Australian Government

Australian Taxation Office

2016 Federal Budget Update

Overview of budget measures that may impact software developers

Caretaker Period

- On 9 May 2016 the Australian Government assumed a caretaker role.
- The continuation of announced but not enacted measures will be a matter for the incoming government to decide.

Ten Year Enterprise Tax Plan

Personal income tax – increasing the Medicare levy low-income thresholds

Proposal to increase the Medicare levy low-income thresholds for singles, families and seniors and pensioners from the 2015-16 income year.

The increases take account of movements in the Consumer Price Index so that low income taxpayers generally continue to be exempted from paying the Medicare levy.

This has been enacted receive Royal Assent on 4 May 2016.

	Threshold increased to
Singles	$21,335
Couples with no children	$36,001
Single seniors and pensioners	$33,738
Senior and pensioner couples with no children	$46,966
Each dependent child or student	$3,306

Ten Year Enterprise Tax Plan – targeted personal income tax relief

Proposal that the marginal tax rate of 37 per cent will now start at $87,000 instead of the current $80,000.

The maximum amount of tax you can save is $315.

This change is not yet law and is subject to the normal parliamentary process. The Commissioner will not anticipate these changes for the purposes of PAYGW and PAYGI without law.

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $37,000	19c for each $1 over $18,200
$37,001 – $87,000	$3,572 plus 32.5c for each $1 over $37,000
$87,001 – $180,000	$19,822 plus 37c for each $1 over $87,000
$180,001 and over	$54,232 plus 45c for each $1 over $180,000

The above rates do not include the Medicare levy of 2%.

Ten Year Enterprise Tax Plan
– reducing the company tax rate to 25 per cent

The Government is proposing a gradual reduction to the corporate tax rate from 30% to 25%.

- The tax rate will fall to 27.5% for the 2016-17 income year for entities with a turnover of $10 million or less.
- The turnover threshold will increase progressively from $25 million in the 2017-18 income year to $1 billion in the 2022-23 income year.
- The 27.5% tax rate will apply to all companies from the 2023-24 income year.
- The tax rate will then reduce to 27% in the 2024-25 income year and by one percentage point each subsequent year until it reaches 25% in the 2026-27 income year.

The maximum franking rate for dividends paid will be set at the taxpayer's corporate tax rate.

- Start date: 1 July 2016
- Legislation will need to be in place by mid-August 2016 to be included in PAYG Instalment calculations for 2016-17

Year	Aggregated Turnover Threshold	Entities under the threshold	Other corporate tax entities
Current	$2m	28.5%	30.0%
2016-2017	$10m	27.5%	30.0%
2017-2018	$25m	27.5%	30.0%
2018-2019	$50m	27.5%	30.0%
2019-2020	$100m	27.5%	30.0%
2020-2021	$250m	27.5%	30.0%
2021-2022	$500m	27.5%	30.0%
2022-2023	$1b	27.5%	30.0%
2023-2024	No threshold	27.5%	27.5%
2024-2025	No threshold	27.0%	27.0%
2025-2026	No threshold	26.0%	26.0%
2026-2027	No threshold	25.0%	25.0%

Ten Year Enterprise Tax Plan – increase the small business entity turnover threshold

The Government is proposing to increase the small business threshold so that businesses with an aggregated turnover of less than $10 million. This will most of the small business tax concessions available to over 90,000 additional businesses from 1 July 2016, and will include access to:

- simplified depreciation rules, including the ability to claim an immediate deduction for each and every asset purchased costing less than $20,000 until 30 June 2017;
- simplified trading stock rules, giving businesses the option to avoid an end of year stocktake if the value of their stock has changed by less than $5,000;
- the option to account for GST on a cash basis and pay GST instalments as calculated by the Australian Taxation Office (ATO);
- a simplified method of paying PAYG instalments calculated by the ATO; and
- other tax concessions available to small business, including fringe benefits tax (FBT) exemptions (FBT changes from 1 April 2017) and immediate deductibility of professional expenses.

The exceptions are:

- The increased turnover threshold will not affect access to the capital gains tax concessions for small businesses. These will remain available only to businesses with annual turnover of less than $2 million or that satisfy the maximum net asset value test.
- The turnover test for the Unincorporated Tax discount will be $5 million.

