



Making our
tax system
more sustainable

so we can cover the Government's responsibilities
for the next generation

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ISBN 978-1-925220-90-2

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Printed by CanPrint Communications Pty Ltd

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A tax and superannuation plan for Australia's future

Australia's population is changing, our way of doing business is changing, and the opportunities and challenges we face are changing.

As we go through this economic transition, it is vital that our tax and superannuation systems are modernised to ensure that they are doing their job to drive economic growth and national prosperity.

A prosperous Australia needs a well-targeted superannuation system that supports and encourages all Australians to save and not be dependent on the Age Pension in retirement. We have a world-class superannuation system and we want to keep it that way. **Better targeting superannuation tax concessions** will improve the sustainability and integrity of the superannuation system.

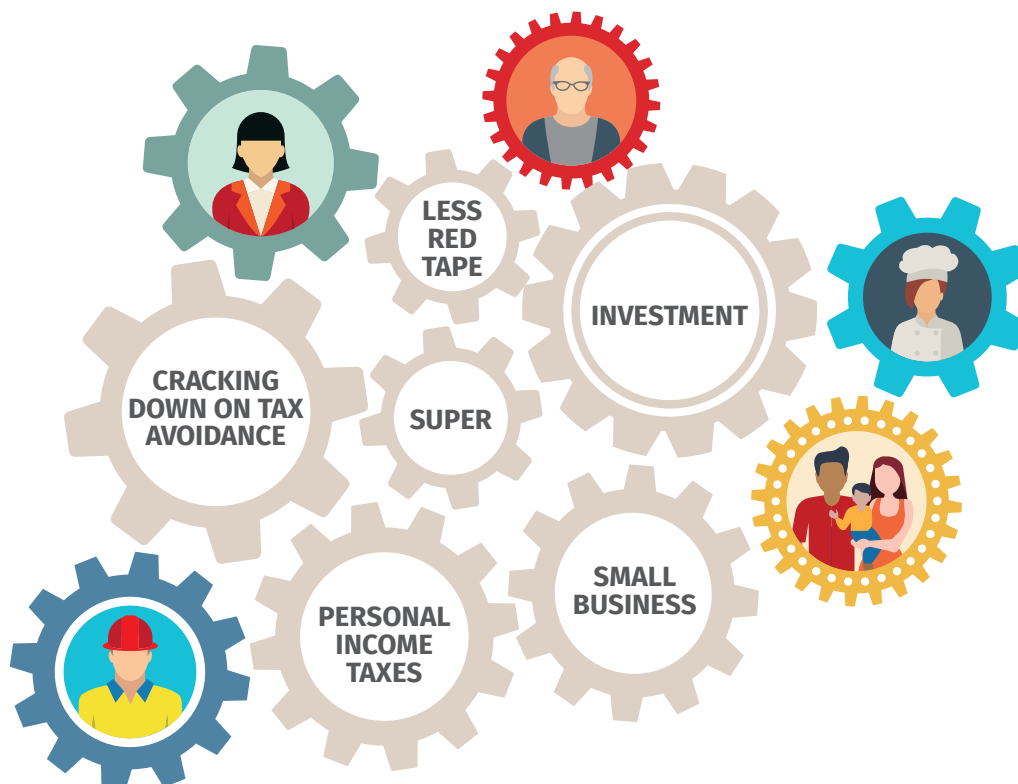
Australia also needs a sustainable tax system that can continue to fund public services like schools, hospitals, defence and welfare spending while creating the right settings for enterprise, innovation and investment.

This means having a tax system with integrity. That is why the Government **will crack down more heavily on multinational tax avoidance** and **introduce a responsible tax package that supports jobs and growth**.

These are the settings we need to get right to encourage jobs and growth for today and the next generation, so that we can afford to provide the services and infrastructure that will be needed now and into the future.

The Budget takes important steps to modernise Australia's tax and superannuation systems. This is a tax and superannuation plan for Australia's future.

Every part of the tax system has to work together to drive prosperity



A more sustainable superannuation system

Australia needs a superannuation system that has a clear objective and is fit for purpose

Superannuation is one of the three pillars of Australia's retirement income system. Together with the Age Pension and savings outside of superannuation, it supports Australians in their retirement years.

As the population ages and fiscal pressures increase, it is important to ensure that the tax concessions for superannuation are affordable and well-targeted.

It is important that all Australians are encouraged to save for their own retirement. A superannuation system that is structured around targeted incentives to save will ensure that an increasing number of Australians become more self-sufficient in retirement.

Targeted tax concessions, combined with the changes the Government made to rebalance the Age Pension asset test in the last Budget, promote a more sustainable retirement income system.

The superannuation system also needs to be flexible, by providing more choice and access to superannuation to help Australians enjoy retirement.

Australians need to have confidence in the superannuation system, assured that it is being used for its core purpose of providing income in retirement and not for tax minimisation and estate planning purposes.

It is important to get the superannuation settings right to encourage savings while ensuring that the system is fiscally sustainable.

A clear objective for superannuation

The objective of superannuation, which for the first time will be enshrined in legislation, is 'to provide income in retirement to substitute or supplement the Age Pension'.

Having this clear objective will enhance stability in the superannuation system by creating a clear framework for superannuation policy – and a way to assess whether the system is meeting its objective. The objective for superannuation has been an important anchor for the development of the superannuation changes.

Sustainable

Targeting tax concessions where they're needed most

Flexible

Adjusting the settings for modern work patterns

Integrity

A system that meets its core purpose and objective

The objective of superannuation is
'to provide income in retirement to substitute or supplement the Age Pension'.

Better targeting of superannuation concessions

96 per cent of individuals with superannuation will not be adversely affected by these changes

To ensure the superannuation tax arrangements support the objective of superannuation and are fiscally sustainable, the Government will better target tax concessions to those who need incentives to save by:

- introducing a **\$1.6 million superannuation transfer balance cap** on the total amount of superannuation that an individual can transfer into retirement phase accounts.

