sup> This was announced by the Minister for Revenue, Kelly O’Dwyer, at the SMSF Expo in Melbourne on 27 April 2018.

<sup>54</sup> Phillip Coorey ‘Federal Budget 2018: Big baby boomer bonus’ in *The Australian Financial Review* 7 May 2018; currently, the SG rate would increase to 12 per cent from 1 July 2021.

## **Tax and excise**<sup>55</sup>

- Tax cuts for individual taxpayers under a 10-year plan starting with those on incomes below \$87,000 and reaching higher incomes by the mid-2020s — expected to be implemented by increasing the low income tax offset
- Reduction of the company tax rate to 25 per cent for all companies by 2026–27
- Restricting allowable deductions under the Petroleum Resources Rent Tax but exempting existing projects
- Tightening the eligibility requirements for the \$3 billion R&D tax incentive
- Extension of the \$20,000 instant asset write-off for small businesses
- Equalisation of the excise charged on craft beer kegs

## **Concessions for the baby boomers**

- A multibillion dollar package to enable pension age individuals to borrow against the value of their homes — i.e. a pensions loan scheme — which will allow them to remain in their homes (and ease the burden on aged care facilities)
- A pensioner work bonus — pensioners will be able to work without the income affecting their benefits<sup>56</sup>

The Government has also announced other proposals for infrastructure expenditure of around \$24.5 billion on roads and railways. These proposals can always be deferred if there should be change in the trajectory of revenue collections.

## ► **Things that will not be in the Budget**

Based on the Government's past pronouncements, the Budget is unlikely to contain measures that:

- change CGT or negative gearing:  
The government has no intention or plan to change capital gains tax or negative gearing. That has been our position, is our position.<sup>57</sup>
- change the rules for refunds of franking credits  
Labor's policy to axe cash rebates '... is a cynical, unconscionable and unfair raid on the savings of older Australians.'<sup>58</sup>

## ► **Things too big to deal with now — in the 'procrastination' basket**

- Division 7A changes recommended by the Board of Taxation's *Post implementation Review of Division 7A of Part II of the Income Tax TAA 1936* — released in June 2015<sup>59</sup>

<sup>55</sup> Jennifer Hewett, 'Top earners have to wait for tax cuts' in *The Australian Financial Review*, 7 May 2018, at page 1.

<sup>56</sup> The Pensioner Work Bonus enables pensioners to earn up to \$250 a fortnight, or \$6,500 a year, without affecting their pension. Only the portion of that money earned over that threshold is counted towards the age pension income test. This earnings cap will be lifted in the budget. Source: [www.afr.com/news/policy/budget/federal-budget-2018-big-baby-boomer-bonus-20180506-h0zps0#ixzz5ErqJl6ux](http://www.afr.com/news/policy/budget/federal-budget-2018-big-baby-boomer-bonus-20180506-h0zps0#ixzz5ErqJl6ux)

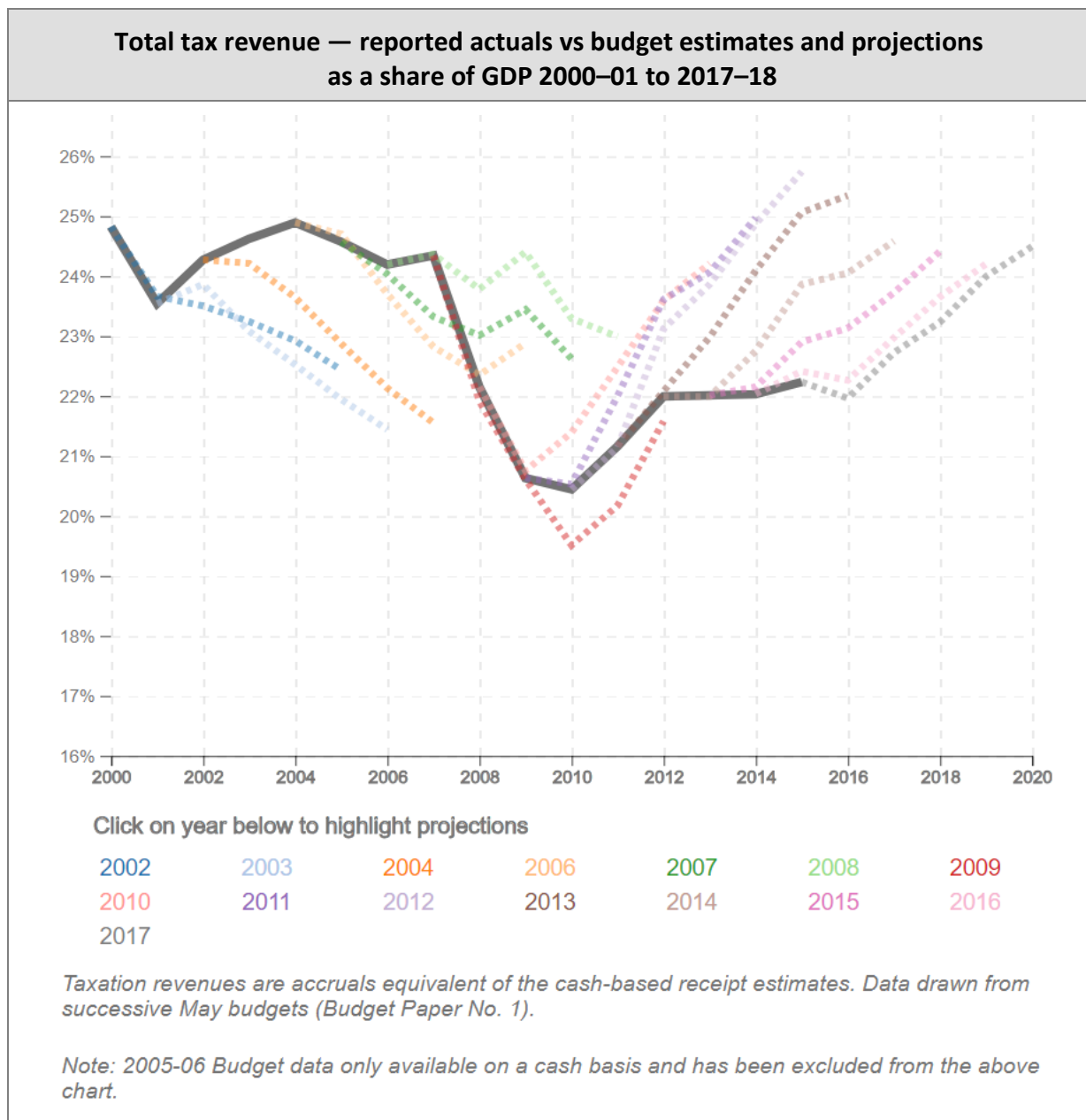
<sup>57</sup> Prime Minister Malcolm Turnbull as reported by Heath Aston in 'Malcolm Turnbull says no plan to raise taxes in budget 2017, rebuffs intervention by Tony Abbott on issue' in the *Sydney Morning Herald* on 17 February 2017.

<sup>58</sup> Katharine Murphy, political editor, 'Coalition to intensify claims Labor "robbing pensions" with tax policy' in *the Guardian* 20 March 2018.

<sup>59</sup> These amendments were expected to provide a self-correction mechanism, safe harbour rules and simplified loan arrangements.

- Reform of the taxation of trusts — this has been on the agenda for decades but the most recent recommendations for reform were made by the Henry Review in 2010; even the Opposition has given thought to and announced some preliminary ideas about possible reforms<sup>60</sup>
- Changes to deal with the systemic abuse of work related deductions — e.g. standard work-related deductions

A final chart which summarises how the Government's Budget estimates and projections of total tax revenue as a share of GDP compare to reported actuals highlights the difficulty of predicting future revenue. The dark line is actual and the dotted lines are the estimates for different years.



Source: 'Eight charts on our growing tax problem: what abandoning tax reform means for taxpayers' in *The Conversation* 7 May 2018<sup>61</sup>

<sup>60</sup> The Labor party announced its policy on discretionary trust reform on 30 July 2017.

<sup>61</sup> This graph which looks at company tax, individual tax and GST revenue separately and in aggregate is well worth a view at: <https://theconversation.com/eight-charts-on-our-growing-tax-problem-what-abandoning-tax-reform-means-for-taxpayers-94989>

# Federal Budget summary 2018–19

## Measures and start dates at a glance

Budget measure	Start date
<b>Individuals</b>	
Personal Income Tax Plan	1 July 2018
Retaining the Medicare levy rate at 2 per cent	1 July 2019
Increasing the Medicare levy low-income thresholds	1 July 2017
Taxation of income for an individual's fame or image	1 July 2019
Improving the taxation of testamentary trusts	1 July 2019
Ensuring individuals meet their tax obligations	1 July 2018
<b>Deductions</b>	
Deductions denied for vacant land	1 July 2019
Taxation of financial arrangements — reforms deferred	Income years starting on or after Act receives Royal Assent
<b>Black economy package</b>	
Removing tax deductibility of non-compliant payments made to employees and contractors	1 July 2019
Introduction of an economy-wide cash payment limit	1 July 2019
Further extending the taxable payments reporting system	1 July 2019
New and enhanced ATO enforcement against the Black Economy	1 July 2018
Consulting on a new regulatory framework for ABNs	
<b>Small business</b>	
Further extending the small business immediate deductibility asset threshold	1 July 2018
Enhancing the integrity of the small business CGT concessions in relation to partnerships	8 May 2018

