



Federal Budget Bulletin No Frills but Plenty of Content

Despite the 2010-11 Federal Budget being a no-frills budget, it has plenty of content with a number of important, if not earth shattering, tax changes that will improve the Australian Tax System.

With the Australian Economy now performing better than expected a year ago the Federal Government is expecting to return the Federal Budget to surplus by 2012-13, which is three years earlier than was previously expected.

While the return to budget surplus is expected to happen at approximately the same time as the start of the proposed Resource Super Profits Tax (RSPT) that was announced last week, the expected return to surplus is not dependant on the RSPT being enacted. The RSPT is a separate package that has not been factored into the budget as yet.

Although the Treasurer has stated that this is not a typical election Budget as it does not have the usual sweeteners for voters, it can be seen as being crafted with an eye on the upcoming election by trying to paint the Government as economically conservative to offset some recent criticism of Government spending and mismanagement.

Individuals

Personal Income Tax Cuts

The 2010-11 Budget did not announce any new tax cuts or changes to tax rates or thresholds. However, there are tax cuts that will apply from 1 July 2010 that are the last of the three previously announced tax cuts provided by the Government. There are no changes to the previous announcements.

The current and proposed personal tax rates and thresholds for resident individuals (excluding the 1.5 per cent Medicare levy) are:

Current		From 1 July 2010	
Taxable income (\$)	Rate (%)	Taxable income (\$)	Rate (%)
0 - 6,000	0	0 - 6,000	0
6,001 - 35,000	15	6,001 - 37,000	15
35,001 - 80,000	30	37,001 - 80,000	30
80,001 - 180,000	38	80,001 - 180,000	37
180,001+	45	180,001+	45
Low income tax offset			
1,350		1,500	

From 1 July 2010 the already legislated residents' tax rates are as follows:

Residents: proposed rates and tax payable from 1 July 2010	
Taxable income (\$)	Tax payable (\$)
0 - 6,000	Nil
6,001 - 37,000	Nil + 15% of excess over 6,000
37,001 - 80,000	4,650 + 30% of excess over 37,000
80,001 - 180,000	17,550 + 37% of excess over 80,000
180,001+	54,550 + 45% of excess over 180,000

Tax Discount for Savings

The Henry Review recommended individuals receive a 40 per cent discount on the income tax payable on interest income they derive.

The Federal Government has gone beyond the level recommended by Henry by providing a 50 per cent discount for interest income derived by individuals. The discount will take effect from 1 July 2011 up to a limit of \$1,000 interest income.

The discount will apply to interest earned by individuals in any form, including interest on deposits with banks and other financial institutions, bonds, debentures, annuities and interest derived through trusts and managed investment schemes.

As the discount reduces the amount of interest income included in an individual's taxable income, the discount will also reduce (by a similar amount) an individual's adjusted taxable income which is relevant in determining the individual's entitlement to a range of Government benefits.

Standard Deductions and Personal Income Tax Returns

The Government has announced significant changes to personal income tax in line with the recommendations made in the Henry Review. From 1 July 2012, all individual taxpayers will be entitled to claim a standard income tax deduction of \$500 for work related expenses and expenses incurred in managing their tax affairs. The amount will increase to \$1,000 from 1 July 2013.

Where an individual has an entitlement to work related deductions and/or deductions incurred in managing their tax affairs in excess of the standard limits, they will be entitled to claim the higher deductible amount, subject to them satisfying the substantiation requirements.

Low Income Tax Offset

Currently, the low income tax offset is \$1,350, meaning the effective tax free threshold is \$15,000. Taxpayers are entitled to the low income tax offset if their taxable income is less than \$63,750.

From 1 July 2010, the maximum amount of the tax offset will increase to \$1,500 per year, meaning the effective tax free threshold will increase to \$16,000. Taxpayers will be entitled to the low income tax offset if their taxable income is less than \$67,500.

The low income tax offset will still phase out at a rate of four cents for each dollar over \$30,000.

Senior Australians Tax Offset

As a consequence of the changes in the low income tax offset, the tax free income threshold for eligible senior Australians will also change. Currently, eligible senior Australians have no tax liability until their income reaches \$29,867 for singles and \$25,680 for each member of a couple.

In the 2010-11 income year, with the changes to the senior Australians tax offset, eligible senior Australians will have no tax liability until their income reaches \$30,685 for singles and \$26,680 for each member of a couple.