Ten Year Enterprise Tax Plan
– increase the unincorporated small business tax discount

Overview

- The Government proposed to progressively increase the rate at which the small business tax discount is calculated.
- The rate changes proposed will be broadly in line with the timing of the changes to the company tax rate.
- Under the Small Business Entity threshold measure, the turnover threshold for accessing the discount proposed to increase to $5 million from 1 July 2016.
- The tax offset will remain capped at $1,000 per taxpayer.

Ten Year Enterprise Tax Plan
– increase the unincorporated small business tax discount

Increase to the discount rate

The tax discount for unincorporated small businesses is proposed to increase incrementally from 5% from 1 July 2016 until it reaches 16% on 1 July 2026, as outlined below:

- increase from 5% to 8% from 1 July 2016;
- remain constant at 8% through to 2023-24;
- increase to 10% in 2024-25;
- increase to 13% in 2025-26; and
- increase to 16% in 2026-27, where it will remain.

Ten Year Enterprise Tax Plan – increase the unincorporated small business tax discount

- Start date: 1 July 2016
- Legislation will need to be in place by 1 July 2017 for income tax assessments
- Legislation will need to be in place by mid-August 2016 if the offset is to be included in PAYG Instalment calculations for 2016-17

National Innovation and Science Agenda

National Innovation and Science Agenda – expanding tax incentives for early-stage investors

Background

- Measure announced as part of the Government's National Innovation and Science Agenda (NISA) in December 2015.

- On 5 May 2016, the *Tax Laws Amendment (Tax Incentives for Innovation) Act 2016*, which includes the tax incentives for early stage investors, received royal assent and it commences on 1 July 2016.

National Innovation and Science Agenda – expanding tax incentives for early-stage investors