Budget measure	Start date
<b>Companies</b>	
Tax Integrity — Targeted amendments to Division 7A	1 July 2019
Better targeting the R&D tax incentive	1 July 2018
Income tax consolidation integrity	Various
Thin capitalisation — valuation of assets and treatment of consolidated entities	1 July 2019 (subject to transitional rules)
<b>Trusts</b>	
Extending the anti-avoidance rules for circular trust distributions	1 July 2019
Removing the CGT discount at the trust level for Managed Investment Trusts and Attribution MITs	1 July 2019
<b>Tax exempt entities</b>	
Concessional loans between tax exempt entities	8 May 2018
Updates to the list of specifically listed DGRs	Various
ACNC funding for litigation expenses	For the 2018–19 income year
<b>International</b>	
Tightening concessions for foreign investors in stapled structures: <ul style="list-style-type: none"> <li>Thin capitalisation changes</li> <li>The other proposals — a transitional period of 7 years applies for ordinary business staples and 15 years for infrastructure assets</li> </ul>	From 1 July 2018 From 1 July 2019
Significant global entity definition amendment	1 July 2018
Updating the list of information exchange countries	1 January 2019
<b>GST</b>	
Levelling the playing field for online hotel bookings	1 July 2019
<b>Superannuation</b>	
Preventing inadvertent concessional contribution cap breaches by certain employees	1 July 2018
Better integrity over deductions for personal superannuation contributions deductions	1 July 2018

Budget measure	Start date
Work test exemption for recent retirees	1 July 2019
Increasing the maximum number of allowable members in SMSFs and small APRA funds	1 July 2019
Three-yearly audit cycle for some SMSFs	1 July 2019
Protecting superannuation savings by removing default insurance in certain cases	1 July 2019
Protecting superannuation savings from fee erosion	1 July 2019
<b>Compliance</b>	
Reforms to combat illegal phoenixing	From the 2019–20 income year
Additional funding to the ATO to support small businesses transitioning to Single Touch Payroll	1 July 2018
Tax Practitioners Board funding	1 July 2018
<b>Other taxes</b>	
Removing luxury car tax on re-imported cars following refurbishment overseas	1 January 2019
Alcohol taxes — extending support for craft brewers and distillers	1 July 2019
Indirect Tax Concession Scheme — diplomatic and consular concessions	A time specified by the Minister for Foreign Affairs

# Budget Measures

## Individuals

### ► 2018-19 Federal Budget - Personal Income Tax Plan

KEY POINTS	
■	The Treasurer announced that the Government will introduce a seven-year Personal Income Tax Plan consisting of:
■	an increase to the 32.5 per cent personal income tax bracket from \$87,000 to \$90,000 — from 1 July 2018;
■	a non-refundable Low and Middle Income Tax Offset of up to \$530 per annum to be received as a lump sum on assessment by eligible Australian resident taxpayers — for the 2018–19 to 2021–22 income years only;
■	an increase to the Low Income Tax Offset from \$445 to \$645 — from 1 July 2022;
■	an extension of the 19 per cent personal income tax bracket from \$37,000 to \$41,000 and a further increase to the 32.5 per cent personal income tax bracket from \$90,000 to \$120,000 — from 1 July 2022;
■	a further extension of the 32.5 per cent personal income tax bracket from \$120,000 to \$200,000. The top marginal tax rate of 45 per cent will then apply to taxable incomes exceeding \$200,000 — from 1 July 2024.

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will introduce a seven-year Personal Income Tax Plan.

#### START DATE

Various from 1 July 2018

The plan will consist of three steps:

1. targeted tax relief for low and middle income earners;
2. protecting middle income Australians from bracket creep; and
3. ensuring Australians pay less tax by making the system simpler.

#### Step 1: Targeted tax relief to low and middle income earners

This step introduces a Low and Middle Income Tax Offset which is a non-refundable tax offset of up to \$530 per annum payable to Australian resident taxpayers. It will be available only for the 2018–19 to 2021–22 income years and will be received as a lump sum on assessment after an individual lodges their tax return.



The amount of the offset will depend on a taxpayer's income level, as set out in the following table:

<b>Taxable income for the 2018–19 to 2021–22 income years</b>	<b>Offset amount</b>
\$37,000 or less	up to \$200
\$37,001 to \$47,999	value of offset increases by rate of three cents per dollar to maximum benefit of \$530
\$48,000 to \$90,000	\$530 (maximum)
\$90,001 to \$125,333	offset phases out at rate of 1.5 cents per dollar

The benefit of the Low and Middle Income Tax Offset is in addition to the existing Low Income Tax Offset (LITO).

## Step 2: Protecting middle income Australians from bracket creep

This step consists of changes to the personal income tax brackets and to the LITO.

### Current personal income tax thresholds

<b>Taxable income</b>	<b>Rate</b>	<b>Current tax payable</b>	
\$0 – \$18,200	0%	Nil	
\$18,201 – \$37,000	19%	Nil	+ 19% of excess over \$18,200
\$37,001 – \$87,000	32.5%	\$3,572	+ 32.5% of excess over \$37,000
\$87,001 – \$180,000	37%	\$19,822	+ 37% of excess over \$87,000
\$180,000 +	45%	\$54,232	+ 45% of excess over \$180,000

### Proposed personal income tax thresholds

From 1 July 2018, the 32.5 per cent personal income tax bracket will be increased from \$87,000 to \$90,000.

The tables below show the **proposed** personal income tax thresholds and the tax rates applicable to them.

<b>From 1 July 2018</b>			
<b>Taxable income</b>	<b>Rate</b>	<b>Tax payable</b>	
\$0 – \$18,200	0%	Nil	
\$18,201 – \$37,000	19%	Nil	+ 19% of excess over \$18,200
\$37,001 – <b>\$90,000</b>	32.5%	\$3,572	+ 32.5% of excess over \$37,000
<b>\$90,001</b> – \$180,000	37%	\$20,797	+ 37% of excess over \$90,000
\$180,000 +	45%	\$54,097	+ 45% of excess over \$180,000

From 1 July 2022			
Taxable income	Rate	Tax payable	
\$0 – \$18,200	0%	Nil	
\$18,201 – <b>\$41,000</b>	19%	Nil	+ 19% of excess over \$18,200
<b>\$41,001 – \$120,000</b>	32.5%	\$4,332	+ 32.5% of excess over \$41,000
<b>\$120,001 – \$180,000</b>	37%	\$30,007	+ 37% of excess over \$120,000
\$180,000 +	45%	\$52,207	+ 45% of excess over \$180,000

#### Low Income Tax Offset

Additionally, as part of this step, from 1 July 2022, the Government will increase the LITO from \$445 to **\$645**. The increased LITO will reduce at a rate of:

- 6.5 cents per dollar between incomes of \$37,000 and \$41,000; and
- 1.5 cents per dollar between incomes of \$41,000 and \$66,667.

#### Step 3: Ensuring Australians pay less tax by making the system simpler

The third step will further change the personal income tax brackets and flatten the personal tax system by removing the 37 per cent tax bracket entirely from 1 July 2024.

#### Proposed personal income tax thresholds

From 1 July 2024			
Taxable income	Rate	Tax payable	
\$0 – \$18,200	0%	Nil	
\$18,201 – <b>\$41,000</b>	19%	Nil	+ 19% of excess over \$18,200
<b>\$41,001 – \$200,000</b>	32.5%	\$4,332	+ 32.5% of excess over \$41,000
<b>\$200,000 +</b>	45%	\$56,007	+ 45% of excess over \$200,000

Source: Budget Paper No. 2 page 33–34

### ► 2018-19 Federal Budget - Retaining the Medicare levy at 2 per cent

KEY POINTS
<ul style="list-style-type: none"> <li>■ The Government will not proceed with the 2017–18 Federal Budget proposal to increase the Medicare levy rate from 2.0 to 2.5 per cent from 1 July 2019.</li> <li>■ Consequential changes to other tax rates linked to the top personal tax rate, such as the fringe benefits tax rate, will also not proceed.</li> </ul>

## Background

As part of the 2017–18 Federal Budget, the Treasurer announced that the Government would increase the Medicare levy by half a percentage point from 2 per cent to 2.5 per cent of taxable income to fully fund the National Disability Insurance Scheme (NDIS).

## Announcement

### START DATE

1 July 2019

On 26 April 2018, the Treasurer, Scott Morrison, announced in a speech titled *'Lower taxes for a stronger economy' Address to the Australian Business Economists, Sydney* that the Government would not proceed with the 2017–18 Federal Budget measure to increase the Medicare levy rate from 2.0 to 2.5 per cent of taxable income from 1 July 2019.

Proposed consequential changes to other tax rates linked to the top personal tax rate, such as the fringe benefits tax rate, will also not proceed.

The Government's planned expenditure on the NDIS will now be funded through the Budget.

*Source: Budget Paper No. 2 page 32  
Treasurer's Speech 'Lower taxes for a stronger economy'  
Address to the Australian Business Economists, Sydney 26 April 2018*

## ► 2018-19 Federal Budget - Increase in Medicare levy low income thresholds

### KEY POINTS

- The Treasurer announced that the Government will increase the Medicare levy low income threshold from the 2017–18 income year for:
  - singles — from \$21,655 to \$21,980;
  - families — from \$36,541 to \$37,089;
  - single seniors and pensioners — from \$34,244 to \$34,758; and
  - each dependent child-student — from \$3,356 to \$3,406.
- The increase adjusts the thresholds to take into account increases in the CPI.

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will increase the Medicare levy low income threshold for singles, families and single seniors and pensioners.

### START DATE

From the 2017–18 income year

The increase adjusts the thresholds to take into account increases in the Consumer Price Index (CPI).

The Medicare levy low-income thresholds are detailed in the table below.

Income year	Individuals	Families	Pensioners below age pension age	Senior Australians	+ amount for each dependent child/student
2017-18	\$21,980	\$37,089	\$34,758		\$3,406
2016-17	\$21,655	\$36,541	\$34,244		\$3,356
2015-16	\$21,335	\$36,001	\$33,738		\$3,306
2014-15	\$20,896	\$35,261	\$33,044		\$3,238
2013-14	\$20,542	\$34,367	\$32,279		\$3,156
2012-13	\$20,542	\$33,693	\$32,279		\$3,094
2011-12	\$19,404	\$32,743	\$30,451	\$30,685	\$3,007
2010-11	\$18,839	\$31,789	\$30,439	\$30,685	\$2,919

Source: Budget Paper No. 2 page 32

## ► 2018-19 Federal Budget - Taxation of income for an individual's fame or image

### KEY POINTS

- The Treasurer announced that — from **1 July 2019** — high profile individuals will no longer be able to licence their fame or image to another entity.
- This proposed integrity measure will require all remuneration (including payments and non-cash benefits) provided for the commercial exploitation of a person's fame or image to be included in the assessable income of that individual.