Amendment to the Senior Australians Tax Offset Regulations

With effect from 1 July 2010, the senior Australians tax offset regulations affecting the calculation of the rebate threshold will be amended to correctly factor in the effect of the low income tax offset.

Medical Expenses Rebate Threshold

The medical expenses rebate threshold above which a taxpayer may claim the 20 per cent net medical expenses tax offset (NMETO) will be increased from \$1,500 to \$2,000 from 1 July 2010.

With effect from 1 July 2010, this threshold will be indexed annually in accordance with the Consumer Price Index. The first indexation adjustment to the threshold will take place on 1 July 2011.



Family Tax Issues

Child Care Rebate

The annual Child Care Rebate (CCR) will be capped to the 2008-09 level of \$7,500 per child from the current annual cap of \$7,778 per child. Reducing the cap will not alter the percentage of out-of-pocket expenses reimbursed by the Commonwealth, which will remain at 50 per cent up to the annual cap.

The indexation of the cap will be paused for four years from 1 July 2010. Currently, the maximum amount of CCR that can be claimed per child is indexed each financial year.

Flexible Arrangements for FTB where Recipients have Not Lodged a Return

Under the 2008-09 Budget measures, fortnightly payments of the Family Tax Benefit (FTB) were to cease for recipients who did not lodge tax returns. The proposed measures will retain this arrangement but will ensure that payments continue to be made in two circumstances:

- ▶ where people do not have any FTB debt; or
- ▶ where ceasing payments would cause undue hardship.

FTB Part A — Improved Participation Requirements for 16 to 20 year olds

The Government will strengthen the requirement announced in the 2009-10 Budget that 16-20 year olds have to participate in education in order to be eligible for FTB Part A.

Under the 2009-10 Budget measure, for families with children aged 16-20 who did not have a Year 12 or equivalent qualification to remain eligible for FTB Part A, the children would have to participate in full-time education or training, or part-time education or training in combination with other approved activities, leading to a Year 12 or equivalent qualification.

Commencing from 1 July 2010 these participation requirements will be strengthened. Participation in full-time education or training will be required in order for such families to remain eligible for FTB Part A.

Improving Flexibility of First Home Saver Accounts

The Government is proposing to increase the flexibility of the First Home Saver Accounts (FHSA) scheme. Currently, an FHSA holder is required to keep their savings in a FHSA for four financial years before they are able to use those savings to buy a home. If the account holder buys a home prior to the end of that four year period, the balance of their FHSA must be transferred to their superannuation so that it remains in a concessional tax environment.

Under the new proposal, the Government will allow savings in a FHSA to be paid into an approved mortgage after the end of a minimum qualifying period, rather than requiring it to be paid to a superannuation account. The FHSAs will still offer all the existing concessions to help Australians buy their first home, including Government contributions of 17 per cent on the first \$5,000 (indexed) of individual contributions made each year.

Earnings on the FHSA are to be taxed at 15 per cent and withdrawals will be tax free where they are used to purchase a first home.

Individuals who are members of a couple will be able to pool their FHSAs to purchase a home together.

The changes will apply for houses purchased after Royal Assent of the legislation giving effect to this change. However, this is unlikely to occur until after 30 June 2010.



Superannuation

Co-contribution Matching Rate Permanently Reduced

The Government previously legislated changes in the co-contribution matching rate to 125 per cent from 1 July 2012 and 150 per cent from 1 July 2014. These changes were potentially subject to further amendment with the reduction in the co-contribution rate to 100 per cent in last year's Budget.

The Government has announced that the co-contribution matching rate will be permanently retained at 100 per cent, with a maximum co-contribution payable on an individual's eligible personal non-concessional superannuation contributions at \$1,000.

In addition, the Government will freeze the indexation applied on the income threshold above which the maximum superannuation co-contribution reduces. This will have effect for both the 2011 and 2012 income tax years. The matching contribution is up to \$1,000 for people with incomes of up to \$31,920 in the 2010 income tax year. The threshold will remain at this amount for the next two years.

Terminal Medical Condition Benefits

In 2008 the Government announced it would allow superannuation funds to provide benefits to members who were suffering a terminal medical condition. However, when the legislation was announced the Government failed to amend the income tax legislation to allow funds to claim an income tax deduction for terminal medical condition benefits provided to members. Funds can currently claim income tax deductions for the payment of death and incapacity benefits to members. This anomaly will be corrected as a result of this announcement, with effect from the date of the original announcement, 16 February 2008.

