Federal Budget 2015-16

12 May 2015
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Preface

On 12 May 2015, the Treasurer, Joe Hockey, delivered his second Federal Budget which he recently foreshadowed was to be a budget focused on better control of government spending.¹ He said that it would be responsible, measured and fair.

Given that Australia has just started (again) the process of re-designing its tax system for the future, a Budget that delivers major structural change would pre-empt the design process.

The Treasurer identified the challenge for the Budget as ‘too much government spending’ i.e. the expenditure on ‘welfare, infrastructure and handouts’ that was locked in by the previous government against receipts that did not materialise under the Mining Tax.²

Having learned its lesson from the general resistance to last year’s Budget repair measures, the Government has said that it will implement the required structural reform of spending progressively — rather than immediately and dramatically — and therefore the Government will have to ‘accept a slower path of deficit reduction’. In the words of the Governor of the Reserve Bank of Australia, Glenn Stevens:

> On the fiscal front, the government has little choice but to accept the slower path of deficit reduction over the near term. But over the longer term, hard thinking still needs to occur about the persistent gap we are likely to see (under current policy settings) between the government’s permanent income via taxes and its permanent spending on the provision of good and services.”³

Challenges identified in the 2015 Intergenerational Report

The challenges which the future tax system will have to address and which the Federal Budget must take into account were set out in the 2015 Intergenerational Report which was released on 5 March 2015. The Intergenerational Report assesses the long-term sustainability of current Government policies. It analyses the key drivers of economic growth — population, participation⁴ and productivity — and what the projected changes in these drivers will mean for our standard of living.⁵

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¹ The Treasurer noted that Australia’s social services system accounts for over a third of all government spending and is growing at the rate of over five per cent per year.

² The Treasurer’s speech to the Australia-Israel Chamber of Commerce, Crown Towers Melbourne on 22 April 2015.


⁴ Participation refers to the proportion of people aged 15 years and over who are actively engaged in the workforce.

The challenges identified include:

- an aging population that is living longer:
  - a boy born today will, on average, live to 91 years of age; a girl will live to 93 years of age;
  - currently there are about four people aged between 15 and 64 for every person aged 65 and over; in 2055, it is expected that the number will halve;\(^6\)
- a declining participation rate:
  - the proportion of Australians working is expected to fall from 64.6 per cent in 2014–15 to 62.4 per cent in 2054–55;
  - the female participation rate, although increasing\(^7\), is lower than in some other advanced economies such as Canada and New Zealand;
- productivity (about working more efficiently or producing more or better goods and services with the same level of resources) has slowed:
  - productivity growth through the 2000s was an average of 1.5 per cent compared to an average of 2.2 per cent during the 1980s and 1990s.

Both the Prime Minister, Tony Abbott\(^8\), and the Treasurer, Joe Hockey\(^9\), are on record as stating that there were no plans to increase taxes. Mr Hockey recently stated that the falling taxes — as a result of the falling commodity prices and lower than expected wage growth\(^10\) — will not be replaced with new taxes. Indeed, the objective of the Tax reform process, which commenced with the release of the Discussion paper titled Re: think on 30 March 2015, is to achieve ‘a better tax system that delivers taxes that are lower, simpler, fairer’.

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\(^6\) The Treasurer, Joe Hockey. ‘Tax and our Future’, Address to The Tax Institute, National Convention, Gold Coast, 20 March 2015. The Intergenerational Report notes on page viii that in 1974–75 there were 7.3 people for every person aged 65 and over.

\(^7\) The participation rate for females aged between 15 and 64 is around 66 per cent. It is projected to increase to 70 per cent by 2054–55. It was 46 per cent in 1975.

\(^8\) Mr Abbott was quoted in the Sydney Morning Herald on 17 April 2015 in the article by Nassim Khadem titled ‘Prime Minister Tony Abbott rules out changes to negative gearing’ as saying: ‘I would say to the people who are running around looking to increase taxes on people, what we really need to do is to get our spending under control. Australia does not have a problem with taxes being too low; Australia has a problem with spending being too high because of the excesses of the former government.’

\(^9\) Mr Hockey has often said that no country has ever taxed its way to prosperity — see his speech titled ‘Australia’s Economic Prosperity’ delivered on 31 March 2015 to the Institute of Public Affairs, Melbourne and his more recent speech to the Australia-Israel Chamber of Commerce, Crown Towers Melbourne on 22 April 2015. He also made the same point in his doorstop interview in Melbourne on 22 April 2015.

