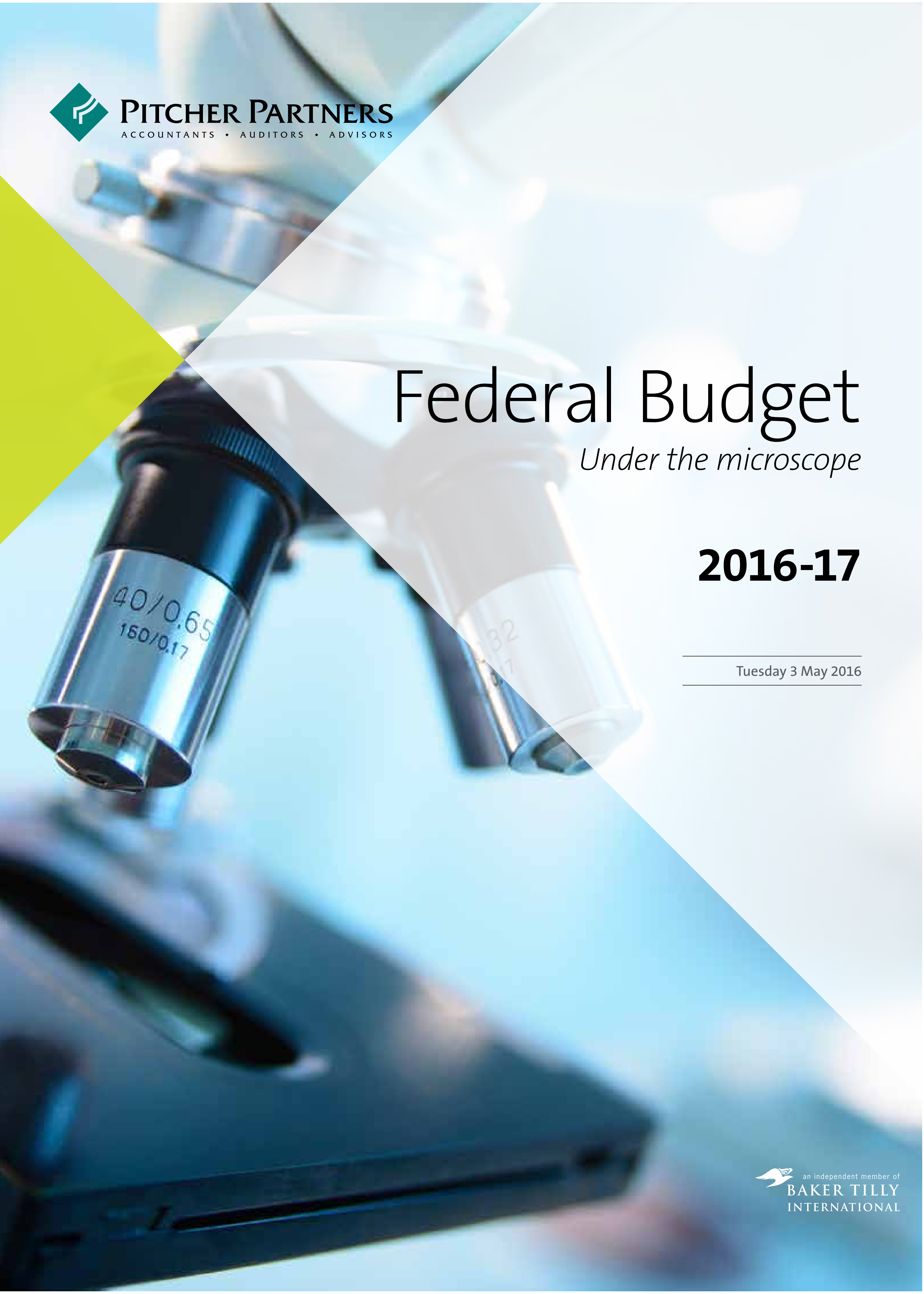

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

Federal Budget

Under the microscope

2016-17

Tuesday 3 May 2016

an independent member of
BAKER TILLY
INTERNATIONAL

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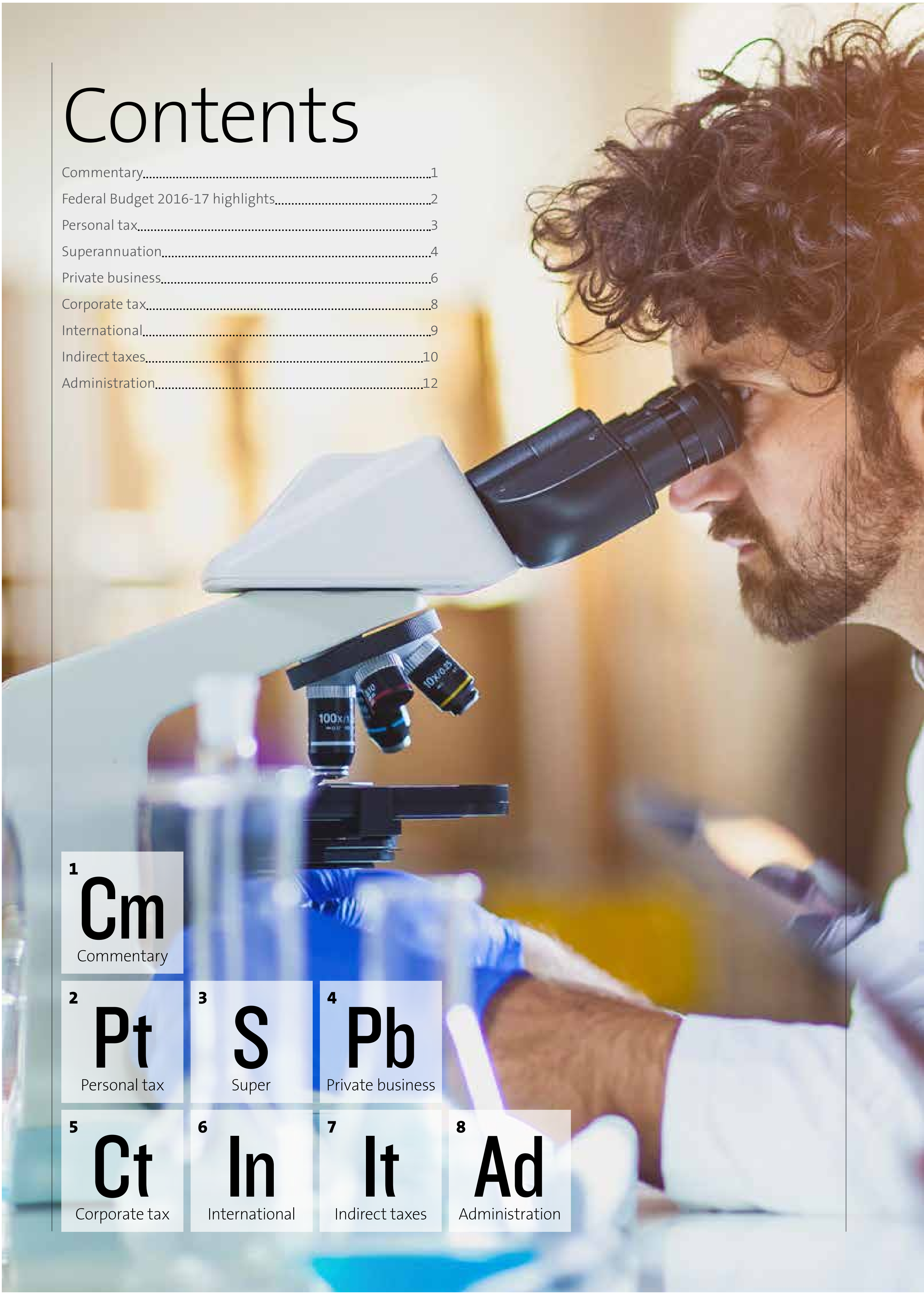

1 Cm Commentary

POSITIVE

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Commentary

Middle market businesses are set to gain from the 2016 Budget, with a raft of tax and infrastructure initiatives that seek to fulfil the government's objectives of encouraging economic growth and employment. Unfortunately middle market business owners will not be so pleased from a personal perspective.

What's pleasing is that the positive initiatives aren't just temporary measures or handouts; rather, they encourage Australian businesses to reinvest capital in their own businesses.

Businesses with under $10m in turnover will see an immediate benefit with a 2.5% reduction in the corporate tax rate and the extension of the $20,000 asset write off. But all businesses are set to benefit with a phased-in company tax rate cut of 5% over 10 years – taking the company tax rate down to 25% in 2026-27.

The middle market is also set to benefit from simplification of the Division 7A rules as per the Board of Taxation recommendations, making it easier for Australian businesses to reduce debt, free up cash flow and increase the capacity of business to raise debt.

Significant road, rail and water infrastructure projects will also benefit both the economy and mid-market business, with downstream benefits for a range of businesses, especially in the construction industry. The capacity of infrastructure investment to result in positive jobs growth, both regionally and in cities, will have a profound impact on consumer confidence, through associated increased salaries and consumer expenditure.

