2019 FEDERAL BUDGET REPORT

BDO

INTRODUCTION

'SETTING THE COURSE FOR A BETTER AND BRIGHTER AUSTRALIA' – JOSH FRYDENBERG

The 2019 Federal Budget was very much a predictable pre-election budget, with the Government battening down the hatches for what they hope will be a smooth sail directly towards an election in May.

It was clearly a 'welcome aboard' budget with a myriad of spending measures, and the Treasurer aiming to steady the boat for the population. The promised investments in transport and infrastructure, as well as spending in education, healthcare, and support for other parts of the community, will hopefully provide a fair wind, with a future flow-through to the economy.

The personal income tax cuts will be welcome 'wind in the sails' for individuals. However, while the low and middle income tax offset will be available for the current year, the most significant of the cuts are a long way off and only coming into full effect after five years, so it's not likely to be full steam ahead any time soon.

There is likely to be significant debate about whether the projected budget surpluses for the next four years are sufficient to insulate Australia from any turmoil in the world economy.

Finally, while there was nothing in the budget to scare those in the business community doing the right thing, it is clearly a case of stormy waters for those businesses that don't. A warning shot has been fired to ensure recalcitrant businesses change tack and run a tighter ship. This is a welcome measure to ensure fairness for those who sail true.

Overall the 2019 Federal Budget appears intended to minimise the Government's cross section on the electoral radar, while spending money where it is likely to be seen to be beneficial to the community. It remains to be seen, in the words of two famous Royal Navy toasts, whether this budget will get 'fair winds and a following sea', or 'bloody war and a sickly season'.

INDIVIDUALS

PERSONAL INCOME TAX CUTS

In a pre-election sweetener, the Coalition has built further on their Personal Income Tax Plan measures originally released in the 2018-19 Budget. The Government's multi-faceted approach aims to reduce cost of living pressures and simplify the individual income tax system for everyday Australians.

NON-REFUNDABLE LOW AND MIDDLE INCOME TAX OFFSET (LMITO)

The Government's first measure seeks to reduce tax on individuals by increasing the LMITO over the next four income years as follows:

TAXABLE INCOME BAND (TI)	LMITO – CURRENTLY PROPOSED	LMITO – CURRENTLY LEGISLATED
Nil - $37,000	$255	$200
$37,001 - $48,000	$255 + ([TI - $37,000] x 7.5%)	$200 + ([TI - $37,000] x 3%)
$48,001 - $90,000	$1,080	$530
$90,001 - $125,999	$1,080 – ([T1 - $90,000] x 3.0%)	$530 – ([T1 - $90,000] x 1.5%)
$126,000 plus	Nil	Nil

Under the Government's proposal, taxpayers can expect to receive their first LMITO following lodgement of their 2019 Income Tax Return. Going forward, this measure seeks to provide taxpayers with a benefit as they lodge their Income Tax Returns from 1 July 2019.

TAX BRACKETS GET CUT

In addition, the Government intends to reduce the current 32.5% marginal income tax rate to 30% from 1 July 2024. In conjunction with the measures announced by the Government during the 2018-19 Budget, these measures seek to align the middle income tax bracket for individuals with corporate income tax rates, thereby improving incentives for working Australians.

The cumulative impact of these measures is expected to result in the following:

2017/18 THRESHOLDS	2017/18 TAX RATES	2024/25 TAX RATES	2024/25 THRESHOLDS
Nil - $18,200	0%	0%	Nil - $18,200
$18,201 - $37,000	19%	19%	$18,201 - $45,000
$37,001 - $90,000	32.5%	30%	$45,001 - $200,000
$90,001 - $180,000	37%	37% bracket removed	
$180,000 plus	45%	45%	$200,001 plus

INDIVIDUALS

PERSONAL INCOME TAX CUTS *CONTINUED*

LOW INCOME TAX OFFSET (LITO)

The Government's proposed changes to the existing tax brackets will also operate to give low income earners an increased $55 maximum benefit from the previously planned offset. This is expected to take effect from 1 July 2022.

Further, under the Government's initiative, the LITO will be recovered at a lower rate of 5 cents per dollar for taxable incomes between $37,500 and $45,000 and an additional 1.5 cents per dollar from taxable incomes between $45,001 and $66,667. This was originally intended to be recovered at a rate of 6.5 cents per dollar for the taxable income bracket between $37,000 and $41,000 and 1.5 cents per dollar for the $41,001-$66,667 bracket.

