GLANCE CONSULTANTS
CHARTERED ACCOUNTANTS

Federal Budget 2018-19

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Political & Economic Overview

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Budget Overview

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total(a)
Underlying cash balance ($b)(b)	**-33.2**	**-18.2**	**-14.5**	**2.2**	**11.0**	**16.6**	**15.3**
Per cent of GDP	-1.9	-1.0	-0.8	0.1	0.5	0.8	
Net operating balance ($b)	**-32.1**	**-12.6**	**-2.4**	**8.6**	**19.6**	**27.4**	**53.2**
Per cent of GDP	-1.8	-0.7	-0.1	0.4	0.9	1.3	

(a) Total is equal to the sum of amounts from 2018–19 to 2021–22.
(b) Excludes expected net Future Fund earnings before 2020–21.

See below for comparable tables from previous years' Budgets and 2018 Mid Year Economic and Fiscal Outlook

The Government has delivered a pre-election Budget with modest tax cuts directed at low and medium-income earners and a Budget result which returns the bottom line to a modest surplus in 2019-20, a year ahead of last year's forecasts.

Although modest, the package appears likely to please low and medium-income earners, who are also likely to be pleased by its forecasts of higher wages and economic growth.

There are also increases for the aged care sector and some new incentives for older workers to continue employment.

But the welfare sector and its supporters will be disappointed, with no increases in Newstart despite a vigorous campaign for an improvement, backed by business. However the welfare sector will take some comfort that the Budget contains none of the draconian changes directed at welfare receipients of recent Budgets.

The Budget contains few surprises in the general scope of its pre-election offerings. But as always there is a wealth of detail that had not been foreshadowed, including in areas which had not been expected to face changes – such as superannuation (see under Superannuation). Unlike the 2016 Budget, the superannuation changes are likely to be welcomed by superannuants.

The Budget forecasts the Government will return to surplus a year earlier than the forecast in December's Mid Year Economic and Fiscal Outlook and last year's Budget.

According to Budget the Government will achieve a surplus of $2.2 billion in 2019-20, compared to the first surplus of $7.4 billion in 2020-21 forecast in last year's Budget and $10.2 billion forecast in MYEFO. The Treasurer Scott Morrison in his Budget speech acknowledged the size of the surplus was "modest" but argued "the Turnbull Government has now stayed on track for a surplus for six successive budget updates."

The 2018-19 deficit (referred to in following items as 'this year') will be $14.5 billion, compared to the $20.5 billion forecast in MYEFO.

The Government says, "The 2018–19 Budget brings a further improvement to Australia's fiscal position, reflecting the Government's focus on fiscal discipline to achieve budget surpluses and improved receipts from stronger economic growth.

"This outcome recognises the benefits of the Government sticking with its plan to build a stronger economy. To ensure sustainable budget outcomes continue, the Government will continue to strengthen the economy by:

- providing tax relief to encourage and reward working Australians;
- continuing to back business to invest and create more jobs;

- guaranteeing the essential services on which Australians rely;
- keeping Australians safe; and
- ensuring that the Government lives within its means."

Real GDP is forecast to grow by 2 ¾ per cent in 2017–18 and is forecast to accelerate further to 3 per cent growth in 2018–19 and 2019–20 — a pace sufficient to continue to lower the unemployment rate over the next few years.

The Budget includes:

- a seven-year Personal Income Tax Plan aimed at low and middle-income earners
- extending the $20,000 instant asset write-off for businesses with a turnover of up to $10 million to apply in 2018–19;
- investing $75 billion in transport infrastructure over the coming decade;
- an additional investment of $2.4 billion in technology and science over 12 years;
- a $1.3 billion National Health and Medical Industry Growth Plan

The Personal Income Tax Plan lowers taxes so that 94 per cent of all taxpayers are projected to pay no more than 32.5 cents in the dollar in 2024–25.

This first step is:

- a new, non-refundable tax offset, in addition to the Low Income Tax Offset (LITO), will provide tax relief of up to $530 to low and middle-income earners for the 2018–19, 2019–20, 2020–21 and 2021–22 income years. The offset will be received as a lump sum on assessment after individuals lodge their tax returns.

Under the second step:

- from 1 July 2018, the top threshold of the 32.5 per cent tax bracket will be increased from $87,000 to $90,000. This will provide a tax cut of up to $135 per year to about 3 million taxpayers and will prevent about 200,000 people from facing a marginal tax rate of 37 per cent in 2018–19. This is expected to prevent average full-time wage earners from facing a higher marginal tax rate of 37 per cent in 2019–20;
- the top threshold of the 32.5 per cent bracket will then be further increased from $90,000 to $120,000 from 1 July 2022, providing tax relief of up to $1,350 each year. This change is projected to prevent about 1.8 million taxpayers from facing a higher marginal tax rate of 37 per cent in 2022–23; and
- the benefits provided by the low and middle-income tax offset will be locked in by increasing the top threshold of the 19 per cent bracket from $37,000 to $41,000 and increasing the LITO from $445 to $645.

The Government is implementing a number of the Black Economy Taskforce final report's recommendations in the Budget. Key measures include:

- increasing enforcement of illicit tobacco,
- an economy-wide cash payment limit of $10,000 to reduce money laundering and tax evasion,
- denying deductions for payments to employees and contractors where reporting or withholding obligations are not met and
- enhancing the ability of enforcement agencies to detect and target black economy participants including the establishment of a taskforce which will allow the sharing of information across different agencies.

On infrastructure, the Government is funding $24.5 billion in new major transport projects and initiatives in all states and territories. These projects and initiatives are part of the Government's $75 billion investment in transport infrastructure from 2018–19 to 2027–28. The investment uses a combination of grant funding, loans and equity investments.

References
Budget Paper No 1, Statement No 1 – Budget Overview.
Budget Paper No 1, Statement No 3 – Fiscal Strategy and Outlook.

The following tables are the comparable Budget aggregate tables from previous years' Budgets and the 2018 Mid Year Economic and Fiscal Outlook

MYEFO 2017-18

Table 1.1: Budget aggregates

	Estimates			
	2017-18		2018-19	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Underlying cash balance(a)	**-29.4**	**-23.6**	**-21.4**	**-20.5**
Per cent of GDP	-1.6	-1.3	-1.1	-1.1
Net operating balance	**-19.8**	**-18.2**	**-10.8**	**-9.9**
Per cent of GDP	-1.1	-1.0	-0.6	-0.5
	Projections			
	2019-20		2020-21	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Underlying cash balance(a)	**-2.5**	**-2.6**	**7.4**	**10.2**
Per cent of GDP	-0.1	-0.1	0.4	0.5
Net operating balance	**7.6**	**6.8**	**17.5**	**20.9**
Per cent of GDP	0.4	0.3	0.8	1.0

(a) Excludes expected net Future Fund earnings before 2020-21.

Budget 2017-18

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total(a)
Underlying cash balance ($b)(b)	**-39.6**	**-37.6**	**-29.4**	**-21.4**	**-2.5**	**7.4**	**-45.9**
Per cent of GDP	-2.4	-2.1	-1.6	-1.1	-0.1	0.4	
Net operating balance($b)	**-33.6**	**-38.7**	**-19.8**	**-10.8**	**7.6**	**17.5**	**-5.5**
Per cent of GDP	-2.0	-2.2	-1.1	-0.6	0.4	0.8	

(a) Total is equal to the sum of amounts from 2017-18 to 2020-21.
(b) Excludes expected net Future Fund earnings before 2020-21.

Budget 2016-17

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
Underlying cash balance ($b)(b)	**-37.9**	**-39.9**	**-37.1**	**-26.1**	**-15.4**	**-6.0**	**-84.6**
Per cent of GDP	-2.4	-2.4	-2.2	-1.4	-0.8	-0.3	
Fiscal balance ($b)	**-39.9**	**-39.4**	**-37.1**	**-18.7**	**-9.8**	**-2.1**	**-67.7**
Per cent of GDP	-2.5	-2.4	-2.2	-1.0	-0.5	-0.1	

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.
(b) Excludes net Future Fund earnings.

Economic Outlook

Table 1: Domestic economy forecasts[a]

	Outcomes(b)	Forecasts		
	2016-17	2017-18	2018-19	2019-20
Real gross domestic product	**2.1**	**2 3/4**	**3**	**3**
Household consumption	**2.6**	2 3/4	2 3/4	3
Dwelling investment	**2.8**	-3	1 1/2	0
Total business investment(c)	**-4.0**	4 1/2	3	4 1/2
By industry				
Mining investment	**-24.2**	-11	-7	3 1/2
Non-mining investment	**6.1**	10 1/2	5 1/2	5
Private final demand(c)	**1.4**	2 1/2	2 1/2	3
Public final demand(c)	**5.1**	4 3/4	3	2 3/4
Change in inventories(d)	**0.1**	- 1/4	0	0
Gross national expenditure	**2.4**	3	2 3/4	3
Exports of goods and services	**5.5**	2 1/2	4	2 1/2
Imports of goods and services	**4.9**	5	2	2 1/2
Net exports(d)	**0.0**	- 1/2	1/4	0
Nominal gross domestic product	**5.9**	4 1/4	3 3/4	4 3/4
Prices and wages				
Consumer price index(e)	**1.9**	2	2 1/4	2 1/2
Wage price index(f)	**1.9**	2 1/4	2 3/4	3 1/4
GDP deflator	**3.8**	1 3/4	3/4	1 1/2
Labour market				
Participation rate (per cent)(g)	**65.0**	65 1/2	65 1/2	65 1/2
Employment(f)	**1.9**	2 3/4	1 1/2	1 1/2
Unemployment rate (per cent)(g)	**5.6**	5 1/2	5 1/4	5 1/4
Balance of payments				
Terms of trade(h)	**14.4**	1 1/2	-5 1/4	-2 1/4
Current account balance (per cent of GDP)	**-2.1**	-2 1/4	-2 3/4	-3 1/4

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data unless otherwise indicated.
(c) Excluding second-hand asset sales from the public sector to the private sector.
(d) Percentage point contribution to growth in GDP.
(e) Through-the-year growth rate to the June quarter.
(f) Seasonally adjusted, through-the-year growth rate to the June quarter.
(g) Seasonally adjusted rate for the June quarter.
(h) The forecasts are underpinned by price assumptions for key commodities: Iron ore spot price remaining at US$55/tonne free-on-board (FOB); metallurgical coal spot price falling over the June and September quarters of 2018 to reach US$120/tonne FOB by the December 2018 quarter, and the thermal coal spot price remaining at US$93/tonne FOB.

The Budget is forecasting a tick up in both economic and wages growth in the current financial, with wages growth, while still subdued by historical standards, represents a significant increase on recent years.

It forecasts GDP growth of 3 per cent in both 2018-19 and 2019-20, up from 2 ¾ per cent in 2017-18.

Wages growth is forecast at 2 ¾ per cent this year rising to 3 ¼ per cent in 2019-20, from 2 ¼ per cent in 2017-18.

The Budget says, “Momentum in the Australian economy strengthened in the second half of 2017, with solid contributions from household consumption and non-mining business investment. The transition towards more broad-based sources of growth is occurring as expected, with the economy forecast to grow by a solid 2 ¾ per cent in 2017-18. Growth is then forecast to pick up to 3 per cent in 2018-19 and 2019-20 — a pace sufficient to lower the unemployment rate over the next few years.”