Superannuation Fund Losses

In 2008 the Government announced a temporary measure (effective until 30 June 2011) whereby super funds which merged were entitled to transfer their tax losses into the merged fund. In the absence of this measure, super funds which had losses would have forfeited those losses where they merged with other funds. At the time, funds were seeking mergers with other funds.

However, when the amendments were legislated they excluded mergers where funds merged into a newly created fund. There was no policy reason for this exclusion. The proposed change will correct the anomaly by allowing funds to merge into newly created funds. The change will take effect retrospectively from 24 December 2008.

Minor Operational Amendments to Super

The Government announced a number of technical amendments to take effect from 1 July 2010:

- ▶ the Commissioner can exercise his discretion to allow excess superannuation contributions prior to the issuing of an assessment – currently requests must wait until an assessment of excess contributions tax is raised;
- ▶ permanently allowing a claim for an income tax deduction for contributions made to successor funds;
- ▶ increasing the time limit for deductible employer contributions for former employees;
- ▶ clarifying the due date for the shortfall interest charge for excess contributions tax; and
- ▶ providing new arrangements for public sector defined benefit schemes which fund benefits through last minute contributions.



Charities

New Regulations for Public Ancillary Funds

Effective from 1 July 2011, the Government will introduce a new regulatory framework for public ancillary funds similar to those introduced for private ancillary funds. In addition, transitional rules will be provided to facilitate transition into the new regime.

The new framework will include legislative guidelines governing the establishment and maintenance of the funds. The guidelines will also allow for regular valuation of assets and will clarify investment and distribution rules. The guidelines will also provide the Commissioner of Taxation with the power to impose administrative penalties on trustees for breaches of the guidelines.

The measures will provide trustees of these funds with greater certainty as to their philanthropic obligations and provide donors and the charitable sector with greater confidence that donations are being used effectively.



Capital Gains Tax

Earnout Arrangements

Earnout arrangements will be treated as relating to the sale of the underlying business. Earnout arrangements are used to facilitate the sale of a business with the purchase price for the business usually being a fixed amount plus a contingent amount (or less a contingent repayment) that depends on the future performance of the relevant business.

The Australian Tax Office's interpretation of the current law is that an earnout arrangement results in the creation of separate earnout rights, which for capital gains tax (CGT) purposes, have to be dealt with separately to the sale of the underlying business. This interpretation can result in inappropriate CGT outcomes

with some entities paying double tax or, in other situations, entities obtaining inappropriate tax advantages.

The proposed amendments appear to fix these inappropriate CGT outcomes, but we await the details of the changes to see if all the anomalies have been dealt with appropriately.

This measure will have application from the date of Royal Assent of the enabling legislation. There will, however, be transitional rules in certain cases from 17 October 2007, the date the Australian Tax Office released Draft Ruling 2007/D10, which outlined the Australian Tax Office's interpretation of the tax law on earnouts.

Capital Gains Tax Rollovers

The Government announced the following amendments to the CGT rollover rules for specific situations:

Share or Interest Sale Facilities

The range of CGT roll-overs will be widened for entities that are restructuring and use a share or interest sale facility for foreign residents for the restructure. Currently, where a business restructures and it uses a share or interest sale facility for foreign interest holders, Australian resident interest holders are unable to access some CGT roll-overs.

Under the current law, entities with foreign investors have problems with restructures as it can be difficult to pass the ownership proportion tests in the applicable roll-over while ensuring that ownership requirements are appropriately maintained. This makes some of these entities reluctant to restructure because without the roll-over their Australian investors can be taxed on the disposal of their original interests under the roll-over.

This measure will apply to CGT events taking place after 7.30 pm (AEST) on 11 May 2010.

Demergers for Groups with Corporations Sole and Complying Superannuation Funds

The CGT demerger relief provisions will be amended for demerger groups that include corporations sole or complying superannuation entities so they can benefit from the CGT demerger roll-over. This will be done by allowing another entity to be the head entity of such demerger groups. The CGT demerger relief for such entities is currently not available.

This measure will apply to CGT events taking place after 7.30 pm (AEST) on 11 May 2010.