We were surprised not to hear more from the government around health, education and innovation, in fact the Budget was remarkably silent on these critical areas of expenditure. However, with an election due in July, we expect to hear more announcements on these measures in the very near future.

From the positive to the cautionary, we are wary of red tape that could be created through the allocation of funding to establish a Tax Avoidance Taskforce. Additionally, it would be a definite step back for Australia's tax compliance regime if the Tax Office were to shift to an enforcement model rather than an engagement model.

By far the biggest area of concern in this Budget is around superannuation. A number of measures have been announced which ultimately add up to a threat to the integrity of Australia's superannuation system, that was once the envy of the world.

For a government so insistent on promoting innovation and entrepreneurship, the government's superannuation changes do not make sense. Innovators and entrepreneurs want to provide for their own future, and we want them to be aspirational.

With Australians working through a debt cycle of HECS repayments, mortgages, and costs associated with their children's education, it's often not until their 50s that people can afford to ramp up their super contributions. The reduced annual contribution limit and a $500k cap on after tax super contributions removes that ability, and it flies in the face of the intent of the super regime.

The government has stated that the intent of super is not wealth accumulation, but the provision of income for retirement. But these superannuation changes erode the ability of Australians to provide for their own retirement.

On multinational tax avoidance, we're seeing a reflection of global reality. Australia has moved to protect its position as our trading partners head down the same path of addressing base erosion and profit shifting.

We are pleased that the government did not make the widely rumoured changes to thin capitalisation rules. That would've placed our thin capitalisation regime amongst the harshest in the world, sending a bad message to international investors.

While we have seen some minor changes to income tax, the government has been hamstrung by its unwillingness to consider an increase in the GST. That's why we'll continue to advocate for a strong focus on broader tax reform in the upcoming election, and in particular a narrowing of the gap between the top marginal tax rate and the corporate tax rate.

The 10 year horizon for corporate tax rate cuts is long, and the delivery of this cut will frustrate governments if we see a dramatic change in future revenues. GST reform will be essential to guarantee the delivery of this and future reforms to benefit the engine room of the Australian economy: the middle market.

$37.1b DEFICIT

2.5% (flat) economic growth 2016-17

6% revenue

2.5% expenditure

6% 2015-16

5.5% 2016-17

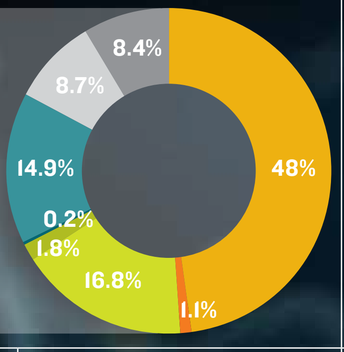
UNEMPLOYMENT

$6b Projected deficit in 2020

Federal Budget 2016-17 Highlights

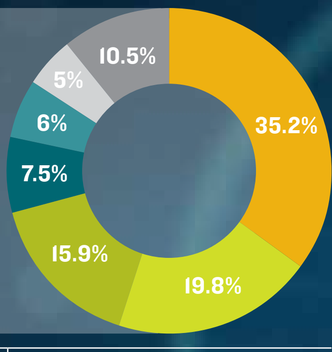
Revenue (%)

- Individual income tax
- Fringe benefits tax
- Company tax
- Superannuation tax
- Petroleum resources tax
- GST
- Excise and customs
- Other



Expenditure (%)

- Social sec/welfare
- Other purposes
- Health
- Education
- Defence
- General public services
- All other functions



↓2.5% COMPANY TAX <$10m t/o

30% 2016

25% 2026

Company tax rate

1,300 new staff to raise **$3.7b**

49→47% TOP TAX RATE from 1 July 2017

3 S Super

VERY NEGATIVE

– +

(NOT SO) SUPER

$1.6m Superannuation pension cap

$500k after tax contributions lifetime limit

$250k earnings = higher contribution tax

$25k pa cap for concessional contributions

2 Pt Personal tax

POSITIVE

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Personal income tax

The government has announced a change to personal income tax rates, increasing the 32.5% rate threshold to $87k. The low income thresholds for the Medicare levy will also be increased.

From 1 July 2016, the following individual income tax rates* will apply:

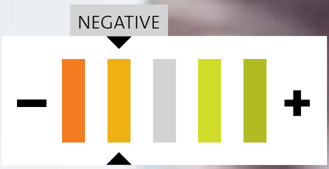
Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $37,000	19% of excess over $18,200
$37,001 – $87,000	$3,572 plus 32.5% of excess over $37,000
$87,001 – $180,000	$19,822 plus 37% of excess over $87,000
$180,001 and over	$54,232 plus 47% of excess over $180,000

*Excluding 2% Medicare Levy

Importantly, the government has confirmed that the 2% Temporary Budget Repair Levy will expire at the end of the 2017 income year, returning the effective top marginal tax rate to 45%.