It says, “The Australian economy is being supported by a positive global outlook. Conditions in the global economy also strengthened in 2017, surpassing expectations. Global growth has risen to its fastest pace in six years, with widespread strength across both advanced and emerging economies. This is expected to continue in 2018. Overall, the global cycle is better synchronised than it has been for some time. Unemployment rates have fallen in most major advanced economies and these economies may push up against capacity constraints over the next few years.”

“Domestically, the Australian economy has entered its 27th consecutive year of growth. It has performed remarkably well in adjusting from the investment phase of the mining boom towards broader-based sources of growth. This transition is expected to be completed by the end of the forecast period. Momentum in consumption and non-mining business investment is expected to underpin a pick-up in growth, as the drag from the unwinding of the mining investment boom recedes. Mining exports are also forecast to continue to grow solidly.”

The Budget says that, “In the longer term, the global economy faces further challenges. In the United States, while the reduction of the corporate tax rate will provide a structural boost to its competitiveness, the expiration of some of the temporary components of the recent package — including the personal tax cuts and depreciation allowance — may shift the balance between fiscal stimulus and less accommodative monetary policy, heightening downside risks there. High levels of debt and potential financial imbalances continue to pose risks to China’s economy and a number of economies elsewhere. All that said, these risks are very hard to quantify and the world economy has shown remarkable resilience in recent years.”

“Closer to home, risks remain around future household consumption and saving behaviour but this has been the case for several years and the household sector has shown resilience over this time. A change in households’ attitudes towards saving, combined with subdued income growth, may result in slower consumption growth than forecast. There is also a risk that household spending may be affected by any unanticipated tightening in financial conditions, possibly as a consequence of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, although it is too early to assess how likely that is to occur. Meanwhile, stronger-than-forecast employment growth could provide an upside risk to consumption growth. Recent increases in the participation rate have elevated the uncertainty around assessments of the degree of spare capacity in the labour market.”

“The risks around non-mining business investment are more balanced than they have been for some time. A more significant pick-up in non-mining business investment, particularly in the outer years of the forecast horizon, provides upside risk to the forecasts. That said, business investment fell in some industries in 2016-17 and questions will remain about the sustainability of the pick-up until growth in non-mining business investment broadens further across industries.”

“The outlook for commodity prices is also a significant uncertainty for nominal GDP but the assumptions for these prices remain prudent.”

Wages growth

Wage growth is forecast to pick up to 2 ¼ per cent through the year to the June quarter 2018, 2 ¾ per cent through the year to the June quarter 2019 and 3 ¼ per cent through the year to the June quarter 2020, as economic growth strengthens to be above its potential rate and excess capacity in the labour market is absorbed.

Economic growth

Real GDP is forecast to grow by a solid 2 ¾ per cent in 2017-18 and to accelerate further to 3 per cent growth in 2018-19 and 2019-20.

It says, “Economic momentum continues to be supported by favourable fundamentals. The Reserve Bank of Australia’s official cash rate remains at a historic low and has now been stable for the longest period in Australia’s history. The Australian dollar also remains around 30 per cent lower than its 2011 peak against the US dollar.”

“While the unwinding of the mining investment boom in recent years has had a direct effect on growth, it has also resulted in negative spillovers in the broader economy. It has particularly weighed on non-mining business investment in Queensland and Western Australia but this effect is diminishing. The Australian economy is also benefiting from population growth, technological developments, positive business conditions and recent gains in national income following renewed strength in the terms of trade."

Employment growth and participation

The near-term employment growth forecast has been upgraded to 2 ¾ per cent through the year to the June quarter 2018, and is forecast to be 1 ½ per cent through the year to the June quarter 2019 and 1 ½ per cent through the year to the June quarter 2020.

Unemployment

The unemployment rate has declined over the past year and is expected to fall further over the forecast period. The unemployment rate is forecast to be 5 ½ per cent in the June quarter 2018 before declining to 5 ¼ per cent by the June quarter of 2019.

Investment

After four consecutive annual declines, there are now signs that a recovery in total business investment is underway, with a lift in momentum in non-mining business investment and a diminishing drag on growth from the fall in mining investment, including from spillovers.

Mining investment is expected to continue to fall over the next couple of years.

Non-mining business investment growth has recently been stronger than expected and has more than offset a slightly stronger pace of decline in mining investment.

The pace of dwelling investment has softened in recent quarters following solid growth over the past few years, with dwelling investment reaching a peak of just under 6 per cent of GDP in 2016-17. It is expected to moderate from this peak in 2017-18, falling by 3 per cent following some softness in approvals in late 2016.

References
Budget Paper No 1, Statement No 2 Economic Outlook

Budget Outcome – Surplus, Deficit and Debt

Budget Outcome – Deficit/Surplus as a per cent of GDP

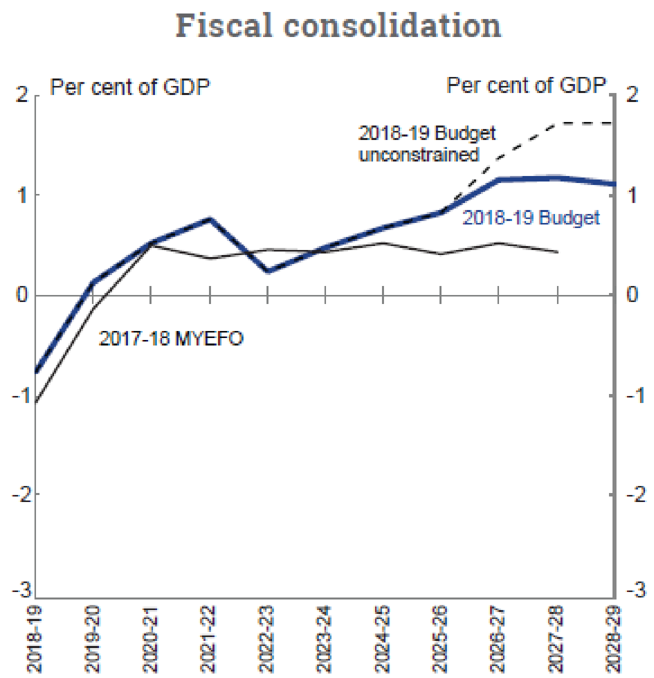
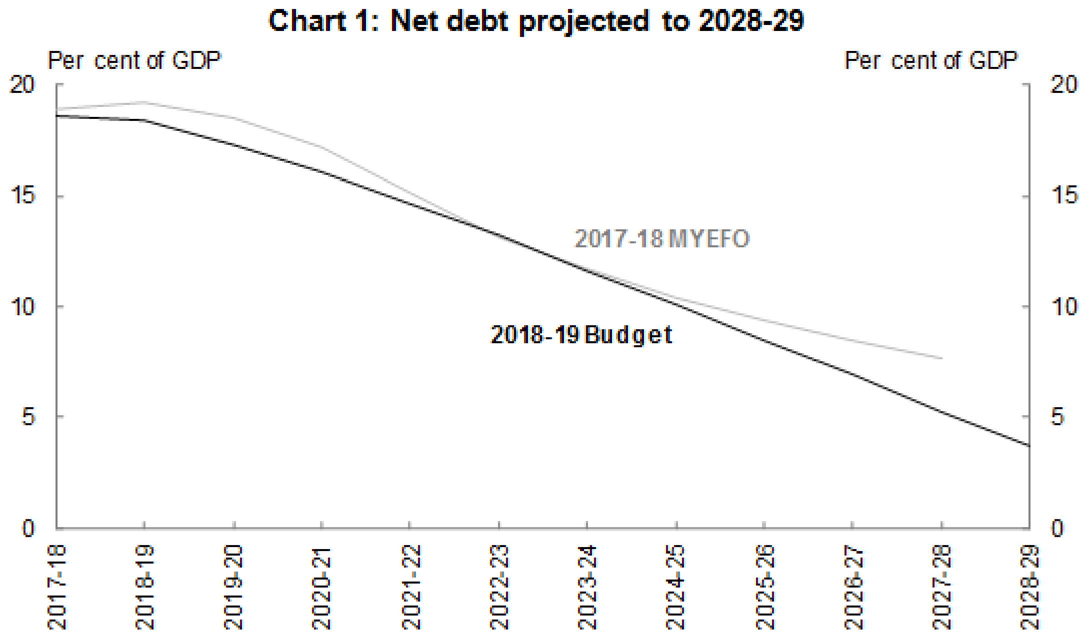


Table 2: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**409.9**	**445.1**	**473.7**	**503.7**	**525.5**	**554.0**	**2,056.8**
Per cent of GDP	23.3	24.3	24.9	25.3	25.2	25.5	
Payments(b)	**439.4**	**459.9**	**484.6**	**497.5**	**514.5**	**537.3**	**2,034.0**
Per cent of GDP	25.0	25.1	25.4	25.0	24.7	24.7	
Net Future Fund earnings(c)	3.6	3.5	3.6	3.9	na	na	7.5
Underlying cash balance(d)	**-33.2**	**-18.2**	**-14.5**	**2.2**	**11.0**	**16.6**	**15.3**
Per cent of GDP	-1.9	-1.0	-0.8	0.1	0.5	0.8	
Revenue	**415.7**	**456.2**	**486.1**	**512.8**	**537.9**	**568.2**	**2,105.0**
Per cent of GDP	23.6	24.9	25.5	25.7	25.8	26.1	
Expenses	**447.8**	**468.8**	**488.6**	**504.2**	**518.2**	**540.8**	**2,051.8**
Per cent of GDP	25.5	25.5	25.7	25.3	24.9	24.9	
Net operating balance	**-32.1**	**-12.6**	**-2.4**	**8.6**	**19.6**	**27.4**	**53.2**
Per cent of GDP	-1.8	-0.7	-0.1	0.4	0.9	1.3	
Net capital investment	2.9	0.7	5.0	4.9	6.7	8.0	24.6
Fiscal balance	**-35.0**	**-13.4**	**-7.4**	**3.7**	**12.9**	**19.4**	**28.6**
Per cent of GDP	-2.0	-0.7	-0.4	0.2	0.6	0.9	
Memorandum items:							
Net Future Fund earnings(c)	3.6	3.5	3.6	3.9	4.2	4.5	16.1
Headline cash balance	-43.0	-37.1	-27.6	-8.1	21.0	7.8	-6.9

(a) Total is equal to the sum of amounts from 2018-19 to 2021-22.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(d) Excludes expected net Future Fund earnings before 2020-21.

Debt and borrowing



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2026-27.
Source: Treasury projections.

Table 10: Interest expense, interest income and net interest expense[a]

	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Interest expense on CGS	17,017	17,781	18,325	18,023	17,782
Per cent of GDP	0.9	0.9	0.9	0.9	0.8
Interest expense	17,931	19,045	20,166	19,545	19,093
Per cent of GDP	1.0	1.0	1.0	0.9	0.9
Interest income	3,663	4,442	5,521	6,062	6,044
Per cent of GDP	0.2	0.2	0.3	0.3	0.3
Net interest expense(b)	14,268	14,603	14,645	13,483	13,049
Per cent of GDP	0.8	0.8	0.7	0.6	0.6

(a) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.
(b) Net interest expense is equal to the difference between interest expenses and interest income.