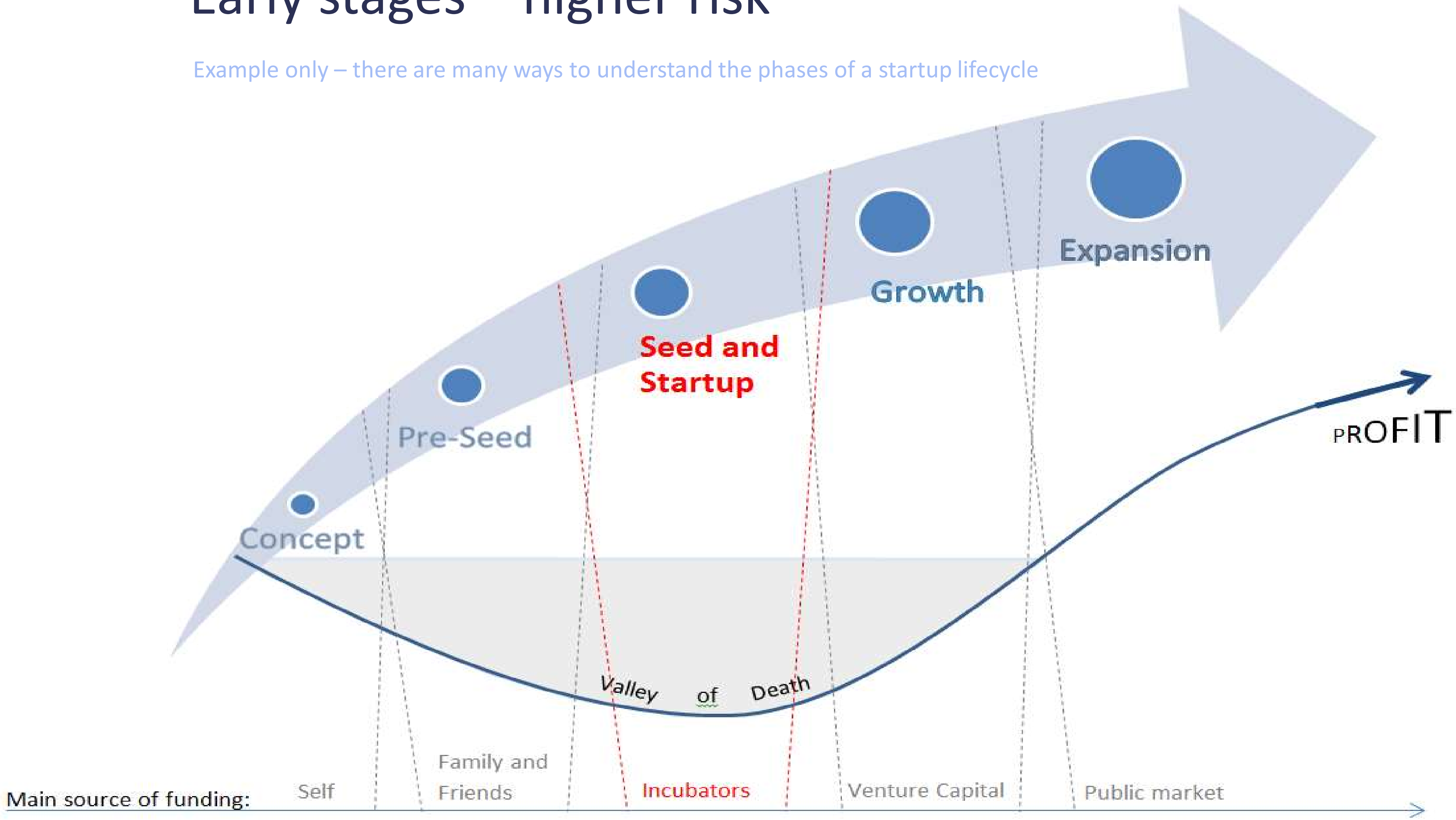
Background

- This measure targets startups which qualify as eligible innovation companies, and satisfy early stage test criteria relating to expenditure, assessable income, stock exchange listing and recent incorporation.

- It is designed to seek to fill an important gap between the initial (pre-seed) stage of a firm's lifecycle, where financing typically happens through self-funding, family and friends, and government support and tax incentives for innovating firms (like the R&D tax offset); and the commercialisation stage.

Early stages – higher risk

Example only – there are many ways to understand the phases of a startup lifecycle



National Innovation and Science Agenda – expanding tax incentives for early-stage investors

Tax Incentive

- The measure will provide concessional tax treatment for investments made in a range of innovative start-up companies with high growth potential.

- The tax incentives provide investors with:
  a) a 20% non-refundable carry-forward tax offset for qualifying investments, capped at $200,000 for each investor and their affiliates (combined) per year; and
  b) an exemption from capital gains tax for qualifying investments held between one and ten years (capital losses on investments held for less than ten years must be disregarded).

National Innovation and Science Agenda – expanding tax incentives for early-stage investors

Types of Investors

- The sophisticated investors who meet the sophisticated investor test (s708 of the Corporations Act 2001), there is no limit to how much they can invest in an early stage innovating company (ESIC). The maximum amount of the tax offset for this investor and their affiliates can claim for new shares purchased in an income year, and carried forward from earlier years, is $200,000.

- The retail (or non-sophisticated) investors are limited to investing $50,000 in an income year. This limit ensures that retail investors are not over-exposed to the risk that is inherent in investing in qualifying ESICs. The maximum a retail investor can claim is $10,000.

National Innovation and Science Agenda – expanding tax incentives for early-stage investors

Qualifying ESIC

- A company will qualify as an ESIC if it meets both:
  a) the early stage test, and
  b) either the –
     i. 100-point innovation test, or
     ii. principles-based innovation test.
- To qualify under the principles-based innovation test, the company must meet five requirements: developing new or significantly improved innovations for commercialisation; a high growth potential; successfully scale up the business; address a broader than local market; and has the potential to have competitive advantages.
- The company must obtain at least 100 points by meeting certain innovation criteria.

National Innovation and Science Agenda – expanding tax incentives for early-stage investors

Qualifying ESIC

- If a company undertakes activities that meet the 100-point innovation test, this is likely to be the simplest way to determine its eligibility, when compared to the principles-based innovation test.

