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CCH Budget Night Report 2012

8 May 2012

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Highlights

2012/13 Federal Budget Highlights

Written by the CCH Tax Team

The Federal Budget for 2012/13 was handed down by the Treasurer, Mr Wayne Swan, at 7:30 pm (AEST) on 8 May 2012. The Budget was a fiscally tight one, designed to return the Budget to surplus. It contained anticipated tax changes, such as superannuation changes and the abolition of previously announced measures, such as the company tax rate cut and the Tax Breaks for Green Buildings. However, it also contained a raft of other tax measures, including significant changes to the tax loss measures and the decision not to proceed with the standard tax deduction and the interest discount.

Here are the tax and superannuation highlights.

Individuals and families

• The government will not proceed with the standard deduction for work-related expenses.

• The 50% tax discount for interest income will not proceed.

• A means test will be introduced for the net medical expenses tax offset from 1 July 2012.

• From 1 July 2012, the eight dependency tax offsets will be consolidated into a single, streamlined and non-refundable offset.

• From 1 July 2012, the mature age worker tax offset (MAWTO) will be phased out for taxpayers born on or after 1 July 1957.

• The Medicare levy low income thresholds will be increased to $19,404 for individuals and $32,743 for families for the 2011/12 income year.

• Exemptions for the temporary flood and cyclone reconstruction levy will be extended to individuals who were eligible for an Australian Government Disaster Recovery Payment in 2010/11 as well as certain individuals affected by a natural disaster in 2011/12.

• The education expenses tax offset will be replaced with a new Schoolkids Bonus from 1 January 2013.

• From 1 July 2012, the marginal tax rate for non-resident individuals participating in the Seasonal Labour Mobility Program will be reduced to 15%.

Companies and finance

• The proposed measure to lower the company tax rate from 2013/14 and from 2012/13 for small businesses will not proceed.

• The Tax Breaks for Green Buildings program will not proceed.

• From 8 May 2012, limited recourse debt will include arrangements where the creditor's right to recover the debt is effectively limited to the financed asset or security provided.

• Companies will be allowed to carry back up to $1m of tax losses in 2012/13 to offset against tax paid in 2011/12. From 2013/14, tax losses can be carried back and offset against tax paid up to two years earlier.

• The taxable value of airline transport fringe benefits will be updated from the stand-by value to the market value for benefits provided after 7:30pm (AEST) on 8 May 2012.

• The tax concession for LAFHA and benefits will be limited to employees living away from a home maintained in Australia and will only be available for a maximum period of 12 months in respect of an individual for any particular work location.

• Certain Tier 2 capital instruments issued by ADIs can be treated as debt for income tax purposes on commencement of the Basel III capital reforms on 1 January 2013.

• The write off of bad debts owing from related parties will not be deductible effective from 7:30pm (AEST) 8 May 2012.

• The Clean Energy Finance Corporation will be exempt from income tax effective from 1 July 2013.

CGT

• Changes will be made to the application of the scrip-for-scrip roll-over and small business concessions to trusts, super funds and life insurance companies.

• The revenue asset and trading stock roll-overs that apply to the exchange of interests in a company or unit trust for shares in another company will be broadened.

• The CGT scrip-for-scrip roll-over integrity provisions will be strengthened.

• CGT: temporary loss relief will be made available to facilitate super reforms.

• Minor extensions to the CGT exemptions for certain compensation payments and insurance policies will be made.

• Minor amendments to natural disasters CGT relief will be made.

• CGT: refinements to income tax law for deceased estates will be made.

International

• The personal income tax rates and thresholds that apply to non-residents' Australian income will be adjusted.

• The CGT discount for non-residents will be abolished for gains accrued after 7:30pm (AEST) on 8 May 2012.

• The managed investment trust final withholding tax rate will be increased from 7.5% to 15% from 1 July 2012.

Superannuation

• The start date of the 2010/11 Budget measure increasing concessional contribution caps for individuals over 50 with low superannuation balances will be deferred by two years, from 1 July 2012 to 1 July 2014.

• From 1 July 2012, individuals with income greater than $300,000 will have the tax concession on their contributions reduced from 30% to 15% (excluding the Medicare levy).

