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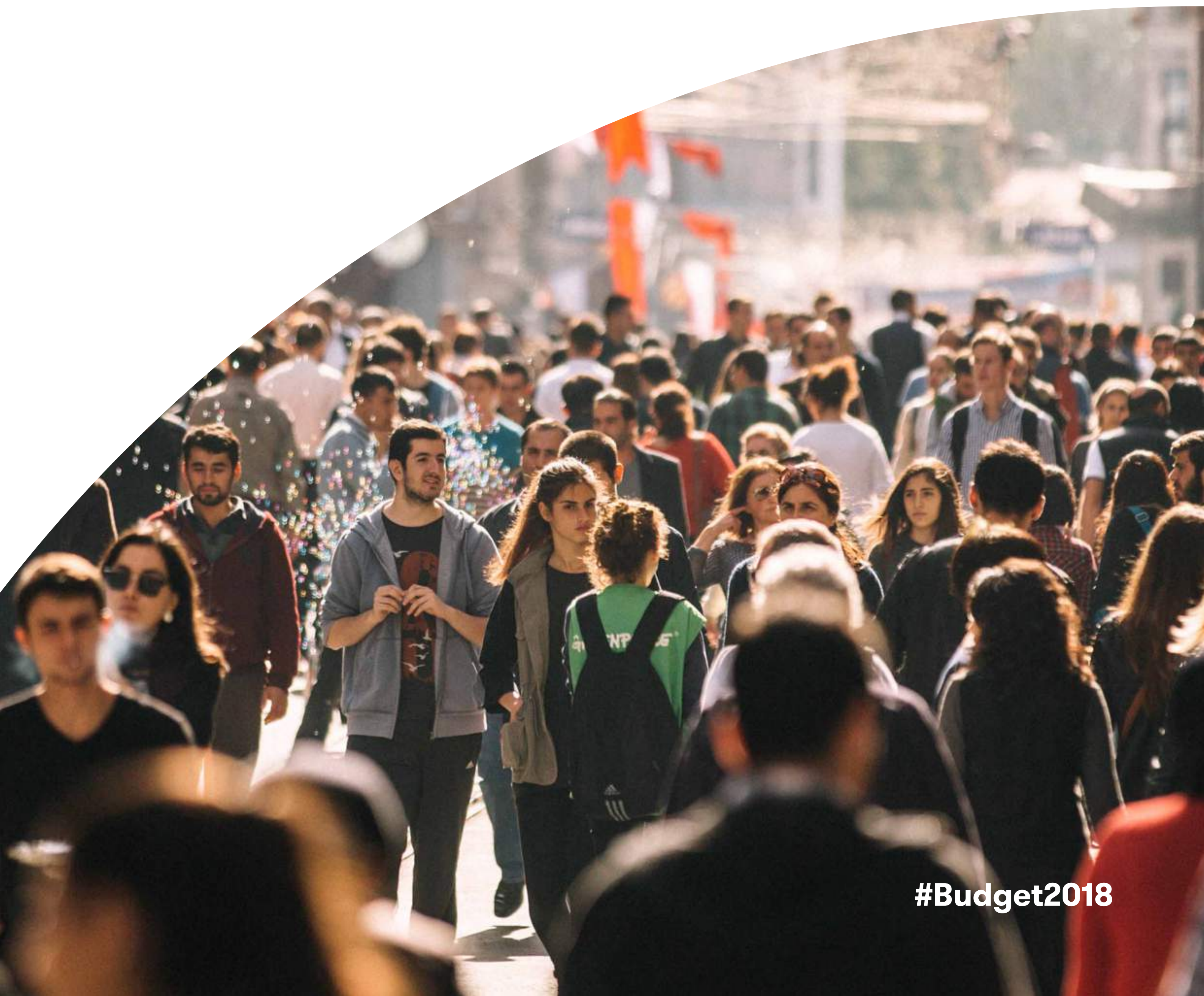
Tax in context

Federal Budget 2018-19

May 2018



Foreword

The 2018–19 Budget was an opportunity to build on Australia's record-breaking run of economic growth. Above all, the nation's businesses were hoping for a visionary agenda to help them innovate and attract investment in a changing world.

The federal government has instead delivered a largely political document. This is highlighted by modest personal income tax cut for low and middle income earners; new measures to help older Australians; and the elimination of a planned increase in the Medicare levy. The government brought forward its return to surplus by one year, to 2019–20. It also factored in a reduction in Australia's corporate tax rate from 30 to 25 per cent, despite this not being legislated.

It is always unrealistic to expect that a pre-election budget will deliver much in the way of serious, structural reform. Yet governments are ultimately judged on their vision, not just their electoral sweeteners. This is a time when many businesses, particularly mid-size businesses (those with an annual turnover between $10 million and $500 million), are facing an uncertain future due to rapid technological change, rising consumer expectations and a competitive global marketplace.