2018-19 to 2021-2022		2022-23 ONWARDS	
Taxable Income (TI)	**LITO**	**Taxable Income (TI)**	**Updated LITO**
$0-$37,000	$445	$0-$37,500	$700
$37,001-$66,666	$445–([TI-$37,000] x1.5%)	$37,501-$45,000	$700-([TI-$37,500] x5%])
$66,667+	$Nil	$45,001-$66,667	$325-([TI-$45,000] x1.5%])
		$66,667+	$Nil

MEDICARE LEVY INCREASE

Finally, the Government has announced proposed increases to the low-income thresholds for the purposes of the Medicare Levy. The proposed changes are as follows:

	CURRENT THRESHOLD (2017/18)	PROPOSED THRESHOLD (2018/19)
Singles	$21,980	$22,398
Seniors & Pensioners (single)	$34,758	$35,418
Families	$37,089	$37,794
Seniors & Pensioners (family)	$48,385	$49,304
Dependant children	$3,406 per child/student	$3,471 per child/student

INDIVIDUALS

PERSONAL INCOME TAX CUTS *CONTINUED*

WHAT WILL IT LOOK LIKE GOING FORWARD?

With all these proposed changes in the works, here's a snapshot of individual income tax rates going forward under the Government's current proposals:

TAX RATE*	2017-18	2018-19 to 2021-22	2022-23 to 2023-24	2024 to 2025
0%	Nil - $18,200	Nil - $18,200	Nil - $18,200	Nil - $18,200
19%	$18,201 - $37,000	$18,201 - $37,000	$18,201 - $45,000	$18,201 - $45,000
30%				$45,001 - $200,000
32.5%	$37,001 - $87,000	$37,001 - $90,000^	$45,001 - $120,000	
37%	$87,001 - $180,000	$90,001 - $180,000	$120,001 - $180,000	
45%	$180,000 plus	$180,000 plus	$180,000 plus	$200,000 plus
LMITO	Nil	Up to $1,080		
LITO	Up to $445	Up to $445	Up to $700	

**Medicare Levy excluded*

^Announced as part of the Government's 2018-19 Budget.

BDO COMMENT

Whilst the Government's pre-election sweetener aims to radically simplify Australia's income tax system for individual taxpayers, the reality is that Australian taxpayers will need to endure another two election cycles before the benefits of this simplified system are realised. Taxpayers will also need to endure years of confusion around their relevant income tax bracket, and entitlements to the LMITO or LITO before any real clarity is obtained.

We look forward to seeing if any tax cut clarity is actually legislated.

INDIVIDUALS

SUPERANNUATION CONTRIBUTION FLEXIBILITY FOR OLDER AUSTRALIANS

Superannuation contribution measures seek to enable older individuals to make various voluntary superannuation contributions without having to meet some of the current strict prerequisites.

The current rules provide that anyone aged over 65 can't make a voluntary personal superannuation contribution unless they satisfy the work test—that is, they must have worked a minimum of 40 hours over a 30-day period in the year. Currently, it's also the case that anyone over the age of 70 can't receive a contribution made by someone else on their behalf, such as a spouse contribution. And the existing rules also prohibit anyone over age 65 from making the equivalent of up to three years of the annual non-concessional contribution cap at any time in a three-year period. There's also uncertainty about the way that superannuation funds calculate their tax-free income and they are obliged to obtain an actuarial certificate in certain circumstances.