• From 1 July 2012, the employment termination payment (ETP) tax offset will be limited so that only that part of an affected ETP, such as a golden handshake, that takes a person's total annual taxable income (including the ETP) to no more than $180,000 will receive the ETP tax offset.

GST

• Funding for additional GST compliance activities will be extended for a further two years until 2015/16.

• Minor changes affecting cross border transactions will include a clarification of the definition of permanent establishment for GST purposes.

• The operation of the GST law in relation to the mortgage lending sector will be clarified to reduce compliance costs.

• From 1 July 2011, access to reduced input tax credits (RITC) will be restored for credit unions who rebrand as "banks".

• Health supplies by a health care provider paid for by a statutory compensation scheme operator will be GST-free if the underlying supply from the health care provider to the individual is also GST-free.

• From 1 July 2012, a regulation-making power will allow certain payments between government-related entities to be prescribed as not being subject to GST.

Other measures

• The government has provided a tax reform road map.

• There will be additional funding of $76.8m for the Tax Office and other Project Wickenby agencies.

• Additional funding will be provided for the Tax Office to manage tax debt.

• From 1 July 2012, the wine producer rebate will be amended to ensure that wine producers will not be able to claim multiple rebates for the same quantity of wine, beyond the total amount of wine equalisation tax payable.

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Individuals and families

Standard work-related expenses deduction will not proceed

The government has announced that it will not proceed with the standard deduction for work-related expenses which was announced in the 2010/11 Budget.

Source: Budget Paper No 2, p 36; Treasurer's press release "2012-13 Budget Builds on Growing Record of Tax Reform", 8 May 2012.

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50% discount for interest income

The government has announced that the 50% tax discount for interest income announced in the 2010/11 Budget will not proceed.

Source: Budget Paper No 2, p 35; Treasurer's press release "2012-13 Budget Builds on Growing Record of Tax Reform", 8 May 2012.

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Medical expenses tax offset tightened

A means test will be introduced for the net medical expenses tax offset (NMETO).

For people with adjusted taxable income above the Medicare levy surcharge thresholds ($84,000 for singles and $168,000 for couples or families in 2012/13), the threshold above which a taxpayer may claim NMETO will be increased to $5,000 (indexed annually thereafter) and the rate of reimbursement will be reduced to 10% for eligible out of pocket expenses incurred.

Date of effect

This measure will apply from 1 July 2012.

Source: Budget Paper No 2, p 34; Treasurer's press release "2012-13 Budget builds on growing record of tax reform", 8 May 2012.

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Dependency tax offsets consolidated

The eight dependency tax offsets will be consolidated into a single, streamlined and non-refundable offset that is only available to taxpayers who maintain a dependant who is genuinely unable to work due to carer obligation or disability.

The offsets to be consolidated are the invalid spouse, carer spouse, housekeeper, housekeeper (with child), child-housekeeper, child-housekeeper (with child), invalid relative and parent/parent-in-law tax offsets.

The new consolidated offset will be based on the highest rate of the existing offsets it replaces, resulting in an increased entitlement for many of those eligible for this measure. Taxpayers who are currently eligible to claim more than one offset amount in respect of multiple dependants who are genuinely unable to work will still be able to do so.

Date of effect

This measure will apply from 1 July 2012.

Source: Budget Paper No 2, p 35; Treasurer's press release "2012-13 Budget builds on growing record of tax reform", 8 May 2012.

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Mature age worker tax offset to be phased out

The mature age worker tax offset (MAWTO) will be phased out for taxpayers born on or after 1 July 1957.

This will not affect any person who currently receives MAWTO.

Access to the MAWTO will be maintained for taxpayers who are aged 55 years or older in 2011/12.

Date of effect

This measure will apply from 1 July 2012.

Source: Budget Paper No 2, p 37; Treasurer's press release "2012-13 Budget builds on growing record of tax reform", 8 May 2012.

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Medicare low income thresholds

The Medicare levy low income thresholds will be increased to $19,404 for individuals and $32,743 for families for the 2011/12 income year. The additional amount of threshold for each dependent child or student will also increase to $3,007.

The government will also increase the Medicare levy threshold for single pensioners below Age Pension age to $30,451 for the 2011/12 income year. This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

From 1 July 2012, the low-income threshold for this group will be fixed at the level applicable to seniors entitled to the Senior Australians Tax Offset.