\(^10\) Wage growth can lead to an increase in tax collections as a result of the effect of bracket creep which occurs when rises in nominal income from employment and investments push people into higher income tax brackets over time and thereby increasing the personal income tax burden.
Some facts about the Australian economy

The macro view of the Australian economy is critical to the Government’s policy settings for the future. As advisers and business owners, we tend to focus on the micro view and on things which directly affect us. It may nevertheless be useful to our own planning for the future to know some of the facts which the Treasurer has highlighted in recent speeches and interviews in the lead up to his handing down the 2015–16 Federal Budget. Mr Hockey has identified the following facts as potentially providing opportunities for growth:

- 70 per cent of the Australian economy is services including tourism and education, yet it represents only 17 per cent of our exports;¹¹
- mining and resources are around 10 per cent of our economy, but represent over 50 per cent of our exports;¹¹
- financial services represent more than 50 per cent of the value of the ASX200;¹¹ and
- the small business sector employs about 4.5 million people and contributes a third of Australia’s output.¹¹
- 60 per cent of the Federal Government’s tax collected is from personal and company taxes:
  - just 12 companies pay one-third of all company tax; and
  - just two per cent of taxpayers pay a quarter of all personal income tax.¹²
- Australia is currently borrowing $100 million each and every day just to pay our day-to-day bills.¹²

The 2014–15 Federal Budget which sought to rein in the projected debt of $667 million inherited from the previous Government met with resistance and some of its measures were amended or delayed by the Senate with a consequential impact on the Budget position. The 2014–15 MYEFO reported that the underlying cash deficit for the 2014–15 income year was expected to be $40.4 billion. Actual figures will be available in September 2015.

The graphs below, reproduced from the 2014–15 MYEFO, illustrate the impact of the Government pursuing alternative approaches.

The following graph depicts the proportion of GDP that would be represented by projected government spending depending on alternative policy scenarios.¹⁵

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¹¹ The Treasurer, Joe Hockey. Address to the Australia-Israel Chamber of Commerce, Crown Towers, Melbourne, on 22 April 2015.
¹² The Treasurer, Joe Hockey. Australia’s economic prosperity, Address to the Institute of Public Affairs, Melbourne, 31 March 2015. Craig Emerson reported in the Financial Review on Tuesday 12 May 2015, that interest payments on public debt will soon exceed $1 billion per month.
¹³ Page 5 of the 2014–15 MYEFO states that ‘The 2013–14 MYEFO showed that, without action, the budget would not return to surplus for a decade, and debt would reach $667 billion by 2023–24 and still be rising.’ The 2015 Intergenerational Report states on page 46 that the net debt for the 2014–15 income year is expected to be $245 billion i.e. 15.2 per cent of GDP.
¹⁴ www.budget.gov.au/2014-15/content/myefo/download/01_part_1.pdf. The MYEFO is a mid-year budget report which provides updated information to allow the assessment of the Government’s fiscal performance against its fiscal strategy.
The projected government spending has implications for the level of government debt as follows:\(^\text{16}\):

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2015–16 Federal Budget — the key information

The Government’s 2014–15 MYEFO reported a deterioration in the Budget position of $43.7 billion over the forward estimates as a result of the weaker than expected wage growth, lower tax receipts and the costs associated with the Senate’s deferral of a number of key measures of the Budget and negotiations concerning others.17

<table>
<thead>
<tr>
<th>Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Underlying cash position²¹</td>
</tr>
<tr>
<td>Economic growth</td>
</tr>
<tr>
<td>Unemployment rate</td>
</tr>
<tr>
<td>CPI — inflation</td>
</tr>
</tbody>
</table>

What we have been told so far …

- The Budget will be dull and ‘much less exhilarating’ than last year’s Budget. Cabinet’s razor gang should not cut as deeply as they did last year. There would be significant changes in both childcare funding and small business through an expected tax cut.²³

- The Government will consider several aspects of the superannuation system as part of the review of the tax system. The Government is also considering improving the way in which the superannuation system transforms savings into retirement income streams.²⁴

  - The Financial Services Inquiry (FSI) highlighted the concern among retirees that they would outlive their benefits and therefore they failed to draw down their superannuation balances in retirement. This results in lower living standards and significant transfers to beneficiaries. The Government will review regulatory obstacles to the development of better post-retirement products.²⁵

- The Budget would provide assistance to innovative small businesses.²⁶

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17 The 2014–15 MYEFO estimates the costs of Senate delays and negotiations to be $10.6 billion over the forward estimates.

18 The final budget outcome is expected to be released by the end of September 2015.

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

23 The Prime Minister, Tony Abbott, reported by Emma Griffiths on 17 March 2015 on the ABC News website at: www.abc.net.au/news/2015-03-18/abbott-says-budget-will-be-dull/6328400


Recent announcement

On 6 May 2015, the Treasurer, Joe Hockey, in a joint media release with the Minister for Small Business, Bruce Billson, announced that:

1. From July 2016, new start-ups will be able to immediately deduct professional costs associated with starting up a business.
2. Business registration will be streamlined with a single online registration site.
3. Small business owners will be able to change the legal structure of the business without incurring a CGT liability.
4. The obstacles to crowd-sourced equity funding will be removed.
5. The Government will investigate whether some of the regulatory requirements for companies can be removed or relaxed.