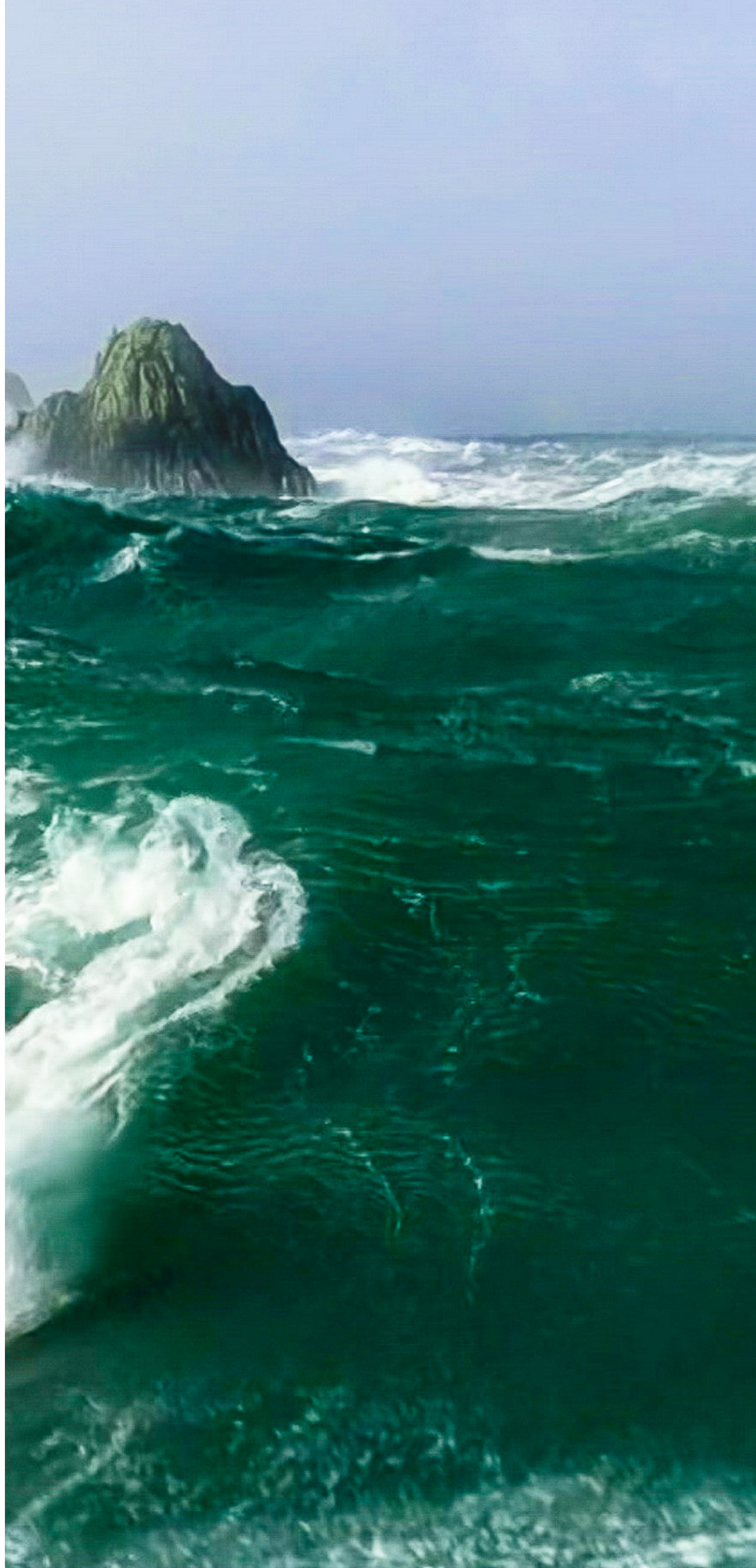
The changes announced in this Budget will allow:

- People aged 65 and 66 to make a voluntary contribution in respect of themselves without having to satisfy the work test
- Spouse contributions in respect of anyone up to age 74
- The three-year non-concessional contribution cap bring-forward strategy to be used by those aged 65 and 66.

The measures will also relax the obligation for superannuation funds to obtain an actuarial certificate.

BDO COMMENT

These measures will have an obvious positive impact on older individuals who want to make additional superannuation contributions, perhaps at a time of life when they can afford it. They broadly align with the eventual extension of the eligibility age for the Age Pension to 67, and also reflect the consequences of an ageing society. Individuals and their advisers should contemplate the ability to avail themselves of making additional contributions into the tax-concessional superannuation environment in appropriate circumstances, when and if these proposals become law.



SMALL BUSINESS

HIGHER INSTANT ASSET WRITE-OFF FOR SMALL AND MEDIUM BUSINESS EXTENDED FOR 12 MONTHS. YET AGAIN.

The Government will extend the current instant asset write-off for Small Business Entities (SBEs) until 30 June 2020 and increase the claimable threshold from $25,000 to $30,000 per asset.

Eligibility for the concession has also increased to medium-sized entity tax payers with an aggregated annual turnover of greater than $10 million but less than $50 million, however, only for new assets acquired before 1 July 2020.