Source: Budget Paper No 2, p 37; Treasurer's press release "Keeping low-income earners exempt from Medicare levy", 8 May 2012.

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Exemptions from flood and cyclone levies

Exemptions for the temporary flood and cyclone reconstruction levy (the temporary flood levy) will be extended to include individuals who were eligible for an Australian Government Disaster Recovery Payment (AGDRP) in 2010/11 even if they did not apply for and receive the payment, as required under the existing exemptions.

Exemptions from the temporary flood levy will also be extended to include those people who have been affected by a natural disaster in 2011/12. The classes of individuals to whom the extension apply are those who, in 2011/12:

- are eligible for an AGDRP for a disaster event
- are directly affected by a Natural Disaster Relief and Recovery Arrangements (NDRRA) declared disaster and would have met the AGDRP criteria, or
- are a New Zealand non-protected special category visa holder who received an ex gratia payment from the Australian Government in relation to a disaster that occurred.

The government introduced the temporary flood levy for 2011/12 only to contribute towards rebuilding costs following the natural disasters that affected Australia in 2010/11.

Source: Budget Paper No 2, p 45.

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Schoolkids Bonus to replace education expenses tax offset

The education expenses tax offset will be replaced with a new Schoolkids Bonus of $410 pa for each primary school student and $820 pa for each secondary school student. The bonus will be paid to eligible families in two equal instalments in January and July each year. As a transitional arrangement for 2011/12, the education expenses tax offset will be paid out in full to eligible families in June 2012.

Date of effect

The payments will replace the education expenses tax offset from 1 January 2013.

Source: Budget Paper No 2, p 146; Treasurer's press release "2012-13 Budget Builds on Growing Record of Tax Reform", 8 May 2012; Prime Minister and Deputy Prime Minister joint press release "Spreading the Benefits of the Boom", 8 May 2012.

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Seasonal Labour Mobility Program — improved tax treatment

The marginal tax rate for non-resident individuals participating in the Seasonal Labour Mobility Program will be reduced to 15%, administered as a final withholding tax.

This measure replaces the arrangements for the Pacific Seasonal Worker Pilot Scheme, which concludes on 30 June 2012. This reform will significantly reduce compliance costs for seasonal workers participating in the program and simplify administration for the Tax Office by removing the requirement to lodge a tax return. Participants will be taxed on all eligible income at a flat rate of 15%, and will no longer be required to pay the Medicare levy.

Date of effect

This measure applies from 1 July 2012.

Source: Budget Paper No 2, p 38.

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Companies and finance

Company tax cut will not proceed

The proposed measure to lower the company tax rate from 2013/14 and to implement an early start to the company tax rate cut from 2012/13 for small businesses will not proceed.

Source: Budget Paper No 2, p 22–23.

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Tax breaks for buildings

The government has announced that it will not proceed with the Tax Breaks for Green Buildings program.

Source: Budget Paper No 2, p 42.

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Limited recourse debt — amended definition

The definition of limited recourse debt will be extended to include arrangements where the creditor’s right to recover the debt is effectively limited to the financed asset or security provided.

Date of effect

This measure will have effect from 7:30pm (AEST) on 8 May 2012.

Source: Budget Paper No 2, p 32.

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Company tax loss carry-back measures

Companies will be allowed to carry back tax losses in 2012/13 to offset against tax paid in 2011/12 to get a refund against the tax previously paid. From 2013/14, tax losses can be carried back and offset against tax paid up to two years earlier. Only tax losses of up to $1m can be carried back each year. The loss carry-back is also available to entities taxed like companies. It is only applicable to revenue losses and is limited to a company's franking account balance.

Date of effect

This measure will apply from 1 July 2012.

Source: Budget Paper No 2, p 39; Treasurer's press release "2012-13 Budget Builds on Growing Record of Tax Reform", 8 May 2012; Prime Minister and Deputy Prime Minister joint press release "Spreading the Benefits of the Boom", 8 May 2012.

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Airline transport fringe benefits reform

The taxable value of airline transport fringe benefits will be changed from the stand-by value to the market value. The current method was developed when stand-by travel was a feature of commercial airline pricing and is no longer relevant as airlines now use discounted pricing to optimise passenger levels.

