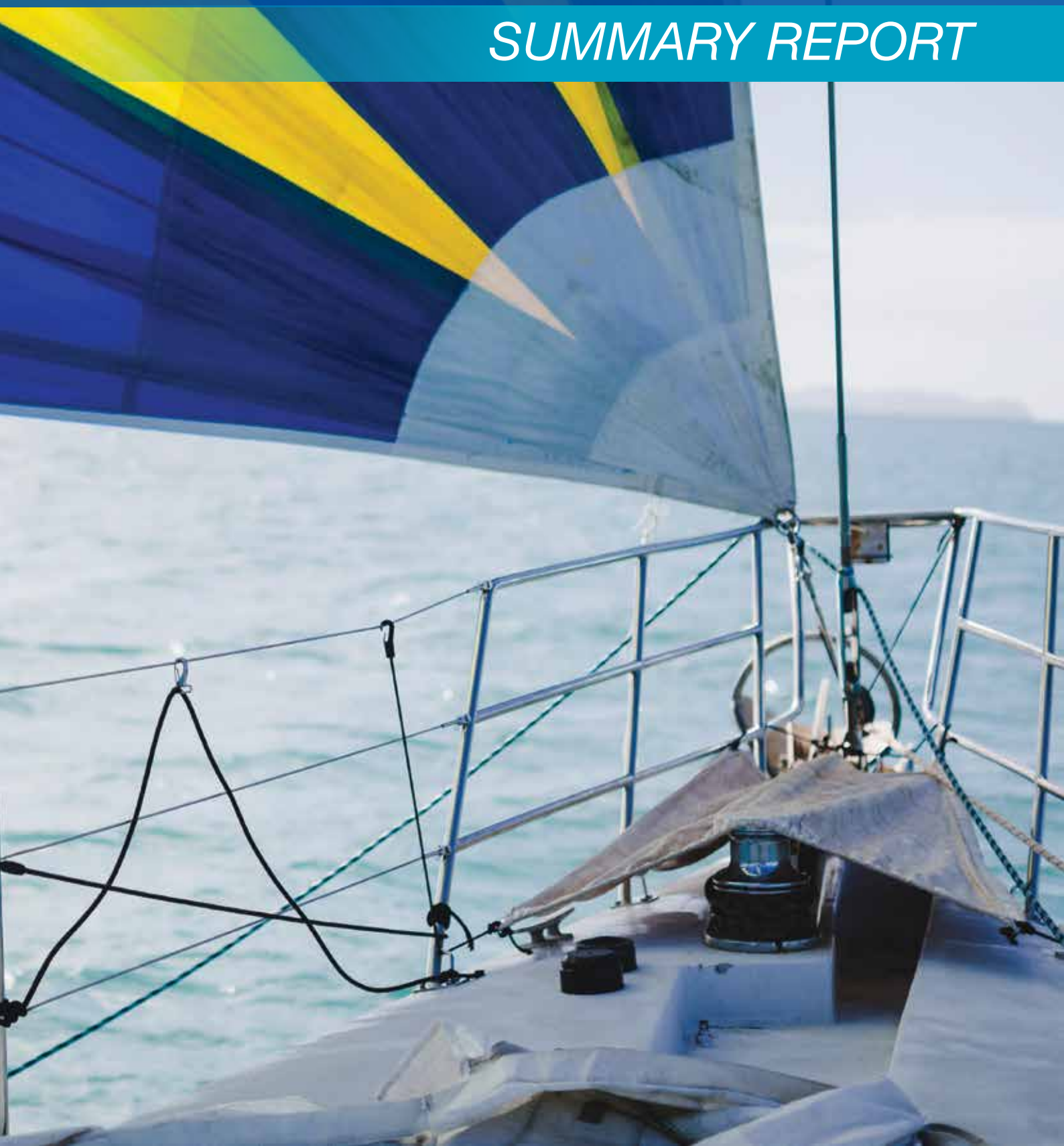


PKF 2015 FEDERAL BUDGET REPORT

Encouraging small business to innovate and grow

SUMMARY REPORT



INTRODUCTION

We are pleased to present the PKF Federal Budget Report.

No doubt shaken by the reaction to its first budget, the Abbott government has delivered what it hopes is a more marketable policy mix with an emphasis on support to small business, families and a crackdown on multinational tax avoiders.

Traditionally, second terms budgets are the toughest so that the 'sweeteners' can be stored away until election year. Under pressure from the electorate and a hostile senate, the government has ignored this tradition in an effort to turn around confidence in its leadership and economic stewardship.

While there are child care-related initiatives to support families (albeit not as much as originally promised), the big policy carrots have been reserved for small business who have for too long been a forgotten and misunderstood sector. The new tax incentives to invest and grow are welcome news.

The big stick is reserved for the electorally unpopular multinationals. Through the ATO, the government will target big business through the introduction of the Multinational Tax Avoidance Law. Although the budget has not estimated a windfall from this new law, commentators are predicting it could stretch over \$1billion in new tax revenue.