### Background

Currently, high profile individuals (such as sportspeople and actors) can licence their fame or image to another entity, resulting in the income for the use of their fame or image going to the entity that holds the licence. This creates opportunities to take advantage of different tax treatments and facilitates misreporting and incorrect tax outcomes.

The ATO's Draft Practical Compliance Guideline **PCG 2017/D11** sets out a proposed 'Safe Harbour' for apportioning lump sum payments between the provision of a professional sportsperson's services and the use and exploitation of their 'public fame' or 'image' under a licence granted to an associated third-party. The guidelines propose allowing up to 10 per cent of the payment to be treated as referable to the use and exploitation of the sportsperson's 'public fame' or 'image' and therefore assessable to the third-party.

### Announcement

As part of the 2018-19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will improve integrity in the tax system by ensuring that, from 1 July 2019, high profile individuals are no longer able to take advantage of lower tax rates by licensing their fame or image to another entity.

#### START DATE

1 July 2019

The proposed integrity measure will require that all remuneration (including payments and non-cash benefits) provided for the commercial exploitation of a person's fame or image be included in the assessable income of that individual.

Source: Budget Paper No. 2 page 45

## ► 2018-19 Federal Budget - Improving the taxation of testamentary trusts

KEY POINTS	
■	The Treasurer announced that — from <b>1 July 2019</b> — the Government will limit concessional tax rates available to minors receiving income from testamentary trusts to: <ul style="list-style-type: none"><li>■ income derived from assets that are transferred from the deceased estate; or</li><li>■ the proceeds of the disposal or investment of those assets.</li></ul>

### Background

Currently, income received by beneficiaries who are minors from testamentary trusts is taxed at normal adult rates rather than the higher marginal tax rates that generally apply to minors.

However, some taxpayers can inappropriately obtain the lower tax rates by injecting assets unrelated to the deceased estate into the testamentary trust.

### Announcement

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will limit the concessional tax rates available for minors receiving income from testamentary trusts to:

#### START DATE

1 July 2019

- income derived from assets that are transferred from the deceased estate; or
- the proceeds of the disposal or investment of those assets.

This measure will clarify that minors will be taxed at adult marginal tax rates only in respect of income a testamentary trust generates from assets of the deceased estate, or the proceeds of the disposal or investment of these assets.

Source: Budget Paper No. 2 page 44

## ► 2018-19 Federal Budget - Ensuring individuals meet their tax obligations

KEY POINTS	
■	The Treasurer announced additional funding of \$130.8 million to the ATO to increase compliance activities targeting individual taxpayers and their tax agents.
■	The measure will fund new compliance activities as well as continuing four income matching programs due to end on 1 July 2018.

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will provide additional funding of \$130.8 million to the ATO to increase compliance activities targeting individual taxpayers and their tax agents.

**START DATE**

1 July 2018

The measure will fund:

- new compliance activities, including additional audits and prosecutions;
- improving education and guidance materials;
- pre-filling of income tax returns; and
- improving real time messaging to tax agents and individual taxpayers to deter over-claiming of entitlements, such as deductions by higher risk taxpayers and their agents.

This measure will also continue four income matching programs to allow the ATO to detect incorrect reporting of income, such as foreign source income of high wealth individuals. These programs were due to end from 1 July 2018.

*Source: Budget Paper No. 2 page 31*

## Deductions

### ► 2018-19 Federal Budget - Deductions denied for vacant land

#### KEY POINTS

- The Treasurer announced that — from **1 July 2019** — the Government will deny deductions for expenses associated with holding vacant land.
- Denied deductions under this measure:
  - will not be able to be carried forward for use in later income years;
  - that would ordinarily be a cost base element (such as borrowing expenses and council rates) may be included in the cost base of the asset for CGT purposes; and
  - that would not ordinarily be a cost base element would not be able to be included in the cost base of the asset for CGT purposes.
- Expenses associated with holding land will remain deductible where they are incurred after:
  - a property has been constructed on the land, it has received approval to be occupied and is available for rent; or
  - the land is being used by the owner to carry on a business, including a business of primary production.

As part of the 2018–19 Federal Budget, the Treasurer announced that the Government will deny deductions for expenses associated with holding vacant land that is being held for residential or commercial purposes.

**START DATE**

1 July 2019

This is an integrity measure to address concerns that deductions are being improperly claimed for expenses, such as interest costs, related to holding vacant land, where the land is not genuinely held for the purpose of earning assessable income. It will also reduce tax incentives for land banking, which deny the use of land for housing or other development.

Deductions that are denied under this measure will not be able to be carried forward for use in later income years. Expenses for which deductions will be denied that:

- would ordinarily be a cost base element (such as borrowing expenses and council rates) may be included in the cost base of the asset for CGT purposes when the property is sold;
- would not ordinarily be a cost base element would not be able to be included in the cost base of the asset for CGT purposes.

This measure will not apply to expenses associated with holding land that are incurred after:

- a property has been constructed on the land, it has received approval to be occupied and is available for rent; or
- the land is being used by the owner to carry on a business, including a business of primary production.

The 'carrying on a business' exception above will generally exclude land held for commercial development.

*Source: Budget Paper No. 2 page 42*

## ► 2018-19 Federal Budget - Taxation of financial arrangements - reforms deferred

### KEY POINTS

- The Treasurer confirmed the announcement by the Minister for Revenue and Financial Services on 22 December 2017 that the Government has deferred the start date of changes to the taxation of financial arrangements (TOFA) rules which were announced as part of the 2016–17 Federal Budget.
- The reforms — originally intended to apply from 1 January 2018 — will now apply to income years commencing on or after the date of Royal Assent to the enabling legislation.

### Background

On 3 May 2016, as part of the 2016–17 Federal Budget, the Treasurer announced that the Government would reform the TOFA rules<sup>62</sup> by redesigning the TOFA framework to reduce the scope, decrease compliance costs and increase certainty, by:

- strengthening and simplifying the existing link between tax and accounting in the TOFA rules;
- simplifying the accruals and realisation rules;
- introducing a new tax hedging regime; and
- simplifying the rules for the taxation of gains and losses on foreign currency.

The Government announced that the reforms would apply to income years starting on or after 1 January 2018.<sup>63</sup>

On 22 December 2017, the Minister for Revenue and Financial Services announced that the Government has deferred the start date of changes to the taxation of financial arrangements (TOFA) rules which were announced as part of the 2016–17 Federal Budget.

<sup>62</sup> In Div 230 of the *ITAA 1997*.

<sup>63</sup> 2016–17 *Budget Paper No. 2* pages 37–38.

## Announcement

As part of the 2018–19 Federal Budget, the Treasurer confirmed on 8 May 2018 that the commencement date of the changes will be deferred to income years that commence on or after the date of Royal Assent to the enabling legislation, in order to:

- allow additional time to design the simplified rules;
- prevent unintended outcomes; and
- ensure that compliance cost savings are realised.

### START DATE

Income years commencing on or after the date of Royal Assent to the enabling legislation

*Source: Budget Paper No. 2 page 26; and  
Minister for Revenue and Financial Services Media Release:  
Taxation of Financial Arrangements reform*

## Black economy package

### ► 2018-19 Federal Budget - Removing tax deductibility of non-compliant payments made to employees and contractors

#### KEY POINTS

- The Government announced that it will amend the law to ensure that — from **1 July 2019** — businesses will no longer be able to claim deductions for payments made to:
  - employees where the required PAYG withholding has not been made; and
  - contractors who do not provide an ABN and where the required PAYG withholding has not been made.

As part of the 2018–19 Federal Budget, the Government announced that it will amend the law to ensure that businesses will no longer be able to claim deductions for payments to their employees — such as salary and wages — where they have not withheld any amount of PAYG withholding from these payments, despite the PAYG withholding requirements applying.

### START DATE

From 1 July 2019

The Government will also deny deductions for payments made by businesses to contractors where the contractor does not provide an ABN and the business does not withhold any amount of PAYG withholding despite the PAYGW withholding requirements applying.

These proposed measures are in accordance with the recommendations contained in the Final Report of the Black Economy Taskforce. It is intended that the measures will create a further financial disincentive for businesses to engage in Black Economy behaviour and will ensure greater compliance with tax obligations.

*Source: Budget Paper No. 2 page 24; and  
Final report of the Black Economy Taskforce, October 2017: Recommendation 7.5*



## ► 2018-19 Federal Budget - Introduction of an economy-wide cash payment limit

### KEY POINTS

- The Minister for Revenue and Financial Services announced that the Government will introduce an economy-wide cash payment limit of \$10,000, applying to payments made to businesses for goods and services from **1 July 2019**.
- Payments above the \$10,000 threshold will have to be made through the banking system.
- Transactions with financial institutions or consumer to consumer non-business transactions will not be affected.

As part of the 2018–19 Federal Budget, the Minister for Revenue and Financial Services, Kelly O'Dwyer, announced on 8 May 2018 in Media Release No. 51 that the Government will amend the law to introduce an economy-wide limit of \$10,000 for cash payments made to businesses for goods and services from 1 July 2019.

#### START DATE

1 July 2019

This measure — which was recommended by the Black Economy Taskforce in order to address tax evasion and money laundering — will require transactions over a proposed \$10,000 threshold to be made through an electronic payment system or by cheque.

Under the current law, large undocumented cash payments can be used to avoid tax or to launder money from criminal activity. It is intended that the \$10,000 cash payment limit will capture high-value transactions and help to remove opportunities for criminals to launder the proceeds of crime into goods and services, or for businesses to hide transactions to reduce their tax liabilities.



### Important

Transactions with financial institutions or consumer to consumer non-business transactions will not be affected.