These measures apply from Budget night. The Government previously announced an increase of the threshold from $20,000 to $25,000, and an extension for an additional 12 months to 30 June 2020. However, the Budget announcement, when legislated, will override these previously announced measures.

SIMPLIFIED DEPRECIATION POOLS EXTENDED

This concession extends to allow small businesses to place assets which cannot be immediately deducted into the small business simplified depreciation pool. The small business simplified depreciation pool allows assets to be depreciated at 15% in the first year and 30% each income year thereafter. The pool balance can also be immediately deducted if it is less than the applicable instant asset write-off threshold during the income year.

The Government has not however opened the small business simplified depreciation pools to medium-sized businesses, and will instead continue to depreciate assets costing $30,000 or more, in accordance with existing depreciating asset provisions of the tax law.

'LOCK OUT' LAWS CONTINUE TO BE SUSPENDED

The legislation restricts a SBE from re-entering the simplified depreciation regime for five years where they have opted out. However, the Government previously set aside these rules in conjunction with the instant asset write-off to allow universal access to the increased concessions for SBEs while they are available, and will extend their suspension of the 'lock out' laws until 30 June 2020.

BDO COMMENT

The Government obviously sees value in the annual re-announcement of this concession. Despite it being more accessible than before, providing taxpayers with certainty around capital expenditure rather than year-on-year extensions would be preferable. The extension of the instant asset write-offs to medium-sized businesses, which we anticipate will be those companies presently defined as 'base rate entities', will be welcome news for any company evaluating capital expenditure programs.

SMALL BUSINESS

DIVISION 7A CHANGES DEFERRED

The Budget in 2016 featured promises by the Federal Government to improve the operation and administration of Division 7A of the Income Tax Assessment Act 1936 ('Division 7A'). Three years and two pushed-back deadlines later and the Government is no closer to coming to a decision regarding these changes.

In this Budget, the Government announced that it has deferred the 2018-19 measure to clarify the operation of Division 7A from 1 July 2019 to 1 July 2020.

The Government released a consultation paper in October 2018 seeking feedback on their proposed amendments, the most controversial of which were the proposed changes to bring the quarantined Division 7A loans & Unpaid Present Entitlements (UPEs) into the tax net. The Government has acknowledged that the feedback they have received is enough to warrant further consideration.

BDO COMMENT

Ongoing delay in progressing the simplification of Division 7A means that uncertainty is increased for private companies and their associated entities. Due to the complexities of the existing law, and the impact on cash flow and operations, private groups ideally need certainty sooner rather than later so as to be able to properly identify and plan for the impact of the Division 7A changes.

Although the uncertainty is quite frustrating, there is a positive in that we now have an additional year to prepare for any changes, and in particular the proposed changes to the previously quarantined Division 7A loans and UPEs.

SMALL BUSINESS

SUPPORTING SMALL BUSINESSES INVOLVED IN TAX DISPUTES

The Government confirmed in this Budget that it will support small businesses involved in disputes with the Australian Taxation Office (ATO) by providing funding to help small businesses resolve their tax disputes.

These measures were previously announced by the Government prior to the package commencement date of 1 March 2019.

SMALL BUSINESS CONCIERGE SERVICE

A Small Business Concierge Service will be established within the Australian Small Business and Family Enterprise Ombudsman's office to support small businesses without legal representation by providing advice regarding the Administrative Appeals Tribunal (AAT) process.

The services to be provided will include the following:

- Prior to applying to the AAT, one hour of legal advice for unrepresented small businesses upon payment of $100
- After applying to the AAT, unrepresented small businesses may receive another hour of free legal advice.

A dedicated Small Business Taxation Division will also be created within the AAT to provide the following support services:

- A dedicated case manager throughout the process
- A lower standard application fee of $500
- Fast-tracked decisions made within 28 days of the hearing.

It is expected that the AAT hearings will be conducted without legal advisers. However, where the ATO engages external legal counsel and the small business does not have legal representation, the ATO will cover the cost of providing the small business with equivalent legal representation.

If the AAT decision is appealed to the Federal Court, the ATO will pay the small business's reasonable costs.

BDO COMMENT

Whilst these measures are aimed at 'creating a level playing field', BDO questions how much support can realistically be provided in one to two hours of legal advice, particularly given the level of complexity underlying many tax disputes. Although the provision of equivalent legal representation during an AAT hearing is a fairer measure for small businesses, there remains the possibility that the ATO may elect to run hearings without legal counsel instead as the 'general rule'. This would mean that the small business can still be under a 'resource' disadvantage. BDO considers that the provision of additional hours of legal advice would better assist small businesses to resolve tax disputes in a cost-effective manner.