The Budget forecasts the Government will return to surplus a year earlier than forecast in December's Mid Year Economic and Fiscal Outlook and last year's Budget.

According to Budget the Government will achieve a surplus of $2.2 billion in 2019-20, compared to the first surplus of $7.4 billion in 2020-21 forecast in last year's Budget and $10.2 billion forecast in MYEFO.

The 2018-19 deficit will be $14.5 billion, compared to the $20.5 billion forecast in MYEFO.

The Government says, "The 2018–19 Budget brings a further improvement to Australia's fiscal position, reflecting the Government's focus on fiscal discipline to achieve budget surpluses and improved receipts from stronger economic growth.

“This outcome recognises the benefits of the Government sticking with its plan to build a stronger economy. To ensure sustainable budget outcomes continue, the Government will continue to strengthen the economy by:

- providing tax relief to encourage and reward working Australians;
- continuing to back business to invest and create more jobs;
- guaranteeing the essential services on which Australians rely;
- keeping Australians safe; and
- ensuring that the Government lives within its means.”

Net debt is expected to peak at 18.6 per cent of GDP in 2017-18, before declining in each year of the forward estimates and the medium term, falling to 3.8 per cent of GDP by 2028-29.

The Budget says, “The Government remains committed to its medium-term fiscal and budget repair strategies. This Budget maintains fiscal discipline, delivers sustainable surpluses, strengthens the Government’s balance sheet, lowers the tax burden and continues to redirect government spending to quality investment to strengthen the economy.”

The underlying cash balance is expected to improve from a deficit of $14.5 billion (0.8 per cent of GDP) in 2018-19, returning to a budget balance of $2.2 billion (0.1 per cent of GDP) in 2019-20. Sustainable surpluses are projected from 2020-21, reaching $16.6 billion (0.8 per cent of GDP) in 2021-22. The underlying cash balance is projected to remain in surplus over the medium term, reaching a projected surplus exceeding 1 per cent of GDP by 2026-27.

References
Budget Paper No 1, Statement No 3 – Fiscal Strategy and Outlook
Budget Paper No 1, Statement No 1 – Budget Overview – Fiscal Strategy and Outlook
Budget Paper No 1, Statement No 7 – Debt Statement, Assets and Liabilities
Budget Overview (Glossy) – On track to deliver Budget surpluses

Revenue

Since last December's MYEFO, expected tax receipts, including new policy, have been revised up by $8.2 billion in 2018-19 and $12.0 billion over the four years to 2021-22.

Total receipts are expected to be $10.7 billion higher in 2018-19 than estimated at the 2017-18 MYEFO, with tax receipts $8.2 billion higher and non-taxation receipts $2.5 billion higher.

Excluding GST, tax receipts have been revised up by $6.6 billion in 2018-19 and $5.8 billion over the four years to 2021-22, including new policy. As GST is paid to the States, tax receipts excluding GST represent the tax receipts available to the Australian Government.

Tax receipts are forecast to grow by 9.8 per cent in 2017-18 and 5.8 per cent in 2018-19. Tax receipts are expected to grow in line with a strengthening Australian economy and higher aggregate wages and inflation over the forward estimates.

Total tax receipts as a share of GDP are expected to increase from 23.1 per cent in 2018-19 to just shy of 23.9 per cent by 2021-22, an increase of 0.8 percentage points. Compared with the 2017-18 MYEFO, the tax-to-GDP ratio is forecast to be higher in 2017-18 and 2018-19 and lower in 2019-20 and 2020-21.

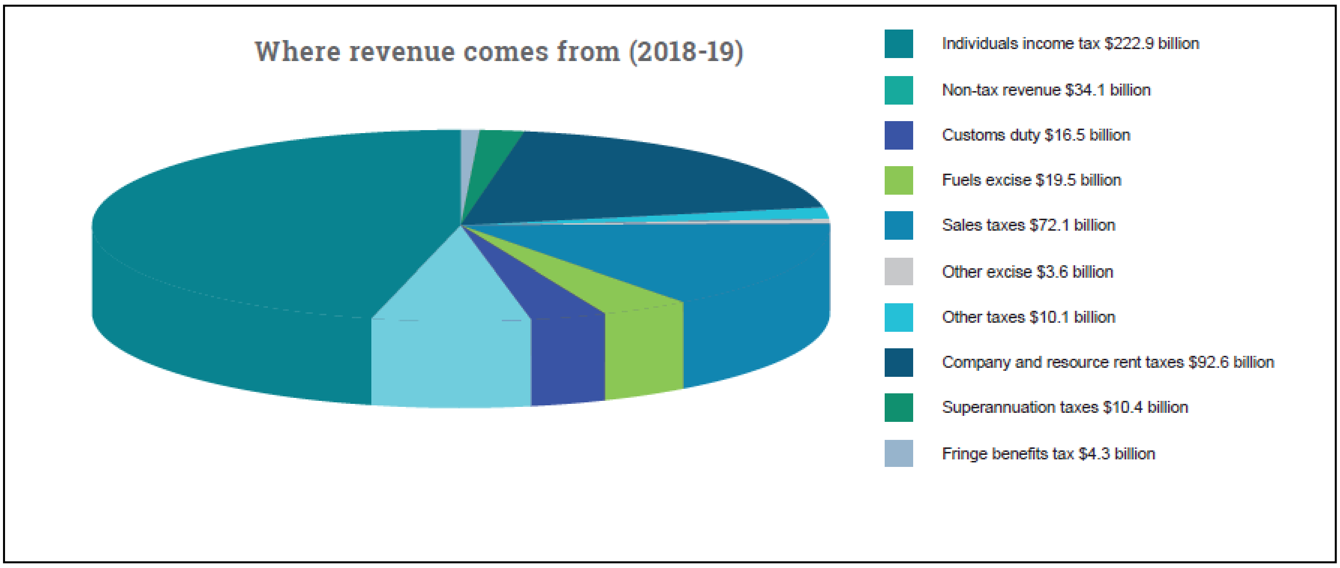


Table 1: Australian Government general government receipts

	Actual	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total taxation receipts ($b)	**379.3**	**416.4**	**440.5**	**465.5**	**491.0**	**519.6**
Growth on previous year (%)	4.7	9.8	5.8	5.7	5.5	5.8
Per cent of GDP	21.6	22.7	23.1	23.3	23.6	23.9
Tax receipts excluding GST ($b)	**319.4**	**352.9**	**373.2**	**395.7**	**417.5**	**442.3**
Growth on previous year (%)	4.7	10.5	5.7	6.0	5.5	5.9
Per cent of GDP	18.2	19.2	19.6	19.8	20.0	20.3
Non-taxation receipts ($b)	**30.6**	**28.8**	**33.3**	**38.2**	**34.4**	**34.4**
Growth on previous year (%)	24.7	-5.9	15.5	14.7	-9.8	-0.2
Per cent of GDP	1.7	1.6	1.7	1.9	1.7	1.6
Total receipts ($b)	**409.9**	**445.1**	**473.7**	**503.7**	**525.5**	**554.0**
Growth on previous year (%)	5.9	8.6	6.4	6.3	4.3	5.4
Per cent of GDP	23.3	24.3	24.9	25.3	25.2	25.5

The Budget says, “The upward revisions to forecast total tax receipts are driven by parameter and other variations, with the strengthening Australian economy creating the conditions for an improved labour market outlook. The largest contribution is from gross income tax withholding, consistent with stronger employment growth in the near term. “

“Improved mining profitability, as a result of higher commodity prices since the 2017-18 MYEFO, has also contributed positively to the upward revision to company tax forecasts, particularly in 2017-18 and 2018-19. Additionally, stronger household consumption forecasts, supported by the stronger labour market outlook and the Government’s personal income tax policies, have driven the upward revisions to GST and excise and customs duty.

“Policy decisions are expected to decrease forecast tax receipts by $13.9 billion over the four years to 2021-22. This largely reflects the impact of the Government’s Personal Income Tax Plan as well as the policy of retaining the Medicare levy rate at 2 per cent. The reduced tax receipts are partly offset by the measure *Combatting Illicit Tobacco*.”

Major Initiatives

Revenue

Initiatives	2017-18	2018-19	2019-20	2020-21	2021-22	**Total**
	$m	$m	$m	$m	$m	**$m**
Personal Income Tax Plan	0.0	-360.0	-4,120.0	-4,420.0	-4,500.0	**-13,400.0**
Personal Income Tax – retaining the Medicare levy rate at 2 per cent	0.0	-400.0	-3,550.0	-4,250.0	-4,600.0	**-12,800.0**
Black Economy Package – Combating Illicit Tobacco	0.0	-15.0	3,250.7	148.0	193.4	**3,577.2**
Better targeting the Research and Development Tax Incentive	0.0	314.2	641.4	763.7	718.9	**2,438.2**
Black Economy Package – New and enhanced ATO enforcement against the Black Economy	0.0	339.7	466.6	533.0	577.6	**1,916.9**
Personal Income Tax – ensuring individuals meet their tax obligations	0.0	180.0	258.2	276.5	276.8	**991.4**
Protecting Your Super Package – changes to insurance in superannuation	0.0	0.0	223.8	228.0	245.2	**697.0**
A firm stance on tax and superannuation debts	0.0	-149.3	-152.2	-156.0	-159.8	**-617.4**
Black Economy Package – further expansion of taxable payments reporting	0.0	-3.8	47.4	263.6	298.6	**605.8**
Superannuation – better integrity over deductions for personal contributions	-0.4	89.1	109.2	109.5	119.5	**426.9**

All figures are in net fiscal impact terms.
Totals may not sum due to rounding.

The Budget says that “Including new policy, total individuals taxes have been revised down by $9.4 billion over the four years to 2021-22. Company taxes have been revised up by $5.2 billion over the four years. GST has been revised up by $6.1 billion over the four years.”

Excluding new policy, personal income tax receipts are expected to grow by 6.6 per cent per annum on average over the four years. Including new policy, personal tax receipts are forecast to grow by 6.3 per cent in 2017-18 and 5.9 per cent in 2018-19.

Company tax receipts are forecast to grow by 22.1 per cent in 2017-18 and 6.7 per cent in 2018-19. The strong growth in 2017-18 is driven by increasing profits in the mining sector owing to higher commodity prices over 2017-18. There is also a contribution from other sectors, which is consistent with the economy's continued transition to broader-based sources of growth.

Compared with the 2017-18 MYEFO, receipts are expected to be $2.5 billion higher in 2017-18, $2.1 billion higher in 2018-19 and $5.2 billion higher over the four years to 2021-22.

Tax receipts from superannuation funds are expected to grow by 34.1 per cent in 2017-18 and fall by 6.4 per cent in 2018-19. The strong growth in 2017-18 is driven by capital gains tax and on-assessment receipts in 2017-18. These on-assessment receipts partly reflect one-off increases due to strong net foreign exchange gains in the 2016-17 income year. The forecast fall in 2018-19 reflects that these one-off factors are not expected to be repeated.

Receipts from GST are forecast to grow by 6.1 per cent in 2017-18 and 6.1 per cent in 2018-19.

Excise and customs duty receipts are forecast to grow by 5.1 per cent in 2017-18 and 4.6 per cent in 2018-19.

