KPMG

Federal Budget 2018

A review of the Budget's major business implications

May 2018

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Executive summary

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A pre-election budget, with some extra twists

The government has announced that it expects the Budget to return to surplus by 2019-20, creating an opportunity for it to propose changes that target its other financial goal of tax revenues not exceeding 23.9% of gross domestic product.

The passage of the government's bill to reduce company tax rates is still uncertain, although the government has restated its commitment to this measure. Nonetheless, current and forecast improvements in personal and corporate income tax collections have given the government scope to announce the following measures:

- Introduce personal income tax reductions, and withdraw last year's proposal to increase the Medicare levy. Phase One of the tax reductions will principally benefit taxpayers on incomes up to $90,000 from 1 July 2018. A second phase in 2022-23 will see increases to tax rate thresholds to combat 'bracket creep'. Phase Three will eliminate the 37% tax bracket from 2024-25, meaning that taxpayers on incomes up to $200,000 will have a top marginal rate of 32.5%.
- Announce new spending initiatives directed at improving infrastructure (such as the Melbourne airport rail link, Queensland major highway and rail improvements and several projects in Western Australia).

This picture is balanced by some other key decisions in the Budget which are designed to protect the integrity of the tax system. In particular:

- The government's response to the final report from the Black Economy Taskforce, including a ban on cash transactions above $10,000 and denying a tax deduction for wages where the employer does not withhold the necessary PAYG tax.
- New thin capitalisation requirements which will limit companies' ability to claim a tax deduction for interest on debt.
- The introduction of an intensity threshold which will impact the value of the research and development (R&D) tax incentive.

What does this mean for business?

The year-end focus for private businesses will be on understanding the impact of changes to research and development incentives, and keeping a watchful eye on any progress of the company tax cut bill.

Larger businesses must assess how the thin capitalisation proposals may affect them, while similarly monitoring developments on the company tax cut bill.

With the political situation finely balanced as we head towards an election, the response from the Federal Opposition will also be of great interest to many.

Gary Wingrove
Chief Executive Officer

David Linke
National Managing Partner,
Deals, Tax & Legal

Brendan Rynne

Partner, Chief Economist

Economic and fiscal analysis

The global economy finished 2017 with strong momentum which has continued into 2018, and is expected to remain robust for the remainder of this year and into the next.

Our latest forecasts of the Australian economy, as presented in our April Edition of the KPMG Quarterly Economic Outlook, reveal a picture of the domestic economy over the forward estimates period that is broadly consistent with Treasury's expectations contained within the Budget.

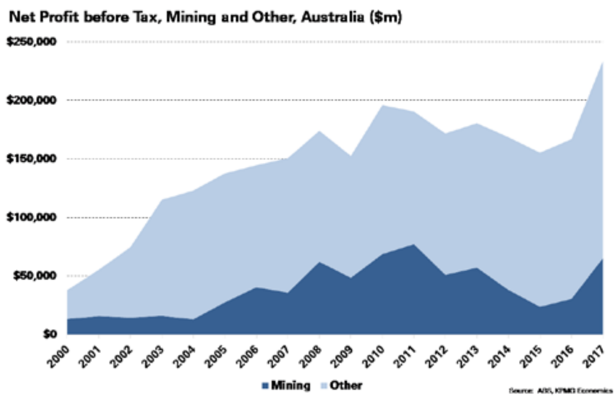
The Budget has received a 'kicker' in significantly higher company and superannuation taxes, albeit that these increases are driven by different factors. Superannuation tax receipts have risen due to changes in tax policy settings which were implemented in the 2017 Budget, while company tax receipts have risen due to dramatic increases in corporate profits. In particular, the strength in exports and the recovery in the terms of trade has flowed through to profits in the mining sector, which has recorded a rise in net profit before tax of more than 100 percent in 2017. Company tax receipts are linked to Australia's trading relationship with China, and hence China's economic prosperity. Our analysis shows Australian exports to China have directly contributed more than 20 percent of Australia's GDP growth since the end of the GFC.

Growth in income taxes from individuals and FBT, as well as GST receipts, has been more moderate. Research by KPMG Economics reaffirms the importance of bracket creep in driving growth in personal income taxes. That is, changes in the wage rate have a significantly greater impact on personal income tax receipts than does changes in aggregate employment.

KPMG's assessment of the Commonwealth Budget Balance over the forecast period is for a slightly worse outcome for 2018-19 and 2019-20 than presented in the Budget, but conversely a stronger result for 2020-21 and 2021-22. Solid global economic growth plus improving labour market conditions are anticipated to push personal income tax and company income tax higher in the out years of the forward estimate period.

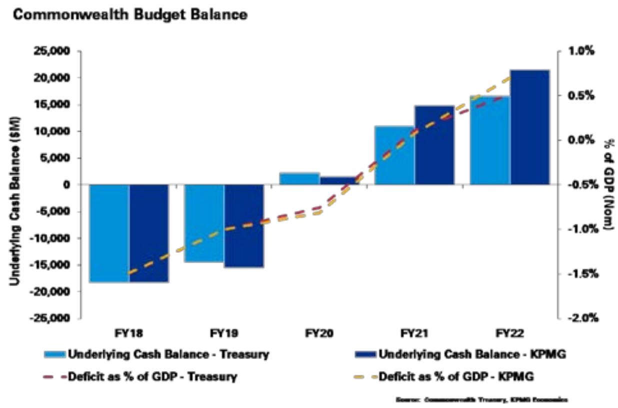
"A return to surplus is crystallising. This creates an opportunity for the Commonwealth Government to implement broad based tax reforms necessary to best meet Australia's changing demographics and expected spending requirements. It is much better to implement challenging policy decisions in a position of economic strength than to delay and be forced to make necessary changes when the economy is stressed."

Corporate Profitability

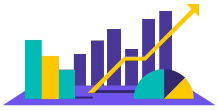


Source: Treasury, KPMG Economics

KPMG Economics and Treasury Forecast Commonwealth Budget Balance



Source: Treasury, KPMG Economics



Economic assumptions

When interpreting the Budget estimates, the likelihood of volatility in economic fundamentals is an important consideration. Key risks for macro indicators are presented below.

Real GDP growth – just above trend

	2017	2018	2019	2020	2021
GDP (Real)	2.3%	3.0%	3.1%	2.9%	2.7%

GDP growth in the December quarter of 2017 was weak and the outlook is for growth to be just above trend for the next three years before returning to trend. Solid growth in exports and household consumption, and continued recovery in business investment will support growth.

