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MAY 2016 FEDERAL BUDGET SUMMARY

We provide the following summary of the May 2016 Federal Budget. The budget extends to many hundreds of pages, and we have attempted to provide you with the most critical/important proposals.

Please note that many of these changes are proposed, and are not yet legislated. As these measures pass the legislative process we will advise our clients.

These measures provide welcome relief to small and medium sized business with a reduction to the company tax rate over time. There are some limited tax cuts for individuals, Medicare levy relief for lower income earners has also been provided.

There is also significant flexibility improvements in superannuation, contribution rules have been tightened.

Multinational taxation is proposed to be tightened, however specific transfer pricing measures need further review.

These are the main proposals in bullet point form, details are provided below.

- **Personal Income Tax — increasing the Medicare levy low-income thresholds**
- **Ten Year Enterprise Tax Plan — increase the small business entity turnover threshold**
- **Ten Year Enterprise Tax Plan — reducing the company tax rate to 25 per cent**
- **Applying GST to Low Value Goods Imported by Consumers**
- **The GST will be extended to low value goods imported by consumers from 1 July 2017.**
- **National Innovation and Science Agenda — expanding tax incentives for early-stage investors**
- **Superannuation Reform Package — allow catch-up concessional superannuation contributions**
- **Superannuation Reform Package — harmonising contribution rules for those aged 65 to 74**
- **Superannuation Reform Package — improve superannuation balances of low income spouses**
- **Superannuation Reform Package — introduce a $1.6 million superannuation transfer balance cap**
- **Superannuation Reform Package — introduce a lifetime cap for non-concessional superannuation contributions**
- **Superannuation Reform Package — introducing a Low Income Superannuation Tax Offset (LISTO)**
- **Superannuation Reform Package — reforming the taxation of concessional superannuation contributions**
- **Superannuation Reform Package — remove the anti-detriment provision in respect of death benefits from superannuation**

- **Superannuation Reform Package — strengthen integrity of income streams**
- **Superannuation Reform Package — tax deductions for personal superannuation contributions**
- **Tax Integrity Package — a new diverted profits tax**
- **Tax Integrity Package — better protecting tax whistleblowers**
- **Tax Integrity Package — broadening the securitised asset measure**
- **Tax Integrity Package — deferred tax liabilities**
- **Tax Integrity Package — establishing the Tax Avoidance Taskforce**
- **Tax Integrity Package — implementing the OECD hybrid mismatch arrangement rules**
- **Tax Integrity Package — increasing administrative penalties for significant global entities**
- **Tax Integrity Package — strengthening transfer pricing rules**
- **Ten Year Enterprise Tax Plan — better targeting the deductible liabilities measure**
- **Ten Year Enterprise Tax Plan — business simplification — taxation of financial arrangements — regulation reform**
- **Ten Year Enterprise Tax Plan — enhancing access to asset backed financing**
- **Ten Year Enterprise Tax Plan — implementing a new suite of collective investment vehicles**
- **Ten Year Enterprise Tax Plan — increase the unincorporated small business tax discount**
- **Ten Year Enterprise Tax Plan — targeted amendments to Division 7A**
- **Ten Year Enterprise Tax Plan — targeted personal income tax relief**

Please be advised that the information in this summary is sourced from Budget Paper No 2 located at www.budget.gov.au.

If you wish to discuss any matters, please contact this office.

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Personal Income Tax — increasing the Medicare levy low-income thresholds

The Government will increase the Medicare levy low-income thresholds for singles, families and seniors and pensioners from the 2015-16 income year. The increases take account of movements in the Consumer Price Index so that low income taxpayers generally continue to be exempted from paying the Medicare levy.
The threshold for singles will be increased to $21,335. For couples with no children, the threshold will be increased to $36,001 and the additional amount of threshold for each dependent child or student will be increased to $3,306. For single seniors and pensioners, the threshold will be increased to $33,738. For senior and pensioner couples with no children, the threshold will be increased to $46,966 and the additional amount of threshold for each dependent child or student will be increased to $3,306.