References
Budget Paper No 1, Statement No 5 – Revenue
Budget Overview ('Glossy') – Revenue and spending

Spending

The major spending increases announced in – and immediately before – the Budget are increased health funding under the National Health Agreement with the states ($977 million over the four year Forward Estimates), $970 million for increases in the PBS, $478 million for the Great Barrier Reef program announced a week before the Budget and $440 million for Remote Indigenous Housing in the Northern Territory.

(Details of the major spending initiatives are in the table below.)

Major Initiatives

This table summarises the major initiatives in the 2018-19 Budget and their impact on the fiscal balance. More comprehensive information is provided in Budget Paper No. 2, *Budget Measures 2018-19*

Expense

Initiatives	2017-18	2018-19	2019-20	2020-21	2021-22	**Total**
	$m	$m	$m	$m	$m	**$m**
Supporting Our Hospitals – National Health Agreement – public hospital funding	0.0	-50.0	0.0	-330.5	-596.6	**-977.1**
Pharmaceutical Benefits Scheme – new and amended listings	-16.5	-175.3	-220.8	-255.2	-101.8	**-769.7**
Great Barrier Reef 2050 Partnership Program	-443.8	-10.1	-4.7	-8.3	-11.1	**-478.0**
Remote Indigenous Housing in the Northern Territory	0.0	-110.0	-110.0	-110.0	-110.0	**-440.0**
National Research Infrastructure Investment Plan – implementation of Government response	-199.2	-5.5	-25.6	-76.4	-86.6	**-393.3**
Funding to Boost Services in the Northern Territory	-259.6	0.0	0.0	0.0	0.0	**-259.6**
More Choices for a Longer Life – finances for a longer life	0.0	-21.2	-92.7	-74.8	-69.8	**-258.6**
Managing the Skilling Australians Fund – revised implementation arrangements	-250.0	0.0	0.0	0.0	0.0	**-250.0**
National School Chaplaincy Programme – continuation	0.0	-61.7	-61.7	-61.7	-61.7	**-247.0**
Building Better Regions Fund – round three	0.0	-40.1	-108.1	-48.4	-9.9	**-206.5**

All figures are in net fiscal impact terms.
Totals may not sum due to rounding.

Since the 2017-18 MYEFO, total cash payments have increased by $4.6 billion in 2018-19 and decreased by $2.5 billion over the four years to 2021-22.

Major increases in payments as a result of policy decisions include:

- new and amended listings on the Pharmaceutical Benefits Scheme and the Repatriation Pharmaceutical Benefits Scheme, which is expected to increase payments by $172 million in 2018-19 ($748 million over the four years to 2021-22);
- funding for a new bilateral agreement with the Northern Territory Government on Remote Indigenous Housing, to support property and tenancy management and address overcrowding in remote communities, which is expected to increase payments by $110 million in 2018-19 ($440 million over the four years to 2021-22);
- enhancing security arrangements at regional, domestic and international airports, including improvements to the screening capability for in-bound air cargo and international mail, which is expected to increase payments by $63 million in 2018-19 ($293 million over the four years to 2021-22); and
- renewing and continuing the National School Chaplaincy Programme to support students and school communities through pastoral care and other support services, which is expected to increase payments by $62 million in 2018-19 ($247 million over the four years to 2021-22).

Major decreases in payments as a result of policy decisions since the 2017-18 MYEFO include:

- improving the targeting of visas for general practitioners to areas of doctor shortages, which is expected to decrease payments by $442 million over the four years to 2021-22;
- implementing measures to increase the use of generic and biosimilar medicines, which is expected to decrease payments by $317 million over the four years to 2021-22;
- efficiencies through the creation of the Home Affairs portfolio, by reducing areas of duplication and achieving economies of scale through coordinated procurement and service delivery functions, which is expected to decrease payments by $256 million over the four years to 2021-22; and
- streamlining employment servicing arrangements for newly arrived refugees, which is expected to decrease payments by $68 million over the four years to 2021-22.

Parameter and other variations since the 2017-18 MYEFO have increased cash payments by $3 billion in 2018-19 and decreased total cash payments by $3.6 billion over the four years to 2021-22.

Childcare and pre-school education

From 2 July 2018, the Government's previously announced New Child Care Package will come into effect.

School education

The Government has endorsed the recommendations of the Review to Achieve Educational Excellence in Australian Schools led by David Gonski and is working with the States and Territories to deliver the blueprint for reform. The Budget does not contain any additional funding for school education.

The Budget says, "The Government will work with the states and territories to deliver reforms in the Review's key areas."

The Government is providing an additional $247 million over four years from 2018–19 for the National Schools Chaplaincy Programme.

Health

This Budget includes a $1.3 billion National Health and Medical Industry Growth Plan designed to generate economic returns and accelerate Australia's competitive advantage as a global health industry leader in the medical technology, biotechnology and pharmaceuticals sectors.

The Growth Plan includes a ten-year $500 million commitment to the Genomics Health Futures Mission as well as a further $707.3 million in funding from the Medical Research Future Fund to support the Frontier Health and Medical Research program, expanded clinical trial programs, the Targeted

Translation Research Accelerator, Biomedtech programs and Industry Researcher Collaborations.

Health funding is expected to increase from $78.8 billion in 2018–19 to $85 billion in 2021–22, ensuring the delivery of the essential medical, pharmaceutical and hospital services Australians rely on.

The Budget funds a new five-year public hospital agreement with the states and territories that will deliver more than $30 billion in additional funding between 2020–21 and 2024–25 — a 30 per cent increase over the previous five years.

Environment and climate change

The Budget provides $535.8 million over five years from 2017-18 to accelerate the delivery of *Reef 2050 Plan*. This includes funding to:

- build the Great Barrier Reef's (the Reef) resilience to coral bleaching and extreme weather events through expanding the culling of the coral-eating crown-of-thorns starfish and by improving the quality of water entering the Reef; and
- progress a research and development program for science innovations for coral reef restoration and adaption to rising ocean temperatures;

The cost of this measure will be partially offset by redirecting future funding from the 2016-17 Budget measure titled Reef 2050 Plan and Reef Trust — additional contribution.

Infrastructure

See separate item

Aged care

See separate item

Welfare, employment and pensions

See separate item

References
Budget Paper No 1, Statement No 3 – Fiscal Strategy and Outlook - Budget Priorities
Budget Paper No 1, Statement No 4 – Recurrent and Capital Budget
Budget Overview (Glossy) - Major Initiatives

Company and business tax

The Budget gives no hint of any changes to the Government's business tax cut plan, presently locked in the Senate.

The Budget Papers say, "The Personal Income Tax Plan complements the Government's Enterprise Tax Plan. The Enterprise Tax Plan reduces the tax burden on investment and keeps Australia competitive, with the benefits of the changes flowing through to productivity and then to workers in the form of higher wages. "

Small Business - Extend the immediate deductibility threshold

The Government will extend by 12 months the 2015-16 Budget measure which accelerated depreciation for small businesses with aggregated annual turnover less than $10 million. This initiative is also known as the $20,000 instant asset write-off.

Small businesses will be able to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2019. Only a few assets are not eligible (such as horticultural plants and in-house software).

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

The current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2019.

This measure is estimated to have a cost to revenue of $350.0 million over the forward estimates period.

Petroleum Resources Rent Tax

Despite some pre-Budget speculation, the Budget contains no change to the PRRT. The Budget shows PRRT receipts are forecast to grow by 18.5 per cent in 2017-18 and 22.7 per cent in 2018-19. Since the 2017-18 MYEFO, receipts are expected to be $50 million higher in 2017-18, $250 million higher in 2018-19 and $1.0 billion higher over the four years to 2021-22. The revision to PRRT is consistent with higher Australian dollar oil prices.

Other tax measures affecting business include:

<u>Tackling the black economy</u>

The Government is implementing a number of the Black Economy Taskforce final report's recommendations in this Budget. Key measures announced in the Budget include increasing enforcement of illicit tobacco, an economy-wide cash payment limit of $10,000 to reduce money laundering and tax evasion, denying deductions for payments to employees and contractors where reporting or withholding obligations are not met and enhancing the ability of enforcement agencies to detect and target black economy participants including the establishment of a taskforce which will allow the sharing of information across different agencies. These measures will help protect Australia's tax base going forward and ensure that everyone is paying their fair share.

<u>Further action on multinational tax integrity</u>

The Government is taking action to ensure the integrity of Australia's thin capitalisation rules, which limit the amount of debt deductions multinational entities can claim in Australia. The Government will improve the integrity of these rules by ensuring that asset valuations used to justify debt deductions are robust and that inbound investors cannot access tests that were only intended for outward investors.

The Government will strengthen the definition of a large multinational (or Significant Global Entity) to ensure that large multinational businesses that are ultimately owned by private entities or investment entities are not inadvertently excluded from the application of tax integrity rules such as the Diverted Profits Tax and the Multinational Anti-Avoidance Law.

The Government will also remove the ability for Managed Investment Trusts (MITs) and Attribution MITs to apply the capital gains tax discount at the trust level.

Maintaining the integrity of the corporate tax base

The Government is tightening the rules on stapled structures to prevent staples being used to convert trading income into more favourably taxed passive income, as well as tightening broader tax concessions for foreign pension funds and sovereign wealth funds. This package of changes ensures that foreign investors will no longer be able to use stapled structures and other concessions to achieve tax rates of 15 per cent or less (or in some cases, almost tax-free) on Australian business income, rather than the 30 per cent that should apply. These measures will raise $400 million over the forward estimates and will result in significant revenue protection benefits.

Research and development tax incentive package

From 1 July 2018, the Government will better target the R&DTI through a new R&D premium for companies with turnover of $20 million or more. This will ensure support for larger companies is directed towards those companies undertaking additional, high-intensity business R&D. The Government will also impose a cap of $4 million on cash refunds and convert the rate of the R&D tax offsets to a premium above each claimant's company tax rate.

References
Budget Paper No 2, Part 1 Revenue Measures – Treasury
Budget Paper No 1 Statement 1 Budget Overview
Budget Overview (Glossy) –Making multinationals pay their fair share of tax
Treasurer's media releases

Personal Tax

The Budget includes a seven-year Personal Income Tax Plan aimed at low and middle-income earners. As widely foreshadowed in the media before the Budget, low and middle income earners will receive an immediate tax cut in the current year through changes to the Low Income Tax Offset and by increasing the top threshold of the 32.5 per cent tax rate from $87,000 to $90,000, also in 2018-19.
The 32.5 per cent top threshold will further increase in 2022.

The top threshold of the 19 per cent bracket will also increase from $37,000 to $41,000 and the LITO will rise from $445 to $645

The Personal Income Tax Plan lowers taxes so that 94 per cent of all taxpayers are projected to pay no more than 32.5 cents in the dollar in 2024–25.

This first step is:

- a new, non-refundable tax offset, in addition to the Low Income Tax Offset (LITO), will provide tax relief of up to $530 to low and middle-income earners for the 2018–19, 2019–20, 2020–21 and 2021–22 income years. The offset will be received as a lump sum on assessment after individuals lodge their tax returns.

