PwC's Federal Budget Insights

PwC's analysis of the Australian Federal Budget 2019-2020

pwc.com.au

Contents

1 Our summary

Good news day

Good news can be remarkably hard to sell. Every day, there are stories of achievement and progress which pass with little recognition. The prevailing trend is to report mostly on the negative, as a scan of any media headlines will confirm. There is plenty of good news, it just rarely makes the front page.

Treasurer Josh Frydenberg will be hoping for a different outcome with his first, decidedly good news, Federal Budget.

This Budget was always going to be shaped by the political reality of a Federal election only weeks away. An economy which remains in remarkably good shape - notwithstanding some challenges, more on those later - has allowed the Treasurer to claim the first Budget surplus in more than a decade, with room still for big spending in all the expected areas and a centrepiece budget strategy of significant personal income tax cuts.

There is good budget news for middle-income earners, small businesses, regional Australia, pensioners, apprentices, infrastructure, the environment, and even an extra $1 billion for the Australian Taxation Office.

Table 1.1: Income tax offsets for Australian tax residents

	2017-18 (act.)	2018-19 (est.)	2019-20 (est.)
Budget surplus (deficit)			
Underlying cash balance	(10.10)	(4.20)	7.10
as % GDP	(0.50)	(0.20)	0.40
Real GDP growth	2.80	2.25	2.75
Unemployment	5.40	5.00	5.00
CPI	2.10	1.50	2.25
Wages growth	2.10	2.50	2.75

Beyond the big budget announcements, it is sometimes the small changes that go under the radar.

Last year, the Federal Budget heralded real GDP growth would accelerate "to 3 per cent growth in 2018–19 and 2019–20", bolstered by both favourable domestic and international conditions.

Treasury's expectations now are that the economy will "grow at around its estimated potential rate of 2¾ per cent in 2019-20 and 2020-21." Did you spot the subtle shift? In an enterprise as big as the Australian economy, that missing ¼ per cent growth will be noticed.

Indeed, without the welcome boost of a resources sector travelling well in both export volumes (especially for iron ore) and price (especially for metallurgical coal), Australia's economic growth would have been around a further ¼ per cent down. Not all (Budget) heroes wear capes.

The wages picture is similar. Despite an improvement in unemployment sitting happily at five per cent, wages growth remains sluggish, and the expected rebound in wages growth is pushed out another year in Treasury's projections. Although designed to solve a completely different political equation, the tax cuts announced by the Treasurer will boost household disposable incomes, and will go at least some way towards filling the gap that moribund wages growth otherwise will leave in the real economy.

And what of those challenges?

Last year, the Budget papers boasted Australia was "well placed to benefit from the global upswing" and "GDP growth in major advanced economies has become increasingly synchronised". What a difference a year makes.

In a classic Treasury understatement, the Budget papers now dryly observe the "... risks associated with Brexit have become more pronounced in recent months …", flagging also elevated tensions in the wider global trade landscape. Treasury also points to the softening in domestic property markets, and downside risks to both dwelling investment and household consumption – two of the mainstays of Australia's economy.

That $7 billion surplus next year is close, but we aren't there yet.

Personal Tax

2

As expected, the Government has announced further tax relief for low and middle income earners building on last year's Personal Income Tax Plan which is already legislated.

This relief is provided by way of:

- from 1 July 2018 until 30 June 2022, a significant increase in the Low and Middle Income Tax Offset (LMITO)
- from 1 July 2022, an increase in both the top threshold of the 19 per cent personal income tax bracket and an increase to the Low Income Tax Offset (LITO), and
- from 1 July 2024, a reduction in the 32.5 per cent marginal tax rate to 30 per cent.

Changes to personal income taxes

Low and Middle Income Tax Offset and Low Income Tax Offset

The new LMITO, which applies from 1 July 2018 until 30 June 2022, currently provides a tax offset of up to $530 per year in addition to the LITO (which is a maximum of $445).

The Government has announced its intention to increase the maximum amount of the LMITO to $1,080 per year, to be phased in as set out in Table 2.1. The first time that the benefit of this reduction in income tax will be received by affected taxpayers will be when they are assessed on their 2018-19 income tax return.

From 1 July 2022, the LITO and the LMITO will merge into a new LITO. The Government has announced in this year's Budget that the maximum amount of this LITO will be increased from $645 (as currently legislated) to $700 per year, to be phased in as set out in Table 2.2.

Table 2.1: Increase in Low and Middle Income Tax Offset for Australian tax residents

Taxable Income ($)	Revised amount of the LMITO ($)
37,000 or less	255
37,001 to 48,000	255 plus 7.5 per cent of excess over 37,000
48,001 to 90,000	1,080
90,001 to 126,000	1,080 less 3.0 per cent of excess over 90,000

Table 2.2: New Low Income Tax Offset for Australian tax residents

Taxable Income ($)	Revised amount of the new LITO ($)
37,000 or less	700
37,001 to 45,000	700 less 5.0 per cent of excess over 37,500
45,001 to 66,667	325 less 1.5 per cent of excess over 45,000

Change to the personal income tax brackets

Under the already legislated Personal Income Tax Plan, gradual changes to the tax thresholds will occur to eventually remove the 37 per cent tax bracket and apply a 32.5 per cent tax rate to taxable income between $41,000 and $200,000 by 1 July 2024.

Additional tax threshold and marginal rate changes have now been announced, increasing the current top threshold of the 19 per cent tax bracket from $41,000 to $45,000 from 1 July 2022 and reducing the 32.5 per cent marginal tax rate to 30 per cent from 1 July 2024.

Table 2.3 summarises all of the relevant changes announced.