The Government will consult on the detail of this measure before its implementation.

*Source: Budget Paper No. 2 page 23;  
Minister for Revenue and Financial Services Media Release No. 51 of 2018:  
Tackling illegal behaviour in the Black Economy; and  
Final report of the Black Economy Taskforce, October 2017, Recommendation 3.1*

## ► 2018-19 Federal Budget - Further extending the taxable payments reporting system

### KEY POINTS

- The Government has accepted the recommendation in the report of the Black Economy Taskforce to extend the taxable payments reporting system (TPRS) to the following industries from **1 July 2019**:
  - security providers and investigation services;
  - road freight transport; and
  - computer system design and related services.

### Background

The taxable payments reporting system (TPRS) is a transparency measure which currently applies to the building and construction industry, and — from 1 July 2018 — the courier and cleaning industries. It requires businesses to report to the ATO in a *Taxable payments annual report* all payments made to contractors.

The ATO uses the reported information in its data matching programs to identify contractors who have either not lodged tax returns, or not included all their income in returns they have lodged.

### Proposed expansion of the TPRS

#### START DATE

1 July 2019

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that, following recommendations of the Black Economy Taskforce, the Government will expand the TPRS to the following industries, which have been identified as being at higher risk of not complying with their tax obligations:

- security providers and investigation services;
- road freight transport; and
- computer system design and related services.

This measure will bring payments to contractors in these industries in line with wages, which are reported to the ATO.

Businesses in these industries will be required to collect information from 1 July 2019, with the first annual report required by 28 August 2020.

*Source: Budget Paper No. 2 page 22;  
Final report of the Black Economy Taskforce, October 2017: Recommendation 6.1*

## ► 2018-19 Federal Budget - New and enhanced ATO enforcement against the Black Economy

### KEY POINTS

- The Government announced that it will provide additional funding of \$318.5 million over four years to enable the ATO to implement strategies to combat the Black Economy by:
  - expanding its data analytics and data-matching capabilities;
  - establishing a hotline for the reporting of Black Economy and illegal phoenixing activity; and
  - undertaking enhanced enforcement including mobile strike teams to break up illegal behaviour as it is identified.
- In addition, the Government will establish a multi-agency 'Black Economy Standing Taskforce' to undertake a coordinated, cross-agency approach to addressing the black economy.

As part of the 2018–19 Federal Budget, the Minister for Revenue and Financial Services, Kelly O'Dwyer, announced on 8 May 2018 in Media Release No. 51 that the Government will provide \$318.5 million over four years to implement new strategies for combatting the black economy.

#### START DATE

The 2018–19 and subsequent three financial years

The additional funding will enable the ATO to implement a Black Economy enforcement strategy, which will include:

- expanding the ATO's current data analytics and data-matching capabilities;
- the introduction of a 'Black Economy Hotline' to allow the community to report Black Economy and illegal phoenixing activity;
- increased audit presence;
- enhanced enforcement including mobile strike teams to break up illegal behaviour as it is identified; and
- educational activities.

In addition, the Government will establish a multi-agency 'Black Economy Standing Taskforce' to undertake a coordinated, cross-agency approach to addressing the Black Economy through improved government data analytics and information sharing between enforcement agencies.

*Source: Budget Paper No. 2 pages 23 and 24; and  
Minister for Revenue and Financial Services' Media Release No. 51 of 2018:  
Tackling illegal behaviour in the Black Economy*

## ► 2018-19 Federal Budget - Consulting on a new regulatory framework for ABNs

KEY POINTS
<ul style="list-style-type: none"><li>■ The Treasurer announced that the Government will consult on and design a new regulatory framework for the Australian Business Number (ABN) system in the 2018–19 income year.</li><li>■ This measure implements Recommendation 4.2 of the <i>Black Economy Taskforce — Final Report</i>.</li></ul>

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will consult on and design a new regulatory framework for the ABN system in the 2018–19 income year.

### START DATE

The 2018–19 income year

This measure implements Recommendation 4.2 of the *Black Economy Taskforce — Final Report* which recommended that the ABN system be strengthened to provide improved confidence in the identity and legitimacy of Australian businesses. The Taskforce recommended a number of immediate measures<sup>64</sup> and medium term reforms<sup>65</sup>.

In its response to the report, the Government agreed that the ABN system needs to be as robust as possible. The Government will consult with stakeholders on the recommendation.

*Source: Budget Paper No. 2 page 180;  
Budget 2018–19: Living Within Our Means; and  
Government Response to the Black economy Taskforce Final Report page 16*

## Small Business

## ► 2018-19 Federal Budget - Further extending the small business immediate deductibility asset threshold

KEY POINTS
<ul style="list-style-type: none"><li>■ The Treasurer announced that the Government will extend the \$20,000 instant asset write-off by a further 12 months to <b>30 June 2019</b> for businesses with aggregated annual turnover of less than \$10 million.</li><li>■ The 'lock out' laws will continue to be suspended until 30 June 2019.</li></ul>

### Background

The 2015–16 Federal Budget measure *Growing Jobs and Small Business — expanding accelerated depreciation for small businesses* provided a temporary increase to the immediate deduction threshold for eligible assets acquired by small business entities (SBEs).

<sup>64</sup> These are: provision of TFN on application; removing entitlement from specific groups since they are not entitled to carry on an enterprise; periodic renewal; more timely cancellations; and better data matching.

<sup>65</sup> Such as: introducing an ABN renewal fee; and ensuring that there is a single issuer of ABNs and one consolidated business registry.

The accelerated depreciation rules for SBEs were amended<sup>66</sup> to temporarily increase to \$20,000 the \$1,000 threshold<sup>67</sup> under which certain depreciating assets, costs incurred in relation to depreciating assets and general small business pools can be written off.

The \$20,000 threshold was due to revert to \$1,000 from 1 July 2018.<sup>68</sup>

## Announcement

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will extend the \$20,000 instant asset write-off by a further 12 months to 30 June 2019 for businesses with aggregated annual turnover of less than \$10 million.

This measure will ensure that small businesses will be able to immediately deduct purchases of eligible assets costing **less than \$20,000** first used or installed ready for use **by 30 June 2019**.<sup>69</sup>

Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. The pool can also be immediately deducted if the balance is less than \$20,000 over this period (including existing pools).

The current 'lock out' laws, which prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out, will continue to be suspended until 30 June 2019.

Source: Budget Paper No. 2 page 20

## ► 2018-19 Federal Budget - Enhancing the integrity of the small business CGT concessions in relation to partnerships

### KEY POINTS

- The Treasurer announced that — from 7.30 pm (AEST) on **8 May 2018** — partners that alienate their income by creating, assigning or otherwise dealing in rights to the future income of a partnership will no longer be able to access the small business CGT concessions in relation to these rights.

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that partners that alienate their income by creating, assigning or otherwise dealing in rights to the future income of a partnership will no longer be able to access the small business CGT concessions in Div 152 of the *ITAA 1997* in relation to these rights.

### START DATE

From 7.30 pm (AEST) on 8 May 2018

<sup>66</sup> The amendments were made by the *Tax Laws Amendment (Small Business Measures No. 2) Act 2015* which received Royal Assent as Act No. 67 of 2015 on 22 June 2015. They were extended to 30 June 2018 by the *Treasury Laws Amendment (Accelerated Depreciation For Small Business Entities) Act 2017*.

<sup>67</sup> Section 328-180 allows SBEs to claim an immediate deduction for depreciating assets that cost less than \$1,000 in the income year in which the asset is first used or installed ready for use. The temporary increase to the existing threshold of \$1,000 is contained in s. 328-180 of the *Income Tax (Transitional Provisions) Act 1997* (IT(TP) Act).

<sup>68</sup> This was announced as part of the 2017–18 Federal Budget.

<sup>69</sup> Some assets such as horticultural plants and in-house software are not eligible.

The proposed amendments are intended to prevent some taxpayers, including large partnerships, from inappropriately accessing the small business CGT concessions in relation to their assignment of a right to the future income of a partnership to an entity, without giving that entity any role in the partnership.



### Important

There will be no changes to the small business CGT concessions themselves in relation to this announcement.



### Note

The ATO is currently reviewing the treatment of 'Everett assignments' and other arrangements involving the assignment of an interest in future income of a partnership.

*Source: Budget Paper No. 2 page 43*

## Companies

### ► 2018-19 Federal Budget - Targeted amendments to Division 7A

KEY POINTS	
■	The Treasurer announced that the Government will:
■	defer the start date of the targeted amendments to improve the operation and administration of Div 7A of Part III of the <i>ITAA 1936</i> — which were announced as part of the 2016–17 Federal Budget — from 1 July 2018 to <b>1 July 2019</b> ; and
■	include unpaid present entitlements in the scope of Div 7A from 1 July 2019.

### Background

On 3 May 2016, as part of the 2016–17 Federal Budget, the Government announced that it would amend Div 7A in Part III of the *ITAA 1936* from 1 July 2018 in response to recommendations made by the Board of Taxation in its final report of its post-implementation review of Div 7A.

Specifically, the Government said it would make targeted amendments to improve the operation and administration of Div 7A from 1 July 2018 by:

- introducing a self-correction mechanism for inadvertent breaches of Div 7A;
- introducing appropriate safe-harbour rules to provide certainty;
- simplifying Div 7A loan arrangements; and
- making a number of technical adjustments to improve the operation of Div 7A and provide increased certainty for taxpayers.

## Announcement

As part of the 2018–19 Federal Budget, the Treasurer announced that the Government will defer the start date of the proposed targeted amendments to Div 7A that were announced in the 2016–17 Budget from 1 July 2018 to 1 July 2019.

### START DATE

1 July 2019

The Government will also ensure that unpaid present entitlements (UPEs) come within the scope of Div 7A from 1 July 2019. This will apply where a related private company is made presently entitled to a share of trust income as a beneficiary but has not been paid that amount. This measure will ensure that the UPE is required to be either repaid to the company as a complying loan or subject to tax as a dividend.