This puts a limit on taxpayer support for tax-free retirement phase accounts, but does not limit the savings that can be accumulated outside these accounts or outside superannuation. A balance of \$1.6 million could support an income stream in retirement of around four times the level of the single Age Pension.

The transfer balance cap will affect less than one per cent of superannuation fund members and will be applied to both current retirees and to individuals yet to enter their retirement phase.

- requiring those with combined incomes and superannuation contributions **greater than \$250,000 to pay 30 per cent tax on their concessional contributions**, up from 15 per cent. This extends the current treatment of people with combined incomes and superannuation contributions over \$300,000. These individuals will still have significant incentives to save for their retirement. This change will only affect around one per cent of superannuation fund members.
- lowering the **superannuation concessional contributions¹ cap to \$25,000** per annum. This level still enables individuals to make enough contributions over their working life to be self sufficient in retirement. Lower caps on concessional contributions

also make it feasible to allow more flexibility across the system to accommodate modern working arrangements. Reducing the caps on concessional contributions will only affect around three per cent of superannuation fund members.

- introducing a **\$500,000 lifetime cap for non-concessional contributions**. The lifetime cap will limit the extent to which the superannuation system can be used for tax minimisation and estate planning. Currently, less than one per cent of superannuation fund members have made contributions above this cap since 2007.

Broadly commensurate treatment will apply to defined benefit arrangements.

In addition to better targeted tax concessions, the Government will introduce the **Low Income Superannuation Tax Offset** to replace the Low Income Superannuation Contribution when it expires on 30 June 2017. This will continue to support the accumulation of superannuation for low income earners.

This will allow individuals with an adjusted taxable income of \$37,000 or less to receive an effective refund of the tax paid on their concessional contributions, up to a cap of \$500.

The Low Income Superannuation Tax Offset will, in particular, assist women to build their superannuation savings.

Taken together, these changes will better target the concessional taxation of superannuation and help to ensure that the superannuation system remains sustainable for the benefit and retirement security of all Australians.

¹ Concessional (before-tax) contributions include compulsory Superannuation Guarantee contributions and other employer or salary-sacrificed contributions, or contributions where a tax deduction is claimed. Non-concessional (after-tax) contributions can include contributions made from individuals' take home pay, inheritances and proceeds from asset sales. Once in the fund, both concessional and non-concessional contributions benefit from the concessional 15 per cent tax rate on earnings.



Low income earner

Bronwyn is a part-time worker who earns \$20,000 in the 2017-18 income year. Her employer makes compulsory Superannuation Guarantee payments of 9.5 per cent (\$1,900 per year) into Bronwyn's superannuation account. Once in the superannuation account Bronwyn's contributions are taxed at 15 per cent (\$285 per year). At the end of the year Bronwyn will be eligible for a Low Income Superannuation Tax Offset of \$285. Bronwyn now effectively pays zero tax on her superannuation contributions.



Middle income earner

In 2017-18, Jamie earns an average full-time wage of \$80,000 per year. His employer makes compulsory Superannuation Guarantee payments of 9.5 per cent of his salary (\$7,600 per year) into his superannuation account. Jamie makes no additional contributions to superannuation and is not affected by the changes. Jamie can still make additional concessional superannuation contributions of \$17,400 either through salary sacrifice or by making a deductible personal contribution. If Jamie inherited some money, he could also put this in his superannuation (subject to the new \$500,000 lifetime cap for non-concessional contributions).

Individuals will not be adversely affected by the changes unless they:

**MAKE
CONCESSIONAL
CONTRIBUTIONS**



**HAVE INCOME
(INC. SUPER
CONTRIBUTIONS)**



**HAVE A
SUPERANNUATION
BALANCE**



**MAKE OR PLAN
TO MAKE**



Enhancing flexibility and choice

Boosting retirement savings options for Australians in a modern economy

The superannuation system currently offers little flexibility for those who take time out of work, work part time, or have 'lumpy' income and therefore have periods in which they make no or limited contributions to superannuation. Women often experience breaks in work, or work part-time, which contributes to lower, on average, superannuation account balances than men.

The Government will ensure that the superannuation system is flexible and equally accessible for all Australians to better meet the objective of superannuation.

Improving access to concessional contributions

From 1 July 2017, the Government will lift current restrictions and allow individuals under the age of 75 to claim **tax deductions for personal superannuation contributions** to eligible superannuation funds.

This effectively allows all individuals, regardless of their employment circumstances, to make concessional super contributions up to the concessional cap. Individuals who are partially self-employed and partially wage and salary earners and individuals whose employers do not offer salary sacrifice arrangements will benefit from these changed arrangements.

In addition, the Government will **improve the superannuation balances of low income spouses** by extending the current spouse tax offset to assist more families to support each other in accumulating superannuation. The current income threshold for the receiving spouse (whether married or de facto) will be lifted from \$10,800 to \$37,000.

A contributing spouse will be eligible for an 18 per cent offset worth up to \$540 for contributions made to an eligible spouse's superannuation account.

The Government will also introduce **catch-up concessional superannuation contributions** by allowing unused concessional contribution caps to be carried forward on a rolling basis for up to five years for those with account balances of \$500,000 or less. This will allow those with lower contributions, interrupted work patterns or irregular capacity to make contributions to make 'catch-up' payments to boost their superannuation savings.

Harmonising contributions rules for older Australians

To assist older Australians prepare for their retirement by boosting their superannuation account balances, the Government is lifting restrictions on their ability to contribute.

Currently, there are minimum work requirements for Australians aged 65 to 74 who want to make voluntary superannuation contributions. Restrictions also apply to the bring-forward of non-concessional contributions. In addition, spouses aged over 70 cannot receive contributions. None of these restrictions apply to individuals aged under 65.