One-off Energy Assistance Payment

The Government will also make a one-off Energy Assistance Payment of $75 for singles and $62.50 for each member of a couple ($125 total) who are eligible for 'qualifying payments' as at 2 April 2019 and who are residents of Australia for tax purposes.

Qualifying payments include the Age Pension, Carer Payment, Disability Support Pension, Parenting Payment Single, the Veterans' Service Pension and the Veterans' Income Support Supplement, Veterans' disability payments, War Widow(er)s Pension, and certain permanent impairment payments.

The payment will be exempt from income tax with first payments expected to be made automatically before 30 June 2019, subject to the passage of legislation.

Medicare levy

The Medicare levy low-income thresholds for singles, families and seniors and pensioners will increase from the 2018-19 income tax year as follows:

- Individuals $22,398 (increased from $21,980)
- Families $37,794 (increased from $37,089), with an additional $3,471 for each dependent child or student (increased from $3,406)
- Single seniors and pensioners $35,418 (increased from $34,758), and
- The family threshold for seniors and pensioners will be increased to $49,304 (increased from $48,385) plus $3,471 for each dependent child or student (increased from $3,406).

Table 2.3: Income tax rates for Australian tax residents (Income range ($))

Rate (%)	Current Thresholds (from 1 July 2018)	Thresholds from 1 July 2022	Thresholds from 1 July 2024
Tax free	0 - 18,200	0 - 18,200	0 - 18,200
19	18,201 - 37,000	18,201 - 45,000	18,201 - 45,000
30			45,001 -200,000
32.5	37,001 - 90,000	45,001 - 120,000	
37	90,001 - 180,000	120,001 - 180,000	
45	> 180,000	> 180,000	> 200,000

3

Corporate Tax and Private Business

The Government has provided a boost to small and medium sized businesses, increasing the instant asset write-off threshold and extending the measures to include medium sized businesses. The deferral of the proposals to amend the deemed dividend rules (Division 7A) until 1 July 2020 is also welcome news as it allows private business groups more time to plan their cash flow in readiness for the new measures.

Boost to the instant asset write-off

In order to enhance business activity and investment the Government has announced the threshold for the instant asset write-off will be increased to $30,000. Access to the write-off will also be expanded to include both small and medium businesses which have an aggregated annual turnover of up to $50 million.

Medium businesses (aggregated annual turnover of $10 million or more to less than $50 million) will benefit from the increased $30,000 instant asset write-off for depreciable assets purchased and first used, or installed ready for use, from 7:30pm (AEDT) on 2 April 2019 to 30 June 2020.

As with the existing instant asset write-off the threshold is applied on a per asset basis, allowing businesses to benefit from the write-off of multiple depreciable assets.

The Government had previously announced on 29 January 2019 an increase in the instant asset write-off threshold from the historical $20,000 to $25,000 for small businesses (those with an aggregated annual turnover of less than $10 million).

As a result, determining access to the concession for the 2019 income year may be complicated for small businesses as there are three different threshold amounts which may apply. The applicable threshold amounts will depend upon when the assets are first used or installed ready for use as set out in Table 3.1.

Table 3.1: Instant asset write-off thresholds

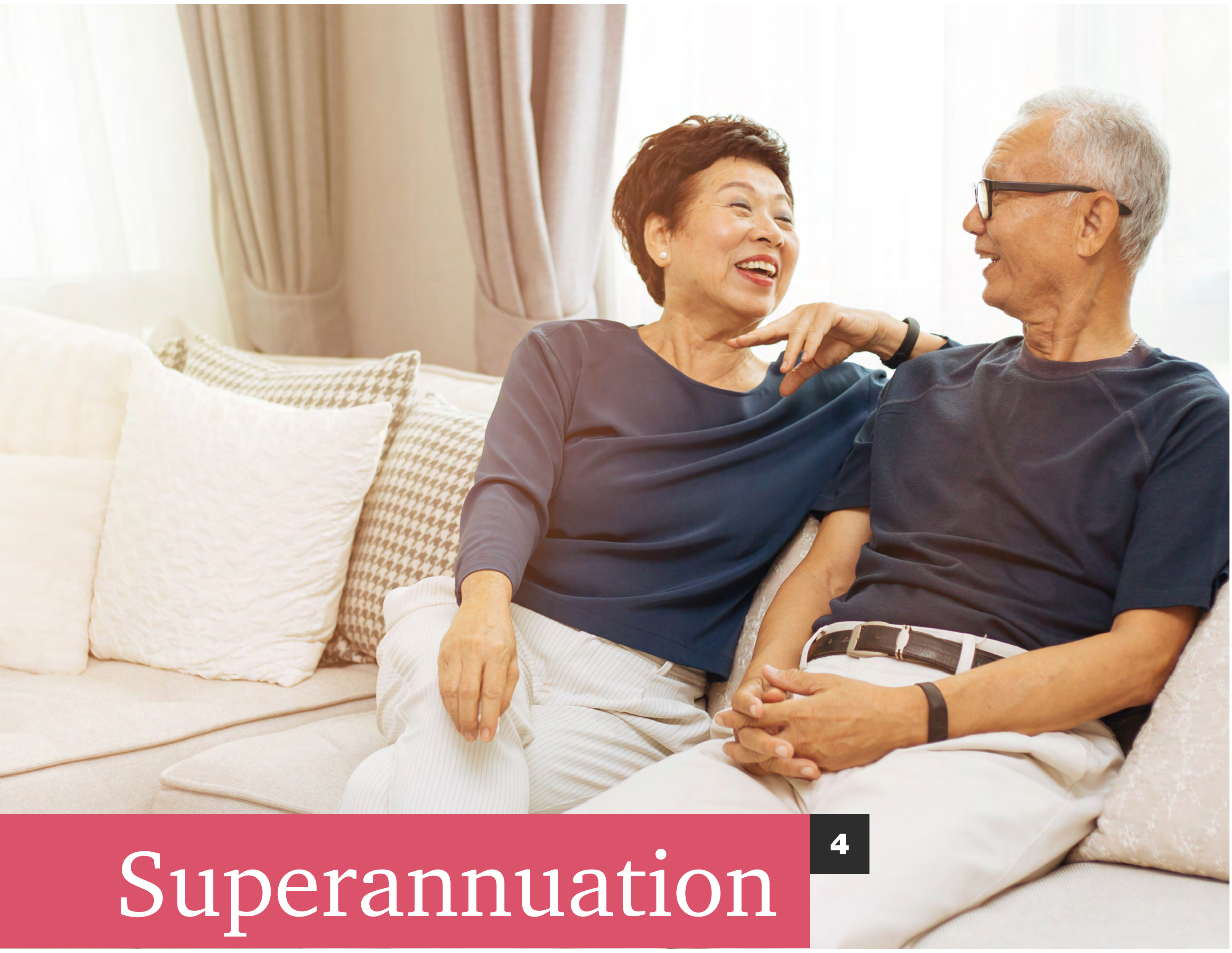
	Assets first used or installed ready for use on or before 28 January 2019	Assets first used or installed ready for use between 29 January 2019 and prior to 7:30pm (AEDT) 2 April 2019	Assets first used or installed ready for use from 7:30pm (AEDT) 2 April 2019 to 30 June 2020
Small business (aggregated annual turnover of less than $10 million)	$20,000	$25,000	$30,000
Medium business (aggregated annual turnover of $10 million to less than $50 million)	–	–	$30,000*