ANTI AVOIDANCE

TACKLING TAX AVOIDANCE

The Government has announced $1 billion over four years from 2019-20 to the ATO to extend the operation of the Tax Avoidance Taskforce.

The Taskforce undertakes compliance activities targeting multinationals, large public and private groups, trusts and high wealth individuals. This measure is intended to allow the Taskforce to expand these activities, including increasing its scrutiny of specialist tax advisers and intermediaries that promote tax avoidance schemes and strategies.

BDO COMMENT

The funding should give the Taskforce the resources to tackle tax avoidance. Given the return on investment that the Government sees in these programs – they collect around $3 for every dollar expended – we expect the ATO to continue to come looking for further tax revenue.

ANTI AVOIDANCE

EXTRA FUNDING TO ATO FOR DEBT COLLECTION

The Government has announced in this Budget that it will provide further resources for the ATO with the intention of improving their ability to recover unpaid tax and superannuation.

The measures are deliberately targeted at larger businesses and high wealth individuals. The Government specifically states that these resources will not extend to small business tax and superannuation liabilities.

ENSURING BIG BUSINESSES PAY THEIR FAIR SHARE

By setting aside an additional $42.1 million over the next four years, the Government has increased their focus on debt collection. In doing so, larger businesses and wealthier individuals will be held accountable to pay their fair share of tax and superannuation.

This budget measure is expected to result in a gain of $103.6 million and increased GST payments to the States and Territories of $41.8 million.

BDO COMMENT

Combined with the additional funding for the Tax Avoidance Taskforce announced in this Budget, we interpret this measure as an investment in collecting all additional taxes assessed as a result of the Taskforce's activities. Taxpayers with outstanding tax debts will need to find a way to pay. Those who meet their obligations on time will most likely welcome this move as a levelling of the playing field.

ANTI AVOIDANCE

DISRUPTION OF BLACK ECONOMY TO CONTINUE

The Government will expand its 2018-19 Black Economy Budget measures, announcing in this Budget that it will make ABN holders more accountable to the ATO.

From 1 July 2021, ABN holders will be stripped of their ABN if they do not meet their income tax lodgement requirements. Further, they will be required to annually confirm the accuracy of their details on the Australian Business Register from 1 July 2022, at the time of lodging their income tax return.

Under the current law, ABN holders can continue to hold their ABN regardless of whether or not their income tax obligations are up to date.

This measure is estimated to contribute $22.2 million to the Budget over the forward estimate, although this is only expected to translate to cash collections of $4.7 million over the same time frame.

BDO COMMENT

BDO welcomes the implementation of policy that does not provide an additional burden on taxpayers who currently comply with the law. The Black Economy Taskforce report identified that the ABN system formed a basis for taxation avoidance, including fraudulent invoicing. Strengthening the controls for continued eligibility for ABNs should go some way toward curbing ABN abuse.

MISCELLANEOUS

AUSTRALIAN TRADE AND INVESTMENT COMMISSION

With Australia's small businesses claiming increasing grant entitlements under the Export Market Development Grants (EMDG) scheme, the Government has finally announced a $60 million increase in funding over the next three years. This will increase the current $130 million funding cap by adding a further $20 million per year from 2019-20 to 2021-22.

The EMDG scheme helps support Australian businesses export through providing financial assistance to current and aspiring exporters in the form of a 50% rebate of certain international marketing expenditure items.

Companies can receive a grant of up to $150,000 per year with the first $40,000 paid upon grant assessment and the remainder payable at the end of the financial year depending on whether total grant entitlements exceed the Government imposed funding cap. In 2017-18 the payout factor was less than 30% and is likely to be even less in 2018-19.

BDO COMMENT

The Government is taking a step in the right direction, though it is too little, too late. A significant number of Australian businesses currently accessing the EMDG scheme do not receive the 50% reimbursement on eligible promotional costs where their grant entitlements exceed $40,000. The additional funding of $60 million over three years (an estimated increase in benefit of $5,000 per claim) will not come close to providing the required funding for the EMDG scheme in order for claimants to receive the full entitlement, particularly in light of the reduced value of the Australian dollar, which makes our exporters more internationally competitive, but at the same time international marketing becomes more expensive in Australian dollar terms.