Under the second step:

- from 1 July 2018, the top threshold of the 32.5 per cent tax bracket will be increased from $87,000 to $90,000. This will provide a tax cut of up to $135 per year to about 3 million taxpayers and will prevent about 200,000 people from facing a marginal tax rate of 37 per cent in 2018–19. This is expected to prevent average full-time wage earners from facing a higher marginal tax rate of 37 per cent in 2019–20;
- the top threshold of the 32.5 per cent bracket will then be further increased from $90,000 to $120,000 from 1 July 2022, providing tax relief of up to $1,350 each year. This change is projected to prevent about 1.8 million taxpayers from facing a higher marginal tax rate of 37 per cent in 2022–23; and
- the benefits provided by the low and middle-income tax offset will be locked in by increasing the top threshold of the 19 per cent bracket from $37,000 to $41,000 and increasing the LITO from $445 to $645.

The Budget says, “The Government will maintain, as part of its fiscal strategy, its cap on the overall tax burden, consistent with the long-term average of 23.9 per cent of GDP. Whilst the tax system exists to fund the essential services that Australians expect and are entitled to receive, the cap ensures the Government lives within its means by not imposing an increasing tax burden on Australians over time, which would adversely affect growth.“

New personal tax rates and thresholds 2018–19, 2022–23 and 2024–25

Rate (%)	Current tax thresholds Income range ($)	New tax thresholds From 1 July 2018 Income range ($)	New tax thresholds From 1 July 2022 Income range ($)	New tax thresholds From 1 July 2024 Income range ($)
Tax free	0 - 18,200	0 - 18,200	0 - 18,200	0 - 18,200
19	18,201 - 37,000	18,201 - 37,000	18,201 - 41,000	18,201 - 41,000
32.5	37,001 - 87,000	37,001 - 90,000	41,001 - 120,000	41,001 - 200,000
37	87,001 - 180,000	90,001 - 180,000	120,001 - 180,000	-
45	>180,000	>180,000	>180,000	>200,000
Low and middle income tax offset	-	Up to 530	-	-
LITO	Up to 445	Up to 445	Up to 645	Up to 645

References
Budget Paper 2 Part 1 - Revenue - Treasury
Budget Overview (Glossy) - Personal Income Tax Plan
Treasurer’s media releases

Infrastructure

The Budget says the Government is funding $24.5 billion in new major transport projects and initiatives in all states and territories. These projects and initiatives are part of the Government's $75 billion investment in transport infrastructure from 2018–19 to 2027–28. The investment uses a combination of grant funding, loans and equity investments.

However the figures in the Budget include projects previously announced and already underway and also spending on infrastructure over 10 years rather the Budget's usual four year Forward Estimates.

New national include:

- Roads of Strategic Importance: $3.5 billion, including $1.5 billion for Northern Australia Package, $400 million for Tasmanian Roads Package, $100 million for NSW and ACT Barton Highway Corridor Package and $1.5 billion for future national priorities
- $1 billion Urban Congestion Fund
- $250 million for Major Project Business Case Fund

Major projects already underway for which funding is included in the Budget include:

National projects

- $9.3 billion Melbourne to Brisbane Inland Rail

NSW

- Up to $5.3 billion Western Sydney Airport
- $1.5 billion of funding and a $2 billion concessional loan for the WestConnex project in Sydney
- $2.9 billion Western Sydney Infrastructure Plan

VIC

- $500 million M80 Ring Road
- $500 million Monash Freeway Upgrade

QLD

- $6.7 billion Bruce Highway

WA

- $1.3 billion METRONET, including $490 million for the Forrestfield Airport Link

SA

- $1.6 billion Adelaide North-South Corridor

TAS

- $400 million Midland Highway

ACT

- $67 million for Capital Metro under the Asset Recycling Initiative

NT

- $192 million for the Northern Australia Roads Program

Payments relating to the Infrastructure Investment Programme, are expected to decrease by

$371 million in 2018-19 (and increase by $1.2 billion over the four years to 2021-22), largely reflecting a re-profile of program funding to align with the delivery of project milestones.

The Budget also noted that the funding received by New South Wales and Victoria for their shares of Snowy Hydro — $4.2 billion and $2.1 billion respectively — will be invested in productive infrastructure in those states.

Other infrastructure spending includes:

- an additional $1.9 billion over 12 years in national research infrastructure to help Australians deliver high impact research that can be used across our economy, from health to manufacturing to agriculture. This brings total Government investment in national research infrastructure through the National Collaborative Research Infrastructure Strategy to $4.1 billion over 12 years.
- $225 million to significantly improve the accuracy and availability of satellite positioning across Australia, enhancing our use of GPS. This new technology will be used to increase productivity across the economy, including in the agriculture, construction and logistics industries.
- $41 million to establish a national space agency and grow the Australian space industry. This will help Australian businesses capture more of the US$340 billion a year global space industry.
- continuing to invest in supercomputing, including upgrading two supercomputers with total funding of $140 million for the Pawsey Supercomputing Centre in Perth and the National Computational Infrastructure facility at the Australian National University.

References
Budget Paper No 1, Statement No 1 – Budget Overview
Budget Paper No 1 Statement 3: Fiscal Strategy & Outlook
Budget Overview (Glossy) – Building Australia
Budget Paper No 2, Part 1 Revenue Measures – Treasury
Budget Paper No 2, Part 1 Revenue Measures – Infrastructure
Budget Paper No 2, Part 2 Expense Measures – Treasury
Budget Paper No 2, Part 2 Expense Measures – Infrastructure

Superannuation

After the 2016-17 Budget's controversial superannuation changes, capping concessionally taxed retirement phase funds at $1.6 million, this year's Budget contains several relatively minor changes aimed at protecting superannuation fund investors from high fees and changes – and an important concession on fund audits for Self-Managed Superannuation Funds.

Capping passive fees and banning exit fees

The Government will introduce a three per cent annual cap on passive fees charged by superannuation funds on accounts with balances below $6,000 and will ban exit fees on all superannuation accounts.

It will also strengthen the ATO-led consolidation regime by requiring the transfer of all inactive superannuation accounts where the balances are below $6,000 to the ATO.

Insurance in superannuation

Insurance within superannuation will move from a default framework to be offered on an opt-in basis for: members with low balances of less than $6,000; members under the age of 25 years; and members whose accounts have not received a contribution in 13 months and are inactive.

Increasing the maximum number of members in SMSFs

The Government will increase the maximum number of allowable members in new and existing self-managed superannuation funds and small APRA funds from four to six, from 1 July 2019.

Superannuation — three-yearly audit cycle for some self-managed superannuation funds

The Government will change the annual audit requirement to a three-yearly requirement for self-managed superannuation funds (SMSFs) with a history of good record-keeping and compliance.

References
Budget Paper No 2, Part 1 Revenue Measures – Treasury

Aging and aged care

The Budget includes a big increase in the number of aged Care Home Care packages, to enable older people to receive increased services in their home rather than in residential aged care.

It also includes a number of initiatives designed to encourage older people to remain engaged in the workforce, including changes aimed at older small buinsess owners.

Home-care packages

The Budget provides $1.6 billion to support 14,000 additional high-level home care packages by 2021–22. This adds to the 6,000 places the Government has provided since the last Budget.

Pension Work Bonus

Expanding the Pension Work Bonus. Age Pensioners will be able to earn up to $300 each fortnight, which is an additional $50 each fortnight; without reducing their pension payments, that is an extra $1,300 each year. For the first time, older Australians who are self-employed will be able to benefit from accessing the Work Bonus, so they too can earn up to $300 each fortnight without reducing their pension; that is an extra $7,800 each year. The change will cost the Budget $227.4 million over the forward estimates and will support participation by improving age pensioners' labour market incentives.

Pension Loans Scheme

The little-utilised Pension Loans Scheme is being expanded so eligible retirees can borrow a maximum of 150 per cent of the age pension. The loan is paid fortnightly, is tax-free and attracts compound interest of 5.25 per cent on the outstanding balance.

Eligibility for the scheme is being expanded from pensioners and part-pensioners to include all people over Age Pension age at a cost to the Budget of $11.0 million.

The change will enable Australians to use the equity in their homes to increase their incomes.

Full-rate pensioners will be able to support their income by up to $11,799 (singles) or $17,787 (couples) each year by unlocking the equity in their home

More Choices for a Longer Life Package

The Government is delivering its More Choices for a Longer Life Package which maximises the opportunities that a longer life brings. It includes measures which support Australians to be prepared to live a healthy, independent, connected and safe life.

Retirement savings will be enhanced by the one-year work test exemption, allowing recent retirees to make voluntary superannuation contributions for a year after they are no longer working.

myagedcare.gov.au website

The Government is making it easier for people to navigate the aged care system and access the care that suits them. This includes $61.7 million to improve the My Aged Care website and $14.8 million to streamline the assessment process for aged care services.

Healthier ageing

The Government is investing in the health of older Australians by providing: $82.5 million for mental health services for people in residential aged care facilities; $20 million to pilot services for older Australians to help them remain connected to their communities; and $22.9 million to boost the physical activity of older Australians.

Other changes include:

- clarifying the Age Pension treatment of innovative income stream products, and introducing a retirement income covenant for superannuation trustees to formulate a retirement strategy for members and offer a wider variety of products. Retirees will be assisted in making decisions and comparing retirement income products through enhanced disclosure requirements on providers.

References
Budget Paper 2 Part 2 – Expenses – Health
Budget Overview (Glossy) – More choices for a longer life
Budget Paper 1 Statement 6 - Expenses and Net Capital Investment
Guaranteeing the essential services (Glossy)

Welfare, employment and pensions

Reskilling older workers

The Government will provide up to $10,000 in Restart wage subsidies for employing Australians aged 50 and over.

The Skills and Training incentive will provide up to $2,000 to fund up-skilling opportunities for mature aged workers identified as being at risk.

Newstart

Despite widespread calls for its increase, including from business, the Budget contains no change to the Newstart rate.

References
Budget Paper 2 Part 2 Expenses Social Security
Guaranteeing the essential services (Glossy)

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Federal Budget 2018-19

Tax & Accounting Overview

Contents

Highlights

2018/19 Federal Budget Highlights

Mr Scott Morrison, the Federal Treasurer, handed down his third Budget on 8 May 2018.

Mr Morrison said the Budget is focused on further strengthening the economy to “guarantee the essentials Australians rely on” and “responsibly repair the budget”. With a deficit of $18.2b in 2017/18 and $14.5b in 2018/19, the Budget is forecast to return to a balance of $2.2b in 2019/20 and a projected surplus of $11b in 2020/21.

The government is proposing a three-step, seven-year plan to make personal income tax “lower, fairer and simpler”. The Budget also contains additional measures to counter the black economy, particularly in response to the final report from the Black Economy Taskforce, including expanding the taxable payments reporting system. Additionally, the Budget contains a range of measures intended to ensure the integrity of the tax and superannuation system.

The full Budget papers are available at www.budget.gov.au and the Treasury ministers’ media releases are available at ministers.treasury.gov.au.

The tax and superannuation highlights are set out below.

Individuals

- A seven-year Personal Income Tax Plan will be implemented in three steps, to introduce a low and middle income tax offset, to provide relief from bracket creep and to remove the 37% personal income tax bracket.
- The Medicare levy low-income thresholds for singles, families, seniors and pensioners will be increased from the 2017/18 income year.
- The 2017/18 Federal Budget measure to increase the Medicare levy from 2% to 2.5% of taxable income from 1 July 2019 will not proceed.
- Supplementary amounts (such as pension supplement, rent assistance and remote area allowance) paid to a veteran, and full payments (including the supplementary component) made to the spouse or partner of a veteran who dies, are exempt from income tax from 1 May 2018.
- Schemes to license a person’s fame or image to another entity such as a related company or trust to avoid income tax will be curtailed.
- The ATO will be provided with $130.8m from 1 July 2018 to increase compliance activities targeting individual taxpayers and their tax agents.