Growth in real GDP	2018
United States	2.9%
Canada	2.1%
United Kingdom	1.6%
Japan	1.2%
China	6.6%

Unemployment rate – falling gradually

	2017	2018	2019	2020	2021
Unemployment	5.6%	5.3%	5.2%	5.0%	5.0%

Recent data indicates that the labour market is reasonably healthy. The continued growth in the economy should see the unemployment rate edge down gradually. The decrease in the unemployment rate is likely to be modest in the next couple of years because part of the growth pick-up will be absorbed by greater utilisation of underemployed workers, and there is scope for further increases in the participation rate.

Unemployment rate	2018
United States	3.9%
Canada	6.2%
United Kingdom	4.4%
Japan	2.9%
China	4.0%

Consumer price index – within band

	2017	2018	2019	2020	2021
CPI	2.0%	2.2%	2.4%	2.5%	2.5%

Spare capacity within the Australian economy, both in terms of the labour market and production capabilities of firms, and in the global economy has been keeping price pressures in check. This dynamic is gradually changing with tighter labour markets and continued global expansion helping push inflation towards the middle of the RBA target band over the forward estimates period.

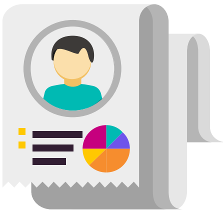
CPI	2018
United States	2.5%
Canada	2.2%
United Kingdom	2.7%
Japan	1.1%
China	2.5%

Public net debt as a percentage of GDP

	2017	2018	2019	2020	2021
Public net debt	19.1%	19.2%	18.7%	17.3%	15.6%

The improved Budget position, combined with solid GDP growth, will underpin a gradual improvement in the share of net public debt in GDP, which is expected to peak this year.

Debt as a percentage of GDP	2018
United States	81.4%
Canada	27.4%
United Kingdom	77.4%
Japan	152.6%
China	n/a



Personal tax

Personal Tax Rates

This Budget seeks to reduce the tax burden on individual taxpayers with a phased plan to reduce personal tax rates over the next 7 years. A modest decrease in 2018-19 will allow the government to move towards a surplus as forecast, with more substantial cuts in later years.

Changes from 1 July 2018 are set to be of most significant benefit to low and medium income earners through the introduction of a Low and Middle Income Tax Offset of up to $530 per year, which will initially be available as a lump sum offset upon issuance of the individual's Notice of Assessment.

This Budget increases the threshold at which the 37 percent bracket applies from $87,000 to $90,000 from 1 July 2018. A further more substantial increase to $120,000 is scheduled from 1 July 2022.

From 1 July 2024, the 37 percent bracket will be removed entirely. The top threshold of the 32.5 percent will increase to $200,000, and individuals will pay the top marginal rate of 45 percent on taxable income exceeding $200,000.

The table below illustrates the suite of rate changes announced.

Ben Travers

National Leader, People Services

"This Budget provides welcome relief for low and middle income taxpayers by addressing personal income tax rate bracket creep."

Medicare Levy

The Budget confirms that the Medicare levy rate will remain at 2 percent. Previous plans to increase it by 0.5 percent to fund the National Disability Insurance Scheme have been abandoned.

Work Related Expenses

A record $7.9 billion in "other" deductions such as union fees, home office supplies and phone bills were claimed for the 2015-16 income year. The ATO has indicated its concern that overclaiming of work related deductions by individuals represents a significant area of non-compliance.

Despite recent conjecture regarding the possibility of introducing a universal cap on work related expenses, or a "standard deduction" akin to the US personal tax system, this Budget has not sought to address this.

ATO Compliance Monitoring

The Budget has boosted ATO funding by $130.8 million in order to target groups of individual taxpayers and their tax agents suspected to be"high risk." The boost in funding will allow the ATO to extend data matching programmes in particular relating to reporting of foreign sourced income of high net worth individuals, and over-claiming of deductions.

Current and future income tax rates

Rate (%)	2017-18 ($)	2018-19 ($)	2022-23 ($)	2024-25 ($)
0%	0 - 18,200	0 - 18,200	0 - 18,200	0 - 18,200
19%	18,201 - 37,000	18,201- 37,000	18,201 - 41,000	18,201 - 41,000
32.5%	37,001 - 87,000	37,001 - 90,000	41,001 - 120,000	41,001 - 200,000
37%	87,001 - 180,000	90,001 - 180,000	120,001 - 180,000	-
45%	>180,000	>180,000	>180,000	>200,000
Low and Middle Income Tax Offset	-	Up to 530	-	-
Low Income Tax Offset	Up to 445	Up to 445	Up to 645	Up to 645

Key insights

- The introduction of a non-refundable tax offset for Low and Middle Income Earners is likely to result in a modest increase to consumer confidence in the upcoming financial year.
- Phased changes to the top threshold of the 32.5 percent bracket will provide middle income earners protection from bracket creep, and reduce the tax burden for top rate taxpayers (with a lift in the top bracket from 1 July 2024).
- Medicare Levy has remained at 2 percent, with the planned increase abandoned in the 2018-19 Budget.
- Whilst no specific measures have been announced in relation to limiting claims on work related deductions, the government has made efforts to address this by boosting ATO funding for increased compliance monitoring of individuals.

Business and international tax

Top 5 Changes

1 Tightening Thin Capitalisation Measures

A new thin capitalisation measure will remove existing rules allowing taxpayers to favourably adjust their debt-to-equity safe harbour ratios through asset revaluations. As a result of the new measure, taxpayers will be required to rely on the asset values in their financial statements for thin capitalisation purposes. Some taxpayers have sought to revalue assets in response to recent reductions in the safe harbour ratio, and this change will remove this option.

Additionally, foreign controlled Australian consolidated entities and multiple entry consolidated groups that control a foreign entity will be treated as both an inward and outward investor. This aligns the treatment of such tax consolidated groups with stand-alone entities under the worldwide gearing test.

These measures will take effect from income years commencing on, or after, 1 July 2019.

A further previously announced measure commencing on 1 July 2018 was the lowering of the associate entity threshold from 50 per cent to 10 percent for thin capitalisation purposes. This has the potential to significantly affect investors and corporates in joint venture arrangements.

2 Broadening the Significant Global Entity definition

The government has increased the definition of a Significant Global Entity (SGE) to include members of large multinational groups headed by private companies, trusts, partnerships and investment entities.