The government has also announced that there will be no increase for indexation to the income thresholds for the Medicare Levy Surcharge and the Private Health Insurance Rebate for a further three years to 1 July 2021.

3 S
Super



Superannuation

The superannuation changes announced in the 2016 Budget are significant, and they will make it increasingly difficult for individuals to accumulate significant super balances in the future.

Existing super balances will largely be permitted to remain in the superannuation system, albeit largely in accumulation accounts where the 15% fund tax rate will apply on profits/earnings. Pension account balances, where profits/earnings are not taxed, will be limited to a maximum starting balance of $1.6m from 1 July 2017.

Looking further forward, the measures reduce, and almost eliminate, the voluntary incentives which have been a critical part of the superannuation system to promote self-sufficiency in retirement.

The new rules are largely slated to apply from 1 July 2017, and will require people to review and possibly adjust current arrangements leading up to the proposed start date.

We look at the super proposals in more detail below.

$1.6m cap on super transfers into retirement products

The proposals introduce a $1.6m cap on the total amount of superannuation an individual can transfer into retirement products, such as superannuation pensions or annuities, to limit the profits/earnings that can qualify for the current 0% fund tax rate.

Superannuation balances in excess of $1.6m can be retained in the super system, but will have to be held as accumulation accounts where the standard 15% fund tax rate will apply on profits/earnings.

All pensions will have to comply with the new rules by 1 July 2017. For individuals running pensions today which are likely to exceed the $1.6m threshold, it is likely you will need to return a portion of your pension assets into accumulation phase – where the 15% fund tax rate will apply on future profits/earnings on these assets in the fund before the start date.

It appears the $1.6m cap will apply on the total starting balances of all pensions. If the pension balance(s) subsequently fall below $1.6m we do not anticipate you will be permitted to top up your pension account back to the $1.6m limit.

$500k lifetime non-concessional contributions cap

A lifetime limit of $500k of after tax (non-concessional) contributions was announced. This will replace the current $180k/$540k non-concessional contributions cap.

Contributions made from 1 July 2007 will be counted against this $500k lifetime limit. If you have exceeded the $500k cap at Budget night, (i.e. at 7.30pm on 3 May 2016), you will not be required to remove the excess and no penalty will apply.

Any after tax contributions made after 7.30pm on 3 May 2016 that exceed the $500k limit will need to be removed or a penalty tax will apply, (presumably at rates that would result in removing the excess being the only practical option.

Concessional contributions tax increase and reduction in concessional contributions cap

From 1 July 2017, the government will tax concessional superannuation contributions received by individuals with incomes of $250k or more at 30%, rather than the standard 15% contributions tax rate. Under current rules, the 30% contribution tax rate applies when a person's income exceeds $300k.

The definition of income used is very broad and includes not only taxable income but also fringe benefits, some investment losses, and your concessional superannuation contributions for the year.

This represents a significant tax increase and it will apply more broadly over time as incomes increase, as the threshold is not indexed.

In addition, the concessional contributions cap will be reduced from $30k/$35k to only $25k from 1 July 2017.

Even at the 30% contributions tax rate, concessional contributions remain beneficial but the benefits are reasonably marginal, say 17% on up to $25k, or approximately up to $4,250 per annum.

Individuals with superannuation balances of less than $500k will be permitted to use some of their unused concessional contributions limits from previous years.

Transition to retirement pensions

The announcements include a proposal to remove the tax exemption on profits/earnings in pension accounts where the pension is a transition to retirement pension, from 1 July 2017. A transition to retirement pension is generally a pension where the member has not 'retired' and the member is under age 65.

There were concerns before the Budget that the government might remove access to transition to retirement pensions and many people commenced pensions as a defensive strategy before Budget night.

The government has taken a different approach than was generally anticipated by removing the tax saving that can be generated in the super fund, rather than prohibiting commencement and grandfathering pension arrangements in place at Budget night.

However, as the new measures are not slated to apply until 1 July 2017, considering continuing the pension across the 2016-17 financial year prior to 30 June 2016 remains the right approach.

Tax deductions for personal superannuation contributions

All individuals up to age 75 will be able to claim a tax deduction for personal superannuation contributions irrespective of their employment circumstances from 1 July 2017.

This is also a welcome and positive change, limited again however by the concessional contributions cap of only $25k per annum. The proposal will increase flexibility for individuals to utilise the $25k concessional contributions cap, and will be particularly beneficial to individuals who derive some employment income but not enough to fully utilise the concessional contributions cap under current rules.