*Note: a medium business asset must also be purchased after 7:30pm (AEDT) 2 April 2019 to qualify for the concession

Deferral of private company deemed dividend reforms

The Government has announced that it will defer its proposals to amend the Division 7A deemed dividend rules, which apply to treat certain loans from private companies to its shareholders and associates as taxable dividends, to now apply to income years commencing on or after 1 July 2020. Importantly, this will also result in the deferral of the proposed changes to the treatment of unpaid present entitlements (UPEs).

The Division 7A reforms were originally due to apply from 1 July 2019 (as announced in last year's Federal Budget). The delay to the start date by 12 months is welcome news as this will allow further and important consultation on the details of the measures and also to refine the approach to their implementation. In particular, this should enable appropriate transitional arrangements to be developed in relation to UPEs and loans which are currently outside the operation of these rules so that affected taxpayers have sufficient time to plan and manage their cash flow position.



4

Superannuation

While no major changes to the existing superannuation system were announced in this year's Federal Budget, the Government has put forward a number of proposals to ensure that the superannuation system operates as intended and to ensure greater fairness and flexibility for participants nearing retirement.

Permanent tax relief for merging superannuation funds

In a welcome move, the current tax relief for merging superannuation funds will be made permanent from 1 July 2020, ensuring that superannuation fund member balances are not affected by tax when superannuation funds merge. This should remove tax as an impediment to mergers and facilitate industry consolidation. Self-managed superannuation funds are excluded from this tax relief.

Removal of work test requirement

From 1 July 2020, individuals aged 65 and 66 will be able to make voluntary concessional and non-concessional superannuation contributions, without meeting the "work test". The work test requires an individual to work at least 40 hours over a 30 consecutive day period for gain or reward before they are able to make voluntary contributions to superannuation. This approach is welcome as it will enable participants nearing retirement to improve their retirement savings regardless of their working arrangements.

Extension of bring-forward arrangements

The bring-forward arrangements which currently apply to individuals aged less than 65 years will be extended to those aged 65 and 66 from 1 July 2020. Under the bring-forward rules, individuals meeting the age requirement can make three years' worth of non-concessional superannuation contributions (i.e. after-tax contributions), thereby contributing up to $300,000 in a single year, with no further non-concessional contributions for the following two years.

Spouse contributions

From 1 July 2020, the age limit for spouse contributions will increase from 69 to 74 years. Currently those individuals aged 70 years and over cannot receive contributions made by another person on their behalf.

Insurance within superannuation

The Government has announced a delayed start date of 1 October 2019 for the previously announced measures which seek to ensure that insurance within superannuation is only offered on an opt-in basis for individual accounts with balances of less than $6,000 and new accounts belonging to a member who is under the age of 25 years.

Streamlining requirements for calculation of exempt current pension income

The Budget includes a number of measures targeted at reducing costs and simplifying reporting for superannuation funds by streamlining the administrative requirements for the calculation of exempt current pension income (ECPI) from 1 July 2020.

In welcome news the Government has confirmed that it will remove a requirement for superannuation funds to obtain an actuarial certificate when calculating ECPI using the proportionate method, where all members of the fund are fully in the retirement phase for all of the income year.

Changes will also be made to allow superannuation fund trustees to choose their preferred method of calculating ECPI where there are interests in both the accumulation and retirement phases during an income year.

Funding to enable electronic refund requests under a number of superannuation arrangements

An additional $19.3 million will also be provided to the Australian Taxation Office (ATO) over three years from 2020-21 to enable electronic requests to be sent to superannuation funds for the release of money required under a number of superannuation arrangements. This change is intended to apply from 31 March 2021. The start date of self-managed superannuation funds rollovers in Superstream will be delayed until 31 March 2021 to coincide with this change.

Global Tax

5

Building on already strong anti-avoidance and integrity rules within the existing tax framework, Australia continues to pursue measures aimed at addressing perceived tax avoidance by multinational corporations.