The Government will remove these restrictions and instead apply the **same contribution acceptance rules for all individuals aged up to 75**, from 1 July 2017.

These changes will provide better incentives and more flexibility to all Australians to make superannuation contributions appropriate to their circumstances.

Changes to retirement income products

Rules and regulations currently restrict the development of new retirement income products. These products could provide more flexibility and choice for Australian retirees, and help them to better manage consumption and risk in retirement. They can be of particular benefit for those who are concerned that they might outlive their superannuation fund savings.

As a result, the Government will remove barriers to innovation in the creation of retirement income

products. From 1 July 2017, the **tax exemption on earnings in the retirement phase will be extended** to products such as deferred lifetime annuities and group self-annuitisation products.

This will enhance choice and flexibility for Australian retirees looking to make the most of their superannuation savings and enhance their standard of living throughout their retirement.

The Government will consult on how these products will be treated under the Age Pension means test.



Helping individuals with interrupted work patterns

Emma is a mother on maternity leave who is about to return to work part time. Emma, who earns \$30,000 will be eligible for the Low Income Superannuation Tax Offset when she returns to work. Under the new changes to spouse contributions, her partner, Frank will be eligible to claim a tax offset up to \$540 for contributions he has made to Emma's superannuation account.

Once Emma returns to full time work, she will be able to boost her retirement income by making additional concessional contributions. Enabling her to 'catch up' by rolling over the amounts left remaining under the concessional contributions cap, Emma can contribute more over her working life. Although Emma has changed jobs she will also benefit from the Government's changes to member protection measures making it easier for her to reunite and consolidate her multiple accounts, including any in an Eligible Rollover Fund.



Saving for retirement

Gus is a 65 year old retiree who currently draws down his account-based superannuation pension at the minimum rates as he is concerned that his superannuation will run out.

As deferred income stream products do not qualify for the retirement phase earnings tax exemption, these products are not generally offered in the market.

Under this initiative, Gus will have the option to buy a deferred lifetime annuity that will give him a guaranteed income stream for the rest of his life commencing from age 80. This will give Gus the confidence to have a higher standard of living in the intervening period and peace of mind knowing that no matter how long he lives he will receive a guaranteed income stream.

Improving integrity

Strengthening confidence in the superannuation system

The superannuation package will build public confidence in the system by improving alignment with its objective and reducing the extent to which superannuation is used for tax minimisation and estate planning purposes.

The introduction of the \$1.6 million limit on the amount that can be transferred into the retirement phase and the introduction of the \$500,000 lifetime non-concessional cap are key elements to improve confidence that the system is being used for its core purpose.

The Government will further improve the integrity of the superannuation system by ensuring that the transition to retirement income stream (TRIS) scheme is fit-for-purpose and participants are not primarily motivated by tax benefits; and by removing the out dated anti-detriment provision.

Strengthening the integrity of income streams

TRIS were designed to assist Australians to access limited superannuation savings to gradually move to retirement. As the schemes encourage workforce participation, the Government will make adjustments to ensure they operate effectively.

The Government will remove the tax exempt status of earnings supporting the TRIS. More broadly, individuals will no longer be allowed to treat certain superannuation income stream payments as lump sums for tax purposes.

These changes ensure that TRIS remain fit for purpose, are not accessed primarily for their tax advantage, and still meet the objective of supporting people who want to remain in the workforce.

Anti-detriment payments

The Government will also **remove the outdated anti-detriment provision**. The anti-detriment provision can effectively result in a refund of a member's lifetime superannuation contributions tax payments into an estate, where the beneficiary is the dependant of the member (spouse, former spouse or child). Currently this provision is inconsistently applied by superannuation funds.

From 1 July 2017 the Government will no longer allow funds to claim this as a deduction. This will ensure consistent treatment of lump sum death benefits across all superannuation which aligns with the treatment of bequests outside of superannuation.

Changes are underway to create a sustainable, fair, flexible and efficient superannuation system for the 21st century

This package of superannuation reforms complements the wide range of improvements the Government is pursuing to strengthen governance and transparency. This will enhance efficiency and competition in the superannuation system.

TRANSPARENCY

- **Product dashboard:** consumers will know fees paid, investment returns and be able to compare products
- **Portfolio holdings disclosure:** consumers will know where superannuation savings are invested to make more informed choices
- **Retirement income projections:** provide tools to help people predict retirement incomes and plan ahead for retirement

EFFICIENCY

- **myGov:** people can find and consolidate superannuation accounts easily, reducing fee duplication
- **SuperMatch2:** automate and streamline existing processes for account consolidation, reducing multiple fees
- **Pre-filled TFN and choice forms:** will allow people to easily retain the same superannuation account when starting a new job
- **Proactive Eligible Rollover Fund (ERF) account consolidation:** reduce fee duplication by proactively reuniting amounts held by ERFs with active accounts

COMPETITION

- **Extending choice of fund:** increased ability to reduce multiple accounts
- **Plans to improve quality and integrity of MySuper products:** better defaults for those who don't choose
- **Plans for better presentation of superannuation data:** make it easier to select a suitable superannuation fund
- **Productivity Commission review:** address system efficiency and competitiveness to benefit members



**EMPOWER
CONSUMERS**



**INCREASE
AFTER-FEE RETURNS**



**GROW SUPERANNUATION
BALANCES**



**IMPROVE RETIREMENT
INCOMES**

Targeting tax avoidance

Tougher laws, stronger compliance

At a time when the burden of tax is being reduced for business, it is important that additional measures are taken to reinforce the integrity of Australia's corporate tax base.

The Government is committed to ensuring businesses pay the right amount of tax in Australia when they do business in Australia.

We have already implemented tough new laws to crack down on tax avoidance and have been leading the way in implementing measures agreed by the G20 and OECD. Last year the Government introduced into Parliament the Multinational Anti Avoidance Law (MAAL) to ensure that large multinational companies operating in Australia are subject to our tax laws. The legislation was enacted in December 2015.