This will enable all of the Div 7A amendments to be progressed as part of a consolidated package.



## Further information

The Board of Taxation's *Post-Implementation Review of Division 7A* is available here:

<http://taxboard.gov.au/consultation/post-implementation-review-of-division-7a-of-part-iii-of-the-income-tax-assessment-act-1936/>

Source: Budget Paper No. 2 page 41

## ► 2018-19 Federal Budget - Better targeting the R&D tax incentive

### KEY POINTS

- The Treasurer announced that the research and development (R&D) tax incentive will be amended to better target the program from **1 July 2018** by:
  - introducing an R&D premium tied to incremental intensity of R&D for companies with aggregated annual turnover of \$20 million or more;
  - amending the refundable R&D offset for companies with aggregated annual turnover below \$20 million so it is a premium of 13.5 percentage points above the claimant's company tax rate;
  - capping cash refunds from the refundable R&D tax offset at \$4 million per annum; and
  - increasing the R&D expenditure threshold from \$100 million to \$150 million per annum.

As part of the 2018–19 Federal Budget, the Treasurer announced that the Government will amend the research and development (R&D) tax incentive to better target the program and improve its integrity and fiscal affordability in response to the recommendations of the 2016 *Review of the R&D Tax Incentive*.

### START DATE

Income years starting on or after 1 July 2018

For companies with aggregated annual turnover of \$20 million or more, the Government will introduce an R&D premium that ties the rates of the non-refundable R&D tax offset to the incremental intensity of R&D expenditure as a proportion of total expenditure for the year.

The marginal R&D premium for these companies will be as follows:

For R&D expenditure ...	The marginal R&D premium will be the claimant's company tax rate plus ...
between 0 and 2 per cent R&D intensity	4 percentage points.
above 2 per cent to 5 per cent R&D intensity	6.5 percentage points for R&D expenditure above 2 per cent to 5 per cent R&D intensity (excluding R&D expenditure falling within the first 2 per cent of total expenses for the year).
above 5 per cent to 10 per cent R&D intensity	9 percentage points for R&D expenditure above 5 per cent to 10 per cent R&D intensity (excluding R&D expenditure falling within the first 5 per cent of total expenses for the year).
above 10 per cent R&D intensity	12.5 percentage points R&D expenditure above 10 per cent R&D intensity (excluding R&D expenditure falling within the first 10 per cent of total expenses for the year).

The Treasury also announced that:

- the R&D expenditure threshold — the maximum amount of R&D expenditure eligible for concessional R&D tax offsets — will be increased from \$100 million to \$150 million per annum;
- for companies with aggregated annual turnover below \$20 million — the refundable R&D offset will be a premium of 13.5 percentage points above a claimant's company tax rate;
- cash refunds from the refundable R&D tax offset will be capped at \$4 million per annum. R&D tax offsets that cannot be refunded will be carried forward as non-refundable tax offsets to future income years; and
- refundable R&D tax offsets from R&D expenditure on clinical trials will not count towards the cap.

In addition, the Government will implement stronger compliance and administrative improvements to the R&D program, including:

- increased resourcing for the ATO and the Department of Industry, Innovation and Science; and
- improving the transparency of the program, e.g. by enabling the ATO to publicly disclose claimant details and the R&D expenditure they have claimed, placing limits on time extensions to complete R&D registrations and amendments to technical provisions, such as the feedstock and clawback rules and the general anti-avoidance rules.

*Source: Budget Paper No. 2 pages 21 and 22*



## ► 2018-19 Federal Budget - Income tax consolidation integrity

### KEY POINTS

- On 22 March 2018, the Minister for Revenue and Financial Services announced the passage through Parliament of legislation to close loopholes in the tax consolidation regime.
- The measures simplify the consolidation entry and exit tax cost setting rules by removing a number of anomalies, including the double benefit that can arise in respect of certain deductible liabilities.

On 22 March 2018, the Minister for Revenue and Financial Services announced the passage through Parliament of the *Treasury Laws Amendment (Income Tax Consolidation Integrity) Bill 2018* which closes loopholes in the tax consolidation regime.

#### START DATE

Various

The new measures:

- prevent non-residents from 'churning' assets between related parties to generate double deductions<sup>70</sup>;
- change the tax treatment of liabilities which give rise to a future tax deduction (ensuring a double tax benefit does not arise);
- remove deferred tax liabilities from consolidation calculations<sup>71</sup>;
- ensure anomalous outcomes do not arise from securitisation transactions commonly undertaken by financial institutions;
- better align the tax treatment of certain assets and liabilities with the economic substance of transactions; and
- prevent double tax deductions when value is shifted across entities.



#### Note

The *Treasury Laws Amendment (Income Tax Consolidation Integrity) Act 2018* received Royal Assent on 28 March 2018.



#### Note

This measure was also announced as part of the 2018–19 Federal Budget on 8 May 2018.

*Source: Budget Paper No. 2 page 25; and  
Minister for Revenue and Financial Services Media Release: Closing tax consolidation loopholes*

<sup>70</sup> A consolidation integrity measure to prevent churning was announced as part of the 2013–14 Federal Budget to apply from 14 May 2013. The Government has deferred the start date of one aspect of the measure, which requires grouping of associates when considering whether the integrity rules apply. These grouping rules now apply from the date of introduction of the enabling legislation.

<sup>71</sup> A consolidation integrity measure which removed deferred tax liabilities from the consolidation entry and exit tax cost setting rules was announced as part of the 2016–17 Federal Budget. The measure contained complex transitional rules which required taxpayers to determine if any deferred tax liabilities were included in entry tax cost setting calculations. Following consultation, those transitional rules were removed from the final legislation.

## ► 2018-19 Federal Budget - Thin capitalisation - valuation of assets and treatment of consolidated entities

KEY POINTS	
■	The Treasurer announced that — from <b>1 July 2019</b> — the thin capitalisation rules will be tightened to require:
■	entities to align the value of their assets for thin capitalisation purposes with the value included in their financial statements; and
■	foreign controlled Australian consolidated entities and multiple entry consolidated groups that control a foreign entity to be treated as both outward and inward investment vehicles.

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will tighten the thin capitalisation rules by requiring entities to align the value of their assets for thin capitalisation purposes with the value included in their financial statements.

This change will ensure that asset valuations used to justify debt deductions are robust.

The Government will also amend the thin capitalisation law to ensure that foreign controlled Australian consolidated entities and multiple entry consolidated groups that control a foreign entity are treated as both outward and inward investment vehicles.

### START DATE

Income years commencing on or after 1 July 2019

Valuations that were made prior to 7.30 pm (AEST) on 8 May 2018 may be relied on until the beginning of the first income year commencing on or after 1 July 2019

*Source: Budget Paper No. 2 page 46*

## Trusts

## ► 2018-19 Federal Budget - Extending anti-avoidance rules for circular trust distributions

KEY POINTS	
■	The Government announced that — from <b>1 July 2019</b> — it will extend to family trusts the specific anti-avoidance rule contained in Div 6D of Part III of the <i>ITAA 1936</i> that applies to other closely held trusts that engage in circular trust distributions.
■	Currently, family trusts are excluded trusts for this purpose and are not required to make a valid trustee beneficiary statement when they distribute an amount of net income to another trust in a way that avoids any tax being paid on that amount.

## Background

The closely held trust rules are contained in Div 6D of Part III of the *ITAA 1936*. Under these rules, a trustee of a closely held trust may be liable to pay trustee beneficiary non-disclosure tax (TBNT) if it does not lodge a correct trustee beneficiary statement (TB statement) in respect of a trustee beneficiary's share of net income within the required time.

Even if the trustee makes a correct TB statement in respect of a trustee beneficiary's share of net income, the trustee may be liable to pay TBNT where a share of the net income of the trust is:

- included in the assessable income of a trustee beneficiary (under s. 97 of the *ITAA 1936*); and
- the trustee becomes presently entitled to an amount that is reasonably attributable to the whole or a part of the untaxed part of that share (referred to as a 'round robin' or 'circular distribution').

TBNT is imposed at a rate equal to the top marginal tax rate plus the Medicare levy (i.e. 47 per cent).

Trusts that make a family trust election under s. 272-80 of Schedule 2F to the *ITAA 1936* are not required to make a valid TB statement when they make a distribution to another trust: see paragraph (c) of the meaning of *excluded trust* in s. 102UC(4) of the *ITAA 1936*.



### Note

If a family trust makes a distribution outside the family group as defined in s. 272-90 of Schedule 2F to the *ITAA 1936*, it is liable for family trust distributions tax under s. 271-15 of Schedule 2F to the *ITAA 1936*.

## Announcement

### START DATE

1 July 2019

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will extend to family trusts the specific anti-avoidance rule contained in Div 6D of Part III of the *ITAA 1936* that applies to other closely held trusts that engage in circular trust distributions.

Currently, where family trusts act as beneficiaries of each other in a 'round robin' arrangement, a distribution can be ultimately returned to the original trustee — in a way that avoids any tax being paid on that amount. Extending the specific anti-avoidance rules in Div 6D so that they also apply to family trusts will better enable the ATO to pursue family trusts that engage in these arrangements.

*Source: Budget Paper No. 2 page 43*

## ► 2018-19 Federal Budget - Removing the CGT discount at the trust level for Managed Investment Trusts and Attribution MITs

### KEY POINTS

- The Government announced that — for payments made from **1 July 2019** — it will prevent Managed Investment Trusts (MITs) and Attribution MITs (AMITs) from applying the 50 per cent CGT discount at the trust level.
- The measure will allow MITs and AMITs that derive a capital gain to continue to distribute this income as a capital gain that can be discounted in the hands of the beneficiary, but it will prevent beneficiaries that are not entitled to the CGT discount in their own right from getting a benefit from the CGT discount being applied at the trust level.

## Announcement

### START DATE

Payments made from 1 July 2019

As part of the 2018–19 Federal Budget, the Government announced that it will prevent Managed Investment Trusts (MITs) and Attribution MITs (AMITs) from applying the 50 per cent CGT discount at the trust level.