Date of effect

The change will apply to benefits provided after 7:30pm (AEST) on 8 May 2012.

Source: Budget Paper No 2, p 25; Treasurer's Press Release "2012-13 Budget Builds on Growing Record of Tax Reform", 8 May 2012.

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Further limitations on LAFHA

The tax concession for living-away-from-home allowances (LAFHA) and benefits will be reformed by limiting access to the concession:

- to employees who maintain a home for their own use in Australia which they are living away from for work purposes (as previously announced), and
- for a maximum period of 12 months in respect of an individual employee for any particular work location.

The 12-month limit will not affect the tax concession for "fly-in fly-out" arrangements. The treatment of travel and meal allowances given to employees travelling for short periods of up to 21 days will also not be affected by the changes.

Date of effect

The changes will apply from 1 July 2012 for arrangements entered into after 7:30pm (AEST) on 8 May 2012, and from 1 July 2014 for arrangements entered into prior to such time.

Source: Budget Paper No 2, pp 24-25; Treasurer's press release "2012-13 Budget Builds on Growing Record of Tax Reform", 8 May 2012.

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Tier 2 capital instruments treatment under Basel III reforms

Certain Tier 2 regulatory capital instruments issued by authorised deposit taking institutions (ADIs) and certain other related entities regulated by the Australian Prudential Regulation Authority (APRA) can be treated as debt for income tax purposes. Under the Basel III capital reforms, such instruments will have to be written off or converted into ordinary shares if APRA decides that the ADI would otherwise become non-viable. This measure ensures that the funding costs of such instruments will be deductible.

Date of effect

This measure will apply on commencement of the Basel III capital reforms on 1 January 2013.

Source: Budget Paper No 2, p 23.

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No deduction for related-party bad debts written off

No deduction will be made available for a bad debt written off owing from a debtor who is a related party, but is not part of the same tax consolidated group. Any corresponding gain arising to the debtor will not be taxed as well. This is to ensure a consistent tax treatment of bad debts between related parties whether or not they are part of the same tax consolidated group.

Date of effect

This measure takes effect from 7:30pm (AEST) on 8 May 2012.

Source: Budget Paper No 2, p 18.

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Clean Energy Finance Corporation will be tax exempt

The Clean Energy Finance Corporation will be exempt from income tax. The tax exemption is intended to enhance its ability to finance investments in the commercialisation and deployment of renewable energy and enabling technologies, energy efficiency and low-emissions technologies.

Date of effect

The exemption will apply from 1 July 2013.

Source: Budget Paper No 2, p 22.

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CGT

CGT: amendments to beneficial interests

Changes will be made to the 2011/12 Budget measure to provide greater consistency in applying the scrip-for-scrip roll-over and small business concessions to trusts, superannuation funds and life insurance companies.

Under this measure, provisions concerning absolutely entitled beneficiaries, bankrupt individuals, security providers and companies in liquidation will interact appropriately with the CGT provisions and with the connected entity test in the small business entity provisions.

This measure also ensures that consequential impacts on the *Wine Equalisation Tax Act 1999* (WET Act) through the operation of the changes to the connected entity test will also apply to wine producers.

Date of effect

The changes, other than those relating to the WET Act, will apply at the option of taxpayers from 2008/09 and automatically from when the amending legislation receives assent.

The changes relating to the WET Act will apply from the first financial year after the amending legislation receives assent.

Source: Budget Paper No 2, pp 18-19.

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CGT: revenue asset and trading stock roll-overs for interposing a company

The revenue asset and trading stock roll-overs that apply to the exchange of interests in a company or unit trust for shares in another company will be broadened. The roll-overs will be made available to all interests that qualify for the general conditions of each of the roll-overs, rather than only shares in consolidated groups. The measure will also require the replacement shares in the interposed company to maintain the character of the original revenue asset or trading stock asset that was exchanged.

Date of effect

This measure will apply from 7:30pm (AEST) on 8 May 2012.

Source: Budget Paper No 2, p 19.