- Last year’s Budget measure to constrain increases in the pension to the CPI is off the table. Instead, the Government proposes to:
  - reverse the reduction in taper rates which was introduced by the Howard Government in 2007 — the current taper rate of $1.50 for every $1,000 in assets above the minimum threshold for a full pension will be increased;
  - the asset free area — i.e. the value of assets that a pensioner can have in addition to their family home and still qualify for the full pension — will increase from $202,000 to $250,000 for single home owners and from $286,500 to $375,000 for couple home owners; and
  - reduce the maximum asset threshold for qualifying for a part pension.

- Negative gearing in connection with real property will not be restricted in the Budget — changes, if any, should be considered as part of the White Paper discussion.

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28 Prior to the reduction in the taper rates which was introduced by the Howard Government in 2007, for every $1,000 in assets above the minimum threshold for a full pension, fortnightly payments were reduced by $3. The Howard Government changed this to $1.50 which meant that an extra 110,000 people became entitled to a part pension.

29 Currently, a couple will qualify for a part pension if their assets do not exceed $1.15 million plus the family home.

30 The Treasurer, Joe Hockey. Doorstop interview in Sydney on 23 April 2015.
Some leaks and other kite-flying

The following measures have been listed as being ‘in the Budget’:

- 1.5 per cent tax cut and $10,000 write-off;
- incentives to encourage older unemployed people to retrain and get another job;
- no double-dipping into government and employer-paid parental leave;
- extending GST to online purchases of low-value imports and media downloads\(^{31}\);
- imposing a bank deposits tax;
- imposing a cap of $5,000 on meal and entertainment expenses that employees of not-for-profit organisations can salary sacrifice\(^{32}\); and
- expansion of tax avoidance legislation to target 30 multinationals that do not pay tax in Australia.

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\(^{31}\) The *Financial Review* which reported this measure on 12 May 2015 under ‘What’s in the budget’ on page 6 also reported on page 4 that ‘the budget will not include extending the GST to goods valued at less than $1,000 that are imported over the internet. Mr Hockey said there was still trouble trying to determine the threshold and the taxing point.’

\(^{32}\) This change was recommended by the Productivity Commission inquiry in 2013 which gave the example of Jane (not her real name) who salary sacrificed her $40,000 wedding.
Income Tax

Announcements

2015 Announcements

2015-16 Federal Budget - Jobs for Families childcare package

<table>
<thead>
<tr>
<th>KEY POINTS</th>
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</thead>
<tbody>
<tr>
<td>The Government confirmed in the 2015–16 Federal Budget that it would make child care simpler, more affordable, accessible and flexible by:</td>
</tr>
<tr>
<td>- abolishing the current Child Care Benefit, Child Care Rebate and Jobs, Education and Training Child Care Fee Assistance programmes;</td>
</tr>
<tr>
<td>- introducing a single means tested Child Care Subsidy (CCS) for families with incomes of:</td>
</tr>
<tr>
<td>□ &lt; approximately $60,000 — provided with a CCS of 85% per child of the lower of the actual fee or a benchmark price which will taper to 50% per child for family incomes of approximately $165,000 and above;</td>
</tr>
<tr>
<td>□ &lt; $180,000 — not subject to a cap on the amount of subsidy they receive;</td>
</tr>
<tr>
<td>□ ≥ $180,000 — a cap of $10,000 per child for the total value of subsidies received.</td>
</tr>
</tbody>
</table>

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, confirmed that the Government would make child care simpler, more affordable, accessible and flexible though its Jobs for Families child care package, which includes:

1. abolition of the current Child Care Benefit, Child Care Rebate and Jobs, Education and Training Child Care Fee Assistance programmes;
2. introduction of a single means tested Child Care Subsidy (CCS) for all families — subject to a new activity test for up to 100 hours of subsidised care per child per fortnight — paid directly to approved care service providers;
   (a) for families on incomes of less than approximately $60,000 — the CCS will be 85 per cent per child of the lower of the actual fee or a benchmark price. This will reduce to 50 per cent for family incomes of approximately $165,000 and above at the time of implementation.
   (b) for families on incomes under $185,000 — there will no longer be a cap on the amount of subsidy they receive.
   (c) for families on incomes of $185,000 and above — a cap of $10,000 per child at the time of introduction will be established for the total value of subsidies.

START DATE
1 July 2017

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The Overview: Families Package on page 6 reports these thresholds as $65,000, $170,000, and $185,000.
3. Hourly benchmark prices at the time of introduction will be:
   (a) $11.55 for Long Day Care,
   (b) $10.70 for Family Day Care,
   (c) $10.10 for Out of School Hours Care; and
   (d) $7.00 for the In Home Care (Nannies) — pilot commencing on 1 January 2016.