Refinement to Australia's hybrid mismatch rules

In this year's Budget, the Government announced proposed amendments to the recently introduced Australian hybrid mismatch rules. These amendments will broadly have the same application date as the original hybrid mismatch rules (i.e. income years commencing on or after 1 January 2019).

The proposed amendments are expected to:

- include rules which clarify the application of the hybrid mismatch rules to Australian multiple entry consolidated (MEC) groups and trusts. The manner in which the rules apply to trusts has been a particular area of uncertainty but the announcement does not clarify how these issues might be resolved
- limit the definition of foreign tax, which could impact, for example, the concept of "subject to foreign income tax" and "foreign income tax deduction", and
- specify that, for income years commencing on or after April 2019, the so-called integrity rule, which affects certain payments of interest (or of a similar character) directly or indirectly to foreign interposed zero or low rate (FIZLR) entities, can apply where other provisions have applied. This is a change from the current law which states that the integrity rule does not apply if a payment gives rise to any of the other six types of hybrid mismatches. As a reminder, the integrity rule is a unilateral measure and is a key departure from the Organisation for Economic Co-operation and Development (OECD) recommendations in relation to hybrid mismatch arrangements.

Although some of these changes had been anticipated, taxpayers face significant uncertainty because details of the proposals have not yet been released by the Government. This all adds to existing uncertainty associated with delays in long awaited guidance from the Australian Taxation Office (ATO) regarding the integrity rule and important questions regarding the interaction of Australia's hybrid mismatch rules with foreign (particularly US) tax rules.

Measures in relation to tax treaties

Two separate measures impacting tax treaties were announced:

- Refinements to the International Tax Agreements Act 1953 to provide that certain income covered by a tax treaty is deemed to have an Australian source. No start date was announced for the proposed amendments.
- A double tax agreement (DTA) between Australia and the State of Israel, which was signed on 28 March 2019, will be given the force of law in Australia. The key features of this new DTA include:
  - reduced withholding tax rates for dividends (zero to 15 per cent), interest (zero to ten per cent) and royalties (five per cent)
  - rules to reduce potential double taxation, and
  - limitation of benefits article which deny treaty benefits in certain circumstances where there is a principal purpose to take advantage of the treaty.

If the DTA enters into force during the 2019 calendar year, the withholding tax rules will apply from 1 January 2020. While in respect of other Australian tax in relation to income, profits or gain, the new DTA will apply to any year of income beginning on or after 1 July next following the date on which the DTA enters into force.

Updating the list of information exchange countries

The Government has announced in this year's Budget that it will include Curacao, Lebanon, Nauru, Pakistan, Panama, Peru, Qatar and United Arab Emirates into the list of countries whose residents are eligible to access a reduced withholding tax rate of 15 per cent on certain distributions from managed investment trusts (MITs) and Attribution MITs (or ten per cent for certain distributions from clean buildings MITs), instead of the default rate of 30 per cent. The updated list of countries will be effective from 1 January 2020. These countries are in addition to the 54 jurisdictions which were added to the list of information exchange countries with effect from 1 January 2019.

6

Indirect Taxes and Trade Measures

Supporting Australian exports

The Government announced it will provide $61 million over three years from 2019-20 to support Australian exporters, comprising:

- $60 million over three years from 2019-20 to the Export Market Development Grants (EMDG) scheme. This additional funding will support the EMDG scheme in assisting Australian small and medium enterprise exporters to increase exports to new markets, gain exposure in international markets, develop brand recognition and form relationships with potential overseas customers, and
- $1 million in 2019-20 to further promote Australian export industries.

Increased luxury car tax refunds for eligible primary producers and tourism operators

The Government will further extend luxury car tax refund arrangements for primary producers and tourism operators. For vehicles acquired on or after 1 July 2019, eligible primary producers and tourism operators will be able to apply for a luxury car tax refund to a maximum of $10,000 (up from $3,000 under the current arrangements). This measure will not impact on the eligibility criteria and types of vehicles eligible for the current partial refund.

Progress on Free Trade Agreements

Progress on the following Free Trade Agreements was acknowledged in the Budget:

- The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) was signed by the Australian and Indonesian governments on 4 March 2019. Over time, the IA-CEPA will provide significantly improved preferential duty arrangements or remove tariffs for 99 per cent of Australian goods exports to Indonesia.
- On 26 March 2019, the Australian and Hong Kong governments signed the Australia-Hong Kong Free Trade Agreement (A-HKFTA). Upon ratification, A-HKFTA will ensure that goods exported from Australia continue to be entered into Hong Kong duty free, whilst tariffs will be eliminated on imports into Australia from Hong Kong.

Revised start date for the biosecurity imports levy

The Budget acknowledges the Government's announcement of a change in the start date of the biosecurity imports levy (previously announced in the 2018-19 Budget) from 1 July 2019 to 1 September 2019. The later start date will allow recommendations on the design and implementation of the levy to be made by an industry steering committee to the Minister for Agriculture and Water Resources.