Removal of 'work test' for superannuation contributions

Contributions to super from 1 July 2017 for people aged 65-74 will be permitted irrespective of that person's working status. Currently a work test must be satisfied before contributions can be accepted. The work test requires the member to have been 'gainfully employed' for at least 40 hours over any 30 day period in the financial year.

This is a welcome and positive change. Individuals will retain the ability to contribute to super, within permitted contribution limits (which is a significant limiter), until age 75 irrespective of their ongoing work status.

Low income superannuation tax offset

Superannuation funds will also receive a tax offset up to $500 for contributions tax paid on concessional contributions by low income earners.

The tax offset extends an existing policy that was due to expire and is effectively paid to refund the 15% contributions tax paid by individuals with adjusted taxable incomes below $37k.

This measure will cost in the order of $4b over four years.

4 Pb
Private business

POSITIVE

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Simplification of Division 7A

The government has announced a raft of changes to simplify the rules that seek to prevent private companies from making tax-free distributions of profits to shareholders. Whilst the details of the proposed changes have not been announced, the government has indicated that the proposed changes are based on recommendations that the Board of Taxation submitted in November 2014.

The changes will come into effect from 1 July 2018 and will impact both pre-existing and new loans.

The new rules will allow taxpayers to self-correct arrangements that would otherwise trigger deemed dividends under Division 7A without penalty.

They will also introduce safe harbour rules for calculating the amount required to be charged to shareholders for the use of assets held by companies, with the aim of reducing compliance costs and uncertainties for taxpayers.

All shareholder loan arrangements will be placed on 10-year loan terms. Although the government has provided few details, the Board recommended that:

- No formal written agreement would be required;
- The interest rate would be fixed over the term of the loan, however, the applicable interest rate is expected to be higher than the current benchmark rate;
- Rather than annual minimum repayments, minimum balance targets would need to be met at prescribed points during the loan term.

The Board also recommended that all existing company loans and unpaid trust entitlements, regardless of when they first arose, would transition to these terms. Interestingly, the start date for the new loan arrangements would coincide with the expiry of the very first 'ATO model' investment agreements that first applied to unpaid distributions in 2011.

We note that the announcement made no reference to the Board's recommendation that business trusts be able to elect to retain the current treatment in return for foregoing access to capital gains tax discounts.

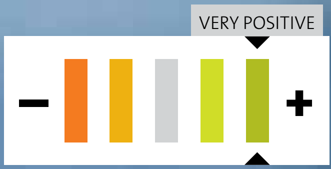
The government also announced that a number of technical amendments would be made with the purpose of improving the overall operation of Division 7A.

The rules in Division 7A impose a significant compliance cost for many small to medium businesses. Pitcher Partners has been actively involved in advocating for the reduction in complexity of Division 7A over a number of years.

It is pleasing to see that the government has decided to adopt the Board's recommendations.

The government has indicated that it will consult with stakeholders in developing the proposed changes. We will continue to engage with the government to ensure that these changes achieve their stated aim of reducing complexity and compliance costs.

4 Pb
Private business



Access to small business tax concessions

As a boost for small businesses, the government will extend access to a number of small business tax concessions by increasing the annual turnover threshold from $2m to $10m. These measures will apply from 1 July 2016.

Under the announced measures, businesses with turnover below $10m will now be able to access a range of existing small business tax concessions, including:

- Simplified depreciation rules, including the immediate tax deduction for assets costing less than $20k (up until 30 June 2017);
- Simplified trading stock rules;
- Simplified method for PAYG instalment payments;
- The option to account for GST on a cash basis and apply the simplified method of GST instalments payments;
- Immediate deduction for prepaid expenses;
- Immediate deduction for professional expenses;
- Fringe Benefits Tax concessions, including exemptions for work-related portable electronic devices (applicable from 1 April 2017).

The turnover threshold for access to the unincorporated small business tax offset for individuals will increase from $2m to $5m. The amount of the tax offset will also increase from 5% to 8% from 1 July 2016, and then increase incrementally to 16% over 10 years. However, the current cap of $1,000 per year will be retained.

The current $2m turnover threshold will be retained for access to the small business CGT concessions. Accordingly, to access these concessions, businesses will still need to meet this threshold or satisfy the maximum net asset value test of $6m.

These measures are very welcome. They expand the number of small businesses able to access the concessions, which provide immediate cash benefits and the reduction of compliance costs. With respect to the 1 July 2016 start date, small businesses may wish to time their expenditure accordingly.