4. A CCS for up to 24 hours per fortnight will be provided to children from families with incomes of less than approximately $60,000 per year who do not meet the activity test to ensure continued access to early childhood learning.

The Government will also provide targeted support to disadvantaged or vulnerable families to address barriers to accessing child care through the Child Care Safety Net i.e. the Additional Child Care Subsidy (ACCS), a new Inclusion Support Programme (ISP) and the Community Child Care Fund (CCCF).

Note
This measure was previously announced by the Minister for Social Services on 10 May 2015 in his Media Release titled Job for Families child care package delivers choice for families.

Source: Budget Paper No. 2 page 154-156
Budget Overview Paper titled ‘Families Package’

**2015-16 Federal Budget - Strengthening Australia’s foreign investment framework**

<table>
<thead>
<tr>
<th>KEY POINTS</th>
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</table>
| The Government confirmed in the 2015–16 Federal Budget that it will take action to strengthen the integrity of the foreign investment framework through:
  - improved compliance and enforcement;
  - stricter penalties;
  - the introduction of application fees; and
  - more scrutiny and greater transparency for agricultural investments. |

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, confirmed that the Government will take action to strengthen the integrity of the foreign investment framework through:

1. Improved compliance and enforcement:
   (a) The Government will provide $19.7 million over four years from 2015–16 to Treasury and $47.5 million to the ATO to strengthen enforcement; and
   (b) All residential real estate functions will be transferred to the ATO which will enforce compliance through sophisticated data-matching systems and specialised staff with compliance expertise;

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The Overview: Families Package on page 7 reports this threshold as $65,000.
2. stricter penalties — increased criminal penalties and a new civil pecuniary penalties regime will be introduced for breaches of the *Foreign Acquisitions and Takeovers Act 1975* e.g. the maximum civil penalty imposed on an individual third party that assists a foreign investor to breach the rules will be 250 penalty units or $45,000\(^{35}\);  

3. the introduction of application fees — to be imposed on all real estate, business and agricultural foreign investment proposals; and  

4. more scrutiny and greater transparency for agricultural investment — by lowering screening thresholds\(^{36}\) and introducing a foreign ownership register with information provided directly to the ATO.

Note  
This measure was previously announced by the Treasurer on 2 May 2015 in his Media Release titled *Government strengthens the foreign investment framework*.  

*Source: Budget Paper No. 2 page 31-32*

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**2015-16 Federal Budget - Increase in supervisory levies**

<table>
<thead>
<tr>
<th>KEY POINTS</th>
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<tbody>
<tr>
<td>The Government will increase the supervisory levies payable by financial institutions.</td>
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</tbody>
</table>

The Government will raise additional revenue of $46.9 million over four years from 2015–16 by increasing the supervisory levies payable by financial institutions. This will fully recover the cost of superannuation activities undertaken by the ATO and the Department of Human Services.  

*Source: Budget Paper No. 2 page 17*

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\(^{35}\) As part of the 2015–16 Federal Budget, it was announced that the value of a penalty unit will increase from $170 to $180 with effect from 31 July 2015.  

\(^{36}\) A $55 million threshold for investments in agribusiness will be introduced from 1 December 2015.
Income

Foreign Income

**2015-16 Federal Budget - Income tax exemption for ADF personnel deployed overseas**

<table>
<thead>
<tr>
<th>KEY POINTS</th>
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</thead>
<tbody>
<tr>
<td>Tax relief will be provided to Australian Defence Force personnel deployed on the following operations:</td>
</tr>
<tr>
<td>- Operation AUGURY — a full income tax exemption; and</td>
</tr>
<tr>
<td>- Operation HAWICK — an overseas forces tax offset.</td>
</tr>
</tbody>
</table>

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, announced that tax relief would be provided to Australian Defence Force personnel deployed on the following operations:

- Operation AUGURY — a full income tax exemption; and
- Operation HAWICK — an overseas forces tax offset.

*Source: Budget Paper No. 2 page 22*

**2015-16 Federal Budget - Removing the tax exemption for government employees**

<table>
<thead>
<tr>
<th>KEY POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Government will remove a tax exemption currently available to government employees deriving foreign income while delivering Official Development Assistance overseas for more than 90 continuous days.</td>
</tr>
</tbody>
</table>

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, announced that, from 1 July 2016, the Government will remove an income tax exemption available to government employees who earn foreign income while delivering Official Development Assistance (ODA) overseas for more than 90 continuous days.

**START DATE**
1 July 2016

*Important*

This measure will not affect Australian Defence Force and Australian Federal Police personnel delivering ODA for a charity or a private sector contracting firm.