CGT Roll-over for the Indigenous Bodies

This roll-over will allow Indigenous incorporated bodies to convert to a company incorporated under the Corporations (Aboriginal and Torres Strait Islander) Act 2006 (CATSI Act) without immediate CGT consequences. In addition, Indigenous companies will be able to move between the Corporations Act 2001 and the CATSI Act without CGT consequences.

This measure will apply to CGT events taking place after 7.30 pm (AEST) on 11 May 2010.



CGT Roll-over for Water Entitlements

CGT roll-over will be provided for transformation arrangements relating to water rights. This will apply where an irrigator changes their rights to water from a particular irrigation water provider into a statutory licence that is held by an entity other than the irrigation operator.

This measure will apply from the 2005-2006 income year with transitional provisions applying until the date of Royal Assent.

Managed Investments

New Taxation Regime for Managed Investment Trusts

On the 7th May 2010 the Government announced it will introduce a new taxation regime for Australian managed investment trusts (MITs) with effect from 1 July 2011. This measure will:

- ▶ allow MITs to use an attribution method of taxation (in lieu of the existing present entitlement to income method);
- ▶ include a 5 per cent *de minimis* rule to allow MITs to carry forward under and over distributions into the next income year without adverse taxation consequences; and
- ▶ allow unit holders to make, in certain circumstances, adjustments (including upward) to the cost base of their unit holdings to eliminate double taxation that may otherwise arise.

In addition, the corporate unit trust rules will be repealed. These rules, which aim to discourage the reorganisation of companies involving the transfer of assets into a public unit trust, will be replaced with an arm's length rule to be included in the public trading trust provisions. This measure will also amend the 20 per cent tracing rule for public unit trusts so that it does not apply to superannuation funds and exempt entities that are entitled to a refund of excess imputation credits.

This measure is designed to further promote Australia as a financial services hub and ensure that Australian managed funds remain competitive in global financial markets.

This new regime is limited to managed investment trusts. Other trusts will still be subject to the current tax rules for trusts. Unfortunately the Government has not yet announced much needed changes to the general rules for taxation of trusts.

Capital Account Treatment for Managed Investment Trusts

In last year's Federal Budget the Government announced a measure to allow eligible Australian MITs to make an irrevocable election to apply the capital gains tax (CGT) regime as the primary code for taxing certain disposals of assets. The Government has now announced further refinements to this proposal by:

- ▶ expanding the definition of MIT to ensure that a broader range of widely held trusts, such as state-operated trusts and certain wholesale trusts, are able to make an election, with effect from the 2008-09 income year;
- ▶ expanding the scope of eligible assets, with effect from the 2008-09 income year;
- ▶ preventing the Commissioner of Taxation from amending, without the consent of the taxpayer, prior year assessments in respect of a re-characterisation of gains or losses from eligible assets from capital to revenue or vice versa. This change will have effect from the 2008-09 income year; and
- ▶ treating gains and losses on disposals of shares and units by eligible MITs that do not make an election on revenue account. Distributions or gains on 'carried interest' units in eligible MITs will also be treated on revenue account. These changes will have effect from the date of Royal Assent of the enabling legislation.

Investment Manager Regime

The Government has announced a consultative process on the introduction of an Investment Manager Regime (IMR) in response to the recommendations of the Australian Financial Centre Forum report which is also known as the Johnson report.

The recommendations of the Johnson report include:

- ▶ non-resident investors using an independent resident investment adviser, fund manager, broker, exchange or agent would be exempt from Australian tax on investments in foreign assets. Investments in Australian assets would be treated the same as if they were made directly by the non resident investor; and
- ▶ the location of central management and control in Australia of entities that are part of the regime will not of itself give rise to Australian tax residency of those entities.

Corporate

Tax Consolidations

The Government announced the following changes to the rules for both consolidated groups and multiple entry consolidated (MEC) groups.

For both consolidated groups and MEC groups, the rules will be amended to:

- ▶ ensure PAYG liabilities can be collected under the liability for payment rules with effect from 11 May 2010; and
- ▶ ensure members of a consolidated group or a MEC group are able to leave their group without attracting any further income tax liabilities on behalf of the group where that exiting entity has paid all its contributions under a tax sharing agreement. These rules will have effect from 1 July 2004.

There are also the following amendments which relate solely to MEC groups:

- ▶ the liability for payment rules will apply to MEC groups from 11 May 2010; and
- ▶ where there is a change in the head company of a MEC group during an income tax year, and the exiting head company has made PAYG payments on behalf of the group during its time as head company, those payments will be credited to the benefit of the group. These rules will have effect from 1 July 2002.