This is a substantial change from the previous definition, which captured only groups that were headed by public or private companies required to prepare consolidated financial statements.

Taking effect from income years commencing on or after 1 July 2018, it will effectively increase the scope and application of Australia's recent multinational integrity measures such as the Multinational Anti-Avoidance Law (MAAL), Diverted Profits Tax (DPT) and increased administrative penalties. The broader definition will also increase the application of country-by-country requirements, and may also result in certain entities being required to prepare general purpose financial statements where no previous legal obligation existed.

Peter Madden

Partner, International Tax

"Given the very significant recent changes from prior Budgets impacting the international tax framework, it is not surprising that this Budget represents a relatively 'light touch' for global multinationals. However, the practical impact of the recently-enacted Diverted Profits Tax, transfer pricing rules re-write and the upcoming Anti-Hybrid rules, is yet to be fully felt by taxpayers."

Carlo Franchina

National Leader, Tax Advisory Services

"Whilst businesses may well be relieved that this Budget has limited impact on the corporate income tax regime, it could also be seen as a further missed opportunity to enhance Australia's competitiveness, for instance through a broader reduction of the corporate tax rate."

3 Changes for investment trusts

The government will add to the list of countries whose residents are eligible for a reduced withholding tax rate on certain Australian Managed Investment Trust (MIT) distributions.

This is the first time the list has been updated since 2012, and will include 56 new countries which have entered into information sharing agreements.

The updated list will have effect from 1 January 2019, and will reduce the withholding rate to 15 percent from the default rate of 30 percent. The revenue impact of this benefit appears to be more than offset by the previously announced changes to stapled structures, as discussed below.

The government also announced changes to prevent the CGT discount at the trust level for MITs and Attribution Managed Investment Trusts (AMITs). This impacts the application of expenses in trust tax calculations and whilst intended to prevent benefits flowing to investors that don't qualify for the CGT discount (e.g. companies), it may also detrimentally impact other investors compared to their current position.

4 Tightening of stapled structure concessions for foreign investors

The government confirmed the previously announced stapled structure integrity measures. The measures limit withholding tax exemptions for foreign pension funds and the availability of sovereign immunity and thin capitalisation changes to prevent double gearing. These measures:

- addressed concerns that stapled structures were used to convert active income into passive rental income and so lowered the applicable rate of tax from 30 percent to 15 percent; and
- sought to improve the fairness and competitiveness of Australia's tax system between domestic and foreign investors.

The package raises revenue of $400 million over the forward estimates period, and this revenue will increase significantly from 1 July 2026 when transitional concessions for most existing stapled investments cease. Draft legislation is expected within the next month.

5 Deferral of Taxation of Financial Arrangements (TOFA) and Consolidations changes

The TOFA simplification changes announced in the 2016-17 budget have been deferred to income years commencing on or after the date of Royal Assent of the enabling legislation. This reflects the ongoing consultation that is seeking to find practical ways to simplify some key TOFA issues, particularly for hedging.

The government has deferred one aspect of the consolidation integrity measures on entities within consolidated groups 'churning' assets to generate double deductions. The proposed rule which will require grouping of associates when considering whether the integrity rules apply has been deferred to apply from the date of introduction of the enabling legislation. Also, complex transitional rules on deferred tax liabilities from the consolidation entry and exit tax-cost setting rules were removed from the final legislation and have not been re-introduced.

Other important changes affecting business

- The Government has confirmed its commitment to progressively reduce the company tax rate in the coming years. However, no new policy effectively reducing the corporate tax rate was announced in this Budget.
- The government continues to ensure that no benefits can arise to the private sector out of privatisations by preventing deductions for pre-existing concessional loans that can currently be claimed.
- The government will extend the GST by ensuring that offshore sellers of hotel accommodation in Australia calculate their GST turnover in the same way as local sellers from 1 July 2019. This is targeted at levelling the playing field between Australian and foreign competitors.

Key insights

- The thin capitalisation measures will affect companies' ability to claim interest deductions, and will cause some to review their arrangements.
- The broadening of the SGE definition represents a further evolution of the tax transparency process.

Banking

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

The Royal Commission was established on 14 December 2017 to inquire into and report on misconduct in the banking, superannuation and financial services industry. To date two rounds of hearings have been completed on consumer lending and financial advice. A third round of hearings on loans to small and medium enterprises is scheduled to commence on 21 May 2018.

The government has announced that it will provide:

- $10.6 million over two years from 2017-18 to ASIC and
- $2.7 million in 2018-19 to APRA

to assist in their involvement in the Royal Commission.

The cost will be offset by an increase of $10.6 million over two years from 2018-19 under the ASIC industry funding model and $2.7 million in 2018-19 in the APRA Financial Institutions Supervisory Levies.

This funding is in addition to the $75 million allocated to the Royal Commission itself over two years from 2017-18 in the MYEFO budget in December 2017.

As previously announced, the Banking Executive Accountability Regime commences on 1 July 2018.

Consumer Data Right

Following recommendations from the Productivity Commission's *Data Availability and Use Inquiry*, in May 2017 the Australian Government announced that it will introduce a Consumer Data Right (CDR) to allow consumers to access their data and to direct data holders to 'transfer' that data to third parties.

Arrangements to implement a CDR are closely linked to initiatives outlined in the Open Banking Report commissioned by the government in 2017, beginning in the banking, energy and telecommunications sectors and to be rolled out to other sectors over time.

Julian Humphery

Partner, Corporate Tax

"This Budget has little in the way of tax measures affecting Australia's banks, but the further delay of amendments to the TOFA regime will disappoint some."

Astrid Raetze

Partner, KPMG Law

"This Budget ensures that the financial services industry effectively bears the additional cost of APRA and ASIC's involvement in the Royal Commission through increased levies and ASIC fees."

Ian Pollari

National Sector Leader, Banking

"This Budget reinforces the government's commitment to the introduction of Open Banking and the CDR is a critical enabler for data-sharing across the economy."

The government has announced support of $44.6 million over four years from 2018-19 in establishing the CDR.

This funding will support $20.2 million for the Australian Competition and Consumer Commission to define and implement legislation to govern the CDR and the content of data standards.

In addition, the government has also allocated $12.9 million for the Office of the Australian Information Commissioner to assess and ensure consistency of rule-making with the *Privacy Act 1988*.