The measure will allow MITs and AMITs that derive a capital gain to continue to distribute this income as a capital gain that can be discounted in the hands of the beneficiary, but it will prevent beneficiaries that are not entitled to the CGT discount in their own right from getting a benefit from the CGT discount being applied at the trust level.

This integrity measure will ensure that MITs and AMITs operate as genuine flow-through tax vehicles, so that income is taxed in the hands of investors, as if they had invested directly.

*Source: Budget Paper No. 2 page 44*

## Tax-exempt entities

### ► 2018-19 Federal Budget - Concessional loans between tax exempt entities

#### KEY POINTS

- The Treasurer announced that where tax exempt entities become taxable after **8 May 2018**, tax deductions that arise on the repayment of a concessional loan will be disallowed.
- Affected concessional loans will be required to be valued as if they were originally entered into on commercial terms.

As part of the 2018–19 Federal Budget, the Treasurer announced that where tax exempt entities become taxable after 8 May 2018, the Government will disallow tax deductions that arise on the repayment of the principal of a concessional loan.

### START DATE

After 8 May 2018

The deductions arise due to the unforeseen complex interaction between the taxation of financial arrangements (TOFA) rules and the rules dealing with deemed market values for tax exempt entities that become taxable.

Under this measure, concessional loans that are entered into by tax exempt entities that become taxable will be required to be valued as if they were originally entered into on commercial terms.

*Source: Budget Paper No. 2 page 25*

### ► 2018-19 Federal Budget – Updates to the list of specifically listed DGRs

#### KEY POINTS

- The Treasurer announced that since the 2017–18 MYEFO, six organisations have been approved as specifically-listed deductible gift recipients.

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that since the 2017–18 MYEFO, the following organisations have been approved as specifically-listed deductible gift recipients (DGRs) for the following dates:

**START DATE**

Various

DGR	Dates
Paul Ramsay Foundation Limited	from 1 July 2018 to 30 June 2020
Australian Women Donors Network	from 9 March 2018 to 8 March 2023
Victorian Pride Centre Limited	from 9 March 2018 to 8 March 2023
Smile Like Drake Foundation Limited	from 9 March 2018 to 8 March 2023
Australian Sports Foundation Charitable Fund	from 1 July 2018 to 30 June 2023
Q Foundation Trust	from 1 January 2018 to 31 December 2022



**Note**

Taxpayers may claim an income tax deduction for gifts of money or property of \$2 or more made to these DGRs.

*Source: Budget Paper No. 2 page 34*

## ► 2018-19 Federal Budget – ACNC funding for litigation expenses

### KEY POINTS

- The Treasurer announced that the Government will provide \$1 million to the Australian Charities and Not-for-profits Commission (ACNC) in the 2018–19 income year to fund anticipated litigation expenses.

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will provide \$1 million in the 2018–19 income year to the Australian Charities and Not-for-profits Commission (ACNC), to meet the costs of anticipated litigation as the ACNC pursues its role in regulating charities and charity registration.

**START DATE**

Funding will be provided in the 2018–19 income year

*Source: Budget Paper No. 2 page 179*

### ► 2018-19 Federal Budget - Tightening concessions for foreign investors in stapled structures

#### KEY POINTS

- The Treasurer announced a package of measures — which will apply from **1 July 2018** — to tighten the rules which allow foreign investors in stapled structures to access concessional tax treatment.
- The amendments will also limit access to concessions for passive income utilised by foreign governments and foreign pension funds.
- The integrity package was previously announced by the Treasurer on 27 March 2018.

#### Background

On 27 March 2018, the Treasurer announced in a media release that the Government will introduce a package of measures to tighten the rules for stapled structures. The media release was accompanied by the release of the details of the package, titled *Stapled structures — Details of integrity package*, on the Treasury website.

The package is intended to level the playing field for Australian investors by removing an unintended concession that is available only to foreign investors.

Under the existing law, a growing number of taxpayers have sought to re-characterise trading income into more favourably taxed passive income. Combined with existing concessions used by foreign pension funds and sovereign wealth funds, some foreign investors can pay tax at rates of 15 per cent or less.

These tax benefits are not available to domestic investors. Further, they are available only for investments in land rich businesses. Therefore, they may distort investment decisions and encourage higher foreign ownership of land rich investments.

The use of staples and similar structures has grown significantly in recent years and expanded into new sectors, beyond their traditional use in commercial and retail property.

#### Announcement

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will introduce a package of measures to address risks to the corporate tax base posed by stapled structures and similar arrangements.

The amendments will also limit access to concessions for passive income utilised by foreign governments and foreign pension funds.

The key elements of the package are as follows:

- applying a final withholding tax set at the corporate tax rate (currently 30 per cent) to distributions derived from trading income that has been converted to passive income using a Managed Investment Trust (MIT), excluding rent received from third parties. A 15-year exemption is available from this element of the package for new, Government-approved nationally significant infrastructure staples;

#### START DATE

Thin capitalisation changes will apply from 1 July 2018

The other proposals will apply from 1 July 2019, with a transitional period of 7 years (ordinary business staples) and 15 years (for infrastructure assets)

- lowering the associate entity threshold under the thin capitalisation rules from 50 per cent to 10 per cent to prevent foreign investors from using multiple layers of flow-through entities (i.e. trusts and partnerships) to convert their trading income into favourably taxed interest income;
- limiting the foreign pension fund withholding tax exemption for interest and dividends to portfolio investments only. As a result interest and dividend income derived by foreign pension funds from non-portfolio investments will be subject to withholding tax;
- creating a legislative framework for the existing tax exemption for foreign governments (including sovereign wealth funds) and limiting the exemption to portfolio investments. As a result, income derived by foreign government investors from non-portfolio investments will be taxed; and
- investments in agricultural land will not be able to access the 15 per cent concessional MIT withholding tax rate.

*Source: Budget Paper No. 2 page 38;  
Budget 2018–19: Ensuring the Government lives within its means;  
Stapled structures — Details of integrity package; and  
Treasurer’s Media Release: Levelling the playing field  
for Australian investors: Taxation of Stapled Structures*

## ► 2018-19 Federal Budget - Significant global entity definition amendment

KEY POINTS	
■	The Treasurer announced that — for income years commencing on or after <b>1 July 2018</b> — the Government will broaden the definition of a ‘significant global entity’ — to ensure that Australia’s multinational tax integrity rules operate as intended.
■	The definition will be broadened to include members of large multinational groups headed by private companies, trusts and partnerships, and will also include members of groups headed by investment entities.

### Background

Broadly, the term SGE is defined<sup>72</sup> as an entity:

- with an annual global income of \$1 billion or more in that income year; or
- that is a member of a group of entities that are consolidated for accounting purposes as a single group, and one of the other members of the group is a global parent entity whose annual global income is \$1 billion or more.

The SGE definition identifies entities which are required to prepare Country-by-Country reports and is used to determine entities which may be subject to Australia’s multinational tax integrity rules, such as the Multinational Anti-Avoidance Law (MAAL)<sup>73</sup> and the Diverted Profits Tax (DPT).<sup>74</sup>

Effectively, the current definition applies only to an entity which is a member of a group headed by a public company, or a private company required to provide consolidated financial statements.

<sup>72</sup> In s. 960-555 of the *ITAA 1997*.

<sup>73</sup> Introduced by Schedule 2 to the *Tax Laws Amendment (Combating Multinational Tax Avoidance) Act 2015* which received Royal Assent on 11 December 2015 as Act No. 170 of 2015.

<sup>74</sup> Under the *Diverted Profits Tax Act 2017*, which imposes tax on diverted profits at the rate of 40 per cent.

## Announcement

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will broaden the definition of a ‘significant global entity’ (SGE) to ensure that Australia’s multinational tax integrity rules operate as intended.

### START DATE

Income years commencing on or after 1 July 2018

With effect for income years commencing on or after 1 July 2018, the definition of SGE will be broadened to include members of large multinational groups headed by private companies, trusts and partnerships. It will also include members of groups headed by investment entities.

The measure will also ensure that the Commissioner’s power to determine an entity to be an SGE parent operates as intended.



## Note

These announced measures are in addition to the proposed changes to the MAAL — announced as part of the 2017–18 Budget — which are contained in the *Treasury Laws Amendment (Tax Integrity and Other Measures) Bill 2018*. The Bill, which is currently before the House of Representatives, contains amendments to prevent the use of interposed Australian resident trusts and partnerships in multinational corporate structures as a means of avoiding the application of the MAAL.

Source: Budget Paper No. 2 page 26

## ► 2018-19 Federal Budget - Updating the list of information exchange countries

### KEY POINTS

- The Treasurer announced that — from **1 January 2019** — the Government will update the list of countries whose residents are eligible to access a reduced withholding tax rate of 15 per cent on certain distributions from Australian Managed Investment Trusts.
- The updated list will include 56 jurisdictions that have entered into information sharing agreements since 2012.

## Background

Broadly, under the Managed Investment Trusts (MIT) withholding regime, non-resident investors are generally subject to a final withholding tax at a reduced rate of 15 per cent (instead of 30 per cent) on payments from the MIT, provided they are a resident of a country with which Australia has an exchange of information (EOI) agreement.

## Announcement

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will update the list of countries whose residents are eligible to access a reduced withholding tax rate of 15 per cent — instead of the default rate of 30 per cent — on certain distributions from Australian MITs.

### START DATE

The updated list will be effective from 1 January 2019



The Government's update to the list of EOI countries will add the 56 jurisdictions that have entered into information sharing agreements since 2012.

This measure supports the operation of the MIT withholding tax system by providing the reduced withholding tax rate only to residents of countries that enter into effective information sharing agreements with Australia.

Source: Budget Paper No. 2 page 28

## GST

### ► 2018-19 Federal Budget - Levelling the playing field for online hotel bookings

#### KEY POINTS

- The Treasurer announced that — from **1 July 2019** — offshore sellers of hotel accommodation in Australia will be required to include their supplies of Australian hotel accommodation in their GST turnover in the same way as local sellers.
- This means that offshore sellers are likely to be required to register for and charge GST on their supplies of hotel accommodation.