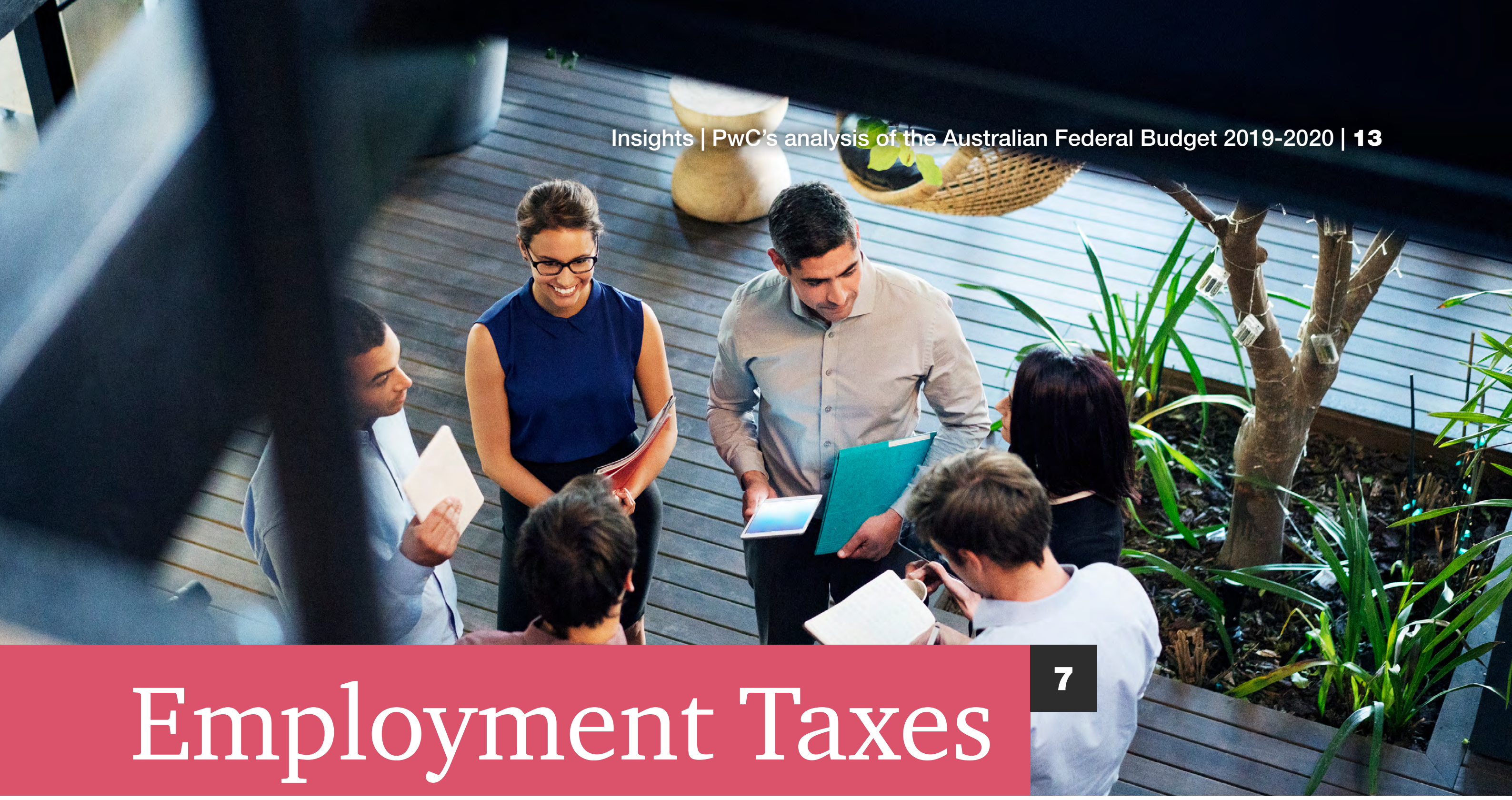
Enhancing Australia's agricultural trade

The Government announced a package of measures to enhance agricultural exports and trade through increasing export markets access and emerging export opportunities. The measures will provide $29.4 million over four years from 2019-20 (and $2.6 million per year ongoing), including:

- $5.1 million over four years from 2019-20 (and $0.2 million per year ongoing) for actions to reduce the impact of non-tariff policies on agricultural and food exports
- $11.4 million over four years from 2019-20 (and $2.4 million per year ongoing) to improve technical market access for horticulture exports
- $6.8 million over four years from 2019-20 to extend the Agricultural Trade and Market Access Cooperation program. This will assist Australian businesses to reduce technical barriers to trade for agricultural exports and secure access to premium markets
- $6.1 million over four years from 2019-20 to extend the Package Assisting Small Exporters program. This measure will support small exporters to overcome barriers in export sector participation.

Other indirect tax measures

The Government has granted or extended access to refunds of indirect tax (including goods and services tax, fuel and alcohol taxes) for certain diplomatic and consular representations under the Indirect Tax Concession Scheme.



Employment Taxes

7

Single Touch Payroll changes

The Government has announced measures relating to the Single Touch Payroll (STP) system which streamlines the way employers report employee payroll and superannuation information. STP 'real time' reporting applied to the majority of employers with 20 or more employees from 1 July 2018 and will apply to employers with fewer than 20 employees from 1 July 2019.

Specifically, the following measures are proposed:

- Funding of $82.4 million over four years from 2019-20 (including capital funding of $16 million over four years from 2019-20) to the Australian Taxation Office (ATO) and the Department of Veterans' Affairs to support the expansion of data collected through STP by the ATO and the use of this data by Commonwealth agencies. STP data will be expanded to include more information about gross pay amounts and other details.
- Simplification and automation in reporting of employment income for social security purposes through STP. From 1 July 2020, income support recipients who are employed will report income received during the fortnight, with income data being shared with the Department of Human Services through expanded data-sharing arrangements. This measure will reduce the likelihood of income support recipients receiving an overpayment of income support payments (and subsequently being required to repay the amounts). This measure does not impact on the eligibility criteria or maximum payment rates.

Sham contracting

The Government announced it will provide $9.2 million over four years from 2019-20 (and $2.3 million ongoing) to establish a dedicated sham contracting unit within the Fair Work Ombudsman. This dedicated unit aims to address sham contracting behaviour by some employers to avoid employment entitlements through increasing education, compliance and enforcement activities, and dedicating additional resources to investigate and litigate cases.