Finally, $11.5 million has been set aside to fund the Commonwealth Scientific and Industrial Research Organisation (CSIRO) to assist with data standards.

Key insights

- Additional funding to support regulators for their involvement in the Royal Commission suggests that we can expect the process's current rigour to continue.
- The CDR related funding measures will facilitate the introduction of Open Banking in 2019 (and other sectors thereafter).

The black economy

The Budget includes the government's broad acceptance of 72 (out of 75) of the recommendations outlined in the Black Economy Taskforce's final report.

The government has adopted a number of the recommendations immediately, and at the same time has established a multi-agency Black Economy Standing Taskforce to drive implementation of the extensive work program arising from the final report.

What is the 'black economy'?

The black economy refers to people who operate entirely outside the tax system or who are known to tax authorities but deliberately misreport their tax obligations. The black economy can also include those engaged in organised crime, and those engaged in the production and sale of prohibited goods.

The report estimates the black economy to be around 3 percent of our gross domestic product, or $50 billion. The black economy results in reduced income and consumption tax revenues, as well as higher welfare payments due to the understatement of income. The black economy also provides unfair competition for honest businesses, and leads to the exploitation of more vulnerable workers.

Black economy participants will be impacted by the reforms. Equally, the black economy interacts with the broader economy and is arguably the last of the major tax bases. Therefore, several measures will also impact how legitimate businesses are managed.

The immediate measures

The key recommendations being adopted in the short term are as follows:

- From 1 July 2019, businesses tendering for Commonwealth government contracts over $4 million (inclusive of GST) will be required to provide a statement from the ATO indicating that they are generally compliant with their tax obligations.

Geoffrey Yiu

Partner, Corporate Tax

"Some of the government's proposed reforms to address the Black Economy will also impact compliant organisations – the objective being to restrict the demand for the goods and services that the Black Economy supplies."

- New measures will be introduced to tackle illicit tobacco, focusing on smuggling, leakage from licensed warehouses and domestic production. These measures will produce an estimated gain to the revenue over the next four years of $3.6 billion.
- The government will provide $319 million over four years to the ATO to implement a new and enhanced enforcement strategy, including new mobile strike teams, a Black Economy Hotline, and improved data analytics. This measure is estimated to have a gain to the revenue of $3 billion over the next four years.
- The taxable payments reporting system (TPRS) will be further expanded to payments to contractors in the security, road freight and computer system design industries, with effect from 1 July 2019. This measure will produce an estimated, net gain to the Revenue over the next four years of $546 million.
- There will be limit of $10,000 for cash payments made to businesses for goods and services from 1 July 2019. The detail of this measure will be subject to consultation.
- Businesses will no longer be able to claim deductions for payments to their employees, or contractors who have not provided an Australian Business Number (ABN), where they have not withheld any Pay-As-You-Go amounts – with effect from 1 July 2019.
- The corporations and tax laws will be reformed to provide the regulators with additional tools to assist them to deter and disrupt illegal phoenix activity.
- The government will consult on and design a new regulatory framework for the ABN system over the next year. Furthermore, the government will provide funding to develop a detailed business case for modernising the government's business registers.

Key insights

- Big businesses will need to ensure good Australian tax compliance if they want to win large Commonwealth government contracts. Defining the benchmark level of compliance will be an important issue. Whether or not this measure could inadvertently increase the ATO's power over taxpayers will need to be monitored, or managed.
- Businesses affected by the extension of the TPRS may wish to check the integrity of their systems and the correct classification of contractors vis-a-vis employees.
- The government will consult on the extensive package of black economy measures to be implemented. Affected businesses should engage in that consultation.

Private business

Tax rates

Part one of the Enterprise Tax Plan is already in force, and the turnover threshold for the lower company tax rate of 27.5 percent will increase to $50 million from $25 million from 1 July 2018.

Part two of the Enterprise Tax Plan will – if implemented – extend tax cuts to all companies in the coming decade. The extended plan remains subject to passing the Senate.

Year	Aggregated Annual Turnover Threshold	Tax Rate
2019-20	$100 million	27.5%
2020-21	$250 million	27.5%
2021-22	$500 million	27.5%
2022-23	$1 billion	27.5%
2023-24	None	27.5%
2024-25	None	27.0%
2025-26	None	26.0%
2026-27	None	25.0%

The proposed 80% passive income' threshold test that operates in concert with the aggregated turnover test for eligibility for the lower company tax rate also remains before the Senate.

Research and Development

New rules governing the R&D incentive will limit the cash benefits that businesses with an aggregated turnover of less than $20 million can receive from the incentive.

For larger businesses, the introduction of an intensity threshold brings more complexity to the calculation of eligible expenditure.

Small business tax measures

The $20,000 small business asset write-off applicable to businesses with aggregated turnover of less than $10 million has been extended for another year to 30 June 2019. From 1 July 2019 the immediate deductibility threshold will revert back to $1,000 GST inclusive.

Simon Thorp

Partner, Enterprise

"At a high level, there are few surprises for private enterprise. However, the number of detailed regulatory measures that could have considerable impact, means all businesses should reflect on their situation."

Black economy

Legitimate enterprises will be increasingly impacted by the rollout of black economy reforms, including a limit of $10,000 for cash payments to businesses for goods and services and the extension of the taxable payments reporting system to security providers, road freight transport and computer design.

Increased regulation will require enterprises to be more diligent in considering the affairs of who they deal with as well as their own.

Other measures

- Private company loan rules – unpaid present entitlements between a trust and a private company will be caught by the Division 7A private company loan rules from 1 July 2019.
- Private company loan rules - anticipated amendments intended to improve the integrity of Division 7A will be deferred from 1 July 2018 to 1 July 2019.
- Circular trust distributions – from 1 July 2019 family trusts that are beneficiaries of each other in a round robin designed to avoid tax will be taxed at the top marginal rate plus Medicare levy.
- Everett assignments – from 7.30pm on 8 May 2018 partners assigning the rights to their future partnership income (known as Everett assignments) will no longer be entitled to the small business CGT concessions.
- Image rights – high profile individuals will no longer be able to licence their fame or image to a related entity to commercially exploit. Applicable from 1 July 2019, affected individuals will be personally assessable on the income flowing from their fame or image.
- Costs associated with holding vacant residential or commercial land – from 1 July 2019 such costs, including interest costs, will be denied as deductions but may be included in cost base subject to satisfying existing cost base tests. This will not apply to land used to carry on a business, or to expenses incurred after property has been constructed on land that has received occupancy approval and is available for rent.