In this Budget, the Government will build on existing measures by introducing a new **Diverted Profits Tax** and significantly enhancing the ATO's enforcement capabilities. The Diverted Profits Tax will impose a 40 per cent penalty rate of tax on large multinationals that attempt to shift their Australian profits offshore to avoid paying tax. Together, the MAAL and the Diverted Profits Tax are expected to raise around \$650 million over four years from large multinationals.

These are major steps in the fight against corporate tax avoidance that are reinforced by other tough new measures in the 2016-17 Budget to prevent multinational profit shifting, strengthen enforcement and improve corporate tax transparency.



Tougher laws

- A new **Diverted Profits Tax** preventing multinationals shifting profits made in Australia offshore to avoid paying tax
- Preventing multinationals from exploiting cross-country tax differences to defer or avoid paying tax
- Aligning transfer pricing rules with the latest international guidelines



Stronger compliance

- A new **Tax Avoidance Taskforce** that will strengthen the ATO's audit and compliance activities
- A new **Tax Transparency Code** encouraging greater tax transparency by large corporations
- Protecting whistleblowers that provide information on tax avoidance to the ATO
- Progressing a disclosure regime to uncover aggressive tax planning schemes
- Increasing penalties for breach of tax reporting obligations by large companies

Enforcing tough new laws

More power and more resources for our tax cop 'on the beat'

The new Tax Avoidance Taskforce

Enforcement of existing laws and the tough new measures announced in the 2016–17 Budget will be supported by additional funding to the ATO to establish a new **Tax Avoidance Taskforce**.

The Taskforce will pursue tax avoidance by multinationals and high wealth individuals. It is expected to raise \$3.7 billion of additional Government revenue over the next four years.

A new Tax Transparency Code

The Government is committed to encouraging greater tax transparency within the corporate sector, especially by multinational corporations. The **Tax Transparency Code** will encourage businesses with an annual turnover of \$100 million or more to publish information to support greater and better informed public scrutiny.

The Government encourages all companies to adopt the Code from the 2016 financial year onwards.

New protections for whistleblowers

The Government will introduce new whistleblower protections for people who disclose information about tax misconduct to the ATO. Whistleblowers will have their identity protected and will be protected from victimisation and civil and criminal action for disclosing information to the ATO.

These protections will encourage whistleblowers to come forward and help support compliance with Australia's tax laws.

A new regime for disclosure of potential tax avoidance

The Government is determined to improve disclosure of taxpayer information to the ATO, and will consult on new rules requiring tax and financial advisors to report potentially aggressive tax planning schemes.

These rules will give the ATO an extra tool to combat the use of aggressive tax schemes and limit the opportunity for such schemes to be marketed.

Increased penalties

The Government will **increase the penalties for breach of tax reporting obligations** for companies with global incomes of \$1 billion or more.

The Government will increase the maximum penalty from \$4,500 to \$450,000 for failing to lodge tax returns and similar tax documents on time.

The Government will also double the penalties for making false and misleading statements to the ATO.

These new penalties will send a clear message that the Government will not tolerate inaccurate or delayed tax reporting and administration by large businesses.



Making multinationals pay tax on what they earn in Australia

Preventing multinationals from profit shifting

Introduction of a Diverted Profits Tax

The new **Diverted Profits Tax** will help ensure that large multinationals are paying the right amount of tax on profits made in Australia.

The Diverted Profits Tax will commence on 1 July 2017 and apply to multinationals using artificial or contrived arrangements to reduce tax by diverting profits offshore.

The Diverted Profits Tax arrangements will provide the ATO with greater powers to deal with uncooperative multinationals and provide strong incentives for large companies to pay an appropriate amount of tax.

The Diverted Profits Tax will broaden the ATO's scope to identify large multinationals seeking to avoid tax by shifting profits out of Australia and will levy a tax rate of 40 per cent on transactions that are caught – a penalty compared to the standard company tax rate.

The Diverted Profits Tax will reinforce Australia's position as having amongst the toughest laws in the world to combat corporate tax avoidance.

The Diverted Profits Tax will provide the ATO with greater powers to combat corporate tax avoidance.

Preventing the exploitation of cross-country tax differences

The Government will also close loopholes that allow multinational corporations to exploit the differences between the tax treatment of entities and instruments across different countries. These loopholes enable multinationals to obtain unfair tax advantages over purely domestic companies.

For example, a loan from a parent company to its subsidiary may be treated as equity in one country's tax law and debt in another.

Without the Government's changes, the subsidiary may have been allowed to claim a deduction for interest payments made to its parent but the parent company would not pay tax on those payments.

Measures to close loopholes such as these have been agreed by the OECD. These tough new **'anti hybrid' rules** will come into effect by 1 January 2018 or six months following Royal Assent.

Preventing the use of related-party transactions to minimise tax

The Government will update legislation to close loopholes that allow multinational companies to use excessive related-party payments to shift profits overseas and reduce the tax they pay in Australia.

Transfer pricing rules regulate the way companies set prices for the trade of goods and services amongst their different businesses in different countries.

The OECD has updated its guidance on how these transactions should be priced. The Government will amend legislation to ensure that this updated guidance applies in Australia.

The new guidance will make clearer how intellectual property and other intangibles can be priced and clarify that it is the substance rather than the contractual form of a transaction that matters.



Relieving the burden of tax on hard working Australians

Keeping average full time wage earners on a lower tax rate for longer

Australians understand that our outdated tax system is punishing hard work, hindering growth, limiting opportunity and hampering innovation.

We need to modernise our economy and our tax system or we risk being left behind.

This Budget is giving hard working Australians greater incentive to earn more without being taxed more.

Middle income Australians are bearing a growing tax burden.

In recent years, those on low incomes have benefited from tax cuts and the carbon tax compensation that have been retained despite the carbon tax being abolished. Without action, the average full time wage earner would face the second highest marginal tax rate this year and nearly half of all taxpayers would be in the top two brackets in ten years' time.