POSITIVE

5 Ct Corporate tax

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Staged reduction of the company tax rate

The government has announced a staged reduction of the company tax rate beginning in the 2017-18 income year. This change also involves a progressive increase to the annual aggregated turnover threshold for access to the 27.5% company tax rate, meaning that smaller companies will qualify earlier for the rate cut.

From the 2024-25 income year, there will be a further reduction each year for all companies until the corporate tax rate reaches 25% in the 2026-27 income year.

From 1 July 2016, the tax rate for businesses with an annual aggregated turnover of less than $10m will be 27.5%. Each year the turnover threshold will be increased to allow more companies to access the lower corporate tax rate as follows:

Income year	Annual aggregated turnover threshold	Rate (%)
2015-16 (current year)	< $2m	28.5
2016-17	< $10m	27.5
2017-18	< $25m	27.5
2018-19	< $50m	27.5
2019-20	< $100m	27.5
2020-21	< $250m	27.5
2021-22	< $500m	27.5
2022-23	< $1b	27.5
2023-24	None	27.5
2024-25	None	27.0
2025-26	None	26.0
2026-27	None	25.0

The government states that franking credits will be able to be distributed in line with the rate of tax paid by the company making the distribution.

At this stage, it is unclear whether this refers to the rate of tax paid by the company in the year it derived the profits, or the rate of tax to be paid by the company in the year the dividend is paid.

We welcome the proposed reduction in the corporate tax rate to 25% for all companies, however a reduced transition period would be preferable to help drive growth sooner for corporate Australia.

We also urge government to clarify its position in relation to franking credits as soon as possible.

VERY POSITIVE

5 Ct Corporate tax

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New CIVs and TOFA reform

The government has announced several new measures to enhance the international competitiveness of Australia's finance and investments industry.

This will include the introduction of a new tax and regulatory framework for two new types of collective investment vehicles (CIVs), the Asia Region Funds Passport as well as reforms to the taxation of financial arrangements (TOFA) regime.

A corporate CIV will be introduced for income years starting on or after 1 July 2017. This will be followed by a limited partnership CIV for income years starting on or after 1 July 2018.

The new CIVs will be expected to meet similar eligibility criteria as managed investment trusts (MITs), such as being widely held and engaging in primarily passive investments.

The new CIV regimes are expected to enhance the international competitiveness of the Australian funds management industry by allowing fund managers to offer investment products using vehicles that are commonly in use overseas.

Investors in these new CIVs will generally be taxed as if they held the investment directly.

The government has confirmed its commitment to the Asia Region Funds Passport and will provide additional funding over four years from the 2016-17 income year to implement a regulatory framework for Australia's participation in the initiative.

The initiative aims to increase access for Australian fund managers to growing Asian markets by creating a regulatory arrangement for the cross-border offer of CIVs.

The TOFA regime will be reformed to remove the majority of taxpayers from their scope, decrease compliance costs and provide simpler rules and more certain outcomes for those subject to the rules. The new simplified rules will apply to income years on or after 1 January 2018.

In our view, the new measures are positive steps which will stimulate growth in the overall domestic finance and investment industry, in particular making foreign investment more attractive.

Further, the reform of the TOFA regime will remove the costs and complexity associated with the regime to the extent it applied to small and medium sized taxpayers.

6 In International

NEGATIVE

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International tax

A number of international tax anti-avoidance measures were announced in the budget. This was certainly expected given the media's recent spotlight on multinationals and the perception that such groups are taking advantage of tax loopholes in Australia, a contention with which we would not agree.

The only good news for multinationals was that the rumoured changes to the thin capitalisation measures did not eventuate. This can be seen as positive for Australia's global competitiveness given that we already have some of the strictest thin capitalisation rules in the world.

In a less welcome surprise for large multinationals, the government announced the introduction of a Diverted Profits Tax (DPT) from 1 July 2017. The DPT concept originated in the United Kingdom, which introduced such a regime in 2015.

Australia's DPT imposes a penalty tax of 40% on profits that are diverted offshore through related party transactions, where the increased tax liability of the related party is less than 80% of the corresponding reduction in Australian tax liability and there is 'insufficient economic substance'.

This test seems sure to create considerable uncertainty. Happily this measure will only apply to groups with $1bn or more in global turnover, although they too will have an exemption where their operations have Australian turnover of less than $25m and they have not artificially booked profits offshore.

Companies with global turnover of $1b or more will, from 1 July 2017, also be subject to increased penalties for breaches in reporting obligations. Maximum penalties relating to the lodgement of tax documents will be increased from $4,500 to $450k while penalties relating to the making of tax statements will be doubled.