Finally, the Government's forward estimates confirm that it is still focused on reducing the national debt to more acceptable levels. However, with new initiatives to fund it is going to take a lot longer than originally planned with no budget surplus planned in the three-year forward estimates period.

AT A GLANCE

- Forecast 2015/16 budget deficit \$35.1billion with no expectation of a budget surplus until after 2018/19
- A suite of initiatives aimed at encouraging small business to invest, employ and innovate by reducing tax rates and increasing the threshold for assets that can be written off in the year of purchase
- Reducing red tape and unnecessary regulation for small businesses and encouraging entrepreneurship and investment in start-ups
- No changes to superannuation taxes
- Support to the farming community through accelerated depreciation for water facilities, fodder storage and fences
- A package of initiatives aimed at encouraging further investment in child care facilities and making it more affordable and flexible
- Removing double-dipping for parents who can already access employer-sponsored parental leave entitlements
- Changes to the methods for calculating work-related car expense deductions
- Introduction of the Multinational Anti Avoidance Law to stop companies artificially avoiding tax
- Tightening eligibility for personal income tax concessions including Zone Tax Offset, meal entertainment and working holiday makers
- Establishment of a Northern Australia Infrastructure facility to facilitate investment in major infrastructure
- Increased funding for national security, including surveillance ■

TOP 15

BUDGET MEASURES

1 Small business tax rate cut

1.5% rate cut from 30% to 28.5% from 2015/2016 year for companies with less than \$2M annual turnover. 5% tax offset from 2015/2016 for unincorporated businesses with less than \$2M annual turnover subject to \$1000 annual cap.

2 Small business accelerated depreciation changes

Immediate write-off up to \$20,000 for assets acquired after 7:30pm 12 May 2015 to 30 June 2017 available to small businesses with annual turnover of less than \$2M.

3 No major reforms to superannuation or aged pension entitlements

No new taxes on superannuation. Pension income test free areas and deeming thresholds to remain CPI indexed annually.

4 Reforms to child care system

Additional \$3.2 billion over five years from 2014/15 in additional child care funding. New Child Care Subsidy from 1 July 2017 subject to activity test and income thresholds.

5 Write-off for business establishment and restructure costs

Immediate write-off of professional expenses incurred starting a new business from the 2015/2016 year.

6 Taxation Integrity and Avoidance Law to combat multinational tax avoidance

Proposed enactment of several measures to counteract multi-national tax avoidance by non-residents engaged in cross border profit shifting.

7 Employee share scheme ("ESS") changes

Legislative changes to take effect from 1 July 2015 to exclude eligible venture capital investments from turnover and grouping rules, providing CGT 50% discount to start-up concession ESS interests where options converted to shares with shares sold within 12 months of exercise and modification of minimum 3 year holding period rules.

8 Farming – accelerated depreciation for water facilities and fodder storage and fencing

Immediate write-off of from 1 July 2016 on capital expenditure on fencing, dams, tanks, bores, irrigation channels, pumps, water towers and windmills. A new 3 year write-off period for capital expenditure incurred after 1 July 2016 on fodder storage assets.

9 FBT exemption for portable electronic devices

FBT exemption to be expanded from 1 April 2016 where a small business with annual turnover of less than \$2M provide an employee with more than one qualifying work-related portable electronic device on an annual basis.

10 FBT changes to provision of meals and entertainment to not-for-profit employees

From 1 April 2016 a new grossed-up limit of \$5,000

will apply for salary meal entertainment benefits for not-for-profit employees.

11 GST to apply to offshore supplies of services and intangible to Australian consumers

From 1 July 2017 foreign supplies of services and intangibles to Australian consumers predominantly in relation to digital streaming and downloading.

12 Overhaul of methods used for calculating work-related car expenses

From 1 July 2015 the "12% of original value method" and "one-third of actual expenses method" to be repealed. The "cents/km method" will be streamlined to 66 cents/km from the current 3 rates. The "log book method" will remain unchanged.

13 Temporary workers to lose access to tax-free threshold

Tax residency rules to be changed to treat holiday workers in Australia as non-residents for tax purposes regardless of duration of stay with effect that tax-free threshold otherwise available after a six month stay will be abolished.

14 Fly-in Fly-out "FIFO" and Drive-in drive-out "DIDO" workers to lose zone rebate

From 1 July 2015 the zone rebate entitlement currently available to FIFO and DIDO workers will be removed where such workers do not have their usual residence in an identified geographic zone currently classified as remote.

15 Start date deferral for Managed Investment Trusts ("MITs")

Revision of start to 1 July 2016. However, MITs may voluntarily apply new rules from 1 July 2015. ■

ABOUT PKF

PKF brings clarity to business problems with simple, effective and seamless solutions that break down barriers for sustainable growth.

PKF Australia firms are members of the PKF International Limited (PKFI) network of legally independent firms. With almost 300 member firms and correspondents across 440 locations in around 125 countries, PKFI is the 12th largest global accountancy network.

In Australia, PKF offers clients the expertise of more than 65 Partners and 555 staff, across audit, taxation and specialist advisory services.

PKF Mack's office is centrally located in the parliamentary district in West Perth.

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