International tax newsletter

July 2026

Your essential source for staying informed on Australia's dynamic tax landscape.

In this edition of our Australian international tax update, we summarise recent significant Australian tax developments, examine their practical impact, and outline actions that multinational groups, foreign investors, private equity funds and international advisers should consider.

Christine Cornish
Partner – Transfer Pricing
+61 2 8297 2419
Christine.Cornish@au.gt.com

Brett Curtis
Partner – Corporate Tax
+61 2 8297 2782
Brett.Curtis@au.gt.com

Jessica Brass
Director – Corporate Tax
+61 8 9480 2085
Jessica.Brass@au.gt.com

Arani Ganendren
Director – Transfer Pricing
+61 2 8297 2530
Arani.Ganendren@au.gt.com

Among the developments covered in this publication are:

Pillar Two moving from theory to practice – Australia's global and domestic minimum tax rules are now in force, with first lodgement obligations live for in-scope multinational enterprise groups. Further amendments are also expected as Australia progresses implementation of the OECD/G20 side-by-side package.

Public CbC Reporting – Australia's Public CbC reporting regime is now an established part of the tax transparency landscape. Key themes from the first round of lodgements include the importance of a robust approach to tax disclosures, clear explanations for differences between tax accrued and expected tax expense, and a theme of exemption requests from US private multinationals due to concerns over the disclosure of commercially sensitive information.

Foreign resident CGT reforms – proposed changes to Australia's foreign resident capital gains tax regime continue to progress, including a broadened concept of Australian real property and changes that may expand the circumstances in which foreign investors are subject to Australian tax on disposals of interests in Australian entities.

Loss carry back reintroduced – the Government is reintroducing a loss carry back regime for eligible companies, which may create cash-flow opportunities for corporate groups with Australian operations (subject to eligibility requirements and franking account limitations).

Turning tax strategy into an advantage

As Australia's international tax rules continue to evolve, businesses should proactively assess the implications for their structures, transactions and compliance obligations. Our team can help you navigate these changes with confidence and transform regulatory complexity into strategic advantage.

Grant Thornton Australian tax insights
Corporate tax

Full Federal Court denies deductions for intra-group service fees

The Full Federal Court in *Commissioner of Taxation v S.N.A Group Pty Ltd* [2026] FCAFC 10 overturned an earlier taxpayer-favourable decision, and denied deductions for intra-group service fees paid by operating entities to related trusts. The Court held that, following the expiry of written agreements, there was insufficient objective evidence of 'mutual assent' to establish a binding contract requiring payment. Accordingly, the taxpayers were not 'definitively committed' to the liability, and the service fees were not 'incurred' for the purposes of section 8-1 of the *Income Tax Assessment Act* (Cth) 1997. The decision emphasises that arm's length pricing, accounting entries, or subjective belief are insufficient to establish a deductible outgoing in the absence of contemporaneous evidence of a legally enforceable obligation.

Special leave to appeal to the High Court has been refused.

Link: Full Federal Court overturns S.N.A Group 'service fee' deduction win: evidence of mutual assent to contract is critical

Why it matters:
This decision reinforces the evidentiary threshold required to support deductions for related-party transactions and highlights that informal or undocumented arrangements carry significant tax risk. Multinational and domestic groups alike should ensure that intercompany agreements are current, legally enforceable, and supported by contemporaneous documentation (such as board minutes, correspondence, and pricing methodologies). The case underscores that a consistent pattern of payments alone is insufficient – taxpayers must demonstrate a clear legal obligation to pay to satisfy the 'incurred' requirement under Australian tax law.