In this Budget, the Government is making a start on personal income tax relief.

The Government will prevent average full time wage earners from moving into the second top tax bracket until 2019-20 by increasing the 32.5 per cent tax threshold from \$80,000 to \$87,000. This will stop around 500,000 taxpayers facing the 37 per cent marginal tax rate.

By pushing up the tax threshold on the middle tax bracket **we will keep average full time wage earners on the lower rate for longer.**

This will reward hard working Australians for doing more overtime, picking up more shifts, taking a promotion or a better new job, without being penalised by paying more tax through the higher rate. The Government will consider further measures to reduce the burden of tax as fiscal settings allow.

Reducing the tax burden

keeping **500,000** Australians in the **middle** tax bracket for longer



Simpler tax rules, cutting red tape

Simpler tax rules support businesses to grow and get on with what they do best

Tax laws can be complex and, at times, do not work as intended. It is important that the meaning of the law is clear so that more time can be spent building a business rather than navigating compliance with complex tax laws.

To streamline our tax system, the Government will introduce designated Regulatory Reform Bills into the Parliament.

Stakeholders will be encouraged to suggest matters to be included in these Bills, including through the new Board of Taxation Sounding Board, accessible at taxboard.gov.au.

The Government will also support the ATO to produce public guidelines on the meaning of new tax laws in a timely way. The guidelines will not have the same formal legal status as legislation, but will help taxpayers understand how to comply with the new law.

Previously, advice and guidance was published some months after legislation was enacted, which could leave taxpayers confused about how the legislation would be applied.

In future, guidelines will be publicly released as legislation is introduced into or is being considered by Parliament.



Simpler tax rules, cutting red tape

Targeted amendments to simplify tax law

The Government will make it easier to comply with currently complex integrity rules to ensure appropriate tax is paid on funds extracted from private companies, including by providing a self-correction mechanism for inadvertent breaches and creating new safe harbour rules.

Consolidation integrity package

The Government will simplify, strengthen and better target the **consolidation integrity package**, originally announced in the 2013-14 Budget. The changes will provide increased certainty for wholly-owned groups that lodge as a single entity ('consolidated taxpayers').

The package will ensure consolidated taxpayers cannot obtain a double tax benefit or other tax advantages when recognising certain liabilities. It will also align the tax treatment of securitised assets for consolidated groups with that for consolidated financial institutions.

Taxation of financial arrangements

The **taxation of financial arrangements** regime is complex and applied more widely than is necessary. The Government will improve this regime with a simpler, more targeted system. The rules will apply to a much smaller group of taxpayers, relieving many taxpayers from undertaking complex calculations.

This will cut red tape and associated administrative costs for those businesses that are no longer caught by the framework.

Lowering the tax burden on enterprise

Boosting growth for all Australians

As we transition from the mining investment boom it is vital that we give businesses every opportunity to invest, innovate, grow and employ more Australians.

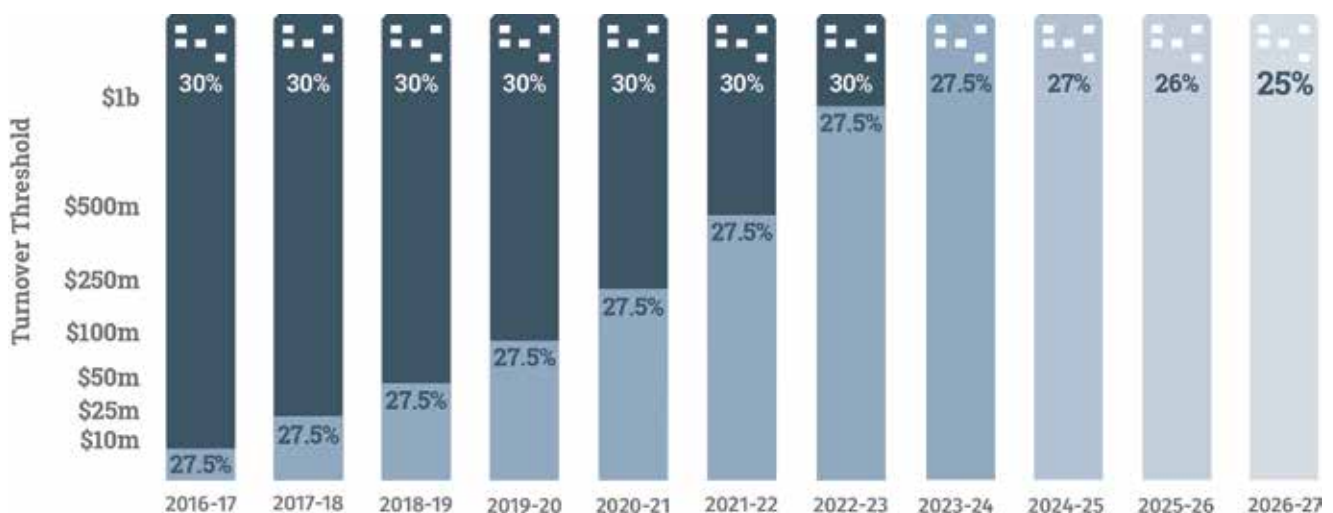
We need a tax system that supports enterprise by backing businesses to invest. It must also ensure that Australia continues to be an attractive place to do business. This will secure our future and create jobs for Australians. This will also ensure that we manage the transition to a more diversified economy that continues to expand.

The Government will back small businesses by **reducing their tax rate to 27.5 per cent**, starting with businesses with a turnover less than \$10 million on 1 July this year. This will deliver a lower tax rate for around 870,000 companies who employ over 3.4 million workers.

Over ten years the Government will encourage investment and higher-paid jobs by **decreasing the tax rate on all companies to 25 per cent by 2026–27**. This will make Australian companies more internationally competitive in a tough global market place.