The EMDG scheme has proven popular with over 3,500 businesses accessing the EMDG scheme, employing almost 66,500 Australians, and generating exports of $3.8 billion in the 2018 financial year. However, despite the increase in funding, BDO is disappointed that the Government did not take the opportunity to fully fund the scheme and abolish the scheme cap. Given the billions of dollars of unfocussed tax cuts proposed in the Budget, BDO considers that a greater priority should be shown towards providing certainty to thousands of internationally competitive fledgling businesses committed to exporting Australian goods, services and technology.

MISCELLANEOUS

FURTHER $1.35 BILLION CUT TO THE R&D TAX INCENTIVE

Although proposed amendments to the R&D Tax Incentive from 1 July 2018 have been put on hold, the Government has still significantly revised down the expected cost of the programme over the forward estimates. This is despite no new announcements in the 2019-20 Budget.

R&D - 2018-19 BUDGET PROJECTIONS ($M)				
2018-19	**2019-20**	**2020-21**	**2021-22**	**TOTAL**
2,373	2,466	2,566	2,689	10,094
R&D - 2019-20 BUDGET PROJECTIONS ($M)				
2018-19	**2019-20**	**2020-21**	**2021-22**	**TOTAL**
1,967	2,237	2,249	2,292	8,745
CHANGE IN PROJECTIONS FROM 2018-19 BUDGET TO 2019-20 BUDGET ($M)				
2018-19	**2019-20**	**2020-21**	**2021-22**	**TOTAL**
-406	-229	-317	-397	-1,349

The Government has stated that the reduction reflects a one-off adjustment recognising lower than estimated claims for prior years.

BDO COMMENT

We consider that the revised forward estimates are a result of activity by the ATO and AusIndustry over the past 12-18 months, which has discouraged companies from accessing the R&D Tax Incentive. This is reflected in both a reduction in the number of claimants and size of claims. It also brings into question the Government's argument that legislative change was required due to the cost of the programme blowing out.

It is unfortunate that such a vital incentive to assist technology development in the corporate sector has been adversely impacted by confusing guidance issued by the ATO and AusIndustry, coupled with an aggressive approach to programme administration that discourages companies on the forefront of new technology in Australia. At a time when Australia should be increasing corporate sector investment in R&D, Australia continues to languish compared to other developed and developing economies in terms of business investment in R&D. Whilst the Government purports to support innovation and business activity, the track record of programme administration brings that into question.

In a backdrop of other countries increasing or introducing significantly more favourable R&D tax regimes, it is not a surprise that Australian companies will continue to look offshore to undertake R&D activity.

MISCELLANEOUS

STRENGTHENING ISRAELI BUSINESS TIES

On 28 March 2019, the Australian Government signed its new Double Tax Agreement with Israel. The treaty will work to generate mutually beneficial investment opportunities and generate bilateral trade for both countries.

The new treaty includes the following key features:

- Reduced withholding tax rates to bring rates in line with other tax treaty countries
- Provisions to reduce potential double taxation on employment income
- Integrity measures regarding the taxation of business profits, including G20 Base Erosion and Profit Shifting (BEPS) measures
- Providing a legal basis for the exchange of taxpayer information between tax officials in the respective countries.

BDO COMMENT

The introduction of the Double Tax Treaty comes at a time when the Australia-Israel defence industry is generating over $1 billion per year of trade between the countries. It is a sensible step forward to encourage further trade, along with the recent Government announcement of the opening of trade and defence offices in West Jerusalem—all pointing to a strengthening of Australia's economic ties with Israel.

MISCELLANEOUS

EXPANDING LIST OF EXCHANGE OF INFORMATION COUNTRIES

The Government has announced the expansion of the Exchange of Information (EOI) list allowing residents in listed countries to gain access to the reduced rate withholding tax rate of 15% rather than the default 30%, in respect of qualifying distributions from Australian Managed Investment Trusts (MIT).

The current Australian MIT regime provides for the reduced withholding tax rate for 114 listed countries which have established a legal relationship with Australia enabling them to share taxpayer information.

This expansion will add Curacao, Lebanon, Nauru, Pakistan, Panama, Peru, Qatar and the United Arab Emirates to the list and will be effective from 1 January 2020.