A government making smart choices to distribute the benefits of growth should enact measures that allow mid-size businesses to thrive rather than just survive in the digital economy. This year, small businesses have had their instant asset write-off extended for capital purchases valued at under $20,000. Unfortunately, mid-size businesses have again been overlooked. Greater incentives are required to help companies of all sizes invest in plant and equipment, so they can rapidly automate their operations.

The government is also sending mixed messages on taxation, supporting corporate tax cuts while proposing to trim the research and development tax incentive. This will potentially erode Australia's potential for global leadership in areas such as biotech and advanced manufacturing.

Like many countries, Australia faces an epic challenge to deliver sustainable tax revenues amid ongoing globalisation, rising energy costs and an ageing population. This requires a serious commitment to reform the nation's tax and transfer system. Australia must also enhance its technological readiness and the ability of mid-size businesses to commercialise innovation.

This is far better than letting good ideas go offshore. It also lays the foundations for a digital economy where every single Australian can participate. We look forward to such a vision in next year's Budget.

Greg Keith
Chief Executive Officer
Grant Thornton Australia

Budget snapshot

A government making smart choices would enact measures so mid-size businesses thrive rather than just survive in the digital economy.

Budget deficit

$37b
FY17 forecast

$33.2b
FY17 actual

$29.4b
FY18 forecast

$18.2b
FY18 actual

Budget surplus

$2.2b
FY19 estimate

$11b
FY20 estimate

The winners

Older Australians

Suppliers to infrastructure projects

Small businesses

Investments

$75b
over the next 10 years – infrastructure projects

$2.4b
in public technology infrastructure

$24.5b
over the next 10 years – funding for schools

$1.9b
over 12 years – research infrastructure

$1.3b
medical industry growth plan

$140m
building supercomputing

The competitive imperative

Treasurer Scott Morrison is right: Australia belongs to a very competitive world. We want to prevent other countries 'cutting our lunch'. However, in our view, the 2018–2019 Budget makes only modest progress towards achieving that end.

Personal income tax cuts, an increase in aged care places and changes to the Medicare levy will no doubt win votes. However, the Budget overall needed to target long-term prosperity for the nation. Ideally, this could have included a bold reform vision to help Australian mid-sized businesses gain an advantage amid digital disruption and despite the rapid emergence of new competitors.

Many of our global trading partners – with whom we compete for investment capital – are pursuing significant tax reform agendas that will help them create a competitive landscape for business. Two notable examples are the United States, where the corporate tax rate will be reduced to 21 per cent in 2018, and the United Kingdom, where it has already been reduced to 19 per cent.

There is much more to addressing competitiveness through tax reform than just lowering corporate tax rates, but it is a step in the right direction. The need for tax reform is critical. The disruption brought about by technological innovation will continue to make capital and labour more mobile. Australia must broaden its tax base and reduce its reliance on income taxes. But it is not just about the tax mix. We need our politicians to encourage innovation and to stop it leaving our shores for jurisdictions more conducive to long-term sustainable investment.

The changes to the research and development (R&D) tax incentive announced in the 2018–2019 Budget lifted the R&D threshold to $150 million and are most welcome. That said, this may have the effect of discouraging investment in R&D by adding complex integrity rules such as an intensity test, while taking out more than $2 billion of cash incentives. In our view, this is not a great example of a move in the right direction to encourage innovation.

We believe the Government's fiscal strategy should target two areas to enhance Australia's long-term competitiveness.

- **Create an efficient taxation and transfer system that modernises and broadens the tax base, and reduces reliance on income taxes.** This requires the government to adopt a comprehensive forward-looking approach to the future Australian economy rather than focusing on short-term politics. As the digital revolution gathers pace, disruptive technologies such as vehicle automation and artificial intelligence will significantly affect workforce participation and the growth prospects of mid-size businesses, particularly in sectors such as manufacturing. Given the implications for future revenue collection, tax and policy settings must be prepared now.
- **Enhance technological readiness and the ability of Australian businesses to undertake and commercialise innovation.** Boosting the research and innovation capacity of private and public institutions – and deploying basic communications and information technology infrastructure – will be necessary to ensure that everyone can participate in the digital economy. In particular, the government should directly incentivise mid-size businesses to innovate and help grow the Australian economy. This is preferable to Australian innovations flowing offshore to jurisdictions where such investment is already being encouraged.

The 2018–2019 federal Budget falls short on these measures. The conversation needs to change and focus on real tax reform that puts the long-term prosperity of Australian businesses front and centre.

This article has been published with acknowledgement to Robin Barlow of Nine Squared.

Research & development

Disappointingly, the government has moved forward with a further revamp of the research and development (R&D) tax incentive scheme. Even as the Treasurer spoke of the need for global competiveness, this new system will make it harder for many businesses to rapidly innovate. It appears that the focus is now on reducing government expenditure in this area.

