What the Federal Budget means for your personal and business tax
This year’s Federal Budget is aimed at creating jobs and growth in “extraordinary times”, as the Government delivered its pre-election Budget.

The Budget will again deliver a significant boost to small business through progressive tax cuts and lowering the barrier to access small business tax concessions. Additionally, the Government will introduce a range of measures to address multinational tax avoidance and to promote corporate tax transparency. Substantial changes will be introduced that affect the taxation of superannuation contributions.

**Personal tax**

Personal income tax measures include:

- The 32.5% income tax threshold will be raised from $80,000 to $87,000 from 1 July 2016.
- The temporary budget repair levy of 2% tax on earnings over $180,000 will not be extended, finishing at the end of the 2016-17 financial year.

**Superannuation**

As part of a plan to implement a more sustainable superannuation system, measures are in place to target high-income earners and support the superannuation of low-income earners:

- From 1 July 2017, a superannuation transfer cap will be introduced, limiting the transfers from accumulated superannuation to pension phase to $1.6 million. This measure applies to both current retirees and those who have not yet reached retirement age.

The following measures will be introduced from 1 July 2017 to support the growth of low-to-middle income earners’ superannuation balance:

- Allowing individuals with a superannuation balance of less than $500,000 to make additional concessional contributions where they have not
reached their concessional cap in previous years. This measure only applies to unused amounts from 1 July 2017. Unused caps will be carried forward for five years.

- Removing the work test restriction for people aged 65-74 making superannuation contributions.
- Providing an income tax deduction for individuals up to the age of 75 who make concessional superannuation contributions (up to the concessional contributions cap).
- Introducing a low-income super tax offset to superannuation funds for individuals with an adjusted taxable income of up to $37,000. This offset will be capped at $500.
- Increasing 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.
- Promoting the development of new retirement income products by extending the tax exemption for retirement phase products to deferred lifetime annuities and group self-annuitisation products.

**Small businesses**

The Budget included the following measures to reduce the tax burden for small businesses:

- A reduction of corporate tax rate to 27.5% from 28.5% for small businesses with turnover of less than $10 million from 1 July 2016.
- The increase in the small business entity threshold will result in businesses with annual turnover of less than $10 million having access to the following concessions:
  - Simplified depreciation rules, including immediate tax deduction for asset purchases costing less than $20,000 until 30 June 2017.
  - Simplified trading stock rules, giving business the options to avoid end-of-year stocktake if the value of their stock has changed by less than $5,000.
  - Simplified method of paying PAYG instalments calculated by the ATO, which will remove the risk of estimating PAYG instalments and resulting in penalties being applied.
  - Option to account for GST on cash basis and pay GST instalments as calculated by the ATO.
  - Greater Fringe Benefits Tax exemptions from 1 April 2017 for work-related portable electronic devices.
  - Simpler Business Activity Statements (BAS) from 1 July 2017, which will reduce GST compliance costs.
- It is proposed that the company tax rate for all companies, including small business, will gradually decrease to 25% over the next 10 years as stated in the following table:

<table>
<thead>
<tr>
<th>Income year</th>
<th>Turnover threshold (&lt;$)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>$2 million</td>
<td>28.5%</td>
</tr>
<tr>
<td>2016-17</td>
<td>$10 million</td>
<td>27.5%</td>
</tr>
<tr>
<td>2017-18</td>
<td>$25 million</td>
<td>27.5%</td>
</tr>
<tr>
<td>2018-19</td>
<td>$50 million</td>
<td>27.5%</td>
</tr>
<tr>
<td>2019-20</td>
<td>$100 million</td>
<td>27.5%</td>
</tr>
<tr>
<td>2020-21</td>
<td>$250 million</td>
<td>27.5%</td>
</tr>
<tr>
<td>2021-22</td>
<td>$500 million</td>
<td>27.5%</td>
</tr>
<tr>
<td>2022-23</td>
<td>$1 billion</td>
<td>27.5%</td>
</tr>
<tr>
<td>2023-24</td>
<td>All companies</td>
<td>27%</td>
</tr>
<tr>
<td>2025-26</td>
<td>All companies</td>
<td>26%</td>
</tr>
<tr>
<td>2026-27</td>
<td>All companies</td>
<td>25%</td>
</tr>
</tbody>
</table>