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CGT: scrip-for-scrip roll-over integrity provisions

The integrity provisions applicable to the CGT scrip-for-scrip roll-over will be amended. The measures will:

- ensure that taxpayers cannot get around the integrity provisions by holding interests to acquire ownership rights, such as convertible preference shares, rather than the underlying shares
- defer indefinitely the CGT liability that would have otherwise arisen under the integrity provisions for the on-sale of the target entity by the acquiring entity
- broaden the scope of the rules that apply to intra group debt to cover debts owed to group entities other than the head entity, and remove the CGT exemption for the repayment of such debts, and
- ensure that the integrity provisions apply appropriately to trusts.

Date of effect

These changes will have effect from 7:30pm (AEST) on 8 May 2012.

Source: Budget Paper No 2, p 21.

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CGT and loss relief to super reforms

Amendments will be made to ensure income tax considerations do not prevent mergers of superannuation funds or transfers of existing default members' balances and relevant assets in the transition to Stronger Super and MySuper.

Temporary optional loss relief will be available for mergers of complying superannuation funds on the same terms and conditions as the former temporary loss relief that applied from 24 December 2008 to 30 September 2011, with some exceptions, including an optional roll over for capital gains and appropriate integrity provisions.

Temporary optional roll-over and loss relief will also be made available for capital gains and losses on mandatory transfers of default members' balances and relevant assets to a MySuper product in another complying superannuation fund.

Date of effect

The relief available for mergers of complying superannuation funds will be available from 1 June 2012 to 1 July 2017. The roll-over and relief available for mandatory transfers of default members' balances and relevant assets will be available from 1 July 2013 to 1 July 2017.

Source: Budget Paper No 2 p 21-22.

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CGT: exemptions for compensation payments and insurance policies

Minor extensions to the CGT exemptions for certain compensation payments and insurance policies will be made.

CGT consequences will be disregarded where a taxpayer receives compensation, damages or certain insurance proceeds indirectly through a trust. This will ensure that the taxpayer has the same

CGT outcome as a taxpayer who receives such proceeds directly. It will also ensure that insurance policies owned by superannuation funds that were treated as being CGT exempt prior to the 2011/12 Budget changes to compensation payments and insurance policies continue to be exempt from CGT.

Date of effect

The changes take effect from 2005/06.

Source: Budget Paper No 2, p 20.

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CGT: natural disasters relief

Minor measures will be made to the previously announced measure that provides CGT relief for taxpayers affected by natural disasters.

Taxpayers eligible for an automatic CGT exemption (such as the main residence exemption) will not be prevented from choosing the same CGT treatment available to other taxpayers under the announced relief measure. It also allows taxpayers that participate in an eligible land swap program for natural disasters in relation to their main residence to treat the replacement land they receive under the program as their main residence.

Date of effect

The measure will take effect from 1 July 2011.

Source: Budget Paper No 2, p 19.

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CGT: deceased estates

Minor amendments will be made to the 2011/12 Budget measure to ensure the proper functioning of the CGT provisions relating to deceased estates.

The changes:

- ensure that the deceased’s tax return does not need to be amended as the taxing point will be recognised by the entity transferring the asset
- modify application dates for two of the minor changes announced in the 2011/12 Budget to ensure that taxpayers are not disadvantaged, and
- broaden the scope of the integrity provisions to also apply to assets passing via survivorship.

Date of effect

These changes take effect from the date of assent of the amending legislation.

Source: Budget Paper No 2, pp 20-21.

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International

Non-resident taxpayers: rate changes

The personal income tax rates and thresholds that apply to non-residents' Australian income will be adjusted. This will ensure that they better align with the rates and thresholds that will apply to residents over the forward estimates.

Date of effect

From 1 July 2012, the first two marginal tax rate thresholds will be merged into a single threshold. The marginal rate for this threshold will align with the second marginal tax rate for residents (32.5%) and will apply to all taxable income below $80,000.

From 1 July 2015, the same marginal rate will again rise from 32.5% to 33%.

Source: Budget Paper No 2, p 34; Treasurer's press release "2012-13 Budget builds on growing record of tax reform", 8 May 2012.

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CGT discount for non-residents abolished

The 50% CGT discount for non-residents will be abolished for capital gains.

The CGT discount will remain available for capital gains accrued prior to this time where non-residents choose to obtain a market valuation of assets as at 8 May 2012.