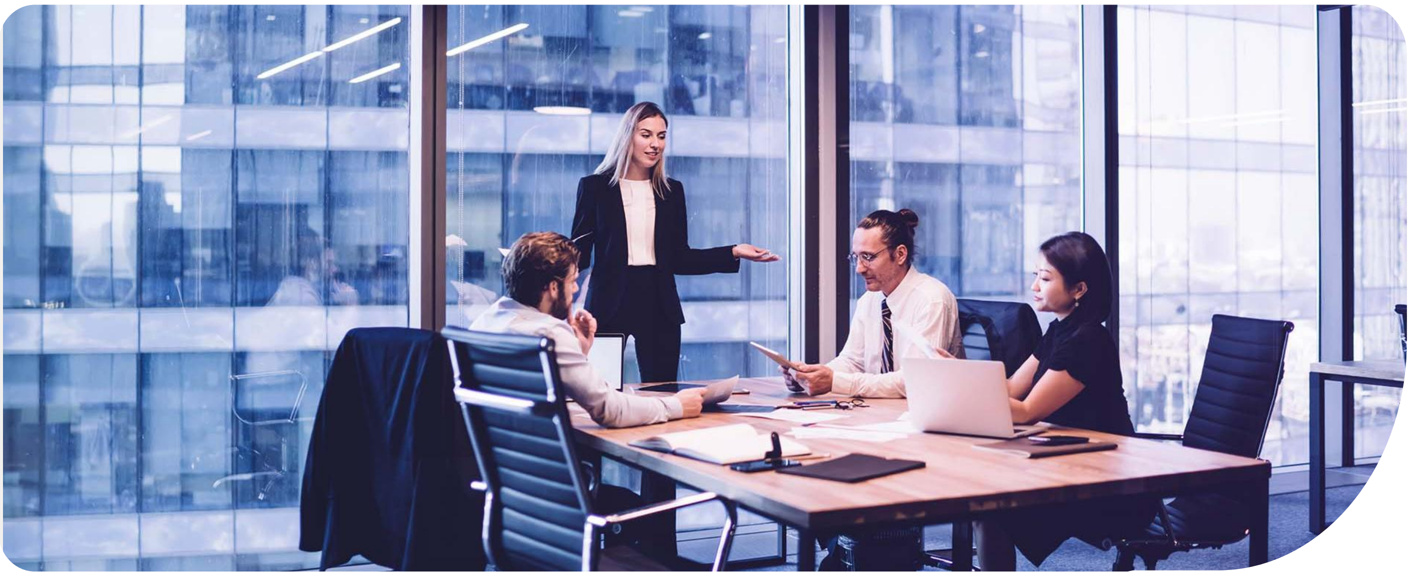
Draft legislation significantly expands foreign resident CGT regime

On 2 July 2026, the Australian Government introduced a Bill to strengthen the foreign resident capital gains tax (CGT) regime under Division 855 *Income Tax Assessment Act* (Cth) 1997. The reforms materially broaden the scope of assets subject to CGT by introducing a statutory definition of 'real property' and expanding what constitutes taxable Australian real property (TARP), including assets with a close economic connection to Australian land.

The measures also revise the Principal Asset Test from a point-in-time test to a 365 day testing period, and introduce enhanced compliance and notification requirements (particularly for transactions exceeding AUD $50 million). The measures also include a temporary 50 per cent CGT discount for eligible foreign investments in Australian renewable energy assets until 30 June 2030.

Link: Significant foreign resident CGT reforms: post-consultation Bill introduced into Parliament

Why it matters:
These proposed reforms represent a significant expansion of Australia's taxing rights over foreign investors and will have wide-ranging implications for cross-border M&A, infrastructure, and energy investments. The broadened definition of 'real property' increases the risk of unexpected tax liabilities. In addition, the enhanced withholding and notification rules introduce greater compliance obligations and risk exposure for purchasers. Foreign investors and multinational groups should review their existing structures, historical transactions, and future deal processes to assess potential CGT exposure and ensure appropriate documentation and due diligence frameworks are in place.



Grant Thornton Australian tax insights Corporate tax (continued)

Federal Budget 2026–27: key international tax and cross-border investment measures

The 2026–27 Federal Budget introduces a broad suite of tax reforms that, while largely targeted at domestic investors and private groups, have significant implications for international tax and cross-border structuring. Key measures relevant to international tax include:

- **Implementation of OECD Pillar Two 'Side by Side' package**
  The Government confirmed amendments to Australia's Pillar Two framework, including a safe harbour for certain multinational groups where the ultimate parent is in a sufficiently robust tax jurisdiction.
- **Expansion and recalibration of foreign resident CGT regime (ongoing measure)**
  The Budget continues to progress previously announced reforms to broaden Australia's taxing rights over foreign investors (including assets with a close economic connection to Australian land) and introduces targeted concessions for renewable energy investments – further detailed above.
- **Foreign investment framework and approvals**
  Additional funding has been allocated to streamline foreign investment approvals, alongside broader policy signals of faster processing for low risk investments and increased scrutiny in sensitive sectors.
- **Incentives and funding impacting cross-border capital flows**
  Changes to venture capital regimes, R&D incentives, and loss carry back rules (discussed in more detail in the next section) are intended to support investment and innovation, including from foreign investors and multinational groups.
- **Instant Asset write-off made permanent**
  The $20,000 instant asset write-off for businesses with group-wide turnover below $10m will be made permanent.