Small companies – those with a turnover of less than $20 million – seeking to accelerate their R&D activities will still be eligible for a refundable offset. However, the benefit rate has dropped from 16 per cent to 13.5 per cent, and there is now an annual cap of $4 million for the refundable component (although there is a specific carve-out for clinical trials).

For companies with more than $20 million in turnover, from 1 July 2018 the government will introduce an R&D premium on top of the company's tax rate, linked to their level of R&D intensity. The table below outlines this premium.

Marginal R&D Premium	R&D expenditure relative to Total Expenditure
4 percentage points	For R&D expenditure between 0 per cent and 2 per cent R&D intensity (inclusive)
6.5 percentage points	For R&D expenditure above 2 per cent to 5 per cent R&D intensity (i.e. not including R&D expenditure falling within the first 2 per cent of the claimant's total expenses for the year)
9 percentage points	For R&D expenditure above 5 percent to 10 per cent R&D intensity (i.e. not including R&D expenditure falling within the first 5 percent of the claimant's total expenses for the year)
12.5 percentage points	For R&D expenditure above 10 per cent R&D intensity (i.e. not including R&D expenditure falling within the first 10 per cent of the claimant's total expenses for the year)

This will negatively impact mid-size businesses. We recommend increasing the turnover threshold of $20 million to $50 million required to secure the refundable offset to allow R&D incentive to assist more mid size business to accelerate their R&D.

Larger companies will likely see a reduction in the overall benefit they may be entitled to, and an increase in complexity when making a claim.

There are some positives in the new measures. For example, AusIndustry will provide increased guidance in the form of 'public findings', similar to those provided by the Australian Taxation Office. From 1 July 2018, the government will also increase the $100 million R&D expenditure threshold to $150 million, allowing larger companies to continue being rewarded for additional R&D as they grow.

However, all claimants are likely to see an increase in administration and compliance activity from the regulators, with the added challenge of learning to comply with the new regulations. Furthermore, any handbrake on the speed of innovation will disadvantage a number of constantly evolving industry sectors, including biotech, advanced manufacturing, and information and communications technology. Such limitations on the R&D tax incentive seem counterintuitive if the aim is to enhance Australia's global competitiveness.

Technology, Media & Life Sciences

The technology and life sciences sector wanted a stable Budget that promoted certainty and ease of doing business. Mid-size businesses are especially entrepreneurial and essential to the strength of Australia's innovation and research expertise. However, the federal government's changes to the research and development (R&D) tax incentive are likely to increase the administrative burden on this group by introducing complex new integrity rules. It is appropriate that clinical trials be exempt from the $4 million cap on the annual refund available to businesses that engage in R&D activities and have a turnover of less than $20 million a year. But across the industry more broadly, larger companies will gain a lower overall benefit and will face added complexity when they claim.

Otherwise, the Budget made investments in medical research, science and technology, with the aim of building a smarter economy and creating more jobs.

World-leading research

A $1.9 billion investment in research infrastructure over 12 years will support Australia's world-class research sector. The sector has made impressive breakthroughs over the years, such as the invention of needle-free vaccines and the cervical cancer vaccine.

Leading health technology

The government's National Health and Medical Industry Growth Plan will deliver $1.3 billion to support Australia as a global health industry leader in medical technology, biotechnology and pharmaceuticals. This investment in medical innovation will also improve health outcomes for all Australians.

Promoting digital technology

The government has made a $2.4 billion investment to boost Australia's public technology infrastructure – including supercomputers, world-class satellite imagery, a national space agency, research into artificial intelligence (AI) and more accurate GPS. This will benefit mid-size businesses operating at all levels in the technology supply chain.

Taxing digital businesses

The government is continuing its mission to reform Australia's tax system, to deal with the digital economy and ensure that multinational technology companies supplying goods and services into Australia are paying their fair share of tax. A discussion paper due for release by the middle of 2018 will explore options for taxing digital business in Australia.

A smarter and stronger economy

Overall, the government has made some commendable investments in the technology and life sciences industry. This is appropriate recognition of the important role these sectors have to play in growing a smarter and stronger economy for the long term. Nonetheless, there is not enough focus on commercialisation as opposed to research. Combined with the R&D tax changes, this Budget does not go far enough to retain technology and jobs within Australia.

Key points:

- A $1.3 billion National Health and Medical Industry Growth Plan, including $500 million towards a Genomics Health Futures Mission, will support innovation and improve health outcomes for Australians.
- The Medical Research Future Fund received $20 billion in funding.
- $248 million will go towards supporting clinical trials.

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Key tax measures

Business taxation

Extended small business depreciation concessions

The federal government has extended its $20,000 instant asset write-off for small business entities – those with an aggregated annual turnover of less than $10 million – by 12 months to 30 June 2019.