Date of effect

This measure will apply to capital gains accrued after 7:30pm (AEST) on 8 May 2012.

Source: Budget Paper No 2, p 31; Treasurer's press release "2012-13 Budget Builds on Growing Record of Tax Reform", 8 May 2012.

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Managed investment trusts

The managed investment trust final withholding tax rate will be increased from 7.5% to 15%.

Date of effect

The increase will take effect from 1 July 2012.

Source: Budget Papers No 2, p 31; Treasurer's press release "2012-13 Budget Builds on Growing Record of Tax Reform", 8 May 2012.

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Superannuation

Deferral of higher concessional contributions cap

The start date of the 2010/11 Budget measure increasing concessional contribution caps for individuals over 50 with low superannuation balances will be deferred by two years, from 1 July 2012 to 1 July 2014.

Under the higher concessional contributions cap measure, individuals aged 50 and over with superannuation balances below $500,000 will be able to make up to $25,000 more in concessional contributions than allowed under the general concessional contributions cap.

The two-year deferral means that for 2012/13 and 2013/14, all individuals will be able to make concessional contributions of up to $25,000 per year as permitted under the general concessional contributions cap. In 2014/15, the general cap is likely to increase to $30,000 through indexation, and the higher cap would then commence at $55,000.

Source: Budget Paper No 2, p 40.

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Concession for superannuation contributions reduced for high income earners

The tax concession which very high income earners receive on their concessional contributions will be reduced, so it is more in line with the concession received by average income earners.

Currently, the 15% flat tax on concessional contributions provides high income earners with a significantly larger tax concession than those on lower marginal tax rates. From 1 July 2012, individuals with income greater than $300,000 will have the tax concession on their contributions reduced from 30% to 15% (excluding the Medicare levy).

The definition of "'income" for the purpose of this measure includes concessional superannuation contributions. If an individual's income excluding their concessional contributions is less than the $300,000 threshold, but the inclusion of their concessional contributions pushes them over the threshold, the reduced tax concession will only apply to the part of the contributions in excess of the threshold. "Concessional contributions" for the purpose of the measure includes notional employer contributions for members of defined benefit funds.

The reduced tax concession will not apply to concessional contributions which exceed the concessional contributions cap and are therefore subject to "excess contributions tax". These contributions are effectively taxed at the top marginal tax rate and therefore do not receive a tax concession.

Treasury will consult with the superannuation industry and other relevant stakeholders on further design and implementation details. It is estimated this measure will affect around 128,000 people in 2012/13, or 1.2% of people contributing to superannuation.

Date of effect

This measure will apply from 1 July 2012.

Source: Budget Paper No 2, p 41.

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Employment termination payment tax offset

The government will limit the availability of the employment termination payment (ETP) offset so that only that part of an affected ETP, such as a golden handshake, that takes a person's total annual taxable income (including the ETP) to no more than $180,000 will receive the ETP tax offset.

Amounts above this whole-of-income cap will be taxed at marginal rates. The whole-of-income cap will complement the existing ETP cap ($175,000 in 2012/13, indexed) which ensures that the tax offset only applies to amounts up to the ETP cap.

The ETP tax offset ensures that ETPs up to the ETP cap are taxed at a maximum tax rate of 15% for those over preservation age and 30% for those under preservation age. Existing arrangements will be retained for certain ETPs relating to genuine redundancy (including to those aged 65 and over), invalidity, compensation due to an employment-related dispute and death.

Date of effect

This measure will apply from 1 July 2012.

Source: Budget Paper No 2, pp 33-34; Treasurer's press release "2012-13 Budget builds on growing record of tax reform", 8 May 2012.

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GST

Two-year extension of compliance program

The government will provide $195.3m to the Tax Office in 2014/15 and 2015/16 to continue a range of activities that promote voluntary GST compliance and provide a level playing field for Australian businesses. This extends a 2010/11 Budget measure by a further two years. Arrangements for funding these activities will be settled with the States and Territories in accordance with the GST Administration Performance Agreement.

The measure will ensure that issues relating to fraudulent GST refunds, systematic under-reporting of GST liabilities, failure to lodge GST returns and outstanding GST debts continue to be closely examined by the Tax Office.

This measure is estimated to increase tax revenue by $986.2m over the forward estimates period.