Link: How the Federal Budget announcements will impact private enterprise

Why it matters:
While not framed as a traditional 'international tax Budget', the measures collectively signal a continued tightening of Australia's approach to taxing cross-border capital and multinational activity, combined with targeted incentives for strategic investment sectors.

For multinational groups and foreign investors, the implications are twofold:

- **Expanded tax base and higher effective taxation risk** – through CGT reforms, trust taxation changes and the ongoing expansion of foreign resident CGT rules.
- **Increased compliance and scrutiny** – particularly via Pillar Two implementation and evolving foreign investment controls.

Balanced against:

- **Targeted relief and investment incentives** – including Pillar Two safe harbours, renewable energy concessions, and expanded venture capital regimes.

Groups with Australian investments should reassess holding structures, exit strategies and financing arrangements, and closely monitor how the proposed reforms (many of which are not yet enacted) interact with Australia's broader international tax settings and treaty framework.

Federal Budget reintroduces loss carry back for companies

The 2026-27 Federal Budget announced the proposed reintroduction of the loss carry back regime, allowing eligible companies with aggregated annual global turnover below AUD $1 billion to carry back revenue tax losses from 1 July 2026 and offset them against tax paid in prior income years (up to two years earlier). The measure is designed to provide cash-flow support to businesses with volatile earnings, although the amount that can be refunded is limited by the company's franking account balance and applies to revenue losses only (i.e. not capital losses).

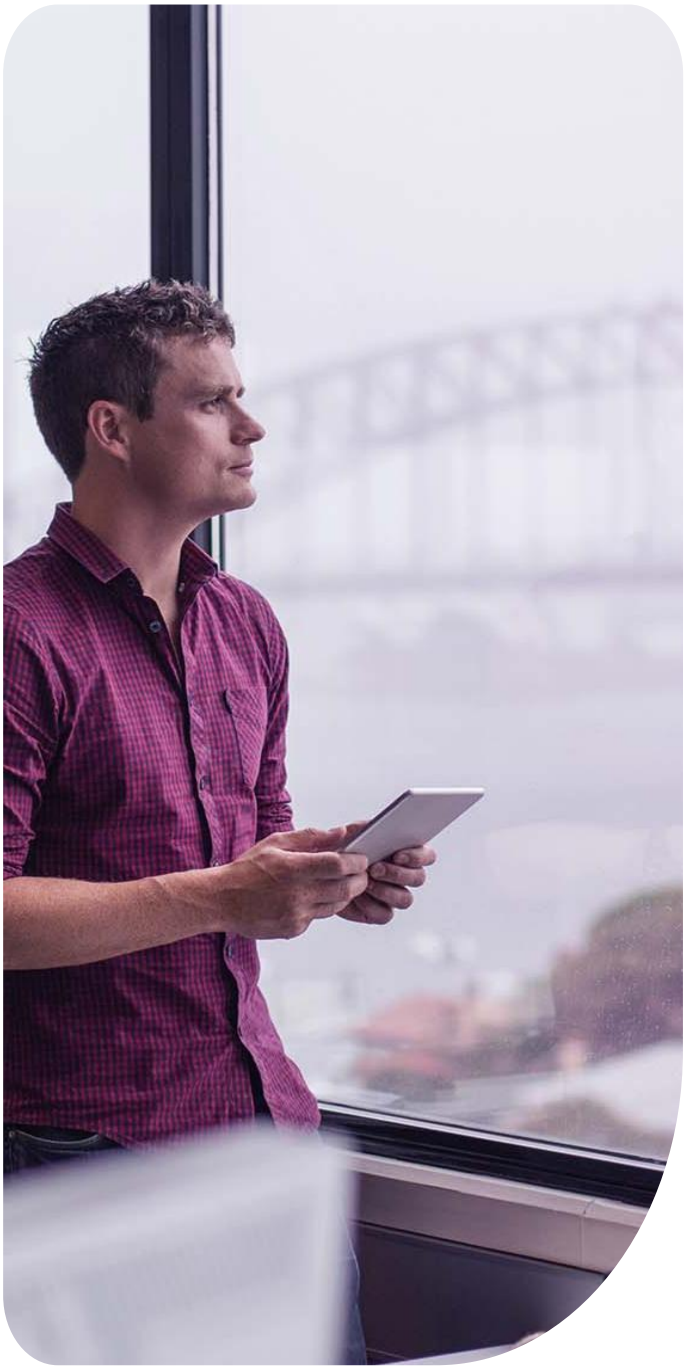
Link: Re-introduction of the loss carry back rules

Why it matters:
While primarily a domestic cash-flow measure, the reintroduction of loss carry back has important implications for multinational groups and internationally active private groups:

- **Cash-flow and funding flexibility** – groups with Australian operations can monetise losses more quickly, potentially reducing the need for cross-border funding or capital injections.
- **Franking and distribution planning** – the franking account limitation means groups will need to carefully manage dividend strategies, particularly where foreign shareholders are involved.