While the extension of these depreciation concessions is welcomed, it is disappointing that the government did not increase the aggregated annual turnover threshold and extend the concessions to mid-size businesses.

Broader definition of significant global entity

For income years commencing on or after 1 July 2018, the definition of what constitutes a significant global entity will be broadened 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 entities if they are a member of a group headed by a public company, or by a private company that is required to provide consolidated financial statements.

Australian members of multinational groups headed by private companies, trusts and partnerships should review whether this change results in them becoming considered significant global entities. If it does, they should consider what additional rules and compliance obligations now apply to them.

Tighter thin capitalisation rules

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

The rules will also be amended to ensure that foreign-controlled Australian consolidated entities and multiple-entry consolidated groups that control a foreign entity are treated as both outward and inward investment vehicles for thin capitalisation purposes. This change will ensure that inbound investors cannot access tests that were only intended for outward investors.

These measures will apply to income years commencing on or after 1 July 2019. Valuations that were 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.

Denial of deductions for holding vacant land

Deductions will not be allowed for expenses associated with holding vacant land, where the land is not genuinely held for the purpose of earning assessable income. These invalid expenses may include interest costs, council rates and land tax.

This measure will apply to land held for residential and commercial purposes, but will be subject to a 'carrying on a business' test. Accordingly, land held for a commercial development will not be subject to the new restriction.

Landholders will need to carefully review the legislation that implements this measure to determine whether holdings of vacant land are subject to the measure. In particular, they will need to assess what level of activity, income or expenditure will be required to pass the 'carrying on a business' test.

Updated list of information exchange countries

The Budget extends by 56 jurisdictions the list of countries with residents that are eligible to access a reduced withholding tax rate of 15 per cent on certain distributions from Australian managed investment trusts (MITs) – instead of the default rate of 30 per cent. This should make Australian MITs more attractive for foreign investors. Listed countries are those that have established a legal relationship enabling them to share taxpayer information with Australia. The updated list will be effective from 1 January 2019.

Application of Division 7A

The government has clarified how Division 7A of the Income Tax Assessment Act 1936 operates, to ensure that unpaid present entitlements (UPEs) come within the scope of Division 7A from 1 July 2019. A UPE arises when a related private company becomes entitled to a share of trust income as a beneficiary, but has not been paid that amount.

Companies with UPEs as at 1 July 2019 will need to review whether Division 7A applies to them, and whether they will need to implement a complying loan arrangement.

Start date of other Division 7A measures deferred

The start date of the amendments to Division 7A announced in the 2016–17 Budget will be deferred, from 1 July 2018 to 1 July 2019. These measures included:

- a self-correction mechanism giving taxpayers whose arrangements have inadvertently triggered Division 7A the opportunity to voluntarily correct their arrangements without penalty
- new and amended safe harbour rules – such as for use of assets – to provide certainty and simplify compliance for taxpayers, with appropriate transitional arrangements
- arrangements regarding compliant Division 7A loans.

These measures are intended to prevent harsh outcomes, so their deferment is disappointing.

Assignment or dealing of rights to future income of a partnership

Partners that alienate their income by creating, assigning or otherwise dealing in rights to the future income of a partnership after 7.30pm (AEST) on 8 May 2018 will no longer be able to access small business capital gains tax concessions in relation to these rights.

This measure is consistent with the government's unfavourable view of income splitting by partners. The income tax implications of any change in a partner's entitlements to income will need to take these new rules into account.

Anti-avoidance rules extended to circular trust distributions

Family trusts will be subject to a specific anti-avoidance rule that applies to other closely held trusts engaging in circular trust distributions. This measure will apply from 1 July 2019.

Integrity measure for testamentary trusts

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 from the proceeds of disposing of or investing those assets.

This measure will address benefits currently obtained by injecting assets unrelated to the deceased estate into a testamentary trust.

Personal income tax cuts

As promoted by the government, the Budget included personal tax cuts to low and middle income earners as part of a "Personal Income Tax Plan". This plan is scheduled to take effect over seven years and will be implemented in three steps.

1 **Targeted tax relief to low and middle income earners**
A non-refundable tax off-set of up to $530 per annum

2 **Protection from bracket creep**
Increase in all thresholds

3 **Simplifying the system**
Removal of the 37% tax bracket entirely

We support any moves made to counteract bracket creep, which make the tax collection system and rates more equitable. The reduced rates will encourage the workforce, as well provide a stimulus to the economy with extra spending. However, we are disappointed that the process will extend over seven years, effectively over three terms of government.