It seems likely that this is to encourage large multinationals to satisfy their country by country (CbC) reporting obligations by ensuring that the penalty for non-compliance outweighs the compliance cost associated with preparing the report. However the rules will not be limited to this context and can apply in a broad range of circumstances.

The balance of the international measures do not have any *de minimis* rules and will apply to taxpayers of all sizes.

As expected, the government has announced a measure to prevent tax advantages arising from the use of hybrid instruments and hybrid entities. This is consistent with recommendations already made by the OECD as part of their base erosion and profit shifting (BEPS) agenda.

The policy objective is to prevent the use of such instruments and entities to achieve a tax deduction in two jurisdictions, or a tax deduction in one country without an assessable amount in the other jurisdiction. A Board of Taxation discussion paper has been released with 15 recommendations including no grandfathering and a start date of 1 January 2018.

Groups with hybrid arrangements should consider restructuring before these rules come into effect.

Australia's transfer pricing rules will also be amended to ensure that they incorporate updates to the 2010 OECD guidance, covering aspects of intellectual property and hard-to-value-intangibles. This seems likely to have little practical impact for taxpayers given the way the ATO is already administering the rules.

A new Tax Avoidance Taskforce, led by the Commissioner of Taxation, will be established with a focus on international tax risks, high-wealth individuals, trusts and tax scheme promoters. A panel of external experts comprised of former judges will be appointed to oversee settlement arrangements between taxpayers and the ATO with the aim of ensuring that they are concluded in a fair and appropriate manner.

We expect that the government's focus on multinationals will be a continuing theme in future Budgets in light of continued work by the OECD and the G20 on BEPS issues and the evolving global political landscape.

7 It Indirect taxes

POSITIVE – +

Double taxation of digital currency

The government has announced its intention to remove the double taxation for GST purposes of digital currency such as Bitcoin.

Currently, GST applies to both the purchase of digital currency and the subsequent use of that currency in purchasing goods or services which themselves are subject to GST.

Treasury has released a discussion paper addressing the current double taxation of digital currency under the GST Act. The government is seeking public submissions on the options to treat digital currency more favourably in order to support the growth of Australia's fintech industry.

The discussion paper identifies three possible options for removing the effect of double taxation:

- Treating supplies of digital currency as input taxed financial supplies;
- Changing the definition of 'money' in the GST Act to include certain digital currencies;
- Treating supplies of digital currency as GST-free.

Treasury has indicated that it does not intend for the proposed changes to apply to all internet based currency-like products such as in-game currencies, loyalty scheme points, frequent flyer points and digital vouchers. The changes will therefore need to include some form of definition of 'digital currency' and clearly identify which products are intended to come within the scope of the new rules.

The discussion paper acknowledges that there may be difficulties in all three approaches above.

The government will be working with interested parties to seek feedback as it looks to address the concerns regarding double taxation and to encourage growth in the broader fintech space. The closing date for submissions is 3 June 2016.

7 It Indirect taxes

POSITIVE – +

Customs duty deferral scheme

From 1 July 2015, the government commenced a pilot program for businesses to achieve accreditation as an Australian Trusted Trader (ATT). The program is due to become fully operational from 1 July 2016.

As part of the Budget, the government has announced that the ATT program will include a customs duty deferral scheme similar to the GST deferral scheme.

The aim of the ATT program is to recognise secure and compliant industry supply chain practices, including the streamlining and facilitation of trade and enhancing supply chain security.

Businesses that satisfy the standards will be formally recognised as low-risk and accredited as 'Trusted Traders'. This accreditation provides benefits such as faster processing of goods at Customs, delivering business efficiencies and savings and prioritised processing of ruling applications.

The inclusion of a customs duty deferral scheme as part of the ATT program is welcomed. Details of how the deferral scheme will operate are yet to be announced but it should enable importers into Australia to achieve cash flow savings as well as faster clearance of their imports.

NEGATIVE

7 It Indirect taxes

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Wine producers' rebate reigned in

The government has announced measures to scale back the Wine Equalisation Tax (WET) producers' rebate. The measures will also tighten up the eligibility rules, while at the same time introducing alternative avenues to promote the industry.

The wine producers' rebate is currently capped at $500k per annum. The rebate cap will be scaled back to $350k from 1 July 2017, and back to $290k from 1 July 2018.

From 1 July 2019, in order to qualify for the rebate a wine producer must own or have a long term lease over a winery, and sell packaged, branded wine domestically.

To offset the loss of the rebates, the government will provide $50m over four years to the Australian Grape and Wine Authority to help promote Australian wine overseas and wine tourism within Australia, in order to benefit regional wine producing communities. This funding will take effect from 1 July 2016.