Ten Year Enterprise Tax Plan — increase the small business entity turnover threshold

The Government will increase the small business entity turnover threshold from $2.0 million to $10.0 million from 1 July 2016. The current $2.0 million turnover threshold will be retained for access to the small business capital gains tax concessions, and access to the unincorporated small business tax discount will be limited to entities with turnover less than $5.0 million. An additional 90,000 to 100,000 business entities will gain access to the small business concessions, such as the lower small business corporate tax rate, accelerated depreciation and depreciation pooling provisions.
This measure is estimated to have a cost of $2.2 billion over the forward estimates period.

Ten Year Enterprise Tax Plan — reducing the company tax rate to 25 per cent

The Government will reduce the company tax rate to 25 per cent over 10 years.
The tax rate for businesses with an annual aggregated turnover of less than $10.0 million will be 27.5 per cent from the 2016-17 income year. The threshold will then be progressively increased to ultimately have all companies at 27.5 per cent in the 2023-24 income year. The annual aggregated turnover thresholds for companies facing a tax rate of 27.5 per cent will be:

- $25.0 million in the 2017-18 income year;
- $50.0 million in the 2018-19 income year;
- $100.0 million in the 2019-20 income year;
- $250.0 million in the 2020-21 income year;
- $500.0 million in the 2021-22 income year; and
- $1 billion in the 2022-23 income year.

In the 2024-25 income year the company tax rate will be reduced to 27 per cent and then be reduced progressively by 1 percentage point per year until it reaches 25 per cent in the 2026-27 income year. Franking credits will be able to be distributed in line with the rate of tax paid by the company making the distribution.
A more competitive company tax rate will encourage investment, raise productivity, increase GDP and over time raise real wages and living standards.
This measure is expected to have a cost to revenue of $2.7 billion over the forward estimates period.

Applying GST to Low Value Goods Imported by Consumers

The GST will be extended to low value goods imported by consumers from 1 July 2017.

The measure is estimated to have a gain to GST revenue of $300.0 million over the forward estimates period. This will increase GST payments to the States and Territories by $270.0 million over the forward estimates period. The difference is due to timing of GST collections.
The intent of this measure is that low value goods imported by consumers will face the same tax regime as goods that are sourced domestically.
Overseas suppliers that have an Australian turnover of $75,000 or more will be required to register for, collect and remit GST for low value goods supplied to consumers in Australia, using a vendor registration model.

These arrangements will be reviewed after two years to ensure they are operating as intended and take account of any international developments.

National Innovation and Science Agenda — expanding tax incentives for early-stage investors

This measure forms part of the Government's commitment to ensuring early-stage innovative companies have access to investment capital.
The Government has amended the Mid-Year Economic and Fiscal Outlook 2015-16 measure National Innovation and Science Agenda — tax incentives for angel investors to:

- reduce the holding period from three years to 12 months for investors to access the 10 year capital gains tax exemption;
- include in the definition of eligible startups, a time limit on incorporation and criteria for determining if the startup is an innovation company;
- require that the investor and innovation company are non-affiliates; and
- limit the investment amount for non-sophisticated investors to $50,000 or less per income year in order to receive a tax offset.

These amendments have been determined in close consultation with stakeholders and will better target the incentives to ensure they promote investment in early-stage innovation companies. These companies face difficulty attracting the capital and business expertise needed to succeed.

Superannuation Reform Package — allow catch-up concessional superannuation contributions

From 1 July 2017, the Government will allow individuals to make additional concessional contributions where they have not reached their concessional contributions cap in previous years. Access to these unused cap amounts will be limited to those individuals with a superannuation balance less than $500,000. Amounts are carried forward on a rolling basis for a period of five consecutive years, and only unused amounts accrued from 1 July 2017 can be carried forward.
Annual concessional caps can limit the ability of people with interrupted work patterns — for example women or carers — to accumulate superannuation balances commensurate with those who do not take breaks from the workforce. Allowing people to carry forward their unused concessional cap provides them with the opportunity to 'catch-up' if they have the capacity and choose to do so.
The measure will also apply to members of defined benefit schemes and consultation will be undertaken to minimise additional compliance impacts for these schemes.

Superannuation Reform Package — harmonising contribution rules for those aged 65 to 74

From 1 July 2017, the Government will improve the flexibility of the superannuation system by removing the current restrictions on people aged 65 to 74 from making superannuation contributions for their retirement. People under the age of 75 will no longer have to satisfy a work test and will be able to receive contributions from their spouse.