Source: Budget Paper No 2, p 26.

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Cross-border transactions

The government will amend the 2010/11 Budget measure implementing the recommendations of the Board of Taxation from its *Review of the application of GST to cross- border transactions*.

The package, originally announced to take effect from 1 July 2012, will now have a date of effect from the first quarterly tax period following assent of the enabling legislation. In addition, following consultation on the design and implementation of the announced measure, the government will make a number of other changes including to those proposed for the supply of goods by non-residents and not proceeding with changes relating to the non-resident agency provisions.

To ensure the integrity of the originally announced measures, the government will also clarify and narrow the definition of permanent establishment for GST purposes.

Source: Budget Paper No 2, p 26.

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Sale of property by mortgagee

The government will revise its 2011/12 Budget measure to amend the GST law in relation to the mortgage lending sector to clarify its operation and reduce compliance costs.

This measure will ensure that the amendments to the GST law will apply to all circumstances where a representative of an incapacitated entity is a creditor of that incapacitated entity, and the representative makes a supply of the incapacitated entity's property in satisfaction of a debt that the incapacitated entity owes to the representative.

Date of effect

This measure will apply from the first quarterly tax period after assent.

Source: Budget Paper No 2, p 29.

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Reduced ITCs for credit unions

The GST law will be amended to restore access to a reduced input tax credit (RITC) for credit unions who rebrand as “banks”.

This measure will reinstate the existing concession by allowing a RITC for acquisitions from an entity wholly owned by credit unions or rebranded credit unions by a credit union or rebranded credit union.

The measure will apply to entities who were approved credit unions by the Australian Prudential Regulation Authority as at 1 July 2011, and subsequently change their branding to include the title “bank”, but otherwise do not change their corporate structure.

Date of effect

The measure will apply from 1 July 2011.

Source: Budget Paper No 2, p 28.

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GST-free health supplies

The government will further amend its 2011/12 Budget measure to ensure that a health supply by a health care provider paid for by a statutory compensation scheme operator is GST-free if the underlying supply from the health care provider to the individual is also GST-free.

Source: Budget Paper No 2, p 27.

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Treatment of appropriations

The government will extend the *Mid-Year Economic and Fiscal Outlook 2011 /12* measure to clarify the GST treatment of payments under an appropriation.

This measure will provide a regulation making power in the GST law to prescribe that certain payments between government-related entities are not subject to GST.

Date of effect

The measure will apply from 1 July 2012.

Source: Budget Paper No 2, p 29.

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Other measures

Tax Reform Road Map

In a "Tax Reform Road Map" released with the Budget, the Treasurer has provided a summary of a range of previously announced tax reform measures, in particular those proposed in the Henry review, as well as some new measures. The purpose of the Road Map is to show the direction tax reform will take over the next 10 years.

Details of the new measures have been provided elsewhere in this report.

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Project Wickenby additional funding

The Tax Office and other Project Wickenby taskforce agencies will be given an additional $76.8m over three years to continue the government's fight against tax evasion, avoidance and related crimes.

This measure will allow the taskforce agencies to complete existing project work and transition the work to "business as usual" activity by 30 June 2015.

Source: Budget Paper No 2 pp 43-44; Assistant Treasurer's press release "Maintaining the Cross-Agency Approach to Preventing Abuse of Secrecy Jurisdictions (Project Wickenby) and Other Tax Compliance Measures", 8 May 2012.

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Additional funding to manage tax debts

The Tax Office will be provided with an additional $106m over four years to improve the management of outstanding taxation debts and superannuation guarantee charges.

Source: Budget Paper No 2, pp 44; Assistant Treasurer's press release "Maintaining the Cross-Agency Approach to Preventing Abuse of Secrecy Jurisdictions (Project Wickenby) and Other Tax Compliance Measures", 8 May 2012.

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Wine producer rebate integrity measure

The wine producer rebate will be amended to ensure that wine producers will not be able to claim multiple rebates for the same quantity of wine, beyond the total amount of wine equalisation tax payable.

This measure will protect the integrity of the rebate and address unintended policy outcomes arising where wine is subject to blending and/or further manufacture, which have been previously raised as concerns by the wine industry and the Australian National Audit Office.