*Source: Budget Paper No. 2 page 27*
Deductions

Work-related Expenses

► 2015-16 Federal Budget - Modernising the calculation of work-related car expenses

KEY POINTS

- The Government will modernise the methods for calculating work-related car expense deductions from the 2015–16 income year by:
  - removing the ‘12 per cent of original value’ and the ‘one-third of actual expenses’ methods; and
  - replacing the current rates under the ‘cents per kilometre method’ which are based on engine size with a single rate of 66 per cent per kilometre, irrespective of engine size.
- The Government will retain the ‘log-book method’.

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, announced that the Government will modernise the methods of calculating work-related car expense deductions under Div 28 of the ITAA 1997 from the 2015–16 income year.

The ‘12 per cent of original value’ and the ‘one-third of actual expenses’ methods will be removed because they are used by less than two per cent of taxpayers who claim work-related car expenses.

The ‘cents per kilometre method’ will be modernised by replacing the three rates which are based on engine size with a single rate of 66 per cent per kilometre, irrespective of the engine size. This change is intended to better align deductions with the average costs of operating a motor vehicle. The Commissioner will be responsible for updating the rate in following income years.

The ‘log-book method’ of calculating expenses will be retained.

The proposed changes may be summarised as follows:

<table>
<thead>
<tr>
<th>Method under Division 28</th>
<th>Current law</th>
<th>Proposed new law</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 per cent of original value</td>
<td>Available</td>
<td>No longer available</td>
</tr>
<tr>
<td>One-third of actual expenses</td>
<td>Available</td>
<td>No longer available</td>
</tr>
<tr>
<td>Cents per kilometre</td>
<td>Available at one of three rates which are based on engine size</td>
<td>Available at single rate of 66 cents per kilometre irrespective of engine size</td>
</tr>
<tr>
<td>Log-book</td>
<td>Available</td>
<td>Available</td>
</tr>
</tbody>
</table>

START DATE
2015–16 income year
Important
These measures will not affect leasing and salary sacrifice arrangements.

Source: Budget Paper No. 2 page 27

Tax Offsets

Personal Tax Offsets

2015-16 Federal Budget - Zone Tax Offset unavailable to FIFO and DIDO workers

KEY POINTS

- From 1 July 2015, ‘fly-in fly-out’ (FIFO) and ‘drive-in drive-out’ (DIDO) workers will be excluded from the Zone Tax Offset (ZTO) if their normal residence is not within a ‘zone’.
- Currently, a worker who resides or works in a remote area for more than 183 days in an income year is eligible for the ZTO.

Background

The Zone Tax Offset (ZTO) is a concessional tax offset available to individuals in recognition of the isolation, uncongenial climate and high cost of living associated with living in identified remote locations. Eligibility is based on defined geographic zones.

Currently, to be eligible for the ZTO, a taxpayer must reside or work in a specified remote area for more than 183 days in an income year. It is estimated that around 20 per cent of all claimants do not actually live full-time in the zones.

Proposed change

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, announced that the Government will exclude ‘fly-in fly-out’ (FIFO) and ‘drive-in drive-out’ (DIDO) workers from the ZTO where their normal residence is not within a ‘zone’.

For those FIFO workers whose normal residence is in one zone, but who work in a different zone, they will retain the ZTO entitlement associated with their normal place of residence.

Source: Budget Paper No. 2 page 25
Individual Taxpayer Issues

Medicare Levy

2015-16 Federal Budget - Increasing the Medicare levy low income thresholds

KEY POINTS

- The Government will increase the Medicare levy low-income threshold from the 2014-15 income year for:
  - singles;
  - families; and
  - single seniors and pensioners.
- The increase adjusts the thresholds to take into account increases in the CPI.

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, announced that, with effect from the 2014–15 income year, the Government will increase the Medicare levy low-income threshold for singles, families and single seniors and pensioners. The increase adjusts the thresholds to take into account increases in the Consumer Price Index (CPI).

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

<table>
<thead>
<tr>
<th>Income year</th>
<th>Individuals</th>
<th>Families</th>
<th>Pensioners below age pension age</th>
<th>Senior Australians</th>
<th>+ amount for each dependent child/student</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014–15</td>
<td>$20,896</td>
<td>$35,261</td>
<td>$33,044</td>
<td>$3,238</td>
<td></td>
</tr>
<tr>
<td>2013–14</td>
<td>$20,542</td>
<td>$34,367</td>
<td>$32,279</td>
<td>$3,156</td>
<td></td>
</tr>
<tr>
<td>2012–13</td>
<td>$20,542</td>
<td>$33,693</td>
<td>$32,279</td>
<td></td>
<td>$3,094</td>
</tr>
<tr>
<td>2011–12</td>
<td>$19,404</td>
<td>$32,743</td>
<td>$30,451</td>
<td>$30,685</td>
<td>$3,007</td>
</tr>
<tr>
<td>2010–11</td>
<td>$18,839</td>
<td>$31,789</td>
<td>$30,439</td>
<td>$30,685</td>
<td>$2,919</td>
</tr>
<tr>
<td>2009–10</td>
<td>$18,488</td>
<td>$31,196</td>
<td>$27,697</td>
<td>$29,867</td>
<td>$2,865</td>
</tr>
<tr>
<td>2008–09</td>
<td>$17,794</td>
<td>$30,025</td>
<td>$25,299</td>
<td>$28,867</td>
<td>$2,757</td>
</tr>
</tbody>
</table>