#### Background

Currently, unlike GST-registered businesses in Australia, offshore sellers of Australian hotel accommodation are exempt<sup>75</sup> from the requirement to include sales of hotel accommodation in their GST turnover.<sup>76</sup> This means they are often not required to register for and charge GST on their mark-up over the wholesale price of the accommodation.

This exemption was introduced in 2005, when:

- most offshore sales of accommodation in Australian hotel rooms were to foreigners booking through offshore tour operators; and
- the online booking market was small.

Both Australian and foreign consumers are increasingly booking Australian hotel rooms through online services based offshore.

#### Announcement

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will amend the GST law to ensure that offshore sellers of hotel accommodation in Australia calculate their GST turnover in the same way as local sellers.

#### START DATE

1 July 2019

This measure to remove the exemption for offshore sellers will ensure the same tax treatment of Australian hotel accommodation, whether booked through a domestic or offshore supplier.

<sup>75</sup> Pursuant to ss. 188-15(3)(b) and 188-20(3)(b) of the *GST Act*.

<sup>76</sup> An entity is required to be registered for GST if it is carrying on an enterprise, and its GST turnover (as defined in Div 188 of the *GST Act*) meets the registration turnover threshold — currently \$75,000.

The measure will apply to sales made on or after 1 July 2019 — sales made before this date will not be subject to the measure, even if the stay at the hotel occurs after this date.

The measure will require the unanimous agreement of the States and Territories.

Source: Budget Paper No. 2 page 29

## Superannuation

### ► 2018-19 Federal Budget - Preventing inadvertent concessional contribution cap breaches by certain employees

#### KEY POINTS

- The Treasurer announced that — from **1 July 2018** — the Government will allow individuals whose income exceeds \$263,157 and who have multiple employers to nominate that their wages from certain employers will not be subject to the superannuation guarantee (SG).

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will allow individuals whose income exceeds \$263,157 and who have multiple employers to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG).

#### START DATE

1 July 2018

This measure will allow eligible individuals to avoid unintentionally breaching the \$25,000 annual concessional contributions cap as a result of multiple compulsory SG contributions. Breaching the cap otherwise results in these individuals being liable to pay excess contributions tax, as well as a shortfall interest charge.

Source: Budget Paper No. 2 page 40

### ► 2018-19 Federal Budget - Better integrity over personal superannuation contributions deductions

#### KEY POINTS

- The Treasurer announced that — from **1 July 2018** — the Government will provide \$3.1 million to the ATO over the forward estimates to improve the integrity of the 'notice of intent' (NOI) processes for claiming deductions for personal superannuation contributions.
- The ATO will use the additional funding to:
  - undertake additional compliance activities, including developing a new compliance model;
  - modify income tax returns to require a confirmation that the individual has complied with the NOI requirements; and
  - provide guidance to individuals.

## Background

An individual must give a notice of intent' (NOI) under s. 290-170 of the *ITAA 1997* to claim a deduction for a personal contribution they make to their superannuation fund on or before the earlier of the following:

- the day the individual lodges their tax return for the income year in which the contributions were made; and
- the last day of the income year after the income year in which the contributions were made.

The superannuation fund may request the information as part of another form, or the individual may use the ATO form (NAT 71121).

Currently, some individuals receive deductions for personal superannuation contributions but do not submit a NOI, despite being required to do so. This results in their superannuation funds not applying the appropriate 15 per cent rate of tax to the contribution. As the individual has claimed a deduction for the contribution, no tax is paid on the contribution at all.

## Announcement

### START DATE

1 July 2018

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will provide \$3.1 million to the ATO over the forward estimates to improve the integrity of the 'notice of intent' (NOI) processes for claiming personal superannuation contribution tax deductions.

The additional funding will enable the ATO to:

- develop a new compliance model;
- undertake additional compliance and debt collection activities;
- modify income tax returns to alert individuals to the NOI requirements with a tick box to confirm they have complied; and
- provide guidance to individuals on how to comply if they have not yet done so.

This measure will ensure that any deductible contributions are appropriately taxed by superannuation funds and enable the ATO to deny deductions to individuals who do not comply with the NOI requirements.

*Source: Budget Paper No. 2 page 39*

## ► 2018-19 Federal Budget - Work test exemption for recent retirees

### KEY POINTS

- The Treasurer announced that — from **1 July 2019** — the Government will introduce an exemption from the work test for voluntary contributions to superannuation, for people aged 65-74 with superannuation balances below \$300,000, in the first year that they do not meet the work test requirements.

## Background

Currently, the work test restricts the ability to make voluntary superannuation contributions for those aged 65-74 to individuals who self-report as working a minimum of 40 hours in any 30-day period in the financial year.

## Announcement

### START DATE

1 July 2019

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will introduce an exemption from the work test for voluntary contributions to superannuation, for people aged 65–74 with superannuation balances below \$300,000, in the first year that they do not meet the work test requirements.

The work test exemption will give recent retirees additional flexibility to get their financial affairs in order as they transition to retirement.

Source: Budget Paper No. 2 page 30

## ► 2018-19 Federal Budget - Increasing the maximum number of allowable members in SMSFs and small APRA funds

### KEY POINTS

- The Treasurer announced that — from **1 July 2019** — the Government will increase the maximum number of allowable members in new and existing self managed superannuation funds (SMSFs) and small APRA funds from four to six.

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will increase the maximum allowable number of members in new and existing self managed superannuation funds (SMSFs) and small APRA funds from four to six.

### START DATE

1 July 2019

This is intended to provide greater flexibility for joint management of retirement savings, in particular for large families.

This measure was previously announced on 27 April 2018 by the Minister for Revenue and Financial Services, Kelly O'Dwyer MP.<sup>77</sup>

Source: Budget Paper No. 2 page 40

## ► 2018-19 Federal Budget - Three-yearly audit cycle for some SMSFs

### KEY POINTS

- The Treasurer announced that — from **1 July 2019** — the Government will change the annual audit requirement to a three-yearly requirement for self managed superannuation funds (SMSFs) with a history of good record-keeping and compliance.

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will change the annual audit requirement to a three-yearly requirement for self managed superannuation funds (SMSFs) with a history of good record-keeping and compliance.

### START DATE

1 July 2019

<sup>77</sup> The Minister's Media Release dated 27 April 2018 is titled *Greater flexibility for self-managed super funds*.

This measure will reduce red tape for SMSF trustees that have a history of three consecutive years of clear audit reports and that have lodged the fund's annual returns in a timely manner.

The Government will consult with stakeholders to ensure a smooth implementation of this measure.

Source: Budget Paper No. 2 page 41

## ► 2018-19 Federal Budget - Protecting superannuation savings by removing default insurance in certain cases

### KEY POINTS

- The Treasurer announced that the Government would introduce regulatory reforms to protect superannuation savings from erosion by removing default insurance for certain cohorts of superannuation members.
- Exposure draft legislation to give effect to these measures has also been released, submissions for which are due by 29 May 2018.

### Background

Currently, many superannuation trustees automatically provide insurance coverage to members upon joining the fund (including all trustees offering MySuper products). This arrangement is commonly referred to as 'default insurance' and requires a member to proactively 'opt out' of insurance if the member considers the insurance to be inappropriate for them.<sup>78</sup>

### Announcement

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government would introduce regulatory reforms to protect individuals' superannuation savings from erosion caused by the current system of default insurance.

#### START DATE

From 1 July 2019, with affected superannuants having a period of 14 months to decide whether they will opt-in to insurance cover

From 1 July 2019, insurance within superannuation will move from a default framework to an opt-in system for certain cohorts of members. The proposed measures will prevent trustees from providing default (opt-out) insurance to:

- all accounts with low balances of less than \$6,000;
- new accounts held by a member who is under the age of 25 years; and
- accounts that have not received a contribution in 13 months and are inactive.

Source: Budget Paper No. 2 page 36

### Exposure draft legislation

On 8 May 2018, the Government also released for consultation exposure draft legislation to give effect to these measures.

<sup>78</sup> Para. 3.2 of the explanatory materials to the exposure draft legislation titled *Treasury Laws Amendment (Protecting Superannuation) Bill 2018*.



## Comments and Submissions

The contact officer's details are as follows:

<b>Contact name</b>	Maxwell Phillis
<b>Address</b>	Manager Regulatory Framework Unit, Retirement Income Policy Division The Treasury, Langton Crescent, Parkes, ACT, 2600
<b>Phone</b>	(02) 6263 4293
<b>Email</b>	superannuation@treasury.gov.au
<b>Due date</b>	29 May 2018



## Website

The exposure draft legislation is available here:

[https://static.treasury.gov.au/uploads/sites/1/2018/05/00\\_T286292\\_Exposure\\_Draft\\_Legislation.pdf](https://static.treasury.gov.au/uploads/sites/1/2018/05/00_T286292_Exposure_Draft_Legislation.pdf)

The explanatory material is available here:

[https://static.treasury.gov.au/uploads/sites/1/2018/05/01\\_T286292\\_Explanatory\\_Memorandum.pdf](https://static.treasury.gov.au/uploads/sites/1/2018/05/01_T286292_Explanatory_Memorandum.pdf)

A Treasury document summarising the proposed regulatory reforms is available here:

[https://static.treasury.gov.au/uploads/sites/1/2018/05/02\\_T286292\\_Summary\\_of\\_Regulations.pdf](https://static.treasury.gov.au/uploads/sites/1/2018/05/02_T286292_Summary_of_Regulations.pdf)

## ► 2018-19 Federal Budget - Protecting superannuation savings from fee erosion

### KEY POINTS

- The Government announced that it would introduce regulatory reforms that protect superannuation savings from erosion by capping passive fees, banning exit fees and reuniting small and inactive superannuation accounts with the member's active accounts.
- Exposure draft legislation to give effect to these measures has also been released, submissions for which are due by 29 May 2018.