Key insights

- Businesses potentially impacted by tax rate changes should closely examine turnover thresholds which take into account the turnover of connected entities.
- Capital expenditure plans should be reviewed given the expiry on 30 June 2019 of the $20,000 small business asset write-off.
- Research and development investment plans should be reviewed in light of the changes to the R&D tax incentive.
- Black economy reforms will potentially impact a wide range of businesses and require detailed consideration.

Tax reform

Grant Wardell-Johnson
Partner, Economics & Tax Centre

"We believe Australia needs long term solutions that go to the very root of our tax system. Whilst there are positive measures announced in this Budget to enhance womens' participation in the workforce, the tax and transfer reforms need to go further to ensure women are not discouraged into the work force due to high effective marginal tax rates."

Tax reform to lift productivity, raise living standards

Tax reform should not be piecemeal, but should be considered across the system as a whole. Comprehensive tax reform remains important to build a strong economy for the future. Australia's policy settings ultimately need to move resources to their most productive uses. They need to be aligned to create a tax system that is trusted, more competitive and designed to encourage growth and innovation. Lifting our productivity performance will be key to sustaining the pace of income growth and raising living standards.

Competitive Company Tax Rate

With improving sentiments around the global economy and the US having embraced significant tax cuts, there is a clear need to extend company tax cuts to companies of all sizes. With other high taxed countries also announcing plans to reduce their company tax rates, it will become clear that after these changes Australia will have one of the highest company tax rates amongst advanced economies. In a competitive world for corporate capital flows, this will be a challenge.

However, tax reform goes beyond cutting the company tax rate. A reduction in the company tax rate requires a recalibration of other policy settings that are integral to the company tax rate such as the imputation system and personal taxation.

Reforming the dividend imputation system

The current imputation system creates a tax bias in favour of domestic investment and against Australian companies investing overseas because they do not get franking credits for foreign taxes paid. It makes us inward looking and we need to ask whether this presents the right tax settings particularly if we are increasingly looking to Asia.

Eliminate bracket creep

The main tension within the personal labour income tax system concerns bracket creep i.e. increase in average rates of tax as a result of inflation under a progressive personal tax system. We welcome the proposals in this Budget to address bracket creep. However, a comprehensive review of the tax and transfer system is needed to ensure workforce participation is not discouraged.

Tax and transfer system should not create high effective marginal tax rates

We need to focus on increasing participation rates through adjustment to the interaction between the transfer system and the tax system. Currently, many women experience very high effective marginal tax rates when moving from 3 or 4 days a week to 4 or 5 days a week due to loss of family and child benefits. There is a similar problem for older workers. Addressing these issues would have a short term cost but a long term benefit.

Pursuit of simplifying tax

The Australian tax system is considered very complex both relative to the size of the economy and in absolute terms. Carve outs and exceptions tend to diminish the effectiveness of a tax and certainly add to the costs of compliance. We therefore should not abandon a goal of simplifying our tax system and transforming and improving the taxpayer's experience with the tax system.

Key insights

- Comprehensive tax reform remains important to build a strong economy for the future.
- There is a clear need to extend company tax cuts to companies of all sizes.
- A reduction in the company tax rate requires a recalibration of other policy settings that are integral to the company tax rate such as the imputation system and personal taxation.
- We need to focus on increasing participation rates through adjustment to the interaction between the transfer system and the tax system.
- We should not abandon a goal of simplifying our tax system and transforming and improving the taxpayer's experience with the tax system.
- A substantial part of the existing structure of State and Territory taxes is ripe for reform. We need a new political infrastructure that will give rise to a fresh approach on our federation.

Damian Ryan

National Leader, Asset and Wealth Management, Tax

Superannuation

"Given the significant superannuation tax changes that were introduced from 1 July 2017, from a stability of the system perspective, it is pleasing that there were no material changes to these tax settings in this Budget."

What is new in the Budget?

Topic	Budget measure
Personal superannuation contributions – improving integrity of notice of intention to deduct (NOI)	The ATO will be provided additional funding to develop new integrity models and undertake additional compliance activity to enable the ATO to deny deductions to individuals who do not comply with NOI requirements. This measure will commence from 1 July 2018.
Superannuation insurance opt-in rule for certain member cohorts	Insurance in superannuation will move from default to an opt-in basis for members with balances below $6,000, under 25 years and with inactive accounts with no contributions in 13 months. These changes will take effect from 1 July 2019.
Super fees capped at 3 percent for small accounts and exit fees banned	Administration and investment fees charged by super funds will be capped at 3 percent for accounts with balances below $6,000. Exit fees will be banned for all super accounts. These changes will take effect from 1 July 2019.
ATO consolidation of small inactive super accounts	ATO data-matching will be expanded to pro-actively reunite all inactive super accounts with balances below $6,000 with members' active accounts, where possible. The changes take effect from 1 July 2019.
Superannuation Guarantee (SG) opt-out for high income earners to avoid unintentional breach of concessional contributions cap	Individuals with multiple employers with income exceeding $263,157 will be able to nominate that wages from certain employers are not subject to SG from 1 July 2018 in order to avoid unintentionally breaching the $25,000 concessional contributions cap.
Superannuation work test exemption for greater flexibility in transition to retirement	An exemption from the work test for voluntary contributions for individuals aged 65 to 74 with balances below $300,000 in the first year they do not meet the work test requirements. This will apply from 1 July 2019.
SMSF/ Small APRA Fund member limit	Maximum number of members for SMSFs and Small APRA Funds (SAFs) has been increased from four to six. This will apply from 1 July 2019.
SMSF audit cycle increased to 3 years	SMSFs with good record-keeping and compliance history will be able to move from annual audit to a three year audit cycle from 1 July 2019.
Super trustees required to formulate retirement income strategy for members	Super fund trustees will be required to develop a retirement income strategy for fund members, which is aimed at supporting the Government's proposed comprehensive income product for retirement (CIPR) framework.

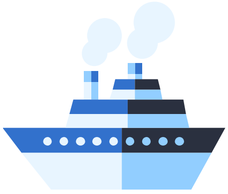
Key insights

Stability in key superannuation taxation settings

- Following the major superannuation tax reforms announced in the two previous budgets, after a period of significant adjustments to implement these changes, the superannuation industry and fund members will welcome the government keeping its commitment to making no major new tax changes.