Source: Budget Paper No. 2 page 26
Student Assistance

2015-16 Federal Budget - Higher Education Loan Programme - recovery of repayments from overseas debtors

<table>
<thead>
<tr>
<th>KEY POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Graduates who reside overseas for more than six months will be required to repay their HELP debt as if they resided in Australia.</td>
</tr>
<tr>
<td>- Repayments will not be required unless the graduate’s worldwide income exceeds the minimum repayment threshold which currently is $53,000.</td>
</tr>
</tbody>
</table>

Background
The Minister for Education and Training, Christopher Pyne, announced in a Media Release on 2 May 2015 that the Government would extend the Higher Education Loan Programme (HELP) repayment framework to debtors residing overseas.

The Minister indicated in his media announcement that currently graduates living overseas do not have to lodge an Australian tax return and there is no way to know if they are earning above the threshold that triggers HECS repayments. Under the current system, overseas debtors are able to make voluntary HECS repayments to the ATO but are not under any legal obligation to do so.

Proposed change
From 2016–17, HELP debtors residing overseas for six months or more will be required to make repayments of their HELP debt if their worldwide income exceeds the minimum repayment threshold at the same repayment rates as debtors in Australia.

This means that all Australian graduates living offshore will be required to start making HECS payments based on their income in the 2016–17 tax year if they earn above the threshold of $AUD 53,000. This will apply where the graduate has moved overseas for more than six months from July 2017.

Source: Budget Paper No. 2 page 9; and Minister for Education and Training’s Media Release 2 May 2015
Exempt Organisations and Funds

General

2015-16 Federal Budget - List of DGRs updated

<table>
<thead>
<tr>
<th>KEY POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>- From 1 January 2015, the following organisations were approved as specifically listed DGRs:</td>
</tr>
<tr>
<td>- International Jewish Relief Limited; and</td>
</tr>
<tr>
<td>- National Apology Foundation.</td>
</tr>
<tr>
<td>- The following DGRs have had their listings extended until 31 December 2017:</td>
</tr>
<tr>
<td>- National Boer War Memorial Association; and</td>
</tr>
<tr>
<td>- Australian Peacekeeping Memorial Project.</td>
</tr>
</tbody>
</table>

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, announced that — since the announcement of the 2014–15 MYEFO on 15 December 2014 — the following organisations have been approved as specifically listed DGRs with effect from 1 January 2015:

- International Jewish Relief Limited; and
- National Apology Foundation.

The following organisations have had their DGR listings extended until 31 December 2017:

- National Boer War Memorial Association; and
- Australian Peacekeeping Memorial Project.

Source: Budget Paper No. 2 page 28
Goods and Services Tax

GST - Announcements

2015 Announcements

2015-16 Federal Budget - GST to apply to digital products and services imported by consumers

<table>
<thead>
<tr>
<th>KEY POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Digital products and services imported by consumers are not currently subject to the GST</td>
</tr>
<tr>
<td>▪ GST will apply from 1 July 2017 to non-exempted products and services, including digital supplies purchased from overseas and from Australia.</td>
</tr>
</tbody>
</table>

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, announced that the GST will be extended to apply to cross border supplies of digital products and services imported by consumers.

Current law

The growth of e-commerce and use of the internet means that Australian consumers can just as easily acquire services from a non-resident supplier as from an Australian supplier. Digital products and services imported by consumers are not currently subject to the GST. This results in forgone GST revenue to the States and Territories and places domestic businesses — which generally have to charge and remit GST on the digital products and services they provide — at a tax disadvantage compared to overseas businesses.

The GST was designed to apply to all products and services, except those specifically exempted, for example fresh food, health and education.

Proposed change

This measure ensures that the GST applies to non-exempted products and services, including digital supplies purchased from overseas and from Australia.

This measure will result in Australia being an early adopter of guidelines for business-to-consumer supplies of digital products and services being developed by the OECD as part of the OECD/G20 base erosion and profit shifting project. A number of countries — including Japan, Norway, South Africa, South Korea, Switzerland and member countries of the European Union\(^\text{37}\) — have or will introduce similar rules.

\(^{37}\) The Canadian Government has also announced they would consider introducing similar laws.
Note
This change will require the unanimous agreement of the States and Territories prior to the enactment of legislation.

Recent Development
On 12 May 2015, exposure draft legislation titled Tax Laws Amendment (Tax Integrity: GST and Digital Products) Bill 2015, together with accompanying explanatory material, was released for consultation.