This means higher living standards for Australians and an expected permanent increase in the size of the economy of just over one per cent in the long term.

The company tax rate for all companies will decrease to 25 per cent over the next ten years



Small business first

Lower taxes and greater access to tax concessions

Small businesses are the engine room of our economy. They are the home of Australian enterprise and opportunity and they are where many big ideas begin. They employ over 3 million workers and in 2013-14 added around \$340 billion to our economy.

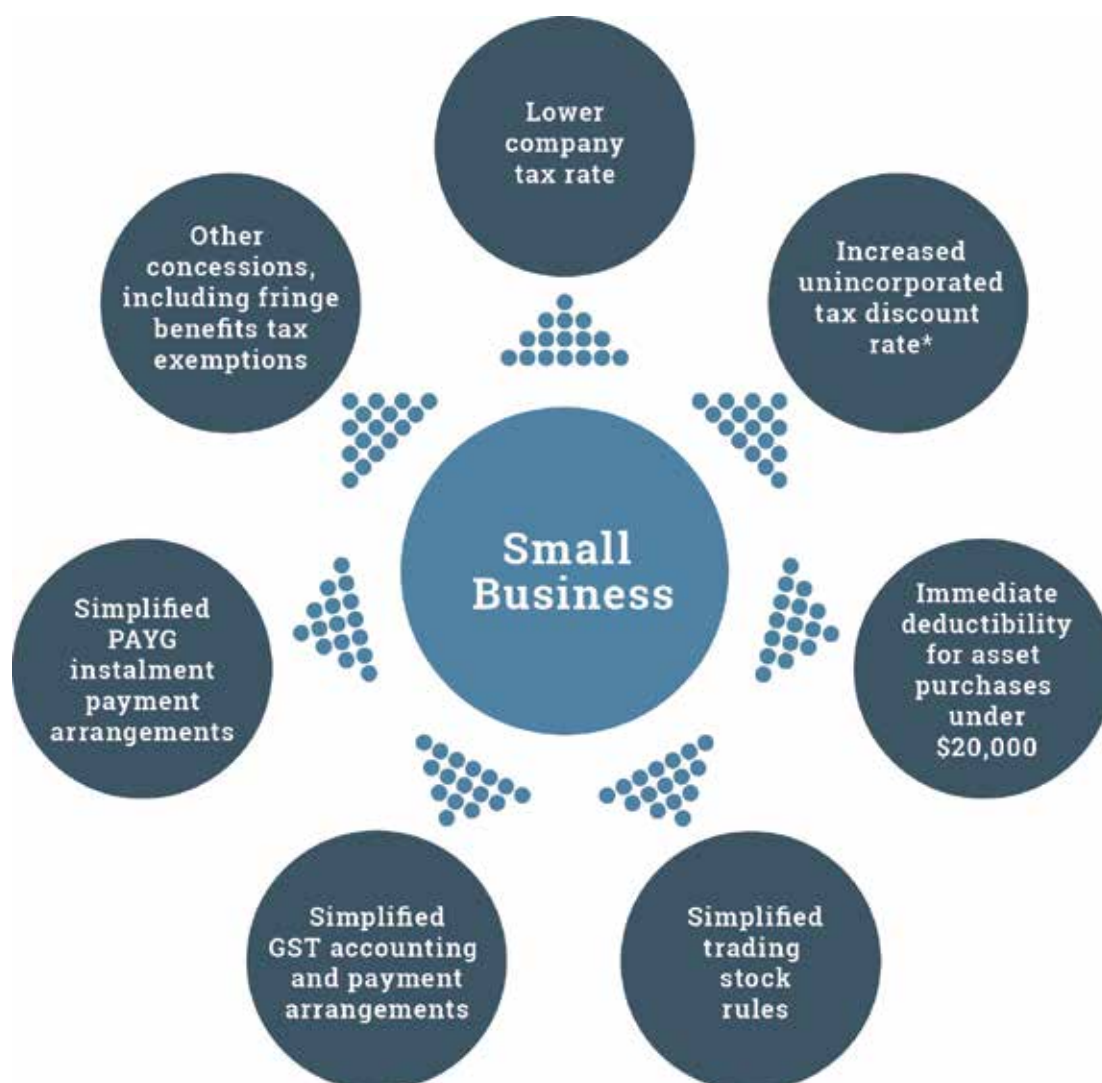
This is why we will reduce the tax burden on small businesses first.

Since many small businesses are not companies, the Government will extend the unincorporated small business tax discount.

From **2016-17, the discount will be available to businesses with annual turnover of less than \$5 million, up from the current threshold of \$2 million, and will be increased to 8 per cent.** The maximum discount available will remain at \$1,000.

Over the next decade, the discount will be further expanded in phases, to a final discount of 16 per cent.

This means that every year around 2.3 million businesses will potentially have access to the unincorporated tax discount.




* for unincorporated businesses with turnover less than \$5 million.

Further support will be provided for small businesses to expand and create jobs. Access to a number of tax concessions will be provided by **increasing the threshold for these concessions to \$10 million, up from the current \$2 million threshold**. These changes will benefit over 90,000 businesses.

From 1 July 2016 all businesses with annual turnover of less than \$10 million will have access to:

- simplified depreciation rules, including immediate tax deductibility for asset purchases costing less than \$20,000 until 30 June 2017;
- simplified trading stock rules, giving them the option to avoid end of year stocktake if the value of their stock has changed by less than \$5,000;
- a simplified method of paying PAYG instalments calculated by the ATO, which removes the risk of under or over estimating PAYG instalments and the resulting penalties that may be applied;
- the option to account for GST on a cash basis and pay GST instalments as calculated by the ATO;
- other tax concessions currently available to small businesses, such as fringe benefits tax (FBT) exemptions (from 1 April 2017 to align with the FBT year); and
- a trial of simpler business activity statements (BAS), reducing GST compliance costs, with a full roll-out from 1 July 2017.