A summary of the planned cuts is in the table below

Rate	Taxable income			
	Current	2019-2022	2023	2025
Nil.	$18,200	$18,200	$18,200	$18,200
19%	$37,000	$37,000	$41,000	$41,000
32.5%	$87,000	$90,000	$120,000	$200,000
37%	$180,000	$180,000	$180,000	Removed
45%	> $180,000	>$180,000	>$180,000	>$200,000

THE INDUSTRY CONTEXT

Health & Aged Care

Australia's health and aged care industry is at a crossroads, as it experiences significant reform and funding uncertainty. This Budget was an opportunity for the government to give providers and practitioners some clarity and purpose, while meeting the needs of healthcare consumers.

Aged care

The Budget delivered 14,000 additional home care places, which will help to unblock current waiting lists. However, a further 80,000 people are still waiting for services. This will encourage people to 'stay put' in their homes rather than downsizing, increasing pressure on the housing sector. Unfortunately, the Government has also missed the opportunity to create tax breaks for downsizers that would allow them to preserve their freed-up equity and avoid losing pension benefits.

A further 13,500 residential aged care places and 775 short-term restorative care places will be released in the 2018–19 Aged Care Approvals Round (ACAR). The certainty this provides will stimulate development investments in the short term, but a long-term commitment to ACAR – or an alternative – will be required.

The sector will experience only short-term relief as a result of gaining more allocated aged care places, as providers come to grips with how consumers will respond. Accelerated consolidation of providers across the industry can be expected. Finally, the government's funding commitment to improve and streamline the My Aged Care website is welcome.

Primary care

Rural and regional health is a key focus of this Budget. The Stronger Rural Health Strategy will provide additional training to equip doctors with skills that support rural medical services. It remains to be seen if this will help attract and retain doctors and nurses, encouraging them to commit to these communities over the long term. Enhanced support for the Royal Flying Doctor Service and investment in training rural doctors and nurses should be applauded.

The government has stated that bulk billing rates in primary care were at record levels of 84.3 per cent in 2017. For practices grappling every day with the increasing costs of business, extensive bulk billing will not provide enough income to sustain their businesses. This is exacerbated by ongoing uncertainty surrounding the review of the Medicare Benefits Schedule and future rebate funding.

Australia's healthcare system is recording increased private equity and investment alongside the consolidation of general practices. While this creates some efficiency, there is still a concern that consumer health will slip through the cracks. The government needs to work with general practitioners who are struggling to balance clinical outcomes with funding constraints.

The government has missed the opportunity to create tax breaks for downsizers that would allow them to preserve their freed-up equity and avoid losing pension benefits.

Disability services

Providers are reporting increased concerns over sustainability, and there are fears that some community services will be lost, so it is pleasing to hear that the government is committed to continued funding for the National Disability Insurance Scheme (NDIS). Transition support for consumers who currently receive services but won't under the NDIS is a welcome reprieve. However, the longer-term security and safety of these people remains a concern, and providers who support them remain uncertain of their viability.

Increased uncertainty will challenge the system's ability to deliver quality services that meet the stated ideal of the NDIS – that is, to support a better life for hundreds of thousands of Australians with a significant and permanent disability, and for their families and carers.

The government's commitment to mental health services in this Budget should be welcomed. Continued support of the invaluable services provided by Lifeline and Beyond Blue clearly recognise the impacts of mental illness. This commitment should go further in the future, as mental health service providers have reported that many recipients will not qualify for services under the NDIS and fear they may slip through the cracks. Additional funding will ensure these people receive the services they need.

People with disabilities – and their families, carers and service providers – deserve – guarantees from the government that they will be looked after. Although there are promising measures in this Budget, the government should think beyond the forward estimate horizons and provide more long-term funding clarity. This will send a clear message to Australia that the people in most need will benefit from sustainable, high-quality services.

Key points:

- 14,000 additional home care places will be created.
- There will be 13,500 new residential aged care and 775 new short-term restorative care places.
- $7.4m was committed to strengthen navigation services on the My Aged Care website.
- $83.3m was allocated to rural and regional health, including the Stronger Rural Health Strategy.
- $82.5 million will go towards mental health services in aged care facilities.

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Financial Services

Tinkering with trusts

The government intends to prevent Management Investment Trusts and Attribution Managed Investment Trusts (AMIT) from applying the 50 per cent capital gains tax discount at the trust level, effective 1 July 2019. The aim is to prevent those beneficiaries who are not entitled to the discount receiving the benefit if they put their windfall into a trust. This introduces more complication for the sector, in the wake of the AMIT rules and Corporate Collective Investment Vehicle rules.

The federal government's approval of the Restricted Authorised Deposit-Taking Institution (RADI) regime should be welcomed. It allows fintech start-ups – for the first time in Australia – to provide long-awaited choice and competition for consumers seeking an alternative to the major players. The first RADI licence has already been granted to Grant Thornton's client, volt bank.