Source: Budget Paper No. 2 page 20 and Overview: Fairness in Tax and Benefits page 5

2015-16 Federal Budget - Extension of GST compliance program

<table>
<thead>
<tr>
<th>KEY POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Government will provide $265.5 million to the ATO to promote GST compliance.</td>
</tr>
</tbody>
</table>

The Government will provide $265.5 million to the ATO over three years from 2016–17 to continue a range of activities to promote GST compliance.

Source: Budget Paper No. 2 page 21
FBT - Announcements

2015 Announcements

2015-16 Federal Budget - FBT exemption for electronic devices

<table>
<thead>
<tr>
<th>KEY POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ From 1 April 2016, the Government will allow an FBT exemption to small businesses with an aggregated annual turnover of less than $2 million that provide more than one work-related portable device to employees.</td>
</tr>
<tr>
<td>▪ The FBT exemption will be available even if the portable electronic devices perform substantially similar functions.</td>
</tr>
<tr>
<td>▪ This measure will remove confusion where there is a function overlap between different products such as a laptop and a tablet.</td>
</tr>
</tbody>
</table>

Background

Currently, under s. 58 X of the Fringe Benefits Tax Assessment Act 1986, the provision of an eligible work-related item including a portable electronic device by an employer to an employee is an exempt fringe benefit. This ensures that an exemption from FBT is available for items such as a laptop computer, tablet, mobile phone etc. which are used by employees primarily for work purposes.

The current exemption can apply to more than one portable electronic device used primarily for work purposes, but only where the devices perform substantially different functions.

Proposed change

As part of the 2015–16 Federal Budget, the Treasurer announced that, from 1 April 2016, an exemption from FBT will be available to an employer who provides an employee with multiple portable electronic devices (even if the devices have substantially the same function) provided that:

▪ the employer is a small business with an annual aggregated turnover of less than $2 million; and

▪ the electronic device is used by the employee primarily for work-related purposes

To reduce red tape for small businesses and to ensure employees of small businesses can stay connected in the digital economy, the exemption will be expanded to cover multiple portable electronic devices used by an employee for work related purposes from 1 April 2016.

Source: Budget Paper No. 2 page 18
Budget 2015: Growing Jobs and Small Business

START DATE
1 April 2016
Fringe Benefits Tax Issues

Meal Entertainment Fringe Benefits

**2015-16 Federal Budget - Cap on salary sacrificed meal entertainment**

<table>
<thead>
<tr>
<th>KEY POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ A separate single grossed-up cap of $5,000 will be introduced for salary sacrificed meal entertainment and entertainment facility leasing expenses (meal entertainment benefits) for employees.</td>
</tr>
<tr>
<td>▪ Meal entertainment benefits in excess of $5,000 will be counted in calculating whether the employee exceeds their existing FBT exemption or rebate cap.</td>
</tr>
<tr>
<td>▪ All meal entertainment benefits will be reportable.</td>
</tr>
<tr>
<td>▪ The changes will apply from 1 April 2016.</td>
</tr>
</tbody>
</table>

**Background**

Currently, for the FBT year ending 31 March 2016, employees of public benevolent institutions and health promotion charities have an FBT exemption cap of $31,177 (the standard is $30,000 but increased for the Temporary Budget Repair Levy) and employees of public and not-for-profit hospitals and public ambulance services have an FBT exemption cap of $17,667 (the standard is $17,000).

In addition to these FBT exemptions, these employees can currently salary sacrifice meal entertainment benefits with no FBT payable by the employer and without it being reported. Employees of rebatable not-for-profit organisations can also salary sacrifice meal entertainment benefits, but the employers only receive a partial FBT rebate, up to the $31,177 cap.

Meal entertainment benefits are used to remunerate many employees who work in:

▪ public benevolent institutions,
▪ health promotion charities,
▪ public and not-for-profit hospitals, and
▪ public ambulance services.

**Proposed change**

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, announced that the Government will amend the *FBT Act* to introduce a separate single grossed-up cap of $5,000 for salary sacrificed meal entertainment and entertainment facility leasing expenses (meal entertainment benefits) for employees.

Meal entertainment benefits exceeding the separate grossed-up cap of $5,000 will also be counted in calculating whether an employee exceeds their existing FBT exemption or rebate cap.

All use of meal entertainment benefits will become reportable.

These amendments will apply from the 1 April 2016 for the FBT year ending 31 March 2017.