These threshold changes will not affect eligibility for the small business capital gains tax concessions, which will remain available for businesses with annual turnover of less than \$2 million or that satisfy the maximum net asset value test.



These changes will benefit over 90,000 businesses.

Small business first

How this helps small businesses

Edna owns a company, Edna Pty Ltd, through which she operates three cafes across Queensland. Edna Pty Ltd has an aggregated turnover of \$3.6 million and a taxable income of \$180,000 for the 2016-17 income year.

Half way through the year, Edna purchases three new freezer units at a cost of \$4,000 each and three new coffee machines at a cost of \$11,000 each, exclusive of GST, for her cafes.

Current law

Edna Pty Ltd would not be classified as a small business. Therefore, Edna Pty Ltd must depreciate the coffee machines and freezer units using an effective life of 5 and 10 years respectively. Assuming a diminishing value method of depreciation, Edna Pty Ltd can claim a tax deduction for the freezer units of \$1,200 and the coffee machines of \$6,600 in the first year.

The depreciation deduction of \$7,800 for the asset purchases would reduce the taxable income of Edna Pty Ltd to \$172,200 for the 2016-17 income year, giving rise to a tax liability of \$51,660 for that year, with a company tax rate of 30 per cent.

New law

Under the new law, Edna Pty Ltd would be classified as a small business and would receive the new small business company tax rate of 27.5 per cent from 1 July 2016.

Edna Pty Ltd would also be able to claim an immediate deduction for each freezer and coffee machine purchased, giving an immediate deduction of \$45,000 in the 2016-17 income year. With the new small business company tax rate, Edna Pty Ltd would have a taxable income of \$135,000 and tax liability of \$37,125 for the 2016-17 income year, after the immediate deductions for the new asset purchases.

Edna Pty Ltd is able to adopt a simplified method of paying PAYG instalments using calculations prepared by the ATO. This removes the risk of under or over estimating PAYG instalments and the resulting penalties that may be applied.

Benefit

Having access to the small business tax concessions will result in Edna Pty Ltd receiving a cash flow benefit of over \$14,000.

In addition, Edna Pty Ltd will have access to a range of other small business tax concessions.

Small business first

How this helps unincorporated small businesses

Antony is a sole trader that runs a construction business. Antony's business has an annual turnover of \$2.5 million and taxable income of \$150,000. This is his only income.

Current law

Under the current law Antony pays tax at his marginal tax rates and pays \$46,447 in tax (including the Medicare levy).

New law

Under the new laws Antony gains access to the unincorporated tax discount and the increase in the personal income tax threshold from \$80,000 to \$87,000. Antony will pay \$45,132 in tax (including the Medicare levy).

Benefit

Antony is \$1,315 better off under the new laws. The unincorporated discount accounts for \$1,000 of this.

In addition, Antony will also have access to a range of other small business tax concessions, including immediate deductibility.

Making it easier to invest in Australia

Investment drives growth which leads to higher wages and better living standards

The Government is making changes so that it is easier to invest in Australia and access alternative sources of investment.

More financing sources

Changes to the tax rules from 1 July 2018 will encourage investment by ensuring that **asset-backed financing** is given the same tax treatment as conventional financing. Asset backed financing is similar to conventional financing but relies on the trading of assets, sharing of profits or leasing to finance an investment, rather than interest repayments. Asset backed financing arrangements can be used to support infrastructure investment as they are well suited to large and long term projects.

This will enable Australian business to more easily access investment, generating growth and job creation.

New investment vehicles

Changes to the tax and regulatory rules will also create two new forms of investment vehicle – a **corporate collective investment vehicle (CIV)** from 1 July 2017 and a **limited partnership collective investment vehicle** from 1 July 2018. These vehicles are internationally recognised and easy to use structures that will make managed funds based in Australia a more attractive place for foreigners to invest.

Creating these new structures will encourage foreign investment as well as the export of funds management services from Australia. Australian exports represent less than 4 per cent of funds under management, highlighting a significant potential export growth industry.



Promoting health by reducing smoking

One of the most effective ways to discourage smoking is to increase the price of cigarettes. Increases in tobacco excise over the last two decades have contributed to significant declines in the number of people smoking daily.

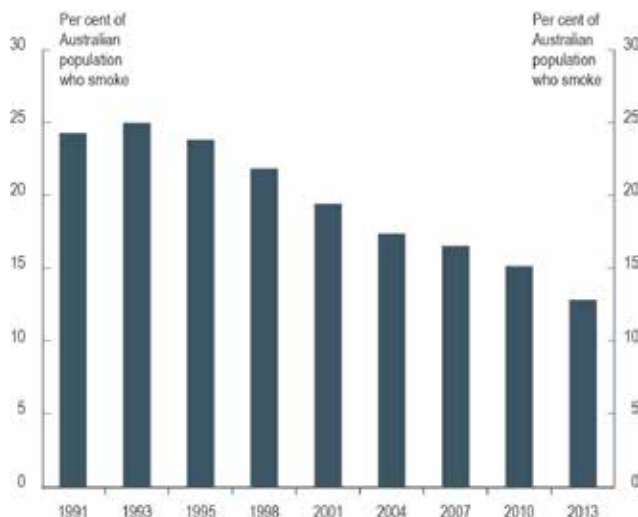
The Government will implement a further **four annual 12.5 per cent increases in tobacco excise and excise equivalent customs duties, with the first increase to take effect on 1 September 2017**. This will replicate the annual increases that have been in place for the past four years.

The Government will also limit the duty free tobacco allowance in Australia to 25 cigarettes or equivalent.

To counter any increased risk from tobacco being illegally smuggled into Australia, the Government will also enhance the compliance and enforcement framework for illicit tobacco activity.