Overall though, the government has missed a chance to introduce reforms that clean up the sector's practices. There was an opportunity in the Budget for an innovative reform agenda to help financial mid-size businesses compete with the major players and increase incentives for investment. The need for this change was especially clear in the wake of the ongoing Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Key changes

This year's Budget is best described as tinkering around the edges of the financial services industry. The main changes include:

- banning exit fees for Australians to change super funds, saving the average member up to $100 if they decide to roll over benefits from one fund to another
- banning compulsory acquisition of life insurance as part of superannuation for Australians aged under 25. This measure may help younger members maximise their retirement savings in the short term, but it could add to the nation's chronic underinsurance problem. Imagine a 40-year-old with a family and financial commitments who has not got around to taking out life insurance as part of their super. If they are suddenly unable to work, this is when they need insurance. Banning compulsory cover for younger workers sets a dangerous precedent that could reduce Australians' financial security in the long term
- capping fees on super accounts under $6,000 to 3 per cent of the balance. This is a positive move to prevent account balances being eroded by fees, but it will only slow down this erosion – not stop it entirely
- creating a work test exemption for people aged between 65 and 74 who make voluntary contributions to superannuation, up to a threshold of $300,000. This will give retirees greater flexibility in transitioning to retirement, but add administrative complexity.

Missed opportunities

If the goal is to ensure an industry that remains competitive and customer-focused, smaller financial institutions should not be burdened with the same complexities as the major players. To improve confidence in the industry, the government could have banned volume-based remuneration for mortgage brokers and financial advisors who are aligned to the major players. It could also have introduced a moratorium on the complex and ever-increasing list of changes to superannuation. These changes act as a disincentive for Australians to save for their retirement, increasing the burden on the age pension.

Key points:

- Super fund exit fees have been removed.
- Compulsory acquisition of life insurance in superannuation has been banned for Australians aged under 25.
- Super fees on balances less than $6,000 will be capped at 3 per cent.
- There is a new voluntary super contribution exemption for those aged between 65 and 74.

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Real Estate & Construction

As Australia's largest employer, the real estate and construction industry was hoping for stability in this year's Budget, alongside policies that remove barriers to investment rather than create them. The industry is still dealing with last year's changes under the banner of housing affordability, many of which are only now coming into effect. While the Budget was relatively silent on affordability this year, it introduced several integrity measures that will affect domestic and foreign investors.

Land banking measures

The Budget targeted property investors who hold vacant land, removing their ability to claim expenses such as council rates and maintenance costs as tax deductions. The aim is to free up housing supply; investors may still be able to add deferred deductions to the cost base of the asset when they sell it.

Owners of land that is genuinely used to produce assessable income will still have access to deductions, either as passive rental income or income from an active business. However, where the land is held for the purpose of property development and deductions are claimed, this will likely compromise any future intention to claim the capital gains tax discount on disposal of the property, because the business intention of the activity has already been stated. This creates a risk for taxpayers who intend to develop land that is not on capital account, and whose activities are preliminary or have yet to commence. Their deductions may be lost altogether.

Measures affecting foreign investors

The popular practice of increasing taxes on foreign investors will continue to affect Australia's global competitiveness for capital and reputation for stability. This Budget includes measures to rein in managed investment trusts, combined with efforts to crack down on the tax treatment of stapled securities and end abuse of thin capitalisation rules. This prevents multinationals from using debt to reduce their tax liabilities.

Impact on the housing sector

Expanding the Home Care Packages Program for the elderly will have a knock-on effect on the housing sector. The apparent goal is to encourage older Australians to stay in their homes and receive care. However, this contradicts the incentives in last year's budget that induced older Australians to downsize their living arrangements and free up housing stock for families.

Infrastructure investments

The Budget's focus on new investment in roads and bridges is a welcome measure to address urban congestion. It was important for the Budget to support infrastructure projects that are ready to commence, so the productive benefits can take hold in the short to medium term. The government has offered up a $24.5 billion package, with several specific projects rated as a high priority by Infrastructure Australia. Each project will have a positive impact on productivity, and will help residents, motorists and businesses save time

Key points:

- Foreign investors are still being targeted.
- A $24.5 billion infrastructure package will address productivity and congestion.
- The provision of extra in-home care places appears to contradict last year's downsizer incentives for older Australians
- Investors will be less able to claim tax deductions for vacant land.

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THE INDUSTRY CONTEXT

Food, beverage and agribusiness, and the manufacturing industry

The federal Budget contained modest reforms to help Australia's food, beverage and agribusiness industry, as well as manufacturing firms. Mid-size businesses (MSBs) in these sectors have grown during an uncertain time for some larger players. However, they still require new income streams to escalate growth, remain competitive, and meet the growing demand for high-quality, Australian-made products.

Direct benefits to MSBs were incremental, rather than representing big-picture reforms. They included an extension of the immediate tax write-off for assets under $20,000, for businesses with a turnover of less than $10 million.