Income tax

- Significant changes to the calculation of the R&D tax incentive will commence for income years beginning on or after 1 July 2018. Additionally, a maximum cash refund will also apply for some entities.

- The $20,000 instant asset write-off will be extended for small businesses by another year to 30 June 2019.
- Amendments to Div 7A will strengthen the unpaid present entitlements (UPE) rules from 1 July 2019.
- The start date of targeted amendments to Div 7A will be deferred from 1 July 2018 to 1 July 2019.
- Deductions for expenses associated with holding vacant land not genuinely used to earn assessable income will be denied.
- The small business capital gains tax (CGT) concessions will not apply to partners alienating rights to future partnership income.
- Payments to employees and contractors are no longer deductible where any amounts that are required to be withheld are not paid, from 1 July 2019.
- The definition of a "significant global entity" (SGE) will be broadened to include more large multinational groups, from 1 July 2018.
- The thin capitalisation rules will be amended, effective 1 July 2019, to require entities to align the value of their assets for thin capitalisation purposes with the value included in their financial statements.
- The thin capitalisation rules will be amended, effective 1 July 2019, to treat certain consolidated groups and multiple entry consolidated groups as both outward and inward investment vehicles for thin capitalisation purposes.
- Tax exempt entities that become taxable after 8 May 2018 will not be able to claim tax deductions that arise on the repayment of the principal of a concessional loan.
- The 50% capital gains discount for managed investment trusts (MITs) and attribution MITs (AMITs) will be removed at the trust level.
- A specific anti-avoidance rule that applies to closely held trusts engaging in circular trust distributions will be extended to family trusts.
- The concessional tax rates for the income of minors from testamentary trusts will not be available for trust assets unrelated to the deceased estate.
- A five year income tax exemption will be provided to a subsidiary of the International Cricket Council (ICC) for the ICC World Twenty20 to be held in Australia in 2020.
- The list of countries whose residents are eligible to access a reduced withholding tax rate of 15% on certain distributions from Australian managed investment trusts (MITs) will be updated.
- Six more organisations have been approved as specifically-listed deductible gift recipients.

Superannuation

- The maximum number of allowable members in SMSFs and small APRA funds will be increased to six from 1 July 2019.
- The annual audit requirement for self-managed superannuation funds will be changed to a three-yearly requirement for funds with a history of good record keeping and compliance.

- Individuals whose income exceeds $263,157, and have multiple employers, will be able to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG) from 1 July 2018.
- Individuals will be required to confirm in their income tax returns that they have complied with “notice of intent” requirements in relation to their personal superannuation contributions, effective from 1 July 2018.
- An exemption from the work test for voluntary contributions to superannuation will be introduced from 1 July 2019 for people aged 65-74 with superannuation balances below $300,000, in the first year that they do not meet the work test requirements.
- Insurance arrangements for certain superannuation members will be changed from being a default framework to being offered on an opt-in basis.
- A 3% annual cap will be introduced on passive fees charged by superannuation funds on accounts with balances below $6,000, and exit fees on all superannuation accounts will be banned.
- The financial institutions supervisory levies will be increased to raise additional revenue of $31.9m over four years, from 2018/19.

Black economy measures

- A package to reform the corporations and tax laws to deter and disrupt illegal phoenix activity and the black economy will be introduced.
- The taxable payments reporting system for payments to contractors will be expanded to include security services, road freight transport and computer system design industries, effective from 1 July 2019.
- Business seeking to tender for Australian government contracts above $4m (including GST) will need to provide a statement of compliance with their tax obligations, from 1 July 2019.
- Businesses can no longer receive cash payments above $10,000 for goods and services, from 1 July 2019.

Indirect taxes

- Offshore sellers of hotel accommodation in Australia will be required to calculate their GST turnover in the same way as local sellers from 1 July 2019.
- The luxury car tax on cars re-imported into Australia, following a refurbishment overseas, will be removed from 1 January 2019.
- Alcohol excise refund scheme cap increased from $30,000 to $100,000 per financial year from 1 July 2019, and lower excise rates will apply for smaller beer kegs.
- Measures to combat illicit tobacco in Australia, including collecting tobacco duties and taxes upon importation and creating a multi-agency task force, will be introduced.
- Customs tariffs from placebos and clinical trial kits that are imported into Australia will be removed from 1 July 2018.
- Access to refunds of indirect tax, including GST, fuel and alcohol taxes under the Indirect Tax Concession Scheme has been extended.

Individuals

Seven-year Personal Income Tax Plan to be introduced

A seven-year Personal Income Tax (PIT) Plan will be implemented in three steps, to introduce a low and middle income tax offset, to provide relief from bracket creep and to remove the 37% PIT bracket.

This measure builds on the 2016/17 Budget measure that extended the 32.5% PIT bracket from $80,000 to $87,000 from 1 July 2016.

Step 1: Low and middle income tax offset to be introduced

A low and middle income tax offset (LMITO) will be introduced as a non-refundable tax offset of up to $530 pa to resident low and middle income taxpayers from 2018/19 to 2021/22.

The LMITO will provide a benefit of up to $200 for taxpayers with taxable income of $37,000 or less. For taxable incomes between $37,000 and $48,000, the value of the offset will increase at a rate of three cents per dollar to the maximum benefit of $530. Taxpayers with taxable incomes from $48,000 to $90,000 will be eligible for the maximum benefit of $530. For taxpayers with taxable incomes from $90,001 to $125,333, the offset will phase out at a rate of 1.5 cents per dollar.

The LMITO will be received as a lump sum on assessment after an individual lodges their tax return. The benefit of the LMITO is in addition to the existing low income tax offset.

Step 2: Relief from bracket creep for middle income taxpayers

Middle income taxpayers will be provided relief for bracket creep in phases.

From 1 July 2018, the top threshold of the 32.5% PIT bracket will be increased from $87,000 to $90,000.

From 1 July 2022, the low income tax offset will be increased from $445 to $645, and the 19% PIT bracket will be increased from $37,000 to $41,000 to lock in the benefits of the LMITO in Step 1. The increased low income tax offset will be withdrawn at a rate of 6.5 cents per dollar for incomes between $37,000 and $41,000, and at a rate of 1.5 cents per dollar for incomes between $41,000 and $66,667.

From 1 July 2022, the top threshold of the 32.5% PIT bracket will be further increased from $90,000 to $120,000.

Step 3: Removing the 37% personal income tax bracket

The 37% PIT bracket will be removed from 1 July 2024.

From 1 July 2024, the top threshold of the 32.5% PIT bracket will be increased from $120,000 to $200,000. Taxpayers will pay the top marginal tax rate of 45% for taxable incomes exceeding

$200,000, and the 32.5% PIT bracket will apply to taxable incomes of $41,001 to $200,000. This is illustrated in the table below.

Rate	Thresholds in 2017/18	New thresholds in 2024/25
Nil	Up to $18,200	Up to $18,200
19%	$18,201 – $37,000	$18,201 – $41,000
32.5%	$37,001 – $87,000	$41,001 – $200,000
37%	$87,001 – $180,000	–
45%	Above $180,000	Above $200,000

Source: Budget Paper No 2, pp 33-34; Treasurer's media release "Tax relief for working Australians, low and middle income earners first", 8 May 2018; and Budget 2018-19 Glossy: Stronger growth to create more jobs, p 11.

Medicare levy – low income thresholds to increase

The Medicare levy low-income thresholds for singles, families, seniors and pensioners will be increased from the 2017/18 income year.

The threshold for singles will increase to $21,980 (up from $21,655 in 2016/17). The family threshold will increase to $37,089 (up from $36,541 in 2016/17). For single seniors and pensioners, the threshold will increase to $34,758 (up from $34,244 in 2016/17). The family threshold for seniors and pensioners will increase to $48,385 (up from $47,670 in 2016/17). For each dependent child or student, the family income thresholds increase by a further $3,406 (up from $3,356 in 2016/17).

Source: Budget Paper No 2, p 32.

Retaining the Medicare levy at 2%

The 2017/18 Federal Budget measure to increase the Medicare levy from 2% to 2.5% of taxable income from 1 July 2019 will not proceed.

Consequential changes to other tax rates that are linked to the top personal income tax rate, such as the fringe benefits tax rate, will also not proceed.

Source: Budget Paper No 2, p 32.

Income tax exemption for certain veteran payments

Supplementary amounts (such as pension supplement, rent assistance and remote area allowance) paid to a veteran, and full payments (including the supplementary component) made to the spouse or partner of a veteran who dies, are exempt from income tax from 1 May 2018.

Source: Budget Paper No 2, pp 31-32.

Tax Integrity — schemes to license an individual’s fame or image targeted

From 1 July 2019, all remuneration (including payments and non-cash benefits) provided for the commercial exploitation of a person’s fame or image will be included in the assessable income of that individual. This integrity measure will ensure that high profile individuals are no longer able to take advantage of lower tax rates by licensing their fame or image to another entity.

High profile individuals (such as sportspeople and actors) can currently license their fame or image to another entity such as a related company or trust. Income for the use of their fame or image goes to the entity that holds the licence. This creates opportunities to take advantage of different tax treatments and facilitates misreporting and incorrect tax outcomes.

Source: Budget Paper No 2, p 45.

Funding to ATO for compliance activities targeting individual taxpayers

The ATO will be provided with $130.8m from 1 July 2018 to increase compliance activities targeting individual taxpayers and their tax agents.

This measure will continue four income matching programs that would otherwise terminate from 1 July 2018 to allow the ATO to detect incorrect reporting of income, such as foreign source income of high wealth individuals. The measure will also provide funding for new compliance activities, including additional audits and prosecutions, improving education and guidance materials, pre-filling of income tax returns and improving real time messaging to tax agents and individual taxpayers to deter over-claiming of entitlements, such as deductions by higher risk taxpayers and their agents.

Source: Budget Paper No 2, p 31.

Income tax

R&D tax incentive changes

The calculation for entities claiming the R&D tax incentive will change commencing for income years beginning on or after 1 July 2018. Also, a maximum cash refund for “smaller” R&D claimants will be capped at $4m per financial year. A “smaller” R&D claimant is an entity with aggregated annual turnover below $20m.

The changes for calculating the R&D tax incentive are based around an “R&D intensity percentage” for each entity. The R&D intensity percentage is based on the amount of R&D related expenditure as a percentage of total company expenditure. The lower the R&D intensity percentage for the entity, the lower the maximum available tax offset.

Currently there is a limit on which a company can claim the accelerated rates for the R&D tax incentive. Above this limit, the R&D tax incentive can still be claimed but only at the entity's corporate tax rate. It is proposed in the budget that the maximum eligible expenditure to get the concessional rates will rise from $100m per entity per year to $150m.

Companies with annual turnover above $20m

Currently: A 38.5% non-refundable tax offset is available with a minimum eligible R&D expenditure of $20,000 pa.

Proposed: Four levels of non-refundable tax offset based on an R&D intensity percentage and the entity's corporate tax rate.