Previously Announced Consolidations Measures

The Government announced that it will change the effective date of a raft of consolidation measures which were announced in the 2008-09 Federal Budget on 13 May 2008. The Government has not announced which measures will be affected, nor has the Government announced a new effective date for these measures. However, they have indicated that the new effective dates are designed to ensure consolidated groups are not adversely impacted by the changes to the legislation.

A selection of measures announced in 2008 include the following (note that these may or may not be the measures now impacted by this announcement):

- ▶ the tax cost allocated to an asset will be used to work out the amount that is assessable income or allowed as a deduction under other parts of the law;
- ▶ change the pre-CGT factor rules so that, subject to certain integrity rules, the proportion of pre-CGT membership interests in an entity that joins a consolidated group is preserved when the entity leaves the group;
- ▶ ensure that, if an entity joins a consolidated group with a nil available fraction and transfers losses to the group, the capital gain that arises under CGT event L5 when the entity leaves the group is reduced in certain circumstances;
- ▶ ensure that, subject to certain integrity rules, consolidated groups can convert to MEC groups, and vice versa, with minimal tax consequences - this change will apply to conversion events that happen on or after 27 October 2006;
- ▶ change the tax cost setting rules so that units held in a cash management trust that have a market value equal to their face value are retained cost base assets;
- ▶ for the period between 1 July 2002 and 8 May 2007, ensure CGT event L7 will not apply to amounts that are recognised under another provision of the income tax law and, with effect from 8 May 2007, repeal CGT event L7;
- ▶ allow the head company of a consolidated group to reduce a capital gain arising under CGT event L3 by the value of doubtful debts held by a joining entity at the joining time - this change will apply from 8 May 2007; and
- ▶ extend the single entity rule to shareholders who dispose of shares in the head company of a consolidated group for the purposes of the CGT discount rules and CGT event K6 - this change will apply from 8 May 2007.

Interest Withholding Tax on Financial Institutions Phased Down

The Government will progressively phase down interest withholding tax (IWT) incurred by local subsidiaries and branches when they pay interest on borrowings from their overseas parents. The phase down of IWT will also apply to Australian-owned financial institutions borrowing from related parties overseas and any financial institution borrowing offshore retail deposits which they on-lend in Australia.

Currently, interest paid by financial institutions on offshore borrowings may be subject to IWT, generally at the rate of 10 per cent. The proposed phase down in IWT will allow non-major banks access to cheaper funding, enabling them to provide cheaper loans to Australian borrowers. It will also allow funding choices to be based on commercial considerations rather than taxation.

For local subsidiaries of overseas parents, the IWT rate will be reduced on such borrowings from 10 per cent to 7.5 per cent in 2013-14 and to 5 per cent in 2014-15. The Government is favourably disposed to reducing this rate to zero, subject to its medium-term fiscal objectives (see table below).

In addition, the IWT rate applying to borrowings by any bank branch from its overseas head office will be reduced from 5 per cent to 2.5 per cent in 2013-14 and to zero in 2014-15.

As an integrity measure, the IWT phase-down will not apply to interest paid on non-resident retail deposits held in Australia. It will also not apply to offshore borrowings by entities that are not financial institutions.

Interest Withholding Tax Rates and Exemptions for Financial Institutions

Type of borrowing	Current IWT	Future IWT	
		From 2013-14	From 2014-15
Financial institution borrows from a foreign financial institution (where not exempt under a tax treaty)	10%	7.5%	5% Aspirational target of zero
Foreign bank branch borrows from overseas head office	5%	2.5%	Exempt
Financial institution borrows from offshore retail deposits (proceeds used and traced to Australian operations)	10%	7.5%	5% Aspirational target of zero
Financial institution borrows through a publicly offered debenture issue, non-equity share or syndicated loan	Exempt	Exempt	Exempt
Offshore banking unit (borrows and on-lends offshore)	Exempt	Exempt	Exempt
Financial institution borrows from non-resident retail deposits held in Australia	10%	10%	10%

Capital Protected Borrowings

Effective from 11 May 2010, the Government will adjust the benchmark interest rate that applies to capital protected borrowings to the Reserve Bank of Australia (RBA) indicator rate for standard variable housing loans plus 100 basis points. Currently the benchmark interest rate is based on the RBA indicator rate for standard variable housing loans as announced in the 2008-09 Budget.