Craft brewers and distillers were also big winners. The alcohol excise refund scheme cap has been extended, boosting the maximum refund from $30,000 to $100,000 per year. The concessional excise rates for draught beer were raised to cover smaller kegs of 8 litres or more, as favoured by boutique brewers. This is instead of only allowing it on kegs above 48 litres, commonly used by big breweries.

Farmers and agribusiness operators will benefit from significant investment in water infrastructure and upgraded GPS capabilities for regional areas. There will also be new funding for biosecurity and pest and weed management, plus $20 million for additional agricultural trade experts to help farmers export Australian products.

Other potential benefits include:

- **Better transport infrastructure:** $24.5 billion in new road, rail and public transport initiatives – part of a $75 billion investment over the next decade – will help deliver exports to market more efficiently. How quickly infrastructure spending can occur remains to be seen.
- **R&D investment:** MSBs gained a lift in the maximum amount of R&D expenditure eligible for concessional R&D tax offsets, from $100 million to $150 million per year. This change is potentially significant, as food, beverage and agribusiness companies currently commit less than 1 per cent to R&D, roughly half of what their counterparts in the US are spending.

What was missing

Manufacturing remains one of Australia's largest employers but received no significant support. The Budget contained no real incentives – such as concessional taxation of export sales – to encourage exports. Nor was there any assistance to help companies invest in plant and equipment and more rapidly automate their operations. New solutions are also needed to put downward pressure on energy costs.

Finally, the federal government should consider funding the states, enabling them to wean themselves off such a heavy reliance on payroll tax. This would go a long way towards enabling much-needed wage rises that would stimulate the economy more broadly.

Key points:

- Craft brewers and distillers gained up to $100,000 per year with the extension of the alcohol excise refund scheme.
- Farmers received new funding for pest and weed management, and biosecurity.
- $24.5 billion in new road and rail projects will help these sectors meet local and global demand for Australian-made products.
- Manufacturing received no significant support.

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Superannuation

1

Work test exemption for contributions by recent retirees

- The Government will introduce an exemption from the "work test" for voluntary superannuation contributions (non-concessional) by individuals aged 65-74 with superannuation balances below $300,000 in the first year that they do not meet the work test requirements.
- Currently, the work test restricts the ability to make voluntary superannuation contributions for those aged 65-74 who self-report as working a minimum of 40 hours in any 30-day period in the financial year.
- Measures will take effect from 1 July 2019.

2

Capping passive fees, banning exit fees and reuniting small and inactive superannuation accounts

- The Government will introduce a 3% 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 (regardless of balance).
- The Government 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.
- The ATO will expand its data matching processes to reunite inactive superannuation accounts with the member's active account.
- This measure will also include the proactive payment of funds currently held by the ATO.
- Measures will take effect from 1 July 2019.

3

Changes to 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 < $6,000;
  - Members under the age of 25 years; and
  - Members whose accounts have not received a contribution in 13 months and are inactive.
- These changes are intended to:
  - Protect the retirement savings of young people and those with low balances by ensuring their superannuation is not unnecessarily eroded by premiums on insurance policies they do not need or are not aware of.
  - Reduce the incidence of duplicated cover so that individuals are not paying for multiple insurance policies, which they may not be able to claim on.
- Affected members will have a period of 14 months to decide whether they will opt in to their existing cover or allow it to switch off.
- Measures will take effect on 1 July 2019.

4

Improved integrity over deductions for personal contributions

- The Government seeks to improve the integrity of the 'notice of intent' (NOI) processes for claiming personal superannuation contribution tax deductions. It aims to modify the income tax return with a "tick box."
- Some individuals receive deductions on their personal superannuation contributions but do not submit a NOI, despite being required to do so.
- This results in their superannuation funds not applying the appropriate 15% tax to their contribution. As the contribution has been deducted from the individual's income, no tax is paid on it at all.
- Measures will take effect from 1 July 2018.

5

Increasing the maximum number of allowable members in SMSFs and small APRA funds

- 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.
- This is aimed to provide greater flexibility for joint management of retirement savings, in particular for large families.
- Measures will take effect from 1 July 2019.

6

Preventing inadvertent concessional cap breaches

- The Government will allow individuals whose income exceeds $263,157 and have multiple employers to nominate that their wages from certain employers are not subject to the superannuation guarantee contributions.
- The measure will allow eligible individuals to avoid unintentionally breaching the $25,000 annual concessional contributions cap as a result of multiple compulsory super guarantee contributions.
- Measures will take effect from 1 July 2018.

7

Three yearly audit cycle for some SMSFs

- The Government will change the annual audit requirement to a three yearly requirement for SMSFs with a history of good record keeping and compliance.
- This measure will reduce red tape for SMSF trustees that have a history of three consecutive years of clear audit reports and that have lodged the fund's annual returns in a timely manner.
- Measures will take effect on 1 July 2019.