But still some significant revenue raising measures

- Even though there are no major tax changes, the government anticipates a gain to the Budget bottom line of over $1 billion from a number of the announced measures. The change of insurance within superannuation for certain cohorts of members is estimated to raise $697 million over the forward estimates. This would arise because deductible insurance premiums paid by super funds will reduce. Similarly, capping passive fees and banning exit fees may reduce deductible outlays to super funds. The additional funding to the ATO for enhanced compliance integrity activities for personal contribution deductions by individuals where a deduction NOI has not been provided to a super fund is expected to raise $430 million over the forward estimates.



Free trade & customs

Growing Australia's exports

There are a suite of measures in the Budget that are aimed at growing Australia's exports. These measures include:

- $102 million to secure Australia's biosecurity system with the aim of protecting Australia's significant agricultural exports.
- $51.3 million to expand Australia's network of agricultural trade counsellors in Asia, Europe and Latin America.
- $20 million in SME export hubs aimed at fostering enhanced cooperation between Australian businesses as they sell their products globally.
- Building Australia's defence export strategy by investing $20 million annually to support Australian defence exports.

Good news for Australian Trusted Traders

The Federal Government has committed $10.5 million to the Trade Modernisation Agenda, which includes initiatives towards realising its election commitment to move towards a 'single window' for international trade. For accredited Australian Trusted Traders, the Federal Government has also announced the removal of the requirement to produce certificates of origin for goods under certain Free Trade Agreements. Both measures will bolster interest in the programme.

Leonie Ferretter

Director, Trade & Customs

"The investment in Australia's export growth and trade modernisation is a welcome Budget initiative. The establishment of export hubs and investment in providing expert agricultural trade counsellors is a big win."

Changes to the craft beer tax and refund scheme for alcohol manufacturers

The Federal Government has announced measures to ensure equalisation of excise charged on craft beer kegs. The change is designed to ensure that craft brewers are not paying more excise per litre than their larger alcohol brewing counterparts. The Federal Government will also increase the refund scheme for alcohol manufacturers to $100,000 per financial year from 1 July 2019.

Tobacco Duty Measures

As part of the Federal Government's measures to crackdown on illicit tobacco trade, it has announced that from 1 July 2019 importers will be required to pay all duties and taxes at the time tobacco is imported into Australia and obtain a permit to import tobacco into Australia.

The proposed changes will impact tobacco companies and tobacco retailers who use the existing licensing arrangements to minimise the impact to their cash flow so that import duties and taxes are not paid until the goods are sold to the final retailer.

Key insights

- Key focus on increasing Australia's agriculture exports.
- Interest in the Australian Trusted Trader Programme will increase through further commitment to single window reporting initiatives and alleviating costly administration associated with claiming preferential duty rates.
- Equalisation of excise charged on craft beer kegs to benefit small business.
- Crackdown on duty leakage associated with licensed warehousing of tobacco will lead to major changes in the industry.

Research & Development/ Innovation

The Budget contains a number of changes to the R&D Tax Incentive. Companies with an aggregated turnover under $20 million are barely impacted. Large companies across the spectrum, including some of Australia's innovation leaders, will see reductions in the tax savings attributable to R&D.

This Budget partially adopts some of the recommendations of *Innovation and Science Australia* (**ISA**).

All measures are intended to apply for income years commencing on or after 1 July 2018 – e.g. for companies with a 30 June year end, this means changes to the R&D Tax Incentive will first apply for the year ending 30 June 2019.

R&D Tax Incentive

Small Business - with an aggregated turnover below $20 million have limited impacts:

- A $4 million cap on the 'cash' refund will apply with any excess carried forward as a non-refundable tax offset. This cap does not apply to R&D tax offsets for clinical trials.
- The R&D tax offset rate will be pegged at 13.5 percentage points above the relevant income tax rate. For pre-revenue start-ups and companies with sufficient tax losses, this means that the refundable offset will now be a maximum of 41 cents in the dollar.

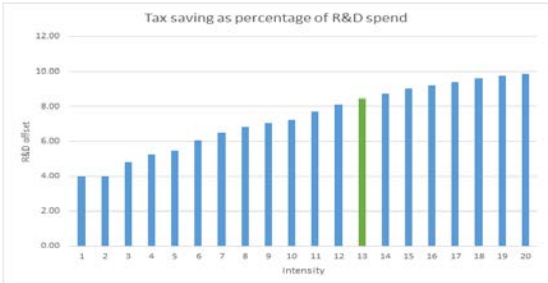
Larger Business - with an aggregated turnover of $20 million or more will be adversely impacted in almost all cases. The flat 8.5 percent tax saving on R&D expenditure will be replaced with a progressive scale that increases from 4 to 12.5 percent of R&D expenditure, based on R&D intensity (R&D spend divided by total annual expenditure).

The R&D expenditure cap will increase from $100 million to $150 million. However, given the R&D rate for most of these companies will drop dramatically, their overall R&D benefit will almost certainly fall.

Kristina Kipper

Partner, R&D Incentives

"The economic concept of additionality is a rationale given for the introduction of an intensity threshold. However at these rates, the R&D Tax Incentive falls below comparable OECD countries."



It is unknown how 'total annual expenditure' will be defined. Key issues include whether it is operating expenditure, capital expenditure and the extent of grouping (especially for multinationals).

The Budget papers indicate an intention to make consequential adjustments to feedstock adjustment and grant clawback rates.

Integrity

The Australian Taxation Office will have the power to publicly disclose the details of R&D claimants and ISA will have the power to make public rulings. There will be additional funding for guidance, integrity management and enforcement activities.

Grants

Following on from the ISA Prosperity 2030 Report, the Budget brings in new and additional funding for existing grants. This includes:

- $1.9 billion for Australia's National Research Infrastructure, over 12 years with a focus on new jobs and tools to develop and commercialise first-to-market products and services;
- $207m for a third round of the Building Better Regions Fund;
- $20 million to establish the Asian Innovation Strategy, including new funding to encourage regional strategic research opportunities;
- $15 million for grants to strategic space projects that will result in jobs, over 3 years.

Key insights

- Larger companies bear the load of reducing the taxes foregone from R&D through a reduced R&D tax benefit (through the introduction of a progressive tax offset increasing from 4 to 12.5 percentage points) based on R&D intensity (counteracted for our very largest companies by the increase in the overall R&D expenditure cap from $100 million to $150 million).
- Smaller business should be relieved that there is merely a $4 million annual cap on the refundable tax offset which excludes R&D tax offsets for clinical trials. This will help long term viability of the program to encourage start-ups and scale-ups especially biotech clinical trials.