- 40% or 42.5% offset if more than 10% of total expenditure relates to R&D
- 36.5% or 39% offset if R&D intensity percentage is between 5% and 10%
- 34% or 36.5% offset if R&D intensity percentage is between 2% and 5%
- 31.5% or 34% offset if R&D intensity percentage is between 0% and 2%.

Companies with annual turnover less than $20m

Currently: A 43.5% refundable tax offset is available with a minimum eligible R&D expenditure of $20,000 pa.

Proposed: A refundable tax offset of 13.5% percentage points above the entity's corporate tax rate. This will mean no change for some companies as the refundable tax offset will remain 43.5%. However, “base rate entities” which have a lower corporate tax rate of 27.5% will now have a maximum refundable tax offset of 41%. Also, it is proposed that the maximum cash refund available is $4m. Any additional refunds past this amount can be carried forward to later income years.

Source: Budget Paper No 2, p 21.

$20,000 immediate asset write-off extended

Businesses with an aggregated turnover of less than $10m will continue to have access to the $20,000 instant asset write-off for another 12 months. A small business will get an immediate deduction for assets costing less than $20,000, and installed and ready for use before 30 June 2019.

The current rules regarding accelerated depreciation for small businesses remain in place. Therefore, assets (including grouped assets purchased as a set) costing more than $20,000 and installed ready for use prior to 30 June 2019 will need to be pooled at an initial rate of 15% in the first year. Also, small business depreciation pools valued under $20,000 as at 1 July 2018 can be immediately written off in the 2018/19 income year.

The current “lock out” laws for simplified depreciation rules, which prevent small businesses from re-entering the pooling rules for five years if they opt out, will continue to be suspended until 30 June 2019.

Source: Budget Paper No 2, p 20.

Tax integrity — Div 7A UPE rule strengthened; major reform delayed

Division 7A of ITAA 1936 will be amended to clarify the circumstances in which it applies to unpaid present entitlements (UPEs) — where a related private company becomes entitled to a share of trust income as a beneficiary, but has not been paid that amount. The amendments will apply from 1 July 2019.

Division 7A is an integrity rule that requires benefits provided by private companies to related taxpayers to be taxed as dividends unless they are structured as Div 7A complying loans or another exception applies. This measure will ensure the UPE is either required to be repaid to the private company over time as a complying loan or subject to tax as a dividend.

The start date of targeted amendments to Div 7A will be deferred from 1 July 2018 to 1 July 2019. Those reforms, announced in the 10-Year Enterprise Tax Plan in the 2016/17 Budget, will enable all Div 7A amendments to be progressed as part of a consolidated package.

Source: Budget Paper No 2, p 41.

Tax integrity — deductions for vacant land to be denied

From 1 July 2019, tax deductions will not be allowed for expenses associated with holding vacant land. This is an integrity measure to address concerns that deductions are being improperly claimed for expenses, such as interest costs related to holding vacant land where the land is not genuinely held for the purpose of earning assessable income. It will also reduce tax incentives for land banking, which deny the use of land for housing or other development.

The measure will apply to land held for residential or commercial purposes. However, the "carrying on a business" test will generally exclude land held for commercial development.

Deductions that are denied will not be able to be carried forward for use in later income years. Expenses for denied deductions that would ordinarily be a cost base element (such as borrowing expenses and council rates) may be included in the cost base of the asset for capital gains tax (CGT) purposes when sold. However, deductions denied for expenses that would not ordinarily be a cost base element would not be able to be included in the CGT cost base.

The measure will not apply to expenses associated with holding land that are incurred after:

- a property has been constructed on the land, it has received approval to be occupied and is available for rent, or
- the land is being used by the owner to carry on a business, including a business of primary production.

Source: Budget Paper No 2, p 42.

Tax integrity — no small business CGT concessions for assignment of partnership rights

The small business capital gains tax (CGT) concessions will no longer be available to partners that alienate their income by creating, assigning or otherwise dealing in rights to the future income of a partnership.

The small business CGT concessions assist owners of small businesses by providing relief from CGT on the disposal of assets related to their business. However, some taxpayers, including large partnerships, are able to inappropriately access these concessions in relation to their assignment of a right to the future income of a partnership to an entity, without giving that entity any role in the partnership.

The measure applies from 7:30pm (AEST) on 8 May 2018 for small business CGT concessions in relation to the assigned rights.

However, the small business CGT concessions themselves will not be amended. The concessions will continue to be available to eligible small businesses with an aggregated annual turnover of less than $2m or net assets less than $6m.

Source: Budget Paper No 2, p 43.

Non-compliant payments to employees and contractors no longer deductible

Businesses will no longer be able to claim deductions for payments to their employees where they have not met their PAYG obligations. This includes where the employer is required to withhold PAYG from gross payments, but fails to report or remit it to the ATO.

Additionally, the deduction for businesses on certain payments to contractors which have not met PAYG obligations will be removed. Currently, if a contractor does not quote an ABN in a business-to-business transaction, the purchaser is required to withhold an amount at the top marginal tax rate and remit this amount to the ATO. Failure to do this correctly will render the entire payment non-deductible.

Both of these measures will take effect from 1 July 2019.

Source: Budget Paper No 2, p 24.

Company tax — significant global entity definition broadened

The definition of a “significant global entity” (SGE) will be amended to include members of large multinational groups headed by private companies, trusts and partnerships. It will also include members of groups headed by investment entities.

The current definition applies only to an entity which is a member of a group headed by a public company or a private company required to provide consolidated financial statements.

The measure will also ensure the Commissioner's power to determine an entity to be an SGE parent operates as intended.

The SGE definition identifies entities which are required to prepare country-by-country (CbC) reports, and is used to determine entities which may be subject to Australia's multinational tax integrity rules, such as the multinational anti-avoidance law (MAAL) and the diverted profits tax (DPT).

The measure will apply to income years commencing on or after 1 July 2018.

Source: Budget Paper No 2, p 26.

Tax integrity — tightening of thin capitalisation rules

The thin capitalisation rules will be amended to require entities to align the value of their assets for thin capitalisation purposes with the value included in their financial statements.

This measure will apply to income years commencing on or after 1 July 2019, and all entities must rely on the asset values contained in their financial statements for thin capitalisation purposes. Valuations made before 7.30pm (AEST) on 8 May 2018 may be relied on until the beginning of an entity's first income year commencing on or after 1 July 2019.

Consolidated groups and multiple entry consolidated groups that are foreign controlled, which in turn control a foreign entity themselves, will be treated as both outward and inward investment vehicles for thin capitalisation purposes. This measure will also apply to income years commencing on or after 1 July 2019. This change is intended to ensure that inbound investors cannot access tests that are only intended for outward investors.

Source: Budget Paper No 2, p. 46

Tax integrity — tax exempt entity loans

Tax exempt entities that become taxable after 8 May 2018 will not be able to claim tax deductions that arise on the repayment of the principal of a concessional loan.

The deductions arise due to unforeseen complex interaction between the taxation of financial arrangements rules and the rules dealing with deemed market values for tax exempt entities that become taxable. Concessional loans entered into by tax exempt entities that become taxable will be required to be valued as if they were originally entered into on commercial terms. This measure is an integrity measure which protects the revenue base.

Source: Budget Paper No 2, p 25.

Tax Integrity — 50% CGT discount removed for MITs and attribution MITs at the trust level

Managed investment trusts (MITs) and attribution MITs (AMITs) will be prevented from applying the 50% capital gains tax (CGT) discount at the trust level. This measure will apply to payments made from 1 July 2019.

The measure will prevent beneficiaries that are not entitled to the CGT discount in their own right from getting a benefit from the CGT discount being applied at the trust level. It will ensure that MITs and AMITs operate as genuine flow through tax vehicles, so that income is taxed in the hands of investors, as if they had invested directly.

MITs and AMITs that derive a capital gain will still be able to distribute this income as a capital gain that can be discounted in the hands of the beneficiary.

Source: Budget Paper No 2, p 44.

Tax Integrity — anti avoidance rules for circular trust distributions extended to family trusts

A specific anti-avoidance rule that applies to closely held trusts engaging in circular trust distributions will be extended to family trusts.

Currently, where family trusts act as beneficiaries of each other in a “round robin” arrangement, a distribution can be ultimately returned to the original trustee — in a way that avoids any tax being paid on that amount. This measure will better enable the ATO to pursue family trusts that engage in these arrangements by extending the specific anti-avoidance rule, imposing tax on such distributions at a rate equal to the top personal tax rate plus the Medicare levy.

The measure will apply from 1 July 2019.

Source: Budget Paper No 2, p 43.

Tax Integrity — testamentary trusts and injected assets

From 1 July 2019, the concessional tax rates available for minors receiving income from testamentary trusts will be limited to income derived from assets that are transferred from the deceased estate, or the proceeds of the disposal or investment of those assets.

Currently, income received by minors from testamentary trusts is taxed at normal adult rates rather than the higher tax rates that generally apply to minors. However, some taxpayers are able to inappropriately obtain the benefit of this lower tax rate by injecting assets unrelated to the deceased estate into the testamentary trust. The measure will clarify that minors will be taxed at adult marginal tax rates only in respect of the income a testamentary trust generates from assets of the deceased estate (or the proceeds of the disposal or investment of these assets).

Source: Budget Paper No 2, p 44.

Income tax exemption for International Cricket Council

A five year income tax exemption will be provided to a subsidiary of the International Cricket Council (ICC) for the ICC World Twenty20 to be held in Australia in 2020. The exemption will apply from 1 July 2018 to 30 June 2023. The subsidiary will also be provided an exemption from interest, dividend and royalty withholding tax liabilities for the same period.

Source: Budget Paper No 2, p 27.

International tax — list of information exchange countries to be updated

The government will update the list of countries whose residents are eligible to access a reduced withholding tax rate of 15%, instead of the default rate of 30%, on certain distributions from Australian managed investment trusts (MITs). Listed countries are those which have established the legal relationship enabling them to share taxpayer information with Australia. The update will add the 56 jurisdictions that have entered into information sharing agreements since 2012.

This measure supports the operation of the MIT withholding tax system by providing the reduced withholding tax rate only to residents of countries that enter into effective information sharing agreements with Australia.

The updated list will be effective from 1 January 2019.

Source: Budget Paper No 2, p 28.

Deductible gift recipients list updated

Since the Mid-Year Economic and Fiscal Outlook 2017/18, the following organisations have been approved as specifically-listed deductible gift recipients for the following dates:

- Paul Ramsay Foundation Ltd from 1 July 2018 to 30 June 2020
- Australian Women Donors Network from 9 March 2018 to 8 March 2023
- Victorian Pride Centre Ltd from 9 March 2018 to 8 March 2023
- Smile Like Drake Foundation Ltd from 9 March 2018 to 8 March 2023
- Australian Sports Foundation Charitable Fund from 1 July 2018 to 30 June 2023, and
- Q Foundation Trust from 1 January 2018 to 31 December 2022.

Source: Budget Paper No 2, p 34.

Superannuation

Increased membership of SMSFs and small APRA funds

New and existing self-managed superannuation funds (SMSFs) and small APRA funds will be allowed to have a maximum of six members from 1 July 2019. Currently, the maximum allowable number of members in an SMSF and a small APRA fund is four.

Source: Budget Paper No 2, p 40.

Three-yearly audit cycle for some SMSFs

The annual audit requirement for self-managed superannuation funds (SMSFs) will be changed to a three-yearly requirement for SMSFs with a history of good record keeping and compliance, ie for SMSF trustees that have a history of three consecutive years of clear audit reports and timely lodgements of the fund's annual returns.