More broadly, the measure supports investment resilience in Australia, but sits alongside structural tax increases (e.g. CGT and trust reforms) that may influence how multinational groups approach Australian investment and profit repatriation.

Grant Thornton Australian tax insights Corporate tax (continued)



Significant Global Entity (SGE) penalties increase

Broadly, an SGE is an Australian entity that is a member of a group with annual global turnover of more than AUD $1 billion. This means that Australian entities with relatively small turnover, but which are part of a larger international group or private equity owned, may be considered an SGE.

SGE classification has been most visible in the context of increased administrative penalties. The 'Failure to Lodge' (FTL) penalties in respect of all ATO forms lodged late (e.g. income tax return, Business Activity Statements, Fringe Benefits Tax returns etc.) for SGEs are 500 times the standard amount.

This SGE concept is not new, however from 1 July 2026, SGE penalties have increased. The table below sets out the new penalty amounts.

Days Late	SGE Penalties
28 or less	$182,000
29 to 56	$364,000
57 to 84	$546,000
85 to 112	$728,000
More than 112	$910,000

Link: Significant global entities – penalties | Australian Taxation Office

Why it matters:
Given the increasing focus on multinational tax transparency and reporting, groups should ensure robust governance and timely compliance processes are in place. What may have historically been treated as an administrative oversight can now result in a material penalty exposure in Australia.

Contributors:

Brett Curtis
Partner – Corporate Tax
+61 2 8297 2782
Brett.Curtis@au.gt.com

Jessica Brass
Director – Corporate Tax
+61 8 9480 2085
Jessica.Brass@au.gt.com

Grant Thornton Australian tax insights
Corporate tax – Financial services

ATO releases draft guidance on RWA attribution for foreign bank branches

The Australian Taxation Office has released Draft Practical Compliance Guideline PCG 2026/D1, setting out its proposed compliance approach for attributing risk-weighted assets (RWAs) to Australian branches of foreign banks under the thin capitalisation rules. The draft introduces an 'economically significant activities' test as the primary basis for attribution, focusing on where key functions such as credit decision-making and risk management occur. It also proposes a three-zone compliance framework (green, amber and red) to indicate the ATO's risk assessment, expected documentation standards and likely level of scrutiny. The guidance follows observed inconsistencies in industry practice and aims to provide a more structured and consistent approach to RWA attribution.

Link: Foreign bank branches: ATO draft PCG on RWA attribution

Why it matters:
This draft guidance signals a more prescriptive and transparent ATO approach to thin capitalisation for foreign banks with Australian branches, with greater emphasis on aligning RWA attribution to substance and transfer pricing outcomes. The introduction of risk-based compliance zones and a focus on 'economically significant activities' is likely to increase scrutiny of existing methodologies, particularly where attribution relies on booking location or accounting treatments rather than operational substance. Foreign banks operating in Australia should review their RWA attribution models, supporting documentation and governance frameworks to ensure they are defensible under the ATO's proposed approach and to manage potential audit and reporting risks.

ATO releases web guidance on its new Private Capital Program

In late 2024, the ATO officially announced the expansion of its Tax Avoidance Taskforce to include private capital funds, their management entity structures and their portfolio entities.

In May 2026, the ATO updated its web guidance for the following four categories of taxpayers:

- Private equity
- Foreign pension funds and sovereign wealth funds
- Collective investment vehicles
- Infrastructure (especially stapled structures)

Historically, these groups of financial investors or funds have had a number of concessional tax treatments available to them. The ATO has indicated a number of its products (public rulings, Practical Compliance Guidelines, Taxpayer Alerts) that contain details of the key tax risks.

The ATO's new focus will ensure that the tax concessions are being claimed appropriately with the following key themes:

- a clear lifecycle-based review model (from pre-acquisition till realisation)
- emphasis on proactive engagement and ongoing 'holding period' reviews
- focus on cross-border structuring, financing (debt/fees), treaty access, and stapled structures
- increased scrutiny of tax outcomes of comparable businesses and asset disposals

Overall this should result in earlier, broader, and more continuous ATO involvement across the private capital investment lifecycle. The new program does not replace or minimise any tax-related FIRB reporting requirements for inbound investors.