This will simplify the superannuation system for older Australians and allow them to increase their retirement savings, especially from sources that may not have been available to them before retirement, including from downsizing their home.

Superannuation Reform Package — improve superannuation balances of low income spouses

From 1 July 2017, the Government will increase access to the low income spouse superannuation tax offset by raising the income threshold for the low income spouse to $37,000 from $10,800. The low income spouse tax offset provides up to $540 per annum for the contributing spouse and builds on the Government's co-contribution and superannuation splitting policies to boost retirement savings, particularly of women.

Superannuation Reform Package — introduce a $1.6 million superannuation transfer balance cap

From 1 July 2017, the Government will introduce a $1.6 million transfer balance cap on the total amount of accumulated superannuation an individual can transfer into the retirement phase. Subsequent earnings on these balances will not be restricted. This will limit the extent to which the tax-free benefits of retirement phase accounts can be used by high wealth individuals.

Introducing a transfer balance cap will improve sustainability and fairness in the superannuation system. Where an individual accumulates amounts in excess of $1.6 million, they will be able to maintain this excess amount in an accumulation phase account (where earnings will be taxed at the concessional rate of 15 per cent). Members already in the retirement phase with balances above $1.6 million will be required to reduce their retirement balance to $1.6 million by 1 July 2017. Excess balances for these members may be converted to superannuation accumulation phase accounts.
A tax on amounts that are transferred in excess of the $1.6 million cap (including earnings on these excess transferred amounts) will be applied, similar to the tax treatment that applies to excess non-concessional contributions.
The amount of cap space remaining for a member seeking to make more than one transfer into a retirement phase account will be determined by apportionment.
Commensurate treatment for members of defined benefit schemes will be achieved through changes to the tax arrangements for pension amounts over $100,000 from 1 July 2017.
Consultation will be undertaken on the implementation of this measure for members of both accumulation and defined benefits schemes.
The Government will provide funding for required systems changes to its defined benefits superannuation schemes. The expenditure for this is not for publication for commercial confidentiality reasons.
This measure is estimated to have a gain to revenue of $2.0 billion over the forward estimates period.
This measure forms part of the Government's Superannuation Reform Package, which will improve the sustainability, flexibility and integrity of the superannuation system.

Superannuation Reform Package — introduce a lifetime cap for non-concessional superannuation contributions

The Government will introduce a $500,000 lifetime non-concessional contributions cap to improve the sustainability of the superannuation system. To ensure maximum effectiveness the lifetime cap will take into account all non-concessional contributions made on or after 1 July 2007, from which time the Australian Taxation Office has reliable contributions records, and will commence at 7.30 pm (AEST) on 3 May 2016. Contributions made before commencement cannot result in an excess. However, excess contributions made after commencement will need to be removed or subject to penalty tax. The cap will be indexed to average weekly ordinary time earnings and is estimated to have a gain to revenue of $550.0 million over the forward estimates period.
The lifetime non-concessional cap will replace the existing annual caps which allow annual non-concessional contributions of up to $180,000 per year (or $540,000 every three years for individuals aged under 65).
This change will improve the sustainability of the superannuation system, whilst continuing to provide support for the majority of Australians who make non-concessional contributions well below $500,000. This measure will also provide Australians with flexibility around when they choose to contribute to their superannuation and will be available to all Australians up to age 74.
After-tax contributions made into defined benefit accounts and constitutionally protected funds will be included in an individual's lifetime non-concessional cap. If a member of a defined benefit fund exceeds their lifetime cap, ongoing contributions to the defined benefit account can continue but the member will be required to remove, on an annual basis, an equivalent amount (including proxy earnings) from any accumulation account they hold. The amount that could be removed from any accumulation accounts will be limited to the amount of non-concessional contributions made into those accounts since 1 July 2007. Contributions made

to a defined benefit account will not be required to be removed. The Government will consult to ensure broadly commensurate and equitable treatment of individuals for whom no amount of post 1 July 2007 non-concessional contributions are available to be removed.