This measure will commence on 1 July 2019. The government will consult with stakeholders to ensure a smooth implementation of this measure.

Source: Budget Paper No 2, p 41.

Preventing inadvertent concessional cap breaches

Individuals whose income exceeds $263,157, and have multiple employers, will be able to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG) from 1 July 2018. The measure is intended to ensure eligible individuals can avoid unintentionally breaching the $25,000 annual concessional contributions cap as a result of multiple compulsory SG contributions. Breaching the cap results in individuals being liable to pay excess contributions tax and a shortfall interest charge. Employees using this measure may receive additional income which will be taxed at marginal tax rates.

Source: Budget Paper No 2, p 40.

Improving integrity of personal contributions deductions

Individual income tax returns will be modified to include a tick box for individuals with personal superannuation contributions to confirm that they have complied with the requirements to submit a "notice of intent" (NOI) where they intend to take a tax deduction for the contributions.

The change is intended to improve the integrity of the NOI processes for claiming personal superannuation contribution tax deductions. Where individuals take deductions for their personal superannuation contributions, but do not submit the required "notice of intent", it results in superannuation funds not applying the 15% tax to their contribution and no tax is paid on it.

The ATO will receive additional funding to develop a new compliance model, and to undertake additional compliance and debt collection activities, including denying deductions to individuals who do not comply with the NOI requirements.

This measure will commence from 1 July 2018.

Source: Budget Paper No 2, p 39.

Super work test exemption for recent retirees

An exemption from the work test for voluntary contributions to superannuation will be introduced from 1 July 2019 for people aged 65-74 with superannuation balances below $300,000, in the first year that they do not meet the work test requirements.

The work test exemption will give recent retirees flexibility to get their financial affairs in order in the transition to retirement. Currently, the work test restricts the ability to make voluntary superannuation contributions for those aged 65-74, to individuals who self-report as working a minimum of 40 hours in any 30-day period in the financial year.

Source: Budget Paper No 2, p 30.

Changes to superannuation insurance arrangements

Insurance within superannuation will move from being a default framework to being offered on an opt-in basis for:

- members with low balances — less than $6,000
- members under the age of 25 years, and
- members whose accounts have not received a contribution in 13 months and are inactive.

The changes will take effect on 1 July 2019 and affected superannuants will have a period of 14 months to decide whether they will opt-in to their existing cover or allow it to switch off.

Source: Budget Paper No 2, p 36.

Superannuation fee protection measures to be introduced

A 3% annual cap will be introduced on passive fees charged by superannuation funds on accounts with balances below $6,000, and exit fees on all superannuation accounts will be banned.

The government will also strengthen the ATO's account consolidation regime by requiring the transfer of all inactive superannuation accounts to the ATO where the balances are below $6,000. The ATO will expand its data matching processes to proactively reunite these inactive superannuation accounts with the member’s active account, where possible. This measure will also include the proactive payment of funds currently held by the ATO.

These changes will take effect from 1 July 2019.

Source: Budget Paper No 2, p 35 and Minister for Revenue and Financial Services' media release, "Encouraging and Rewarding Australians by Protecting Your Superannuation", 8 May 2018.

Financial institutions supervisory levies to be increased

The financial institutions supervisory levies will be increased to raise additional revenue of $31.9m over four years, from 2018/19.

This will fully recover the cost of superannuation activities undertaken by the ATO, consistent with the Australian Government Cost Recovery Guidelines.

Source: Budget Paper No 2, p 27.

Black economy measures

Reforms to combat illegal phoenixing and black economy

The government will reform the corporations and tax laws and provide the regulators with additional tools to assist them to deter and disrupt illegal phoenix activity. The package includes reforms to:

- introduce new phoenix offences to target those who conduct or facilitate illegal phoenixing
- prevent directors improperly backdating resignations to avoid liability or prosecution
- limit the ability of directors to resign when this would leave the company with no directors
- restrict the ability of related creditors to vote on the appointment, removal or replacement of an external administrator
- extend the Director Penalty Regime to GST, luxury car tax and wine equalisation tax, making directors personally liable for the company's debts, and
- expand the ATO's power to retain refunds where there are outstanding tax lodgements.

Additional funding to the ATO will also be provided over four years to implement new strategies to combat the black economy. The ATO will implement a new and enhanced enforcement strategy that brings together new mobile strike teams and an increased audit presence, a Black Economy Hotline that will allow for the community to report black economy and illegal phoenix activities, improved government data analytics, and educational activities.

The government will also consult on and design a new regulatory framework for the Australian Business Number (ABN) system in 2018/19. This measure implements a recommendation of the *Black Economy Taskforce — Final Report* that the ABN system be strengthened to provide improved confidence in the identity and legitimacy of Australian businesses.

Source: Budget Paper No 2, p 37 and Minister for Revenue and Financial Services' media release, "Tackling Illegal Behaviour in the Black Economy", 8 May 2018.

Taxable payments reporting system to be expanded

The taxable payments reporting system (TPRS) will be expanded to the following industries from 1 July 2019:

- security providers and investigation services
- road freight transport, and
- computer system design and related services.

The TPRS requires businesses to report to the ATO any payments made to contractors during an income year. This additional reporting to the ATO is in the form of an annual report, and puts these payments in line with payments made for salaries and wages to employees. As the report is a yearly report for years commencing 1 July 2019, the first annual report will be required in August 2020.

These reporting requirements are identical to ones already in place for payments to contractors in the building and construction industry, as well as payments in the cleaning and courier industries, commencing 1 July 2018.

Source: Budget Paper No 2, p 22.

Large government contract tenders required to be tax compliant

Businesses seeking to tender for large Australian government contracts will be required to provide information on the status of their tax obligations.

Under the proposed arrangements, contracts over $4m (including GST) will be affected.

The ATO will receive additional funding to support this measure, which is part of a larger framework of funding for Black Economy Taskforce measures.

This measure will commence from 1 July 2019.

Source: Budget Paper No 2, p 181.

Cash receipt limit for businesses to be introduced

Large undocumented cash payments can be used to avoid tax or to launder money from criminal activity. The government will introduce a Black Economy Taskforce recommendation to limit a cash receipt for a business to under $10,000, from 1 July 2019.

Transactions with financial institutions or consumer to consumer non-business transactions will not be affected.

The Black Economy Taskforce measures include additional funding for the Department of Treasury to enable stakeholder consultation to help with details on the measure. Also, the ATO will receive enhanced funding that will help with enforcement of these proposed measures.

Source: Budget Paper No 2, p 23.

Indirect taxes

GST to be extended to offshore hotel accommodation sellers

Offshore sellers of hotel accommodation in Australia will be required to calculate their GST turnover in the same way as local sellers from 1 July 2019.

Currently, unlike GST-registered businesses in Australia, offshore sellers of Australian hotel accommodation are exempt from including sales of hotel accommodation in their GST turnover. This means that they are often not required to register for and charge GST on their mark-up over the wholesale price of the accommodation.

Removing the exemption will level the playing field by ensuring the same tax treatment of Australian hotel accommodation, whether booked through a domestic or offshore company.

The measure will apply to sales made on or after 1 July 2019. Sales that occur before 1 July 2019 will not be subject to the measure even if the stay at the hotel occurs after this date. This change will require the unanimous agreement of the states and territories prior to the enactment of legislation.

This measure follows the extension of GST to digital products and other services from 1 July 2017, and to low value imported goods from 1 July 2018.

Source: Budget Paper No 2, p 29.

Removal of luxury car tax on re-imported cars following refurbishment overseas

The luxury car tax on cars re-imported into Australia, following a refurbishment overseas, will be removed from 1 January 2019.

Currently, cars that are refurbished in Australia are not subject to luxury car tax. However, cars exported from Australia to be refurbished overseas and then re-imported are subject to the tax where the value of the car exceeds the relevant luxury car tax threshold.

The inconsistency in tax treatment of refurbished cars will be removed in order to align with Australia's trade obligations with its foreign trading partners. This measure will ensure the same tax treatment applies, regardless of where the car is refurbished.

Source: Budget Paper No 2, p 38.

Larger refunds and lower rates of excise on alcohol

The alcohol excise refund scheme will be increased from $30,000 per financial year to $100,000 commencing 1 July 2019. The refund will increase for domestic brewers, distillers and producers of draught beer and other fermented beverages such as cider.

Domestic brewers of beer will also receive additional relief in the form of a lower excise rate for smaller kegs. Currently, a lower rate of excise is available for draught beer kegs that are larger than 48 litres. The threshold for this concessional rate will be lowered to kegs which are 8 litres and above.

Source: Budget Paper No 2, p 19.

Black economy package — combatting illicit tobacco

Measures to target the three main sources of illicit tobacco in Australia (smuggling, leakage from licensed warehouses and domestic production) will be introduced.

Collecting tobacco duties and taxes at the border

From 1 July 2019, importers of tobacco will be required to pay all duty and tax liabilities upon importation.

This is a change from the current system, where tobacco can be imported and stored in licensed warehouses prior to tax being paid. Transitional arrangements will apply to tobacco products that are held in licensed warehouses at the commencement of the measure on 1 July 2019, allowing eligible affected entities to pay the liability on the warehoused stock within 12 months.

Current weekly settlement arrangements will no longer apply to imported tobacco. Although there is currently no licensed commercial tobacco production in Australia, the taxing point for any future domestic manufacture of tobacco will also be changed to be consistent with the new taxing point for tobacco imports.

Creation of the Illicit Tobacco Task Force

From 1 July 2018, a multi-agency Illicit Tobacco Task Force will be formed, comprising members from a number of law enforcement and border security agencies, to combat illicit tobacco smuggling.

The new task force will have additional powers and capabilities to enhance intelligence gathering and target, disrupt and prosecute serious and organised crime groups at the centre of the illicit tobacco trade.

Additional resources to combat domestic tobacco crops

From 1 July 2018, the ATO will provide ongoing funding to bolster its capabilities to detect and destroy domestically grown illicit tobacco crops.

Prohibited import control for tobacco

From 1 July 2019, permits will be required for all tobacco imports (except for tobacco imported by travellers within duty free limits).

ATO excise systems upgrade

The ATO will upgrade and modernise its excise and excise equivalent goods payment systems from 2020/21 to replace the paper lodgement system.

Source: Budget Paper No 2, pp 12-13 and Minister for Revenue and Financial Services' media release, "Tackling Illegal Behaviour in the Black Economy", 8 May 2018.

Customs duty on imported placebos and clinical trial kits to be removed

Customs tariffs from placebos and clinical trial kits that are imported into Australia will be removed from 1 July 2018.

This measure will simplify the import process for clinical trial kits and placebos, removing the need to differentiate between medicines and placebos, as both will now be subject to a free rate of duty.

Source: Budget Paper No 2, p 13.

Access to Indirect Tax Concession Scheme extended

Access to refunds of indirect tax, including GST, fuel and alcohol taxes under the Indirect Tax Concession Scheme has been extended. New access to refunds will be granted to the diplomatic and consular representations of Cote d'Ivoire, Guatemala, Costa Rica and Kazakhstan in Australia.

Each of these changes has effect from a time specified by the Minister for Foreign Affairs.

Source: Budget Paper No 2, p 28.