BDO COMMENT

With the addition of eight further countries to the EOI list, this measure makes the MIT regime more attractive to a number of new international investors whilst also reinforcing the Government's commitment to international tax transparency.

MISCELLANEOUS

LUXURY CAR TAX RELIEF FOR FARMERS AND TOURISM OPERATORS

The Government announced it will provide increased luxury car tax refunds to primary producers and tourism operators on vehicles purchased on or after 1 July 2019. Eligible primary producers and tourism operators will be able to apply for a refund of luxury car tax of up to $10,000, more than tripling the current maximum refund of $3,000.

The eligibility criteria and types of vehicles eligible for the refund will remain unchanged. The definition of primary producers and tourism operators has also not changed.

To determine relief eligibility, primary producers are defined as those carrying on a primary production business, including a business of:

- Cultivating or propagating plants, fungi or their products or parts
- Maintaining animals for the purpose of selling them or their bodily produce
- Manufacturing dairy produce from raw material that you produced
- Felling trees in a plantation or forest.

Tourism operators can claim the refund on vehicles that will be used solely for business purposes, where the principle purpose of the business is carrying tourists for tourist activities. A tourist activity includes an activity that is a leisure activity of a touring nature and does not involve transporting passengers by taxi or limousine for fares or by a hire car service.

BDO COMMENT

While BDO considers the increased refunds for primary producers and tourism operators as positive, the Government has ignored calls for the abolition of luxury car tax. When luxury car tax was introduced in 1999 it was viewed as an attempt to protect Australia's car manufacturing industry. Since this industry has ceased to exist, the rationale for continuing to impose luxury car tax is questionable.

If luxury car tax is to remain for the foreseeable future (which looks likely), the thresholds should be increased to better reflect the value of luxury vehicles, and to prevent the tax from impacting families purchasing SUVs, electric vehicles and the like.

MISCELLANEOUS

SUPERANNUATION FUNDS – ADMINISTRATION AND MERGING FUNDS RELIEF

Two measures were announced in relation to Superannuation Fund administration. The first measure relates to providing tax relief to merging superannuation funds. The second measure relates to streamlining of various administrative processes for superannuation funds.

Superannuation funds have been enjoying tax relief on mergers since December 2008. This relief has allowed superannuation funds to defer taxation consequences on gains and losses from revenue and capital assets, that would otherwise arise when transferring to a new merged fund.

This tax relief is seen as an incentive to encourage consolidation in the superannuation industry. Originally introduced as a short-term measure, this tax relief has been extended on various occasions in the past. This new measure will ensure that the tax relief is now available permanently.

Further, the Government has announced administration relief to commence from 1 July 2020, as follows:

- Superannuation Funds with interests in both the accumulation and retirement phases during an income year will be able to choose their preferred method of calculating exempt current pension income ('ECPI')
- When calculating ECPI using the proportionate method, where all members of the fund are fully in retirement phase for the full income year, superannuation funds will no longer be required to obtain an actuarial certificate (being currently a redundant requirement).

BDO COMMENT

The tax relief for merging superannuation funds is currently due to cease on 1 July 2020. It is a welcome relief to see a permanent measure, rather than the continued 'band-aid' approach that has been applied in recent years. This will add certainty to estimated tax outcomes for superannuation funds planning to undertake mergers in future financial years. It is also good to see the Government trying to reduce red tape by announcing administration relief measures and tidying up redundant provisions.

MISCELLANEOUS

TAX INTEGRITY – CLARIFYING THE OPERATION OF THE HYBRID MISMATCH RULES

The Government has announced that it will make a number of minor amendments to Australia's hybrid mismatch rules to clarify their operation. However, these are not expected to have a great impact on revenue over the forward estimates period.

HYBRID MISMATCH RULES

The Australian Hybrid Mismatch legislation came to force in August 2018 and the rules it introduced aim to prevent multinational companies from gaining an unfair competitive advantage by avoiding income tax or obtaining double tax benefits through hybrid mismatch arrangements. These arrangements exploit differences in the tax treatment of an entity or instrument under the laws of two or more tax jurisdictions.

The purpose and content of the current rule is not expected to change. Rather, the Government is proposing to clarify how the rules apply to certain groups and trusts, specifically limiting the meaning of foreign tax, and specifying that the integrity rule can apply where other provisions have applied to provide greater certainty to taxpayers in complying with the rules.

This measure will apply to income years commencing on or after 1 January 2019, with the exception of the amendments to the integrity rule.