Superannuation Reform Package — introducing a Low Income Superannuation Tax Offset (LISTO)

Offset (LISTO) to reduce tax on superannuation contributions for low income earners. The LISTO will provide a non-refundable tax offset to superannuation funds, based on the tax paid on concessional contributions made on behalf of low income earners, up to a cap of $500. Provision will be made to ensure the measure can be implemented to achieve the outcomes as intended. The LISTO will apply to members with adjusted taxable income up to $37,000 that have had a concessional contribution made on their behalf.
This will effectively avoid the situation in which low income earners would pay more tax on savings placed into superannuation than on income earned outside of superannuation.
The measure is estimated to have a cost to the Budget of $1.6 billion over the forward estimates period.

Superannuation Reform Package — reforming the taxation of concessional superannuation contributions

From 1 July 2017, the Government will lower the Division 293 threshold (the point at which high income earners pay addition contributions tax) from $300,000 to $250,000. The Government will also reduce the annual cap on concessional superannuation contributions to $25,000 (currently $30,000 under age 50; $35,000 for ages 50 and over).

Reducing the Division 293 tax income threshold will improve sustainability and fairness in the superannuation system by limiting the effective tax concessions provided to high income individuals. Capping concessional contributions at $25,000 per year will still allow individuals to accumulate significant amounts of tax advantaged concessional superannuation.
The lower Division 293 income threshold will also apply to members of defined benefit schemes and constitutionally protected funds currently covered by the tax. Existing exemptions (such as State higher level office holders and Commonwealth judges) for Division 293 tax will be maintained.
From 1 July 2017, the Government will include notional (estimated) and actual employer contributions in the concessional contributions cap for members of unfunded defined benefit schemes and constitutionally protected funds. Members of these funds will have opportunities to salary sacrifice commensurate with members of accumulation funds. For individuals who were members of a funded defined benefit scheme as at 12 May 2009, the existing grandfathering arrangements will continue.

This measure is estimated to have a gain to revenue of $2.5 billion over the forward estimates period.

Superannuation Reform Package — remove the anti-detriment provision in respect of death benefits from superannuation

From 1 July 2017, the Government will improve the integrity and fairness of the system by removing 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.
Removing the anti-detriment provision will better align the treatment of lump sum death benefits across all superannuation funds and the treatment of bequests outside of superannuation. Lump sum death benefits to dependants remain tax free.
This measure is estimated to have a gain to revenue of $350.0 million over the forward estimates period.

Superannuation Reform Package — strengthen integrity of income streams

tax exemption on earnings of assets supporting Transition to Retirement Income Streams from 1 July 2017 (income streams of individuals over preservation age but not retired). It will also remove a rule that allows individuals to treat certain superannuation income stream payments as lump sums for tax purposes.
This measure is estimated to have a gain to revenue of $640.0 million over the forward estimates period.

Superannuation Reform Package — tax deductions for personal superannuation contributions

From 1 July 2017, the Government will improve flexibility and choice in superannuation by allowing all individuals up to age 75 to claim an income tax deduction for personal superannuation contributions. This effectively allows all individuals, regardless of their employment circumstances, to make concessional superannuation 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.
Individuals that are members of certain prescribed funds would not be entitled to deduct contributions to those schemes. Prescribed funds will include all untaxed funds, all Commonwealth defined benefit schemes, and any State, Territory or corporate defined benefit schemes that choose to be prescribed.

This measure is estimated to have a cost to revenue of $1.0 billion over the forward estimates period.

Tax Integrity Package — a new diverted profits tax

The Government will introduce a new tax aimed at multinational corporations that artificially divert profits from Australia. The tax will apply to income years commencing on or after 1 July 2017. This measure is estimated to have a gain to revenue of $200.0 million over the forward estimates period.
The new tax will target companies that shift profits offshore through arrangements involving related parties:
• that result in less than 80 per cent tax being paid overseas than would otherwise have been paid in Australia;
• where it is reasonable to conclude that the arrangement is designed to secure a tax reduction; and
• that do not have sufficient economic substance.
Where such arrangements are entered into, this measure will apply a 40 per cent tax on diverted profits to ensure that large multinationals are paying sufficient tax in Australia.
This measure will apply to large companies with global revenue of $1 billion or more. Companies with Australian revenue of less than $25 million will be exempt, unless they are artificially booking their revenue offshore.