The measure will apply to capital protected borrowings entered into from 13 May 2008. The Government will also extend the transitional arrangements for capital

protected borrowings entered into at or before 13 May 2008 from the previously announced 13 May 2013 to 30 June 2013.

The effect of lifting the benchmark interest rate by 100 basis points will allow borrowers to allocate a smaller proportion of the expenses of the borrowings to costs for capital protection, which is not deductible if on a capital account.

The Government has released draft legislation that gives effect to these changes.

Film Tax Offsets

The Government has announced changes to the eligibility requirements for film tax offsets, reducing the thresholds which eligible entities must satisfy to qualify for the offsets. These changes will take effect from 1 July 2010.

For productions with a budget of between \$15 million and \$50 million, the requirement that at least 70 per cent of the budget be spent in Australia will be removed. Whilst this requirement was designed to ensure local film production, the Government identified that larger international productions which were to be filmed in a number of countries were by-passing Australia because of the 70 per cent minimum spend requirement.

In addition, the threshold for post, digital and visual effect production will be reduced from \$5 million to \$500,000. Again, the Government recognised that smaller domestic production houses were adversely impacted by the threshold, making it difficult for them to successfully tender for international contracts.



The Henry Review Revisited

In addition to announcing new initiatives in response to the recommendations of the Henry Review, the Government reiterated the announcements it made in its initial response to Henry. In particular, the Government confirmed the following revenue measures:

- ▶ introduction of the Resource Super Profits Tax – the revenue from this initiative seems to underpin much of the Government’s plan to accelerate a reduction of the Budget deficit – to take effect from 1 July 2012;
- ▶ introduction of the Resource Exploration Rebate – a refundable tax offset for exploration companies for Australian exploration expenditure – to take effect from 1 July 2011;
- ▶ introduction of the Infrastructure Fund, applying some of the revenue collected from the Resource Super Profits Tax;
- ▶ a reduction in the company income tax rate, with an accelerated reduction in the company tax rate for small businesses – to take effect from 1 July 2012 for small businesses and from 1 July 2013 for other businesses;
- ▶ the immediate write off of capital asset purchases with a value of \$5,000 or less for small businesses – to take effect from 1 July 2012; and
- ▶ the superannuation initiatives, including:
 - an increase in the superannuation guarantee charge (SGC) age limit to 75 from 1 July 2013;
 - a progressive increase in the SGC contributions rate for employers, commencing on 1 July 2013, with a target rate of 12 per cent by 2020;
 - the super contributions cap of \$50,000 per annum for individuals aged 50 and over who have aggregate superannuation balances no greater than \$500,000; and
 - the introduction of the \$500 annual superannuation contribution for individuals with an adjusted taxable income less than \$37,000 (to cover the tax on contributions made to super funds on behalf of those employees).

Indirect Tax

GST

Perhaps fortunately for the Federal Government, the reduction in GST collections budgeted in 2009 due to the Global Financial Crisis is only temporary – projections now are for GST collections to **increase by 7.9 per cent in 2009-10** – and this growth in collections is projected to increase further in 2010-11 and onwards.

Recent policy announcements such as increasing tobacco excise by 25 per cent (with effect on and from 30 April 2010) are expected to raise \$505 million in additional underlying cash GST collections (that will be paid to the States and Territories). Further, increasing funding to the Australian Taxation Office for GST compliance (\$337 million over four years) is expected to yield \$1.56 billion in additional underlying cash GST collections (again, that will be paid to the States and Territories).

Although the growth in GST collections is, to a large extent, attributable to a stronger economic outlook, there are a number of new measures announced that will clearly contribute to this growth, which may be summarised as follows:

- ▶ the Government will amend the financial supply provisions of the GST law to clarify the operation of the legislation and reduce compliance and administrative costs, particularly for many small businesses, with effect from **1 July 2012**.