Other Measures

8

More funding to ATO's Tax Avoidance Taskforce

The Australian Taxation (ATO) will be provided with $1 billion over four years to extend the operation of the Tax Avoidance Taskforce until 30 June 2023. The Taskforce will have a renewed focus on multinationals, big business and high wealth individuals, and expand its programs and market coverage to include increased scrutiny of specialist tax advisors and intermediaries that promote tax avoidance schemes and strategies. This is estimated to collect an additional $3.6 billion in revenue over the forward estimates.

A further $24.2 million of funding has also been provided in 2018-19 to the Department of Treasury to conduct a campaign focused on improving the integrity of the Australian tax system.

Funding to implement Banking Royal Commission measures

The Government has allocated $606.7 million of funding to facilitate its response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry over the next five years. Both the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) will have additional funding to help restore trust in Australia's financial sector.

ASIC will be provided with an additional $404.8 million to implement its new enforcement strategy and expand its capabilities and roles in accordance with the recommendations of the Royal Commission. APRA will have an additional $145 million in funding to strengthen its supervisory and enforcement activities which will support its response to key areas of concern raised by the Royal Commission.

Black economy – strengthening the ABN system

The Government has announced that it will disrupt black economy behaviour and target the misuse of the Australian Business Number (ABN) system. From 1 July 2021, ABN holders with an income tax return obligation will be required to lodge their income tax return. From 1 July 2022, ABN holders will be required to confirm the accuracy of their details on the Australian Business Register annually. Currently, ABN holders are able to retain their ABN regardless of whether they comply with their income tax return lodgment obligation or the obligation to update their ABN details. The Government's announcement builds on its comprehensive actions to reduce the impact of the black economy.

Updates to deductible gift recipients

From 1 July 2020, Men's Sheds and Women's Sheds will be able to access Deductible Gift Recipient (DGR) status via the establishment of a DGR general category.

For the period 1 July 2019 to 30 June 2024, the following organisations have been approved as specifically-listed DGRs:

- Australian Academy of Law
- China Matters Limited
- Foundation Broken Hill Limited
- Motherless Daughters Australia Limited
- Superannuation Consumers Centre Limited, and
- The Headstone Project (Tasmania) Incorporated.

Income tax exemptions for flood and storm grants

An income tax exemption will be provided for qualifying grants made to primary producers, small businesses and non-profit organisations affected by North Queensland floods. The exemption will apply where the grants relate to the monsoonal trough, which produced flooding that started on or after 25 January 2019 and continued into February 2019.

Similarly, payments to primary producers in the Fassifern Valley in Queensland affected by storm damage in October 2018 will be treated as income tax exempt. This relates to payments distributed to affected taxpayers through a grant totalling $1 million to the Foundation for Rural and Regional Renewal.

Further ATO funding to strengthen integrity measures

The Government has announced that it will provide $42.1 million over four years to the ATO to increase activities to recover unpaid tax and superannuation liabilities. This initiative will focus on larger businesses and high wealth individuals to ensure on-time payment of their tax and superannuation liabilities. These activities will not extend to small businesses.

Forward Tax Agenda

9

In the past 12 months, the Government has made solid progress in implementing its tax legislative agenda with a number of important reforms enacted including:

- the Organisation of Economic Co-operation and Development (OECD) Multilateral Instrument, which entered into force for Australia as early as 1 January 2019 for some treaty countries,
- anti-hybrid provisions that apply to income years commencing on or after 1 January 2019, and
- a range of measures targeting the black economy.

It is pleasing to see the Government recently released its response to the Treasury consultation paper on the digital economy released last year. Treasurer Josh Frydenberg announced in March 2019 that given feedback received from the consultation and recent international developments, *"the Government has decided to continue to focus our efforts on engaging in a multilateral process and not to proceed with an interim measure, such as a digital services tax, at this time."* This will provide much needed certainty to taxpayers focussed on digitalisation in the global economy.

There are, however, a number of critical previously announced measures that have not yet been enacted. Some of these are highlighted in Table 9.1 over the following pages.

Table 9.1: Key measure previously announced still to be legislated

Measure	Status
Global tax	
Thin capitalisation changes including removal of ability to revalue assets off balance sheet and treat foreign controlled Australian tax consolidated and multiple entry consolidated groups with foreign investments or operations as both outward and inward investing entities	Currently before Parliament. The measure relating to revaluation of assets is proposed to apply from 8 May 2018, subject to transitional rules applicable until income years that commence on or after 1 July 2019. The change to the treatment of consolidated groups is proposed to apply to income years commencing on or after 1 July 2019.
Broadening the definition of significant global entity (SGE)	Currently before Parliament. The concept of SGE is relevant for a range of tax laws including Country-by-Country reporting, Multinational Anti-Avoidance Law, Diverted Profits Tax, and penalties.
Offshore Banking Unit (OBU) reforms	Announced in October 2018 to address concerns raised by the OECD Forum on Harmful Tax Practices.
Corporate tax	
Reforming the integrity provisions in the debt/equity rules	Draft legislation to implement the Board of Taxation's recommended approach to improve the debt and equity tax rules was released in October 2016. The new rules are proposed to apply in relation to transactions entered into after the commencement of the law, which will be a day to be fixed by proclamation (or if there is no proclamation, six months after Royal Assent).
Better targeting the research and development (R&D) tax incentive	These reforms, which were announced in the 2018-19 Federal Budget, are currently in a Bill before Parliament. The Senate Economics Legislation Committee handed down its report on the Bill in February 2019, recommending further examination and analysis of the impact of the R&D reforms be undertaken.
Removing barriers to the use of asset backed financing	Originally announced in the 2016-17 Federal Budget, and proposed to apply with effect from 1 July 2018.
Preventing franked distributions funded by capital raisings	Originally announced in the 2016-17 Mid Year Economic and Fiscal Outlook (MYEFO) and proposed to apply to distributions made after 12:00pm (AEDT) on 19 December 2016.
Reforms to taxation of financial arrangements (TOFA)	Originally announced in the 2016-17 Federal Budget. In December 2017, the Government announced that it will defer the commencement of this proposal until income years that begin after Royal Assent.
Petroleum Resource Rent Tax (PRRT) reforms including measures to lower the uplift rates for general expenditure and exploration expenditure and removal of onshore projects from the PRRT regime	Currently before Parliament and expected to be passed this week. Reforms proposed to apply from 1 July 2019.