Tax Integrity Package — better protecting tax whistleblowers

The Government will introduce new arrangements to better protect individuals who disclose information to the Australian Taxation Office (ATO) on tax avoidance behaviour and other tax issues. This measure will take effect from 1 July 2018 and is estimated to have an unquantifiable gain to revenue over the forward estimates period.
Under the new arrangements, individuals, including employees, former employees and advisers, disclosing information to the ATO will be better protected under the law.

Tax Integrity Package — broadening the securitised asset measure

The Government will extend the application of the 2014-15 Budget measure Closing loopholes in the consolidation regime — securitised assets to non-financial institutions with securitisation arrangements. This will ensure that the same treatment applies to liabilities arising from securitisation arrangements within both financial and non-financial institutions.

These liabilities will be disregarded if the relevant securitised asset is not recognised for tax purposes. This change will apply to arrangements that commence on or after 7:30 pm (AEST) on 3 May 2016. Transitional rules will apply to arrangements that commence before this time. The revenue gain from this measure is unquantifiable.
The 2014-15 Budget measure was originally targeted at securitisation arrangements within financial institutions because the distortions in the consolidation tax cost setting rules had been first identified in relation to those institutions. The measure is being broadened as similar distortions also arise for all other entities with securitisation arrangements. This will improve the integrity of the consolidation regime.

Tax Integrity Package — deferred tax liabilities

The Government will amend the consolidation regime's treatment of deferred tax liabilities by removing adjustments relating to deferred tax liabilities from the consolidation entry and exit tax cost-setting rules. This change will apply to joining and leaving events under transactions that commence after the date amending legislation is introduced in Parliament. This measure is estimated to result in an unquantifiable gain to revenue.
Currently there is a commercial/tax mismatch under the consolidation entry and exit tax cost-setting processes for deferred tax liabilities. This gives rise to integrity risks and uncertainty. This measure will more closely align the commercial and tax outcomes, reduce complexity and improve the integrity of the consolidation regime.

Tax Integrity Package — establishing the Tax Avoidance Taskforce

The Government will provide $678.9 million to the Australian Taxation Office (ATO) over the forward estimates period to establish a new Tax Avoidance Taskforce. This will enable the ATO to undertake enhanced compliance activities targeting multinationals, large public and private groups and high wealth individuals.
The Tax Avoidance Taskforce will conduct operations to improve tax compliance in high tax risk sectors. This measure provides the ATO with a 55 per cent increase in funding for compliance programs targeting multinationals and high wealth individuals, with a 43 per cent increase in resources devoted to tackling multinationals (including ramping up to an additional 390 average staffing level per year). These changes will result in better targeted audits and higher collections.
The Government will also ensure the ATO has access to the information it needs by enhancing information sharing between the ATO and the Australian Securities and Investments Commission. This supports the operation of the Taskforce through improved risk analysis and detection.

This measure is estimated to have a gain to revenue of $3.7 billion over the forward estimates period. The underlying cash receipts impact of this measure is $2.2 billion over the forward estimates period.

Tax Integrity Package — implementing the OECD hybrid mismatch arrangement rules

The Government will implement the Organisation for Economic Co-operation and Development's (OECD) rules to eliminate hybrid mismatch arrangements, taking into account the recommendations made by the Board of Taxation in its report on the Australian implementation of the OECD hybrid mismatch rules. The Government has asked the Board of Taxation to undertake further work on how best to implement these rules in relation to regulatory capital as part of this measure.
This measure is aimed at multinational corporations that exploit differences in the tax treatment of an entity or instrument under the laws of two or more tax jurisdictions. This measure targets instances where tax is either deferred or not paid at all. It will apply broadly to related parties, members of a control group and structured arrangements.
This measure will apply from the later of 1 January 2018 or six months following the date of Royal Assent of the enabling legislation and is estimated to have an unquantifiable gain to revenue over the forward estimates period.

Tax Integrity Package — increasing administrative penalties for significant global entities

The Government will increase administrative penalties imposed on companies with global revenue of $1 billion or more who fail to adhere to tax disclosure obligations. This measure will apply from 1 July 2017 and is estimated to have an unquantifiable gain to revenue over the forward estimates period.