- The investor must determine whether they are eligible for the tax incentive, which means that the onus is on the investor to confirm that the company meets these requirements at the relevant point in time.

- A company can choose to request a ruling from the ATO on whether their circumstances meet the principles-based innovation test.

National Innovation and Science Agenda – expanding tax incentives for early-stage investors

ATO Innovation Hub links

- Tax incentives for innovation:
  Tax incentives for innovation

- Early stage investor tax incentives:
  Tax incentives for early stage investors

- VCLP and ESVCLPs:
  Venture capital tax incentives and concessions
  Venture capital limited partnership program
  Early stage venture capital limited partnership program
  Early stage venture capital incentives and concessions

- New law webpages
  New arrangements for venture capital investment
  New tax incentives for early stage investors

Tax Integrity Package

Tax Integrity Package – introduce a new Tax Transparency Code

- The Government has released and endorsed the Board of Taxation's Voluntary Tax Transparency Code (TTC).
- The TTC is a set of principles and minimum standards to guide businesses on public disclosure of tax information.
- The TTC encourages voluntary disclosure by medium and large-sized Australian-headquartered businesses and foreign multinational businesses that have operations in Australia.
- This measure will support better informed public scrutiny of businesses operating in Australia.
- The Board recommends the TTC be adopted by businesses for financial years ending after 3 May 2016.
- This measure does not require legislation.
- Adoption of the TTC by taxpayers is voluntary.

Tax Integrity Package – introduce a new Tax Transparency Code (cont.)

- The TTC encourages businesses to publish improved disclosures of tax information in their general purpose financial statements or via publication of a Taxes Paid Report or another document.
  - At a minimum, this would include a reconciliation of accounting profit to income tax expense and income tax paid or payable each year, as well as a standardised effective tax rate.
- The TTC applies to companies and other entities that are treated as companies for Australian tax purposes with an aggregated TTC Australian turnover of at least A$100 million.
  - Other entities such as superannuation funds, trusts and partnerships may adopt the TTC.
- The ATO's role is limited to maintaining links to the publicly issued reports on a central website such as www.data.gov.au.
  - The ATO will not review or provide any assurance as to the accuracy of the information contained in the TTC reports.

Superannuation Reform Package

Superannuation Reform Package

Introduce a $1.6 million superannuation transfer balance cap

- New data item sent to ATO by super providers - amount transferred into pension account
- Defined benefit funds may need to report actuarial value of DB account
- ATO may consider service to enable funds to check if a member has reached their cap

Introduce a lifetime cap for non-concessional superannuation contributions

- New data item sent to ATO by super providers - Defined Benefit personal contributions
- ATO may consider service to enable funds to check if a member has reached their cap
- One-off report from funds for post budget personal contributions received in 2015-16
- Possible one-off report from funds to report DB personal contributions since 1 July 2007

Introduce a Low Income Superannuation Tax Offset (LISTO)

- New or modified mechanism for ATO to advise funds of LISTO amounts for members
- Tax offset will be included in fund’s income tax return

Superannuation Reform Package

Reforming the taxation of concessional superannuation contributions

- Notional taxed contributions for unfunded DBFs will include unfunded amounts
- Higher volume of release authorities for excess contributions and for Division 293 tax

Allow catch-up concessional superannuation contributions

- Defined benefit funds may need to report actuarial value of DB account

Strengthen integrity of income streams (Transition to retirement income streams (TRIS) changes)

- TRIS accounts no longer included in exempt current pension income (ECPI) calculation

Superannuation Reform Package

Harmonising contribution rules for those aged 65-74

- Removes restrictions on funds accepting personal and spouse contributions below age 75

Tax deductions for personal superannuation contributions

- Higher number of *intent to claim deduction* notices for funds that aren't prescribed

Remove anti-detriment provision in respect of death benefits from super

- Stop these payments from 1 July 2017 where funds have been offering these
- Income tax label for the anti-detriment deduction will be removed from 2017-18 return onwards

Superannuation Reform Package

Enhancing choice in retirement income products

- Accounts for new types of products become eligible for exempt current pension income (ECPI)

Improve super balances of low income spouses

- Offset will be allowed where spouse’s income is below $40,000

Any questions?