Our clients in the wine industry will need to assess how the progressive reductions in the rebate cap will impact their operations over the next three years.

The structure of their operations should also be considered in light of the proposed integrity measures to be introduced in 2019, in order to determine whether they will continue to be eligible for the producers' rebate.

NEGATIVE

7 It Indirect taxes

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GST on import of low value goods to hit Australian consumers

From 1 July 2017, GST will be applied to low value imports of goods by Australian consumers. This confirms an announcement in August last year.

This measure is estimated to add $300m to GST revenue over the next four years and will align GST treatment of low value goods sourced both domestically and internationally.

Currently, goods imported into Australia with a customs value that does not exceed $1,000 are not subject to GST. We understand that the $1,000 threshold will be removed altogether.

The new measure will require offshore vendors that have an Australian annual turnover of $75k or more to register for, collect and remit GST for supplies of low value goods to consumers in Australia.

This is in line with the model adopted for the proposed 'Netflix Tax', which will require offshore suppliers to register and account for GST on the supply of things other than goods and real property to Australian consumers.

The low value imported goods and the Netflix Tax measures are intended to apply to offshore vendors from 1 July 2017.

It will be critical for our international clients to ensure that they have appropriately assessed their requirement to register for and charge GST, and that their systems and processes are updated to ensure compliance with the new legislation.

NEUTRAL

8 **Ad** Administration

Tax avoidance

The government has committed $679m towards the establishment of a new ATO Tax Avoidance Taskforce to ensure that multinational companies, large private companies, and high-wealth individuals pay the right amount of tax.

The government has also announced new arrangements to increase protection for individuals who disclose information to the ATO on tax avoidance behaviour.

The Taskforce, led by the Commissioner of Taxation, Chris Jordan will employ approximately 1,300 people, including 390 new specialised officers, who will form specialist audit and investigation teams, with a focus on international tax risks, high-wealth individuals, trusts and tax scheme promotors.

The government has also proposed that a panel of external experts comprised of former judges will be appointed to oversee settlement arrangements and ensure that they are concluded in a fair and appropriate manner.

The Taskforce is expected to raise more than $3.7b between now and July 2020. The work of the Taskforce will be complimented through increased information-sharing with ASIC and AUSTRAC.

The whistleblower rules will take effect from 1 July 2018. Under the new arrangements, individuals – including employees, former employees and advisors – disclosing information to the ATO will be better protected under the law.

It remains to be seen whether the Taskforce will adopt a more adversarial approach to tax compliance and egregious taxpayer behaviour. This would be in contrast with the ATO's recent trend towards fostering willing participation and active engagement with taxpayers.

We expect considerably more scrutiny on the middle market and the increasing importance of implementing appropriate tax risk management protocols.

NEGATIVE

8 **Ad** Administration

Tax transparency codes

In addition to the existing transparency measures already in effect, the 2016 Budget is seeking to encourage large corporates – particularly multinationals – to voluntarily disclose further information about their tax affairs to interested parties.

This recognises that the actions of a few businesses, particularly large multinationals engaging in aggressive tax avoidance, have impacted the reputations of many businesses doing the right thing.

A Board of Taxation report issued to the government on 16 February 2016 regarding the Voluntary Tax Transparency Codes recommended split reporting for large corporates into the following categories:

Who	Minimum Standard of Reporting
TTC Disclosure // Part A	
Large and Medium Businesses – aggregated Australian turnover in excess of $100m but less than $500m	A reconciliation of accounting profit to tax expense and to income tax paid or payable
	Identification of material temporary and non-temporary differences
	Effective company tax rates for Australian and global operation (pursuant to AASB guidelines)
TTC Disclosure // Part B	
Large Businesses – aggregate turnover in excess of $500m	Approach to tax strategy and governance
	A tax contribution summary for corporate taxes paid
	Information on international related party dealings, financing and tax concessions

It was recommended that medium businesses, i.e. businesses with an aggregate turnover of $100m-500m, would disclose further reporting to cover Part A, whilst large businesses, i.e. with an aggregate turnover in excess of $500m disclose sufficient material to address both Part A and Part B.

In addition, the government is seeking community input on the OECD's proposals for mandatory disclosure rules, which require tax advisors and/or taxpayers to make early disclosures of aggressive tax arrangements (often before income tax returns are lodged) and to provide tax authorities with information on arrangements that have the potential to undermine the integrity of the income tax system.

A voluntary code will provide a framework for large businesses to consider its position on transparency matters. However we are concerned that this represents another compliance cost and red tape for private business.

Get in touch...

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