8

Super trustees required to formulate retirement income strategy for members

- The SIS Act will be amended to introduce a retirement covenant that will require superannuation trustees to formulate a retirement income strategy for fund members.
- Currently, the SIS Act includes covenants requiring trustees to formulate, review regularly and give effect to an investment strategy and an insurance strategy.
- Effective date is to be announced.

The Black Economy and other compliance integrity measures

In this Budget, the federal government has delivered on its anticipated commitment to tackle the black economy. It also took the opportunity to continue enforcing compliance obligations, closing loopholes in the system, recovering outstanding debts and ensuring there are appropriate deterrents for those taxpayers that continue to operate outside the law.

The Black Economy Taskforce delivered its final report to the government in October 2017, which the government has now released, alongside its response. The estimated size of the black economy has doubled since the release of the interim report one year ago, from $25 billion to $50 billion. Obviously, failure to take appropriate action in addressing this will continue to have a significant impact on national revenue.

The Taskforce provided approximately 80 recommendations, which are far-reaching and important for businesses of all sizes. In proposing the following measures, the government is on the path to implementing the Taskforce's plan.

- Businesses will be denied deductions for payments made to employees, including wages, if they have not withheld pay as you go (PAYG) amounts despite withholding requirements. This measure will also include payments to contractors that do not provide an ABN and the employing business does not withhold PAYG.
- The Taxable Payments Reporting System (TPRS) has been expanded to include three new industries: security providers and investigation services; road freight transport; and computer system design and related services. The Taskforce identified each of these industries as engaging with contractors under circumstances that involve a perceived higher risk of non-compliance with tax obligations. These industries join the building and construction industry, and the cleaning and courier industries, which were brought within the TPRS as part of the 2017–18 Budget. This measure alone is estimated to produce a net gain of $605.8 million over the forward estimates period.
- From 1 July 2019, a new online form will make it easier to report under the TPRS.
- A consultation process aimed at increasing the integrity of the ABN system will commence in the 2018–19 income year. A key focus of the recommendation is to design a new regulatory framework that provides improved confidence in the identity and legitimacy of Australian businesses.
- An economy-wide limit of $10,000 for cash payments to businesses for goods and services will apply from 1 July 2019. This targets tax evasion and money laundering, and will require transactions over a threshold (not specifically outlined in the Budget) to be made through electronic payment system or by cheque. Transactions with financial institutions or consumer-to-consumer non-business transactions will not be affected.
- The Budget introduced measures to deter and disrupt illegal 'phoenix' activities, where new companies 'rise from the ashes' of those liquidated to avoid debt. The proposed reforms complement and build on the work to date by the Government's Phoenix, Serious Financial Crime and Black Economy taskforces, and will introduce new offences for those who conduct or facilitate these schemes.
- As highlighted before the Budget was announced, the director penalty regime will be expanded to cover GST, the luxury car tax and the wine equalisation tax. Australian Taxation Office (ATO) powers will also be expanded to retain refunds where there are outstanding tax lodgements.

In addition, the Government has committed to the following measures to enhance its compliance enforcement activities.

- $133.7 million will fund strategies that increase debt collections and improve the timeliness of debt collections, in an effort to prevent taxpayers obtaining an unfair advantage over those that pay their tax and superannuation in full and on time. In underlying cash balance terms, this measure is estimated to produce a budget gain of $1.2 billion over the forward estimate period (four years), and should increase GST payments to the states and territories by $483.7 million over the forward estimates period.
- $318.5 million over four years will fund implementation strategies to tackle the black economy. The ATO will be tasked with implementing new and enhanced enforcement strategies that bring together new mobile strike teams, an increased audit presence and a Black Economy Hotline, enabling the community to report black economy and illegal phoenix scheme activities. These measures are in addition to improved government data analytics and data matching; an increase in information sharing between government enforcement agencies; and educational activities. These activities are estimated to bring about a $3 billion budget gain over the forward estimates period.
- The ATO will receive $9.2 million over four years to develop and consult on a Procurement Connected Policy. From 1 July 2019, this will include new arrangements for businesses seeking to tender for federal government procurement contracts valued at over $4 million (including GST). The proposed policy will require the ATO to provide a statement indicating that tenderers are generally complying with their tax obligations.

The government hopes that technology and a targeted multi-agency approach will effectively combat the black economy. These measures should make it possible to target and deal harshly with those that continue to operate outside the law – while limiting the impact on those that already do the right thing. Unfortunately, in the meantime, the impact of these black economy measures will be widely felt, as further burden is placed on businesses already drowning in compliance mechanisms.

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Contributions by NineSquared

Grant Thornton have partnered with NineSquared to develop insights on the opportunities and issues flowing from the 2018-19 Federal Budget.

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