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government would introduce regulatory reforms to protect individuals' superannuation savings from fee-related erosion.

#### START DATE

From 1 July 2019

From 1 July 2019, the Government will:

- introduce a three per cent annual cap on administration and investment fees charged by superannuation funds on accounts with balances below \$6,000; and
- ban superannuation funds from charging exit fees on all superannuation accounts.

In addition, the Government will strengthen the ATO-led consolidation regime by requiring the transfer of all inactive accounts — where the balances are below \$6,000 — to the ATO. As part of this, the ATO will expand its data matching processes to proactively reunite these inactive superannuation accounts with the member's active account, where possible. This measure will also include the proactive payment of funds currently held by the ATO.

Source: Budget Paper No. 2 page 35

## Exposure draft legislation

On 8 May 2018, the Government also released for consultation exposure draft legislation to give effect to these measures.



### Comments and Submissions

The contact officer's details are as follows:

<b>Contact name</b>	Maxwell Phillis
<b>Address</b>	Manager Regulatory Framework Unit, Retirement Income Policy Division The Treasury, Langton Crescent, Parkes, ACT, 2600
<b>Phone</b>	(02) 6263 4293
<b>Email</b>	superannuation@treasury.gov.au
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A Treasury document summarising the proposed regulatory reforms is available here:

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## Compliance

### ► 2018-19 Federal Budget - Reforms to combat illegal phoenixing

#### KEY POINTS

- The Treasurer announced that the Government will combat illegal phoenix activity by reforming the corporations and tax laws and providing regulators with additional tools.
- The package includes reforms to:
  - introduce new phoenix offences;
  - extend the Director Penalty Regime to GST, luxury car tax and wine equalisation tax; and
  - expand the ATO's power to retain refunds where there are outstanding lodgments.

## Background

Illegal phoenixing involves the deliberate misuse of the corporate form. It affects all working Australians, including:

- customers who are scammed by not receiving the goods and services for which they have paid;
- small business and sole trader creditors through lost payments;
- employees through lost wages and superannuation entitlements; and
- all taxpayers through lost tax revenue.

In addition, illegal phoenix operators gain an unfair advantage over their honest competitors, which has a broader economic impact.

## Announcement

### START DATE

From the 2019–20 income year

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will reform the corporations and tax laws and provide the regulators with additional tools to assist them to deter and disrupt illegal phoenix activity.

The package includes reforms to:

- introduce new phoenix offences to target those who conduct or facilitate illegal phoenixing;
- prevent directors improperly backdating resignations to avoid liability or prosecution;
- limit the ability of directors to resign when this would leave the company with no directors;
- restrict the ability of related creditors to vote on the appointment, removal or replacement of an external administrator;
- extend the Director Penalty Regime to GST, luxury car tax and wine equalisation tax, making directors personally liable for the company's debts; and
- expand the ATO's power to retain refunds where there are outstanding tax lodgments.

The proposed reforms complement and build on:

- the work of the Government's Phoenix, Serious Financial Crime and Black Economy taskforces;
- other previously announced reforms such as a Director Identification Number, a combined black economy and illegal phoenixing hotline; and
- reforms to address corporate misuse of the Fair Entitlements Guarantee and to tackle non-payment of the Superannuation Guarantee Charge.

*Source: Budget Paper No. 2 page 37; and  
Government Response to the Black Economy Taskforce Final Report page 25*

## ► 2018-19 Federal Budget - Additional funding to the ATO to support small businesses transitioning to Single Touch Payroll

### KEY POINTS

- The Treasurer announced that the Government will provide an additional \$15 million over three years from the 2018–19 income year to the ATO to support small employers during their transition to Single Touch Payroll (STP) reporting from 1 July 2019.



## Background

The 2017–18 Mid-Year Economic and Fiscal Outlook (MYEFO) included a measure titled *Superannuation Guarantee Integrity package — modernising payroll and superannuation fund reporting*. In the MYEFO measure, the Government announced that it would:

- provide \$63.9 million to the ATO over the forward estimates to support the modernisation of payroll and superannuation fund reporting; and
- extend STP reporting to small employers (those with fewer than 20 employees).

On 28 March 2018, the *Treasury Laws Amendment (2018 Measures No. 4) Bill 2018* was introduced into the House of Representatives. The Bill contains proposed amendments to extend STP reporting obligations to small employers (fewer than 20 employees) from 1 July 2019.

## Announcement

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will provide an additional \$15 million over three years from the 2018–19 income year to the ATO.

The funding will be used to support small businesses with fewer than 20 employees during the transition to STP reporting from 1 July 2019. Funding has already been provided for by the Government.

### START DATE

Funding will be provided over three years from the 2018–19 income year

Source: Budget Paper No. 2 page 185

## ► 2018-19 Federal Budget - Tax Practitioners Board funding

### KEY POINTS

- The Treasurer announced that the Tax Practitioners Board (TPB) will be provided with \$20.1 million over four years from the 2018–19 income year to assist it in meeting its responsibilities.
- The measure will be funded by increased tax agent registration fees.

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will provide \$20.1 million over four years from the 2018–19 income year to the TPB to assist it in meeting its broadened responsibilities to ensure that tax agent services are provided to the public in accordance with appropriate professional and ethical standards.

This measure will be funded by an increase in tax agent registration fees.

### START DATE

From the 2018–19 income year

Source: Budget Paper No. 2 page 189

## Other Taxes

### ► 2018-19 Federal Budget - Removing luxury car tax on re-imported cars following refurbishment overseas

#### KEY POINTS

- The Treasurer announced that the Government will — from **1 July 2019** — remove luxury car tax on cars re-imported into Australia following a refurbishment overseas.

#### Background

Luxury car tax (LCT) is a tax on cars with a GST-inclusive value above the LCT threshold.<sup>79</sup> LCT is imposed at the rate of 33 per cent on the amount above the threshold. LCT is paid by businesses that sell or import luxury cars (dealers) and also by individuals who import luxury cars.

Currently, cars that are refurbished in Australia are not subject to LCT. However, cars exported from Australia to be refurbished overseas and then re-imported are subject to LCT where the value of the car exceeds the relevant LCT threshold.

#### Announcement

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government will remove LCT on cars re-imported into Australia following a refurbishment overseas.

#### START DATE

1 July 2019

The Government will remove the inconsistency in the treatment of refurbished cars in order to align with Australia's trade obligations with its foreign trading partners. This measure will ensure the same tax treatment applies, regardless of where the car is refurbished.

*Source: Budget Paper No. 2 page 38*

### ► 2018-19 Federal Budget - Alcohol taxes - extending support for craft brewers and distillers

#### KEY POINTS

- The Treasurer announced that — from **1 July 2019** — the Government will:
  - increase the alcohol excise refund scheme cap from \$30,000 to \$100,000 for all brewers and distillers; and
  - extend the concessional draught beer excise rates to 8 litre or greater kegs — i.e. to smaller kegs typically used by craft brewers.

<sup>79</sup> For 2017–18, the LCT threshold is \$65,094 (\$75,526 for fuel efficient cars, being cars which have a fuel consumption not exceeding seven litres per 100 kilometres as a combined rating under vehicle standards in force under s. 7 of the *Motor Vehicle Standards Act 1989*).

## Background

Currently:

- the alcohol excise refund scheme provides eligible domestic alcohol producers a refund of 60 per cent of excise paid up to a cap of \$30,000 per financial year; and
- draught beer sold at licensed venues such as pubs and clubs in individual containers exceeding 48 litres is taxed at lower rates than beer sold in smaller containers.

There are currently around 380 craft brewers in Australia, employing almost 2,400 people. There are also over 100 domestic distillers, supporting around 1,600 jobs.

## Announcement

On 4 May 2018, the Treasurer, Scott Morrison, announced that the Government would level the playing field for craft brewers and distillers by:

### START DATE

1 July 2019

- increasing the alcohol excise refund scheme cap from \$30,000 per financial year to \$100,000 for all brewers and distillers; and
- extending the concessional draught beer excise rates to 8 litre or greater kegs.



### Note

This measure was also announced as part of the 2018–19 Federal Budget on 8 May 2018.

The higher \$100,000 cap under the alcohol excise refund scheme will provide additional support to domestic brewers, distillers and producers of other fermented beverages such as non-traditional cider.

Extending the concessional draught beer excise rates to 8 litre or greater kegs will allow craft brewers — which typically use kegs smaller than the 50 litre kegs used by large breweries — to benefit from the lower rates.

*Source: Budget Paper No. 2 page 19;  
Treasurer's Media Release: Levelling the playing field for craft brewers and distillers*

## ► 2018-19 Federal Budget - Indirect Tax Concession Scheme - diplomatic and consular concessions

### KEY POINTS

- The Treasurer announced that the Government will grant to the diplomatic and consular representations in Australia of Cote d'Ivoire, Guatemala, Costa Rica and Kazakhstan new access to refunds of indirect tax (including GST, fuel and alcohol taxes) under the Indirect Tax Concession Scheme.

## Background

The ITCS allows diplomatic missions and consular posts in Australia to claim refunds of GST and other indirect taxes on goods and a limited number of services. The concessions are provided in accordance with Australia's international obligations in relation to diplomatic and consular posts.

The ITCS is implemented on the basis of reciprocity where a broadly comparable range of tax concessions is granted to Australian overseas missions, posts and accredited staff. The range of goods and services in respect of which missions, posts and accredited staff may seek refunds depends on the nature of the ITCS package agreement with each country represented in Australia.

### Announcement

As part of the 2018–19 Federal Budget, the Treasurer announced on 8 May 2018 that the Government has granted or extended access to refunds of indirect tax (including GST, fuel tax and alcohol taxes) under the Indirect Tax Concession Scheme (ITCS).

#### START DATE

A time specified by the  
Minister for Foreign Affairs

New access to refunds will be granted to the diplomatic and consular representations of:

- Cote D'Ivoire;
- Guatemala;
- Costa Rica; and
- Kazakhstan.

*Source: Budget Paper No. 2 page 28*



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