Link:
Overview of the private capital program | Australian Taxation Office

Foreign funds | Australian Taxation Office

Collective investment vehicles | Australian Taxation Office

Private equity | Australian Taxation Office

Infrastructure and stapled structures | Australian Taxation Office

Fiscally transparent entities | Australian Taxation Office

Why it matters:
The ATO is dedicating separate resources to taxpayers in the private capital industry. Taxpayers that previously were not large enough to fit into the Top 1,000 or Top 500 private groups programs may now be caught by this new program.

Inbound investors should review their tax structures and the underlying assumptions on an ongoing basis, and ensure that appropriate documentation is in place to support an ATO review of their key tax risks.

Taxpayers that use particular recurring holding structures or funding instruments across their funds are also a target group for this new program.

Contributors:

Himashini Weeraratne
Partner and Head of Financial Services - Corporate Tax
+61 2 8297 2693
Himashini.Weeraratne@au.gt.com

Ramana Thirumoorthy
Director – Corporate Tax
+61 2 9286 5695
Ramana.Thirumoorthy@au.gt.com

Nathan Caprara
Director – Corporate Tax
+61 2 9286 5590
Nathan.Caprara@au.gt.com

Grant Thornton Australian tax insights Transfer pricing

ATO continues to scrutinise the characterisation of intercompany payments, particularly IP-related arrangements, for embedded royalties

Following the High Court's dismissal of the Commissioner's appeals in the PepsiCo case, the ATO released a Decision Impact Statement (DIS) in March 2026 which affirmed their view that the general implications of the judgement are limited for taxpayers. Further, they noted they will continue to:

- scrutinise the characterisation of intercompany payments;
- examine the economic substance and pricing of these arrangements based on available evidence; and
- challenge IP-related arrangements, even where rights are explicitly said to be embedded in payments for goods or services.

The DIS impacts multinationals with Australian related parties, where there is a distribution arrangement and an expense being paid out of Australia to its foreign counterparts.

It is integral that multinationals re-examine their IP arrangements and document the commercial rationale and substance of such arrangements, so there is sufficient evidence to support the characterisation of intercompany payments involving the rights to use IP.

Link: PepsiCo and embedded royalties: why the ATO says little has changed

Why it matters:
This case is significant as it examines whether payments made for goods can contain an embedded royalty for the use of intellectual property, despite being contractually described as payments for goods. If an embedded royalty exists, the payments may be subject to Australian royalty withholding tax and potentially the general anti-avoidance rules.

Updated transfer pricing risk assessment guidance for inbound distributors

Relevant to businesses operating as inbound distributors in Australia, the ATO has released a draft update to its risk assessment framework contained within Practical Compliance Guideline PCG 2019/1.

While PCG 2019/1 previously applied to companies predominantly involved in the distribution of goods purchased from related foreign entities for resale, the scope has been broadened to include any business whose activity comprises distribution, even if it is not their main activity. Further, the ATO has revised the definition for what counts as a 'digital product distributor' and has reduced the EBIT margin profit markers for certain distributors operating in the life sciences and information and communication technology sectors.

The proposed changes impact (or attempt to capture) all businesses in Australia conducting distribution activities.

Link: ATO PCG 2019/1: updated transfer pricing risk assessment for inbound distributors

Why it matters:
This provides multinationals who have related party distributors in Australia with guidance on what margins earned by their distributors may be potentially considered low, medium or high risk from an ATO perspective. It also provides clarity on when the ATO is more likely to dedicate compliance resources to review such arrangements.

First lodgements complete for Public Country-by-Country (CbC) Reporting in Australia

Multinational groups with revenue exceeding AUD $1b are required to publicly disclose tax and financial data on a jurisdictional basis. The first public CbC reports have been lodged for eligible groups who have a 30 June 2025 year end. After validation, the ATO will automatically publish the data for public access on data.gov.au.

There is a de minimis threshold where groups whose Australian-sourced aggregated turnover for the income year is less than AUD $10 million are exempt. However, where there is a lodgement obligation, significant penalties of up to AUD $910,000 apply where a group fails to make the lodgement on time.

Companies subject to Australia's Public CbC reporting regime should review the ATO's guidance, ensure their internal processes and systems are structured to comply with the new requirements, be aware of the differences between an OECD CbC report and Australian Public CbC report, and note the deadline for lodgement.