Infrastructure

Paul Foxlee

National Sector Leader, Transport & Infrastructure

"This Budget continues the government's strong investment in infrastructure that will further improve our productivity, competiveness and the liveability of our cities."

Overview

This Budget includes $24.5 billion in funding for new major transport projects and initiatives that will benefit every State and Territory. These form part of the government's $75 billion transport infrastructure investment over the next decade.

Key announcements

The government has committed up to $5 billion to build the Melbourne Airport Rail Link which is the largest infrastructure investment in the Budget.

The government is establishing a $3.5 billion Roads of Strategic Importance initiative which will provide funding to upgrade key freight routes for improved access to key export markets.

A $1 billion Urban Congestion Fund will be established to reduce congestion in cities.

The government will provide $250 million to a newly established Major Project Business Case Fund for development and planning of nationally significant projects.

Although transport continues to dominate infrastructure expenditure, the government is also allocating $406 million to water infrastructure projects to make irrigation systems more efficient, improve water quality and create jobs.

Under the Asset Recycling Initiative the government is providing over $2.2 billion to New South Wales, the Northern Territory and the Australian Capital Territory, which is expected to unlock further State infrastructure spending.

Capital investments

The government's major project announcements focus on rail and road, reflect a combination of new and previously allocated funding and include projects and initiatives on Australia's infrastructure priority list including:

Announced transport infrastructure project funding

Project	Value $b
New South Wales	
Pacific Highway Coffs Harbour Bypass	0.971
Port Botany Rail Duplication	0.400
Nowra Bridge	0.155
Victoria	
Melbourne Tullamarine Airport Rail Link	5.000
North East Link	1.750
Monash Rail	0.475
Frankston to Baxter line electrification	0.225
Other transport projects	0.342
Queensland	
Bruce Highway	3.300
M1 Pacific Motorway	1.000
Beerburrum to Nambour Rail Upgrade	0.390
Brisbane Metro	0.300
Cunningham Highway	0.170
Western Australia	
Metronet (additional)	1.050
Perth Congestion Package	0.944
Bunbury Outer Ring Road	0.560
Great Northern Highway Upgrade	0.220
South Australia	
Adelaide North-South Road Corridor	1.400
Gawler Rail Line Electrification	0.220
Joy Baluch Bridge duplication	0.160
Tasmania	
Bridgewater Bridge Replacement	0.461
Roads of Strategic Importance	0.400
Northern Territory and Australian Capital Territory	
Road upgrades	0.480

Key insights

- This Budget demonstrates a focus on removing congestion and improving productivity by addressing pinch points, last mile access to ports, airports and freight hubs and upgrading key freight corridors in regional Australia (via the Roads of Strategic Importance initiative and the Urban Congestion Fund).
- The government continues to advance previously announced major projects including the $9.3 billion Melbourne to Brisbane Inland Rail and the $5.3 billion Western Sydney Airport.

Health

Commonwealth Government health expenditure will reach $78.8 billion in 2018-19 with funding for new initiatives in rural health, mental health and measures to support the health workforce.

Medicare Guarantee Fund

The government has continued to support the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS) through the Medicare Guarantee Fund, introduced in last year's Budget.

For 2017–18, $34.4 billion has been credited to the Fund. A further credit of $35.3 billion will be made to meet estimated MBS and PBS expenditure for 2018–19.

New and amended items will be included on the MBS, including cystic fibrosis testing, 3D breast screening and MRI tests for prostate cancer.

A Stronger Rural Health Strategy

The Budget allocates $83.3 million over five years from 2017-18 to achieve stronger rural, regional and remote health outcomes by aligning the distribution of the health workforce to areas of greatest need and building the capability of Australia's medical practitioner workforce.

This includes funding to establish Murray-Darling medical schools network to support students to study medicine in the region.

The Budget also included $84 million in additional funding to the Royal Flying Doctor Service to improve the availability of dental, mental health and emergency aeromedical services in rural and remote areas.

Mental Health Funding

The Budget delivers an increase of $338.1 million in mental health funding, with a focus on suicide prevention, research and older Australians and builds on investments in the use of telehealth to improve mental health service delivery that featured in last year's Budget.

Liz Forsyth

National Sector Leader, Health, Ageing and Human Services

"Building on good foundations, the Budget for health, ageing and human services has recognised the need for investment in rural service delivery. In our federated environment, the critical challenge will be ensuring that governments at every level align around the objectives of these measures."

Evan Rawstron

National Sector Leader, Health

This includes funding of $37.6 million for expansion of the beyondblue *Way Back Support Service* across Australia, which provides outreach, follow-up care and practical support to people discharged from hospital after a suicide attempt. These assertive outreach models have been shown to be effective.

Public Hospital Funding

The Budget outlines funding of $20.8 billion for public hospital services in 2018-19 compared with $20.3 billion in 2017-18. The Budget reaffirms the Commonwealth Government's commitment to activity based funding and includes funding of $130.2 billion over five years from 2021 to the States and Territories for public hospital services after the expiry of the current agreement in June 2020.

National Health and Medical Industry Growth Plan

The Budget commits $1.3 billion to this Plan which has the $500 million Australian Genomics Health Futures Mission as a centrepiece. This investment in genomics will be welcomed by the clinicians and healthcare providers who see this field of research and practice offering great potential for delivering more personalised health care.

Key insights

- As announced prior to the Budget, the government has dropped the proposal to increase the Medicare Levy but has retained the Medicare Guarantee Fund to meet the growing costs of the MBS and PBS.
- Funding for *A Stronger Rural Health Strategy* to support the rural health workforce will see investments in new medical schools. Attracting, retaining and sustaining a rural health workforce will, in the longer term, demand an integrated approach across all levels of government as well as public and private healthcare providers.
- Welcome new funding in mental health will aid response to the growing burden of disease associated with mental health conditions.

Nikki Doyle

National Sector Leader, Ageing

Aged Care

Following a number of recent reviews, aged care was expected to feature heavily in this year's Budget. While there have been a number of significant announcements, some stakeholders such as aged care providers may feel short-changed with relatively few measures to increase provider funding at the same time they are expected to improve quality. There are also a number of broader measures to provide consumers with *More Choices for a Longer Life* including increasing access to funds through the Pension Loans Scheme.