Date of effect

The measure will apply to assessable dealings from 1 July 2012.

Source: Budget Paper No 2, p 46.

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CCH News

BUDGET POLL: What do you think?

We want to know what you think of the Budget. Please let us know *your views* by **completing this 30 second survey** run jointly by CCH Australia and The Tax Institute – **click here to start the survey**.

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Special Offer: The Tax Solution Finder

Many CCH subscribers use one of CCH's Tax Solution Finders. These online tax research libraries offer great value. The Solution Finders provide you with clear, authoritative and practical explanations of income tax, GST and superannuation, including legislative changes, judicial decisions and ATO rulings. Subscribers also benefit from frequent updates to commentary, legislation, rulings and cases.

The Tax Solutions Finders offer great savings on the RRP of their constituent products. However, if you're not already a subscriber to one of our Tax Solution Finders, you can make an even bigger **saving (up to 15%) if you sign up by 31 May 2012**. To take advantage of this special offer, you need to call your CCH sales consultant or call CCH Support on **1300 300 224** to arrange for a CCH sales consultant to call you.

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Customer Story: Asciano streamlines tax compliance with CCH Tax Integrator

CCH *Tax Integrator* enabled the tax accounting team at Asciano, Australia's largest national rail freight and ports operator, to minimise the time spent gathering, analysing and interpreting tax-sensitive data to meet compliance and reporting demands.

"I cannot imagine running a tax function of the scale and diversity of Asciano without the support of CCH *Tax Integrator*." Anne Richardson, Head of Tax, Asciano.

Like many company groups, most of the businesses that form Asciano used MicrosoftTM Excel spreadsheets to record data for end-of-year tax reporting. The mix of businesses (Pacific National, Patrick and Toll) also meant that different accounting platforms were used and historical information was sometimes difficult to locate.

The various issues Asciano faced with their tax processes, included:

- MicrosoftTM Excel-based legacy systems
- Increased need to meet compliance demands
- Wealth of information impacting speed of decision making
- Need for real-time, tax-based reporting
- One system for tax team members located across separate offices.

The Asciano tax accounting team reviewed other commercially available options, including N-able and PowerTax.

The move to CCH *Tax Integrator* proved a turning point for the Asciano tax team. "CCH *Tax Integrator* changed our way of thinking on tax reporting. Its automated functions and fully integrated solution significantly improved the quality and diversity of our tax reporting," said Anne Richardson.

>> To read the full story, go to www.cch.com.au/asciano

>> Contact us for a live demonstration: call 1300 342 501 or email software@cch.com.au

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How Tax Navigator works for you

Most tax publications are based on legal concepts – income, deductions, capital gains and so on. *CCH's Tax Navigator for Business Activities* is unique because it is based on ***fact situations***.

This means that it enables an adviser to identify all the tax issues that may arise in more than 40 typical fact scenarios that are likely to face most clients – from starting a business, to running a rental property, to surviving a tax audit.

Let's say, for example, that a client comes in and says something like:

- "I'm thinking of buying a business"
- "My marriage is breaking down"

- "I want to set up my own super fund"
- "I've just been appointed as a director"
- "My factory has been flooded", or
- "I'm being transferred overseas".

In any of these situations – and in dozens more – Navigator enables advisers to ***identify*** and ***understand*** the relevant tax issues quickly, and see how they apply to their client's situation. All the research work has already been done.

Let's take the example of the client who's buying a business. The adviser simply goes to the relevant module – *Buying and Selling a Business* – and consults the Roadmap checklist at the front of the module. This checklist is a comprehensive listing of all the tax issues that apply and enables the adviser to instantly find an explanation on any or all of them.

Here's just a short sampling of the tax issues that are ***raised, explained and answered*** in this particular module (there are in fact ***over 70*** tax issues covered in this module alone):

- What costs can I deduct?
- What's the best way to split up the purchase price?
- What happens with depreciation?
- What about know-how?
- How should I deal with retiring allowances?
- Are there any GST issues?
- What about deposits?

Simply click the links to take you to the answer – Tax Navigator does all the work for you.

If you're interested in finding out more about *CCH's Tax Navigator for Business Activities*, call CCH Support on **1300 300 224**.

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The CCH Tax Team

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