Link: ATO's implementation of Public Country-by-Country reporting: what multinationals need to know

Why it matters:
Public CbC reporting matters to multinationals as it moves tax transparency from a regulator-only exercise to a public accountability exercise. For groups with a lodgement obligation, there may be increased public scrutiny and potential reputational risk. Further, they have an added annual compliance and governance burden which attracts significant penalties for non-compliance.

Contributors:

Keith To
Principal - Transfer Pricing
+61 3 8663 6103
Keith.To@au.gt.com

Arani Ganendren
Director - Transfer Pricing
+61 2 8297 2530
Arani.Ganendren@au.gt.com

Grant Thornton Australian tax insights Pillar Two

Pillar Two: from theory to compliance reality in Australia

Six months ago, Pillar Two in Australia was still largely a technical exercise. That has changed. First lodgements are now live.

Multinational enterprise groups with 31 December 2024 year ends face a base due date of 30 June 2026, extended by an automatic 30-day ATO deferral to 30 July 2026 for the Australian IIR/UTPR Tax Returns and Australian DMT Tax Returns, noting the GloBE Information Return and Foreign Lodgment Notification cannot be formally deferred though the ATO has provided transitional relief through suspended enforcement.

In parallel, the OECD's 5 January 2026 Side-by-Side (SbS) package introduced a new SbS Safe Harbour, which broadly removes IIR and UTPR exposure for groups headquartered in eligible jurisdictions, together with Ultimate Parent Entity and Substance-Based Tax Incentive safe harbours from 1 January 2026, a permanent Simplified ETR safe harbour, and a one-year CbCR safe harbour extension.

Australia has since implemented the one-year Transitional CbCR Safe Harbour extension domestically. The Government also confirmed in the 2026-27 Federal Budget its intention to implement the broader SbS package (including the SbS safe harbour, UPE, Substance-Based Tax Incentive and Simplified ETR safe harbours), for which enabling legislation is still pending.

Why it matters:

International MNE groups with Australian entities face live Pillar Two lodgements. The CbCR extension is now Australian law, however the broader SbS package is not. Groups relying on the SbS package for FY26 planning should monitor domestic implementation and refresh tax governance and processes regarding their Australian Pillar Two compliance.

Contributors:

Jethro Byrne
Partner - Corporate Tax
+61 3 8663 6459
Jethro.Byrne@au.gt.com

Nathan Caprara
Director - Corporate Tax
+61 2 9286 5590
Nathan.Caprara@au.gt.com

Grant Thornton Australian tax insights
Global trade & customs

EU–Australia Free Trade Agreement: What businesses should do now

Australia and the EU concluded a landmark Free Trade Agreement in March 2026, set to eliminate tariffs on the vast majority of goods traded between the two markets and unlock access to the 450 million-consumer EU market.

While the agreement is unlikely to enter into force until around 2027, the commercial impacts will begin much earlier. Businesses should expect shifts in pricing, sourcing, and competitive dynamics as EU imports become more cost-competitive in Australia, while Australian exporters gain improved access into Europe.

Realising these benefits will depend on meeting rules of origin requirements and proactively managing risks such as Geographical Indications (GI), which may impact product labelling and branding for certain goods. Businesses should begin reviewing supply chains, bills of materials, and contract structures now to ensure they are positioned to qualify for preferential treatment and capture available duty savings.

Link: EU–Australia Free Trade Agreement: Commercial implications and actions for Australian businesses

Why it matters:
The FTA presents significant upside through tariff elimination and market access, but benefits are not automatic. Businesses that prepare early by aligning sourcing, origin compliance, and pricing strategies will be best placed to capture margin gains and manage increased competition.

Geopolitical instability exposes Australia's supply chain vulnerabilities

Recent geopolitical tensions, including disruption to key shipping routes such as the Strait of Hormuz, have highlighted Australia's exposure to global supply chain shocks. Despite limited direct reliance on Middle Eastern oil, Australia remains highly dependent on fuel processed through Asian refineries, amplifying indirect risk.

The disruption has already driven higher oil prices, reduced tanker traffic, and increased freight costs and transit times, and placed pressure on inventory levels, production schedules, and landed costs for Australian importers.

These conditions are exposing structural weaknesses, including limited domestic stockpiles and reduced visibility over supply chain costs and risk allocation. In response, businesses are reassessing their import models (particularly Incoterms) with a shift away from DDP arrangements toward more transparent structures (e.g. FOB) to improve control over customs, GST, and duty outcomes.