- A tax discount of 8% (up from 5%) will be available from 1 July 2016 to unincorporated small business (such as sole traders and partners in partnerships) with annual turnover of less than $5 million (up from $2 million). The discount will increase to 10% in 2024-25, 13% in 2025-26 and a final discount of 16%. The maximum discount available however will remain at $1,000.

**GST compliance**

- The Government will introduce GST on goods imported by consumers from 1 July 2017. The liability will be imposed on overseas suppliers. The aim is to introduce a level playing field between Australian retailers and overseas suppliers.

**Integrity measures for multinationals**

- Further to the measures announced last year, the Government remains committed to combating multinational corporations who use contrived arrangements to avoid paying Australian tax. To combat this activity, the Government has announced the following:
  - Introduction of a 40% “diverted profits tax” (dubbed the “Google tax”) from 1 July 2017 aimed at multinational corporations that artificially divert profits from Australia.
**Industry reaction**

The Tax Institute welcomes positive changes to the tax system that promote fairness for all Australians.

“The Budget delivered today is a good step in the evolution of our tax system,” said The Tax Institute’s President Arthur Athanasiou.

The Tax Institute has long argued for changes to superannuation rules to adequately provide for retirement benefits and not to accumulate wealth or for estate planning purposes. This includes lowering the point at which high-income earners pay additional tax on their contributions.

“The superannuation measures better target tax concessions in the superannuation system to make the system more equitable without compromising stability,” Athanasiou says. “The Government has also finally adopted our proposals for reducing red tape, such as allowing both the self-employed and employees to claim a tax deduction for their personal superannuation contributions.”

The Tax Institute also welcomes a number of the concessions included in the 10 year enterprise tax plan such as expanding the 2015-16 Budget’s small business measures to entities with a turnover under $10 million and the cut to the corporate tax rate.

“We have consistently called for a cut to the corporate tax rate to 25%. While we would have liked to have seen this happen sooner, we welcome the Government’s plan to reduce the rate to 25% for all companies over the next 10 years,” Athanasiou said.

The Budget also contains a number of measures to crack down on tax avoidance among multinationals.

“It’s positive to see the boost to the ATO to address multinational tax avoidance, however the Diverted Profits Tax is a measure that avoids the heart of the issue,” Athanasiou said. “Our international tax rules are struggling to keep up with the pace of change in global business. Fundamental multilateral change is required.”

- Implementation of anti-hybrid mismatch rules that deter multinational corporations from exploiting differences in the tax treatment of an entity or instrument under the laws of different tax jurisdictions.
- New transfer pricing rules affecting intangible properties.
- Increasing the penalties for non-compliance with tax reporting obligations for multinational corporations.
- Voluntary adoption of a tax transparency code for all large companies.

**Other corporate tax measures**

- To enhance the international competitiveness of the Australian managed funds industry, the Government will introduce favourable tax treatments for two new forms of collective investment vehicles (CIVs) – a corporate CIV and a limited partnership CIV. These vehicles, rather than traditional managed investment trusts, are more familiar to offshore investors.
- A phased reduction in corporate tax rate to 25% over 10 years, with large corporations with turnover of more than $1bn receiving tax cuts from 2023-2024.
- From 1 July 2018, favourable tax treatment will be introduced for asset-backed financing arrangements (such as deferred payment arrangements and hire purchase arrangements) to more effectively align their tax treatment with normal financing arrangements.
- Simplify Taxation of Financial Arrangements (TOFA) rules and changes to tax consolidation rules as an integrity measure.