A key component of this measure is to increase the financial acquisitions threshold from \$50,000 to \$150,000;

- ▶ the Government will implement all the recommendations of the Board of Taxation from its Review of the application of GST to cross-border transactions, with effect from **1 July 2012**;
- ▶ the start date for the following components of the 2009-10 Budget measure has been revised to **1 July 2011** in response to the Board of Taxation's recommendations:
 - adopt the income tax self assessment regime for indirect taxes and refresh the period of review;
 - reform the change of use adjustments;
 - allow adjustments for pre-registration acquisitions;
 - clarify the treatment of tax law partnerships;

- simplify the GST grouping membership interest rules and allow grouping of non-operating holding companies; and
- introduce a reverse charge for supplies of going concerns and farmland;
- ▶ the Government will amend the GST law to replace the current mechanism for exempting Australian taxes, fees and charges with a principles-based legislative exemption, with effect from **1 July 2011**;
- ▶ the Government will restructure the margin scheme provisions to clarify and simplify the current provisions, with effect from **1 July 2012**;
- ▶ the Government will allow eligible supplies of boats used for recreational purposes to be GST-free if the boats are exported from Australia within 12 months, with effect from **1 July 2011**. The current limit is 60 days; and
- ▶ the Government will make a number of minor revisions to its 2009-10 Budget measure that reduces GST compliance costs for businesses involved in the domestic transport of exported and imported goods, to ensure that the place of consignment will always be determined by the place of delivery in the principal contract.

Government Response to Board of Taxation report: GST Cross-border Transactions

The Government has announced it will implement all the recommendations of the Board of Taxation from its Review of the application of GST to cross-border transactions, with effect from **1 July 2012**.

The Government claims the package will significantly reduce the number of non-residents who are unnecessarily drawn into Australia's GST system, through:

- ▶ limiting the connected with Australia provisions;
- ▶ expanding the compulsory reverse charge provision;
- ▶ extending the GST-free rules for cross-border supplies; and
- ▶ removing the need for some non-residents to register.

It is likely the changes will require unanimous agreement of the States and Territories

Reform to the Arrangement for Exempting Taxes, Fees and Charges from the GST

The Government has announced it will amend the GST law to replace the current mechanism for exempting Australian taxes, fees and charges with a principles-based legislative exemption, with effect from **1 July 2011**.

Under current law, Australian taxes, fees and charges are exempt from GST if they are included in a list contained in a determination made by the Treasurer.

Reforms to the GST Financial Supply Provisions

The Government will amend the financial supply provisions of the GST law to clarify the operation of the legislation and reduce compliance and administrative costs, particularly for many small businesses, with effect from **1 July 2012**.

The reforms include:

- ▶ increasing the financial acquisitions threshold (FAT) from \$50,000 to \$150,000 of input tax credits;
- ▶ protecting the GST base by reducing opportunities for businesses to take advantage of the reduced input tax credit concessions by bundling services (i.e. tightening the availability of reduced input tax credits); and
- ▶ allowing small businesses accounting for GST on a cash basis to claim input tax credits upfront in relation to hire purchase arrangements.

It is likely the changes will require unanimous agreement of the States and Territories.

Reforms to the GST Margin Scheme

The Government will restructure the margin scheme provisions with effect from **1 July 2012**. The Government will also make a minor technical amendment to ensure that a valuation can be obtained for the purposes of using the margin scheme for subdivided land.

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GST and Cross-border Transport Supplies

The Government will make a number of revisions to its 2009-10 Budget measure that reduce GST compliance costs for businesses involved in the domestic transport of exported and imported goods, to ensure that the place of consignment will always be determined by the place of delivery in the principal contract.

The measure will also ensure that ancillary services to the international transport of goods receive the same GST treatment as the transport supply that they facilitate.

GST Compliance Program

The Government will provide \$337.5 million over four years to the Australian Taxation Office to fund additional activities that promote voluntary GST compliance (i.e. additional GST audit funding).

The Government has stated that this measure “*will address issues relating to fraudulent GST refunds, systematic under-reporting of GST liabilities, non-lodgement of GST returns and non-payment of GST debts*”.

The measure includes \$6.5 million in capital funding for the Australian Taxation Office in 2010-11, which will provide additional capacity to store and analyse data that is obtained from external agencies.

This measure is expected to result in an additional \$1.56 billion over four years in underlying cash GST collections that will be paid to the States and Territories. In underlying cash terms, the increase in related non-GST taxation receipts is expected to be \$1.74 billion over four years.

Fuel Tax

The Government will amend the fuel tax system to introduce an “energy based fuel excise system”.

The practical effect will be that ethanol and fuels including ethanol will be subject to higher excise and customs duties. From **1 July 2011** ethanol will be taxed at 25 cents per litre. This measure is estimated to raise \$276 million over five years.