Link: Geopolitical instability exposes Australia's supply chain vulnerabilities

Why it matters:
Supply chain shocks are increasing cost volatility and reducing predictability. Businesses that improve visibility, revisit Incoterms, and align commercial, tax, and supply chain decisions will be better positioned to manage disruption, protect cash-flow, and respond quickly to future crises.

Intellectual Property and royalties: Customs value compliance in Australia and New Zealand

When importing goods into Australia or New Zealand, businesses need to report a customs value that includes not just the purchase price listed in the sales contract, but also additional payments after import, such as royalties, licence fees, and other intellectual property-related charges, if these are a condition of the sale. Both Australia and New Zealand offer voluntary disclosure options so companies can report these matters without facing penalties for previous non-disclosure.

Why it matters:

Incorrect customs valuation of royalties and IP fees can lead to penalties, audits, and reputational risk. Proactive disclosure and compliance ensure smooth imports, reduce legal exposure, and protect business integrity in Australia and New Zealand.

Contributors:

Richard Nutt
Partner - Transfer Pricing
+61 2 8297 2455
Richard.Nutt@au.gt.com

Chloe Cullen
Manager - Transfer Pricing
+61 7 3222 0314
Chloe.Cullen@au.gt.com

Grant Thornton Australian tax insights
Employment taxes

Proposed removal of Fringe Benefit Tax exemption for electric vehicles

Currently, where an employer provides an employee with an electric vehicle (under the luxury car threshold) under a novated lease arrangement or as a remuneration benefit, this does not trigger any FBT liability but continues to be reported as a Reportable Fringe Benefit Amount. The Federal Government is currently proposing to amend this, working towards removing the FBT exemption in a staggered approach. The announced changes are proposed to come into effect from 1 April 2027 with a transitional period put in place.

Link: Proposed 2027 FBT changes: electric vehicles and salary packaging of work expenses

Why it matters:

This will impact remuneration packages where employers provide expatriate employees with cars as a benefit. With the current proposed changes, employers will need to factor in additional FBT cost as part of the expatriate assignment.

Residency for expatriate employees

Generally, where an expatriate employee is based in a foreign jurisdiction for a multiple number of years, but the family remains in the home country and lives in the family home, this provides an argument that the employee remains a domestic Australian tax resident through the various domestic tests. We then look to the Double Taxation Agreement as a tie-breaker to understand where the employee would remain a treaty resident.

In the past few years, there has been precedent set by the ATO that allows for an argument that the individual breaks tax residency (either domestically or under the tax treaty). One such recent case is *Bulie v FCT* [2026] ARTA 1003, where the Administrative Review Tribunal (ART) argued that greater importance should be given to where the taxpayer's primary source of ongoing income is derived. As this was in Singapore for the taxpayer, regardless of the family remaining in Australia and the taxpayer sending money over for the family to cover their cost of living in Australia, the ART argued that as the "centre of day-to-day life and source of economic lifeline was Singapore for him and his family", he remained a treaty tax residency of Singapore and not Australia.

Why it matters:

This impacts employees who have families who remain in their home country and the employee's move to the host jurisdiction. An individual's tax residency can greatly impact the employment tax obligations for the employer.

Proposed Capital Gains Tax changes

As part of the 2026-27 Federal Budget, the Government announced the intended replacement of the 50 per cent CGT discount for individuals, trusts and partnerships with a cost base indexation and a minimum 30 per cent tax rate on capital gains.

As the legislation introducing these changes received royal assent on 26 June 2026, this now replaces the 50 per cent CGT discount that was previously provided to Australian resident employees who hold capital assets (such as shares) for more than one year. It is important to note that the CGT discount and any main residence exemptions, under the current law, does not apply to any non-resident employees (impacting expatriate taxpayers who cease Australian tax residency).

Why it matters:

This impacts expatriate employees who are provided with Awards under an employee share scheme plan, thus reducing the previously provided tax concessions.

Contributors:

George Bendall
Partner - Remuneration Tax
+61 7 3222 0386
George.Bendall@au.gt.com

Shivani Donegan
Director - Remuneration Tax
+61 3 8663 6350
Shivani.Donegan@au.gt.com

Grant Thornton Australian tax insights
Indirect tax

Incoterms and Australian GST: hidden risks for offshore sellers

Recent engagements have highlighted a recurring GST risk for multinational groups and non-resident businesses supplying goods to Australian customers. In many cases, Incoterms, importer arrangements and GST positions are not aligned, leading to unexpected Australian GST liabilities and compliance obligations.