BDO COMMENT

Clarifying the operations of these rules will bring a very much welcomed increase in certainty with respect to the practical application of these complicated measures. This will be particularly important as the Tax Avoidance Taskforce increases its activities in connection with multinationals following the additional funding announced in this Budget. These activities will no doubt highlight the real cost of uncertainty in the hybrid mismatch rules.

MISCELLANEOUS

SINGLE TOUCH PAYROLL EXPANSION

The Government has announced that over four years, from 1 July 2019, the Budget will provide $82.4 million to support the expansion of data collected through Single Touch Payroll (STP) by the ATO and enhance data matching capabilities for Commonwealth agencies.

STP requires employers to electronically report salary and wages information (including superannuation data and PAYG withholding amounts) to the ATO in real time at the time of each pay run. The purpose of STP is to improve data matching completed between employer, employee and superannuation funds. Originally introduced to apply to businesses with a headcount of 20 employees or more, from 1 July 2019 STP will be mandatory for all employers (deferrals may be available in limited situations).

Some of the measures announced in the Budget will fund the reporting of income details to the Department of Human Services for recipients of income support. This is expected to reduce the risk that an income support recipient also in receipt of employment income will end up with a requirement to repay overpaid income support payments.

The balance of the funding goes toward supporting the expansion of data collected through STP so as to reduce the requirement some employers may have to report information to multiple Government agencies.

BDO COMMENT

Although this measure increases funding to reduce compliance costs and increase data matching for STP reporting, BDO questions whether the focus should be on assisting small business with implementing STP ahead of the looming deadline.

Additionally, it is our view that the data collected under the STP system will be used by the ATO to review compliance with employment tax obligations—in particular superannuation guarantee compliance.

MISCELLANEOUS

BUDGET EXPENDITURE

With an election looming, it was no surprise that the Budget included big ticket expenditure items. The key expenditure items are detailed below.

AUSTRALIAN SCHOOLS

Funding for Australian schools will increase 63% by 2029 to $32.4 billion. The average Commonwealth funding per student increases from $3,755 in 2014 to $5,097 in 2019. An additional $30.2 million is also provided to equip schools with upgrades to libraries, play equipment and classrooms. A record $17.7 billion is also extended to the university sector to building Australia's higher education system.

HEALTH

Improving Australia's health care system was a significant focus of the Treasurer's speech. Total health spending is set to increase from $81.8 billion in 2019-20 to $89.5 billion in 2022-23. Taxpayers should be delighted to hear that out-of-pocket expenses are set to reduce. The Government has set aside $199 million to increase patient rebates for diagnostic imaging items and a further $32.6 million to reduce the cost of services for Magnetic Resonance Imaging (MRI).

A further $100 million will be provided to fund a comprehensive children's cancer centre at Sydney Children's Hospital and $60 million to support the James Cook University Tropical Enterprise Centre in Queensland. $331 million for new and amended listings on the Pharmaceutical Benefits Scheme (PBS), including life-changing medicines to treat bladder, kidney, lung and skin cancer, will also be welcomed.

INFRASTRUCTURE

This Budget highlighted the Government's attention to infrastructure development and improvement. $100 billion over the next decade will be delivered to ensure Australian workers can travel between worksites more quickly and Australian families can get home sooner and safer. New road and rail projects targeting the worst affected areas in the country will be delivered during this period. $2 billion is set aside for a fast rail connection between Melbourne and Geelong. The Government is also funding cases for five more fast rail proposals in New South Wales, Victoria and Queensland.

$4 billion will be dedicated to the Urban Congestion Fund with the objective to ease congestion in Australia's capital cities.

KEEPING AUSTRALIA SAFE

Safety was addressed in the 2019-20 budget. $200 billion will be provided to strengthen the Australian Defence Force and $337 million provided to the Comprehensive Drug Strategy to increase access to drug support programs and equip the Australian Federal Police with extra resources to crack down on outlaw motorcycle gangs and their drug supply chains. $513 million over five years will also be provided to the Australian Federal Police to enhance its community policing services and counter terrorism activities.

BDO COMMENT

BDO is hopeful that a timely delivery of these promises will improve Australians' lifestyles, safety, education and health. The Government has taken a balanced approach to address a broad measure of issues and concerns facing Australians. The significant allocation of funds to address and resolve these key items will no doubt contribute to a better Australia.

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