This will include stronger penalties and more support for the Border Force team responsible for enforcing tobacco importation restrictions. The Government will provide **an additional \$7.7 million for the Tobacco Strike Team to combat illicit tobacco activity**. Existing penalties will also be strengthened, including by introducing tiered offences not currently available under the Customs Act.

Australians' smoking rates have fallen,



but there is more work to do



Economic gains of tax reform

The Government's tax package will boost investment, leading to higher wages and living standards for Australian workers

The Government's tax and superannuation plan is expected to deliver strong economic benefits to households as a result of higher investment.

Lowering the company tax rate to 25 per cent will significantly increase the attractiveness of investment into Australia.

Australian workers gain from the higher investment as they will be more productive. High productivity will lead to permanent increases in wages, better jobs, increased consumption and higher living standards for Australians.

The economy will be bigger. The tax and superannuation plan is expected to permanently lift the level of GDP by just over one per cent in the long term. This equates to around \$16.5 billion of additional production in the Australian economy in 2015–16 dollars.

Modelling of the tax and superannuation plan by Treasury is supported by independent modelling of a company tax cut by KPMG and Independent Economics. They also find that a lower company tax rate would deliver significant gains to Australian workers through more investment and higher productivity.

Details of the modelling will be available at www.treasury.gov.au.



Summary of reforms

	2015-16 Fiscal (\$m)	2016-17 Fiscal (\$m)	2017-18 Fiscal (\$m)	2018-19 Fiscal (\$m)	2019-20 Fiscal (\$m)	Total FE (\$m)
Superannuation Reform Package						
A clear objective for superannuation	-	-	-	-	-	-
Introduce a \$1.6 million superannuation transfer balance cap	-	-4.4	550.0	700.0	750.0	1,995.6
Reforming the taxation of concessional superannuation contributions	-	-2.8	499.1	797.8	1,148.9	2,443.0
Introduce a lifetime cap for non-concessional superannuation contributions	..	50.0	100.0	150.0	250.0	550.0
Introduce a Low Income Superannuation Tax Offset (LISTO)	-	-	-102.8	-701.1	-801.1	-1,605.0
Tax deductions for personal superannuation contributions	-	-	350.0	-600.0	-750.0	-1,000.0
Allow catch-up concessional superannuation contributions	-	-	-	-100.0	-250.0	-350.0
Harmonising contribution rules for those aged 65 to 74	-	-	-40.0	-40.0	-50.0	-130.0
Improve superannuation balances of low income spouses	-	-	-	-5.0	-5.0	-10.0
Removing regulatory barriers to innovation in the creation of retirement income products	-	-	-	-	-	-
Strengthen integrity of income streams – Transition to Retirement Income Streams (TRIS)	-	..	190.0	220.0	230.0	640.0
Remove the anti-detriment provision in respect of death benefits from superannuation	-	-	-	105.0	245.0	350.0
Totals – Superannuation Reform Package	-	42.8	1,546.3	526.7	767.8	2,883.6
Tax Integrity Package						
A new Diverted Profits Tax	-	-	-	100.0	100.0	200.0
Implementing the OECD hybrid mismatch arrangement rules	-	-	-	*	*	*
Strengthening transfer pricing rules	-	*	*	*	*	*
Establishing the Tax Avoidance Taskforce	-	28.6	564.4	1,071.2	1,395.8	3,060.0
Introduce a new Tax Transparency Code	-	-	-	-	-	-
Better protecting tax whistleblowers	-	-	-	*	*	*
Introduction of a new regime for disclosure of potential tax avoidance	-	-	-	-	-	-
Increasing administrative penalties for significant global entities	-	-	*	*	*	*
Deferred tax liabilities	-	*	*	*	*	*
Broadening the securitised asset measure	-	*	*	*	*	*
Totals – Tax Integrity Package	-	28.6	564.4	1,171.2	1,495.8	3,260.0
Ten Year Enterprise Tax Plan						
Targeted personal income tax relief	-	-800.0	-950.0	-1,050.0	-1,150.0	-3,950.0
Targeted amendments to Division 7A	-	-	-	-	*	*
Business simplification – taxation of financial arrangements – regulation reform	-	-	*	*	*	*
Reducing the company tax rate to 25 per cent	-	-400.0	-500.0	-800.0	-950.0	-2,650.0
Increase the unincorporated small business tax discount	-	-	-150.0	-150.0	-150.0	-450.0
Increase the small business entity turnover threshold	-	-280.0	-700.0	-550.0	-650.0	-2,180.0
Enhancing access to asset-backed financing	-	-	-	*	*	*
Implementing a new suite of collective investment vehicles [~]	-	-5.4	-2.8	-0.8	-0.1	-9.1
Wine Equalisation Tax rebate integrity and wine tourism funding	-	-2.0	34.0	54.1	163.9	250.0
Excise refund scheme for distillers	-	-	-3.0	-3.0	-3.0	-9.0
Better targeting the deductible liabilities measure	-	-150.0	-45.0	-40.0	-35.0	-270.0
Totals – Ten Year Enterprise Tax Plan	-	-1,637.4	-2,316.8	-2,539.7	-2,774.2	-9,268.1
Other reforms						
More timely guidance on the meaning of tax laws	-	-	-	-	-	-
Designated regulatory reform tax bills	-	-	-	-	-	-
Measures to improve health outcomes and combat illicit tobacco	-	-2.9	690.1	1,550.0	2,470.0	4,707.2
Applying GST to low value goods imported by consumers	-	-4.3	6.4	6.7	7.4	16.2
Involving a range of organisations more closely in select tax policy and law design projects	-	-	-	-	-	-
Totals – other reforms	-	-7.2	696.5	1,556.7	2,477.4	4,723.4
Total of all reforms	-	-1,573.2	490.4	714.9	1,966.8	1,598.9

[~] The revenue impact of this measure is unquantifiable and the profile consists solely of departmental costs, .. not zero but rounded to zero, * unquantifiable