Table 9.1: Key measure previously announced still to be legislated (continued)

Measure	Status
Asset and wealth management	
Package of measures to improve the integrity of the law for arrangements involving stapled structures and limit access to tax concessions for foreign investors	Currently before Parliament and expected to be passed this week. These changes will generally take effect from 1 July 2019 (subject to transitional rules for existing investments).
Removal of the capital gains tax (CGT) discount at trust level for Managed Investment Trusts (MITs) and Attribution MITs	Announced in the 2018-19 Federal Budget. The start date was deferred from 1 July 2019 to 1 July 2020 in the 2018-19 MYEFO.
Corporate and limited partnership collective investment vehicle (CIV)	Draft legislation dealing with the tax and regulatory framework for corporate CIVs has been released for public consultation. No draft legislation has been made available for the proposed limited partnership CIV.
Personal tax and superannuation	
Taxation of income for use of an individual's fame and image	A consultation paper was released in December 2018. This measure is proposed to apply from 1 July 2019.
Superannuation guarantee (SG) 12-month amnesty for historical underpayment of SG and increase in penalties for those that do not come forward during the amnesty	A Bill to implement the 12-month amnesty from 24 May 2018 is currently before Parliament.
Removal of CGT main residence exemption for foreign residents	Currently before Parliament. Proposed to apply from 7:30pm by legal time in the ACT on 9 May 2017, with a transitional period until 30 June 2019 for dwellings held before 9 May 2017.
Other measures	
Goods and services tax (GST) for online bookings for accommodation in Australia	Currently before Parliament. Proposed to apply from 1 July 2019.
Measures to deal with the black economy including implementing a reporting regime for the sharing economy	Following last year's Budget announcement, a number of black economy measures have already been enacted in addition to relatively recent consultation on recommendations for a sharing economy reporting regime and also to modernise offences, penalties and streamline prosecution processes.
Denial of deductions for vacant land	Draft legislation to implement this measure was released in October 2018. The measure is proposed to have effect from 1 July 2019.
Improving the transparency of tax debts by authorising the Australian Taxation Office (ATO) to disclose certain business tax debts to credit reporting bureaus	In January 2018, the Government released draft legislation for this proposal. Further changes to this measure were announced in the 2018-19 MYEFO, including raising the threshold for reporting from $10,000 to $100,000. This measure will take effect the day after Royal Assent of the enabling legislation.

Opposition tax policies

With a Federal election looming, it would be remiss not to take into account the policies of the Australian Labor Party in considering what the forward tax agenda may look like. In Table 9.2, we summarise some of the key tax policies that have been announced by the Australian Labor Party to date.

A number of these tax policies were announced by the Australian Labor Party prior to the 2016 election, and for some of these proposals, a start date is unclear. We may hear more on these measures from the Opposition Leader in the Budget reply speech scheduled for Thursday 4 April 2019.

Table 9.2: Key tax policies of Australian Labor Party

Policy area	Australian Labor Party policy
Company income tax rate	The Labor Party will maintain the legislated reduction in the company tax rate to 25 per cent by 2021-22 for small and medium sized-business with aggregated turnover of up to $50 million.
Personal income tax rates	The Labor Party has proposed larger personal tax cuts than those that have already been legislated for taxpayers earning less than $125,000 and has indicated an intention to increase the top marginal tax rate from 47 per cent to 49 per cent.
Personal tax deductions	From 1 July 2019, introduce a $3,000 cap on the amount individuals can claim as deductions for the management of their taxation affairs.
Accelerated depreciation of certain business assets	From 1 July 2021, implement a new Australian Investment Guarantee, allowing businesses to immediately deduct 20 per cent of the value of investment in eligible depreciating assets (including electric vehicles), with the balance depreciated in line with normal depreciation rates from the first year.
Taxation of discretionary trust distributions	Introduce a minimum 30 per cent tax rate for discretionary trust distributions to mature individual beneficiaries (aged 18 years and over) with effect from 1 July 2019.
Imputation reform	From 1 July 2019, cash refunds of excess franking credits will be removed for certain individuals and superannuation funds. Australian Government pension or allowance recipients and self-managed superannuation funds which have at least one Australian Government pensioner or allowance recipient before 28 March 2018 will be exempt from this measure.
Multinational tax avoidance	Amend the thin capitalisation rules to limit the amount of debt deductions multinational companies can claim in Australia to the debt-to-equity ratio of a group's entire global operations. Provide additional funding to the ATO to properly investigate and pursue multinational profit shifting.
Transparency	A range of additional measures to promote tax transparency are proposed including a mandatory Extractive Industries Transparency scheme for large Australian extractive companies to disclose payments (including taxes) arising from minerals exploration, prospection, discovery, development or extraction; publishing of Country-By-Country reports (excerpts); restoring the $100 million threshold for public reporting by the ATO of tax information of large private companies; and the establishment of a publicly accessible central register of beneficial ownership of Australian companies, trusts and other corporate structures.
Capital Gains Tax	Reduce the CGT discount for individuals from 50 per cent to 25 per cent. This is proposed to apply to assets acquired on or after 1 January 2020. Assets acquired before this date will not be affected.
Negative gearing	Limit negative gearing to new housing investments. This is proposed to apply to assets acquired on or after 1 January 2020. Assets acquired before this date will not be affected.
Build-to-rent housing	Reduce the MIT withholding tax rate from 30 per cent to 15 per cent for fund payments attributable to investments in build-to-rent housing.