Penalties relating to the lodgement of tax documents to the Australian Taxation Office (ATO) will be increased by a factor of 100. This will raise the maximum penalty from $4,500 to $450,000, which will help to ensure that multinational companies do not opt out of their reporting obligations.
Penalties relating to making statements to the ATO will be doubled, to increase the penalties imposed on multinational companies that are being reckless or careless in their tax affairs.

Tax Integrity Package — strengthening transfer pricing rules

This measure tackles transfer mispricing by multinationals.
The Government is amending Australia's transfer pricing law to give effect to the 2015 Organisation for Economic Co-operation and Development (OECD) transfer pricing recommendations. The amendment will apply from 1 July 2016.
Australia's transfer pricing legislation currently specifies that it is to be interpreted so as to best achieve consistency with the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations as last updated in 2010. On 5 October 2015, the OECD released the report Aligning Transfer Pricing Outcomes with Value Creation to update the Guidelines.
The changes to the 2010 OECD Guidelines enhance guidance on intellectual property and hard-to-value-intangibles, and ensure that transfer pricing analysis reflects the economic substance of the transaction. Applying these changes to Australia's transfer pricing rules will keep them in line with international best practice so that profits made in Australia are properly taxed in Australia.
This measure is estimated to have an unquantifiable gain to revenue over the forward estimates period.

Ten Year Enterprise Tax Plan — better targeting the deductible liabilities measure

The Government will modify how the 2013-14 Budget measure Closing loopholes in the consolidation regime — deductible liabilities of a joining entity addresses the double counting of deductible liabilities under the consolidation regime. The modifications mean that a consolidated group that acquires a subsidiary with deductible liabilities will no longer include those liabilities in the consolidation entry tax cost setting process, thus removing a double tax benefit. This measure also defers the start date from 14 May 2013 to 1 July 2016.

The elimination of the double tax benefit will result in increased revenue. However, modifying the 2013-14 Budget measure results in a cost to revenue of $270.0 million over the forward estimates period, reflecting both the deferred start date and a timing difference for when the double tax benefit is removed under the modified approach. Whereas the 2013-14 Budget measure required the consolidated group to recognise an additional income amount over the first four years after acquiring an entity with deductible liabilities, the modified approach of denying an increase in the consolidated entry cost setting process will result in lower depreciation allowances over a longer period of time and hence a delay to the revenue gain from eliminating the double tax benefit. Over time (and after accounting for the deferred start date), the revenue gain from the two approaches will be broadly the same and hence the cost over the forward estimates period from the modification largely reflects a timing difference only.
This measure removes inequitable consequences for taxpayers identified during consultation on the 2013-14 Budget measure. If introduced as originally announced, the measure would have applied even where no double tax benefit arose in practice. It will also provide a less complex approach than the original 2013-14 Budget measure.

The deferred start date will address difficulties caused by the implementation delay for taxpayers who have undertaken commercial transactions based on the current law.

Ten Year Enterprise Tax Plan — business simplification — taxation of financial arrangements — regulation reform

The Government will reform the taxation of financial arrangements (TOFA) rules to reduce the scope, decrease compliance costs and increase certainty through the redesign of the TOFA framework. The new simplified rules will apply to income years on or after 1 January 2018, and are estimated to have an unquantifiable impact on revenue over the forward estimates period.

The current TOFA rules calculate the amount and timing of gains and losses on financial arrangements, and were designed for the largest taxpayers. However, in practice, these rules apply to a significant group of smaller taxpayers and TOFA has not delivered the envisaged compliance cost savings and simplification benefits to these taxpayers.

The measure contains four key components:

• A 'closer link to accounting' which will strengthen and simplify the existing link between tax and accounting in the TOFA rules.

• Simplified accruals and realisation rules, which will significantly reduce the number of taxpayers in the TOFA rules, will reduce the arrangements where spreading of gains and losses is required under TOFA and simplify the required calculations.

• A new tax hedging regime which is easier to access, encompasses more types of risk management arrangements (including risk management of a portfolio of assets) and removes the direct link to financial accounting.

• Simplified rules for the taxation of gains and losses on foreign currency to preserve the current tax outcomes but streamline the legislation.