While Incoterms are often viewed primarily through a customs and logistics lens, they can also significantly influence Australian GST outcomes. For example, under Delivered Duty Paid (DDP) arrangements, import GST may be payable when goods enter Australia. However, payment of import GST does not necessarily discharge all Australian GST obligations. Depending on the supply chain structure and contractual arrangements, the offshore supplier may also be required to register for GST and account for GST on the subsequent sale of the goods to the Australian customer. This can result in separate GST consequences at both the importation and supply stages.

Businesses should also be mindful of Australia's low value goods (LVG) regime. A common misconception is that GST only arises where the supplier imports the goods. However, for LVG sales to Australian consumers, GST may instead be payable by the offshore supplier at the point of sale, even where the customer or another party imports the goods.

As supply chains become increasingly complex, businesses should periodically review their Incoterms, importer-of-record arrangements and GST positions to ensure they remain aligned. Early advice on supply chain design can help prevent GST leakage, compliance failures and costly remediation.

Why it matters:

Many international groups focus on the customs and freight implications of Incoterms but overlook the Australian GST consequences. Depending on the supply chain structure, Incoterms can affect GST registration obligations, liability for GST on sales to Australian customers, import GST recovery and GST obligations under the LVG rules. Early planning can reduce GST leakage, compliance risks and unexpected costs.

Contributors:

Anika Reside
Partner - Indirect Tax
+61 8 9480 2070
Anika.Reside@au.gt.com

Mark Foster
Director - Indirect Tax
+61 7 3222 0243
Mark.Foster@au.gt.com

Grant Thornton Australian tax insights
Innovation incentives

Proposed changes to the R&D Tax Incentive

The Government has announced a proposed redesign of the R&D Tax Incentive (RDTI) as part of its response to the Ambitious Australia review, intended to apply from 1 July 2028.

Key changes include increasing the refundable aggregated turnover threshold from AUD $20 million to $50 million, alongside higher R&D tax offset rates across all company sizes.

However, access to refundable offsets would be restricted to companies operating for less than 10 years, with older companies limited to non-refundable offsets.

The proposal refocuses eligibility on core R&D activities, with supporting activities excluded, streamlining the application process and reducing complexity in cost allocation. This is complemented by revised expenditure thresholds intended to increase support for higher intensity R&D investment.

These changes are likely to influence how claims are structured, documented and reviewed. While not yet law, they signal a need for businesses to revisit their R&D tax strategy, governance, and documentation practices.

Why it matters:

The RDTI may become more attractive overall given the increased offset rates.

However, existing claimants may shift between refundable and non-refundable offsets, which can influence how and when benefits are realised, with implications for cashflow and forecasting.

New guidance - Artificial intelligence-related activities and the R&D Tax Incentive

Representatives from the Department of Industry, Science and Resources (DISR) have indicated that AI is now incorporated in approximately 50 per cent of R&D Tax Incentive claims, prompting the release of AI-specific guidance.

The guidance largely reiterates existing principles, confirming that the use of AI does not in itself establish eligibility. Activities must still meet the definition of core R&D activities by addressing technical uncertainty through hypothesis-driven experimentation. It clarifies how these principles apply in an AI context and highlights areas where claims may be overstated, particularly where activities, while complex, can be resolved by competent professionals using existing knowledge, tools or techniques.

Why it matters:

This reflects increasing difficulty in self-assessing AI eligibility as technologies evolve, driving greater reliance on advisors to interpret requirements, identify technical uncertainty, and ensure R&D claims are appropriately supported, well documented, and defensible.

Contributors:

Rebecca Iwanuscha
Partner - Innovation Incentives
+61 2 8297 2787
Rebecca.Iwanuscha@au.gt.com

Bianca Patrick
Director - Innovation Incentives
+61 2 8297 2484
Bianca.Patrick@au.gt.com

Offices

Tarndanya / Adelaide
Grant Thornton House
Level 3, 170 Frome Street
Adelaide SA 5000
T +61 8 8372 6666

Meeanjin / Brisbane
Level 18, 145 Ann Street
Brisbane QLD 4000
T +61 7 3222 0200

Gimuy / Cairns
Cairns Corporate Tower
Level 13, 15 Lake Street
Cairns QLD 4870
T +61 7 4046 8888

Naarm / Melbourne
Collins Square
Tower 5, 727 Collins Street
Melbourne VIC 3000
T +61 3 8320 2222

Boorloo / Perth
Central Park, Level 43,
152–158 St Georges Terrace
Perth WA 6000
T +61 8 9480 2000

Warrang / Sydney
Level 26, Grosvenor Place
225 George Street
Sydney NSW 2000
T +61 2 8297 2400