*Source: Budget Paper No. 2 page 22*
Superannuation

Superannuation Issues

Superannuation, Retirement and Termination Payments

2015-16 Federal Budget - Relaxing criteria for release of super for terminal medical conditions

<table>
<thead>
<tr>
<th>KEY POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Government will allow terminally ill individuals to access their superannuation earlier by increasing the period that must be certified by medical practitioners from one year to two years.</td>
</tr>
<tr>
<td>• Currently, in order to access their superannuation, terminally ill individuals must have two medical practitioners certify that they are likely to die within one year.</td>
</tr>
</tbody>
</table>

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, announced that the Government will extend access to superannuation for individuals with a terminal condition. Currently, to access their superannuation, terminally ill individuals must have two medical practitioners (including a specialist) certify that they are likely to die within one year. The Government will increase this period to two years.

Source: Budget Paper No. 2 page 29

START DATE
1 July 2015
Tax Administration

Administration Issues

General

2015-16 Federal Budget - Statutory remedial power for the Commissioner of Taxation

**KEY POINTS**

- The Government will provide the Commissioner with a statutory remedial power to make a legislative instrument to modify the operation of the tax law.
- The Commissioner’s power will be limited so that it applies only to the extent that:
  - it has a beneficial outcome for taxpayers; and
  - the modification is not inconsistent with the purpose or object of the law and has no more than a negligible revenue impact.
- The Commissioner’s legislative instrument will be subject to consultation and disallowance by Parliament.

On 1 May 2015, the Assistant Treasurer, Josh Frydenberg, issued a Media Release titled *Providing more certainty and better outcomes for taxpayers*, stating that the Government will provide the Commissioner with a statutory remedial power to allow for a more timely resolution of certain unforeseen and unintended outcomes in the tax and superannuation law. The power will provide a mechanism to deal with some aspects of complexity in the tax law, and will also provide more certainty and better outcomes for taxpayers.

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, announced that the Commissioner will be able to make a legislative instrument to modify the operation of the taxation law to ensure that the law can be administered to achieve its objective. The power will be limited so that it applies only to the extent that:

- it has a beneficial outcome for taxpayers, and
- the modification is not inconsistent with the purpose or object of the law and has no more than a negligible revenue impact.

A legislative instrument made by the Commissioner will be subject to extensive consultations and disallowance by Parliament.

*Source: [e.g. Budget Paper No. 2 page 32; Assistant Treasurer’s Media Release No. 2015021]*
Charges, Penalties and Offences

Penalties

**2015-16 Federal Budget - Commonwealth penalty units**

<table>
<thead>
<tr>
<th>KEY POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The value of all Commonwealth penalty units will increase from $170 to $180 with effect from 31 July 2015.</td>
</tr>
<tr>
<td>In future, the penalty unit will be indexed based on the CPI.</td>
</tr>
<tr>
<td>The indexation will occur on 1 July every three years commencing on 1 July 2018.</td>
</tr>
</tbody>
</table>

The Treasurer announced that the Government will increase the value of all Commonwealth penalty units from $170 to $180, with effect from 31 July 2015.

The value was last adjusted in December 2012.

The Government will also introduce ongoing indexation of penalty units based on the CPI. Indexation will occur on 1 July every three years, with the first indexation occurring on 1 July 2018.

Penalty units are used to describe the amount payable for fines under Commonwealth laws. Commonwealth penalties are generally expressed in terms of penalty units (rather than specific values) to assist in the consistent adjustment of penalties across the Commonwealth statute book.

<table>
<thead>
<tr>
<th>An example of the effect of the amendment to a common fine</th>
</tr>
</thead>
<tbody>
<tr>
<td>The penalty unit will increase from $170 to $180 per unit from 31 July 2015.</td>
</tr>
<tr>
<td>This means that a late lodgment penalty of $850 (i.e. 5 penalty units × $170) will rise to $900 (i.e. 5 penalty units × $180).</td>
</tr>
</tbody>
</table>

Source: Budget Paper No. 2 page 8
Other Federal Taxes

Federal - Announcements and Developments

2015 Announcements and Developments

2015-16 Federal Budget - Exemption from LCT for cars acquired by endorsed public museums and public art galleries

<table>
<thead>
<tr>
<th>KEY POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Government will allow public museums and public art galleries that have been endorsed as deductible gift recipients (DGRs) to acquire cars free of luxury car tax (LCT).</td>
</tr>
<tr>
<td>The exemption will apply only to cars that are acquired for the purpose of public display, consigned to the collection and not used for private purposes.</td>
</tr>
</tbody>
</table>

As part of the 2015–16 Federal Budget, the Treasurer, Joe Hockey, announced that the Government will allow public museums and public art galleries that have been endorsed by the Commissioner as DGRs to acquire cars free of luxury car tax.

The exemption will apply only to cars that are acquired for the purpose of public display, consigned to the collection and not used for private purposes.

Source: Budget Paper No. 2 page 23
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- Consolidations
- Division 7A
- Superannuation
- Not-for-Profit
- Fringe Benefits Tax
- Payroll Tax
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- Workcover
- Land Tax
- ATO Disputes
- International Tax
- PSI
- Employment Taxes

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