The new framework will remove the majority of taxpayers from the TOFA rules, result in lower compliance costs, provide simpler rules and more certainty and maintains the objectives of reducing costs and minimising distortions in decision making.

Ten Year Enterprise Tax Plan — enhancing access to asset backed financing

The Government will remove key barriers to the use of asset backed financing arrangements, which are supported by assets, such as deferred payment arrangements and hire purchase arrangements. The Government will clarify the tax treatment of asset backed financing arrangements and ensure that they are treated in the same way as financing arrangements based on interest bearing loans or investments. This measure will improve access to more diverse sources of capital in Australia. Asset backed financing arrangements can be used to support infrastructure investment as they are well suited to large and longer-term projects.

This measure will apply from 1 July 2018 and is estimated to have an unquantifiable cost to revenue over the forward estimates period.

Ten Year Enterprise Tax Plan — implementing a new suite of collective investment vehicles

The Government will introduce a new tax and regulatory framework for two new types of collective investment vehicles (CIVs). CIVs allow investors to pool their funds and have them managed by a professional funds manager. A corporate CIV will be introduced for income years starting on or after 1 July 2017. This will be followed by a limited partnership CIV for income years starting on or after 1 July 2018.

This measure is estimated to have an unquantifiable cost to tax revenue over the forward estimates period. To implement this measure, the Government will provide $2.0 million to the Australian Taxation Office and $7.8 million to the Australian Securities and Investments Commission, which will be partially offset by $0.7 million in registration fees.

These reforms will enhance the international competitiveness of the Australian managed funds industry by allowing fund managers to offer investment products using vehicles that are commonly in use overseas. This will also maximise the effectiveness of related Government initiatives aimed at increasing access to overseas markets, including the Asia Region Funds Passport.

The new CIVs will be required to meet similar eligibility criteria as managed investment trusts, such as being widely held and engaging in primarily passive investment. Investors in these new CIVs will generally be taxed as if they had invested directly.

Ten Year Enterprise Tax Plan — increase the unincorporated small business tax discount

The Government will increase the tax discount for unincorporated small businesses incrementally over 10 years from 5 per cent to 16 per cent. The tax discount will increase to 8 per cent on 1 July 2016, remain constant at 8 per cent for eight years, then increase to 10 per cent in 2024-25, 13 per cent in 2025-26 and reach a new permanent discount of 16 per cent in 2026-27. This will coincide with staggered cuts in the corporate tax rate to 25 per cent (see the related measure Ten Year Enterprise Tax Plan — reducing the company tax rate to 25 per cent). The current cap of $1,000 per individual for each income year will be retained.
The tax discount applies to the income tax payable on the business income received from an unincorporated small business entity. Access to the discount will be extended to individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than $5.0 million.

Ten Year Enterprise Tax Plan — targeted amendments to Division 7A

The Government will make targeted amendments to improve the operation and administration of Division 7A of the Income Tax Assessment Act 1936 (an integrity rule for closely held groups).
These changes will provide clearer rules for taxpayers and assist in easing their compliance burden while maintaining the overall integrity and policy intent of Division 7A. It includes a self-correction mechanism for inadvertent breaches of Division 7A, appropriate safe-harbour rules to provide certainty, simplified Division 7A loan arrangements and a number of technical adjustments to improve the operation of Division 7A and provide increased certainty for taxpayers.
These changes draw on a number of recommendations from the Board of Taxation's Post-implementation Review into Division 7A and will apply from 1 July 2018.

Ten Year Enterprise Tax Plan — targeted personal income tax relief

The Government will increase the 32.5 per cent personal income tax threshold from $80,000 to $87,000 from 1 July 2016.
This measure will reduce the marginal rate of tax on incomes between $80,000 and $87,000 from 37 per cent to 32.5 per cent, preventing around 500,000 taxpayers facing the 37 per cent marginal tax rate. This will ensure that the average full-time wage earner will not move into the second highest tax bracket in the next three years. In the absence of this action, they would move into the second highest tax bracket in 2016-17.
This measure has a cost to revenue of $4.0 billion over the forward estimates period.

Please be advised that the information in this summary is sourced from Budget Paper No 2 and also the Tax reform roadmap located at www.budget.gov.au.

If you wish to discuss any matters, please contact this office.

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