Comprehensive tax reform remains critical

With the Federal Budget moving towards surplus, now is the ideal time for our political leaders to step back and take a fresh look at our tax system. Australia's social and economic future may depend upon it.

In a global context, for Australia to remain internationally competitive for companies to do business here, we need to progressively lower the corporate tax rate. Australia's top corporate tax rate of 30 per cent is the second highest amongst OECD nations behind only France. Although the recent reform to reduce the Australian company tax rate for small to medium companies progressively down to 25 per cent by 2021-22 is a step in the right direction, more could be done across the board, also noting that the current two-tiered company tax rate regime adds complexity to our tax system.

Reform should also extend to Australia's consumption tax. We need to have a much more sophisticated debate about where Goods and Services Tax (GST) is and isn't applied – and how much GST is applied.

Our ability to have a constructive conversation about comprehensive tax reform today will have a direct impact on our living standards tomorrow. PwC strongly supports the development of a better tax system for Australia, and remains committed to joining a national conversation on tax reform.

Contacts

For further information, contact your usual PwC advisor or one of these contacts:

Summary

Jeremy Thorpe
+61 (2) 8266 4611
jeremy.thorpe@pwc.com

Julie Coates
+61 (2) 8266 2006
julie.coates@pwc.com

Pete Calleja
+61 (2) 8266 8837
pete.calleja@pwc.com

Tom Seymour
+61 (7) 3257 8623
tom.seymour@pwc.com

Lynda Brumm
+61 (7) 3257 5471
lynda.brumm@pwc.com

Craig Fenton
+61 (7) 3257 8851
craig.fenton@pwc.com

Personal Tax

Bruce Ellis
+61 (3) 8603 3303
bruce.ellis@pwc.com

Glen Frost
+61 (2) 8266 2266
glen.frost@pwc.com

Martina Crowley
+61 (8) 9238 3222
martina.crowley@pwc.com

Murray Evans
+61 (2) 4925 1139
murray.evans@pwc.com

Samantha Vidler
+61 (7) 3257 8813
samantha.vidler@pwc.com

Norah Seddon
+61 (2) 8266 5864
norah.seddon@pwc.com

Corporate Tax and Private Business

Sanjiv Jeraj
+61 (3) 8603 3187
sanjiv.jeraj@pwc.com

Samantha Vidler
+61 (7) 3257 8813
samantha.vidler@pwc.com

Simon Le Maistre
+61 (3) 8603 2272
simon.le.maistre@pwc.com

Michael Dean
+61 (2) 8266 5427
michael.dean@pwc.com

Martina Crowley
+61 (8) 9238 3222
martina.crowley@pwc.com

Superannuation

Marco Feltrin
+61 (3) 8603 6796
marco.feltrin@pwc.com

Abhi Aggarwal
+61 (7) 3257 5193
abhi.aggarwal@pwc.com

Alice Kase
+61 (2) 8266 5506
alice.kase@pwc.com

Jeffrey May
+61 (3) 8603 0729
jeffrey.may@pwc.com

Ken Woo
+61 (2) 8266 2948
ken.woo@pwc.com

Naree Brooks
+61 (3) 8603 1200
naree.brooks@pwc.com

Global Tax

Michael Bona
+61 (7) 3257 5015
michael.bona@pwc.com

Peter Collins
+61 (3) 8603 6247
peter.collins@pwc.com

Sach Pelpola
+61 (3) 8603 1376
sach.pelpola@pwc.com

Angela Danieletto
+61 (2) 8266 0973
angela.danieletto@pwc.com

Jonathan Malone
+61 (2) 8266 4770
jonathan.r.malone@pwc.com

Indirect Taxes and Trade Measures

Michelle Tremain
+61 (8) 9238 3403
michelle.tremain@pwc.com

Gary Dutton
+61 (7) 3257 8783
gary.dutton@pwc.com

Stephanie Males
+61 (2) 6271 3414
stephanie.males@pwc.com

Ben Lannan
+61 (3) 8603 2067
ben.lannan@pwc.com

Employment Taxes

Katie Lin
+61 (2) 8266 1186
katie.f.lin@pwc.com

Greg Kent
+61 (3) 8603 3149
greg.kent@pwc.com

Paula Shannon
+61 (7) 3257 5751
paula.shannon@pwc.com

Other Measures

Liam Collins
+61 (3) 8603 3119
liam.collins@pwc.com

Pete Calleja
+61 (2) 8266 8837
pete.calleja@pwc.com

Lynda Brumm
+61 (7) 3257 5471
lynda.brumm@pwc.com

Michael Dean
+61 (2) 8266 5427
michael.dean@pwc.com

Forward Tax Agenda

Pete Calleja
+61 (2) 8266 8837
pete.calleja@pwc.com

Paul Abbey
+61 (3) 8603 6733
paul.abbey@pwc.com

Lynda Brumm
+61 (7) 3257 5471
lynda.brumm@pwc.com

Jonathan Malone
+61 (2) 8266 4770
jonathan.r.malone@pwc.com

Ellen Thomas
+61 (2) 8266 3550
ellen.thomas@pwc.com