

## 2016 Budget: Summary

### 2016/17 Federal Budget Highlights

The Federal Treasurer, Mr Scott Morrison, handed down his first Budget (the government's third) at 7.30pm on 3 May 2016. The Budget sets out the government's economic plan to ensure Australia continues to successfully transition from the mining investment boom to a stronger, more diversified new economy. It does this by: (1) introducing a 10-year enterprise tax plan, (2) fixing problems in the tax system, and (3) ensuring that the government lives within its means.

The full Budget papers are available at [www.budget.gov.au](http://www.budget.gov.au) and the Treasury ministers' media releases are available at [ministers.treasury.gov.au](http://ministers.treasury.gov.au).

The tax and superannuation highlights are set out below.

#### Small business

- The small business entity turnover threshold will be increased from \$2m to \$10m from 1 July 2016 for the purposes of accessing certain existing income tax concessions. The increased threshold will not apply for the purposes of accessing existing small business capital gains tax concessions.
- The unincorporated small business tax discount will be increased in phases over 10 years from the current 5% to 16%, first increasing to 8% on 1 July 2016. The current cap of \$1,000 per individual for each income year will be retained.
- GST reporting requirements for small businesses will be simplified from 1 July 2017.

#### Other enterprises

- The company tax rate will be progressively reduced to 25% over 10 years.
- Targeted amendments will be made to improve the operation and administration of integrity rules for closely-held, private groups (in Div 7A of the Income Tax Assessment Act 1936) from 1 July 2018.
- Tax incentives for investing in early-stage innovative companies are to be expanded.
- Funding arrangements to attract more venture capital investment will be expanded.
- A new tax and regulatory framework will be introduced for two new types of collective investment vehicles.

- The proposed measure addressing the double counting of deductible liabilities under the tax consolidation regime announced in the 2013/14 Federal Budget will be modified.
- The treatment of deferred tax liabilities under the tax consolidation regime will be amended.
- An integrity measure concerning liabilities arising from securitisation arrangements announced in the 2014/15 Federal Budget will be extended to also apply to non-financial institutions with securitisation arrangements.
- The taxation of financial arrangements (TOFA) rules will be reformed and new simplified rules will apply from 1 January 2018.
- The tax treatment of asset backed financing arrangements such as deferred payment arrangements and hire purchase arrangements will be amended.

### **Individuals and families**

- The threshold at which the 37% marginal tax rate for individuals commences will increase from taxable incomes of \$80,000 to \$87,000 from 1 July 2016.
- The low-income thresholds for the Medicare levy and surcharge will increase from the 2015/16 income year.
- The pause in the indexation of the income thresholds for the Medicare levy surcharge and the private health insurance rebate will continue for a further three years from 1 July 2018.
- Income tax exemptions will be provided for ADF personnel deployed in Afghanistan, the Middle East and in international waters.
- Six organisations have been added to the list of specifically-listed deductible gift recipients.

### **Superannuation**

- The threshold at which high income earners pay additional contributions tax will be lowered to \$250,000 from 1 July 2017. The annual cap on concessional superannuation contributions will also be reduced to \$25,000.
- The tax exemption on earnings of assets supporting Transition to Retirement Income Streams will be removed from 1 July 2017.
- A lifetime non-concessional contributions cap of \$500,000 will be introduced.
- The current restrictions on people aged 65 to 74 making superannuation contributions for their retirement will be removed from 1 July 2017.

- Individuals with a superannuation balance less than \$500,000 will be allowed to make additional concessional contributions where they have not reached their concessional contributions cap in previous years, with effect from 1 July 2017.
- From 1 July 2017 all individuals up to age 75 will be allowed to claim an income tax deduction for personal superannuation contributions.
- A low income superannuation tax offset (LISTO) will be introduced to reduce tax on superannuation contributions for low income earners from 1 July 2017.
- The income threshold for the receiving spouse (whether married or de facto) of the low income spouse tax offset will be increased to \$37,000 from 1 July 2017.
- A balance cap of \$1.6m on the total amount of accumulated superannuation an individual can transfer into the tax-free retirement phase will be introduced from 1 July 2017.
- The anti-detriment provision in respect of death benefits from superannuation will be removed from 1 July 2017.

#### **Multinational profit shifting and international**

- A 40% tax on the profits of multinational corporations that are artificially diverted from Australia will be introduced from 1 July 2017.
- Transfer pricing rules will be amended to give effect to OECD recommendations, effective from 1 July 2016.
- Rules developed by the OECD to eliminate hybrid mismatch arrangements will be implemented from 1 January 2018.
- Administrative penalties imposed on significant global entities will be increased from 1 July 2017.

#### **GST and other indirect taxes**

- GST will be extended to low value goods imported by consumers from 1 July 2017.
- A discussion paper on the “double taxation” of digital currencies under the GST regime has been released.
- Tobacco excise and excise-equivalent customs duties will be subject to four annual increases of 12.5% from 1 September 2017.
- The wine equalisation tax (WET) rebate cap will be reduced to \$350,000 on 1 July 2017 and to \$290,000 on 1 July 2018.

- The excise refund scheme will be extended to domestic distilleries and producers of low strength fermented beverages such as non-traditional cider from 1 July 2017.
- Access to refunds under the Indirect Tax Concession Scheme has been granted or extended to diplomats and consuls from Cyprus, Estonia and Finland as well as the Organisation for the Prohibition of Chemical Weapons.

#### **Tax administration**

- A Tax Avoidance Taskforce will be established within the ATO to undertake enhanced compliance activities targeting multinationals, large public and private groups, and high-wealth individuals.
- Individuals who disclose information on tax avoidance to the ATO will receive stronger protection under the law from 1 July 2018.
- The government is encouraging all companies to adopt the Tax Transparency Code (TTC) from the 2016 financial year.
- The operation of the Australian Public Service including the ATO will be reviewed to achieve efficiencies and manage their transformation to a more modern public sector.

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