Responding to quality concerns

There have been a number of measures to improve quality in aged care, the most significant being bringing together several functions to establish a single Aged Care Quality and Safety Commission that will be supported by funding of $253.8 million over four years. This critical shift responds to the Carnell-Paterson review into failures at South Australia's Oakden Older Persons Mental Health Service. It will be supported by other measures focused on improving quality in aged care including $50 million to support providers to implement the new Single Quality Framework, $32.6 million to better identify risks and respond to care failures and $8.8 million to improve the transparency of information about quality of providers.

Investments in aged care

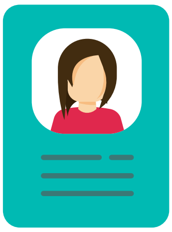
The government has announced an investment of $1.6 billion in an additional 14,000 high level Home Care Packages to respond to over 104,000 consumers currently waiting for a Package. This will be welcomed by consumers and the sector, enabling consumers to more readily access care, and reducing overall reliance on other programs of support and the acute sector. It will also facilitate a more active market with providers having opportunities to gain market share.

Mental health and palliative care becomes a focus for aged care

The Budget has announced significant investment for improving mental health across the aged care continuum, with $82.5 million over four years for mental health services in a residential setting, and $20.0 million over four years to pilot mental health nurse-led services for older Australians in the community. Dementia care has been strengthened with $5.3 million allocated to improve technology based innovation. This investment reflects the complexity of mental health in aged care. Palliative care has also featured, with $32.8 million over four years to a trial of improvements to palliative care within residential aged care. This funding is contingent on matched funding from States and Territories, but should be strongly considered as a way to reduce palliative care burdens on health services, as well as providing care in a more appropriate location for older people.

Key insights

- Access to aged care for consumers is improving, but there is little investment at the provider level, with no changes to care funding mechanisms flagged within the Budget.
- While some investments in aged care appear small, for example the impact analysis of allocating residential care places and the combining of Home Care and Residential programs, both announcements signal the government's intent for the future of aged care – a consumer driven continuum of aged care.



Human services

Ben Wallace

National Sector Leader, Human Services

"The government's additional investment in NDIA is welcome, some concerns remain about the adequacy of the Newstart allowance."

Social Security and Welfare spending dominate government expenditure in human services, accounting for nearly 35 per cent of total government expenditure in 2017-18.

The Budget predicts growth in expenditure of 19.5 percent from 2017-18 to 2021-22 largely due to the impact of an ageing population accessing payments and the full implementation of the National Disability Insurance Scheme.

Income support

In this Budget we see focus on financial support for older Australians, with a $258.6 million investment over five years. Specifically the government has committed to:

- Increasing the pension work bonus from $250 to $300 per fortnight at a cost of $227.4 million.
- Changes to pension means testing at a cost of $20.2 million aiming to support older people to utilise their savings for longer.
- Expansion of the Pensions Loans Scheme at a total cost of $11 million so that older Australians have increased capacity to increase their incomes using the equity in their homes.

These measures are consistent with the investment in the aged care sector that this Budget brings.

There is limited investment in this Budget in other welfare support payments. Despite calls from economists and social advocates alike we have not seen a change in the Newstart rate which remains at $545.80 per fortnight for a single person with no dependent children. This is $280.40 less per fortnight than the Age Pension for a single older person.

Savings measures totalling $608.1 million over five years are introduced in this Budget and relate to:

- The extension of the Department of Human Services fraud detection and debt recovery activities, saving over $299.3 million from 2019-20 over three years.
- Changing the waiting period for new migrants to access some welfare payments from three to four years saving $202.5 million over five years from 2017-18.
- Restricting eligibility for student payments for higher education to courses eligible for the Higher Education Loan Program, saving $101.1 million over five years from 2017-18.

National Disability Insurance Scheme

The National Disability Insurance Scheme (NDIS) will provide care and support tailored to individual circumstances for over 460,000 eligible people with a significant and permanent disability.

This Budget will fund the NDIS without the need for the rise from 2 to 2.5 percent in the Medicare Levy as forecast in last year's budget.

Through the transition to the NDIS, some people currently receiving support from other programs will not be eligible for the NDIS. Recognising the importance of continuity of support for people with disability from 2017-18, the government has committed $92.1 million over five years to fund ongoing support, commensurate with the level of care currently provided, to eligible recipients.

There are concerns about the disability sector's capacity to adapt to the NDIS and the market's capacity to meet demand. In this Budget we have seen investment of $64.3 million. The success of the NDIS will be dependent on a thriving market. This is a welcome investment particularly in the context of known challenges in rural and remote markets.

Remote housing

The Budget confirms an extension to remote housing funding for the Northern Territory of $550 million over five years to help alleviate overcrowding and improve employment and business opportunities in remote communities.

Key insights

- The emphasis on supporting older Australians is evident in this Budget with measures spanning changes to the aged care sector and income support for older Australians.
- In the context of the size of the wider portfolio expenditure, there are few significant measures in this Budget.
- Support to strengthen the NDIS is welcome and will be essential in supporting a vibrant market into the future.

Defence

At first glance this budget reads as the re-announcement of the recent Export Strategy and Defence Industrial Capability Plan – but in aggregate its message is now sharp – it is a commitment to Australian business innovation and competitiveness.

The Budget re-confirms government commitments made in the 2016 Defence White Paper, and to defence spending equating to two per cent of GDP by 2020-21.

The spend profile has changed, with $500 million brought forward to 2017-18, then effectively repaid over the subsequent four years.

Financial Year	Total Defence Expenses $b	Year on year Variation
2017-18	31.0	-
2018-19	31.2	0%
2019-20	30.9	0%
2020-21	33.1	7%
2021-22	35.2	6%

The reprofiling of Defence expenditure has not impacted industry competitiveness programs, which have proliferated to now include an additional:

- $4.1 million per year for the Centre for Defence Industry Capability.
- $6.3 million per year for the Australian Defence Export Office.
- $3.2 million for the Global Supply Chain Program.
- $68 million over four years for Sovereign Industrial Capability Priority Grants.

Supporting the broader budget theme around infrastructure, Defence continues to invest, including:

- $463 million for the development of HMAS Cerberus Vic.
- $274 million for Williamtown NSW Redevelopment Stage 2.

Melissa McClusky

Partner, Defence Technology

"For industry, this budget is all about building your competitiveness as you position for defence work locally and internationally."

Natasha Moore

Partner, Defence Program Management

"Aligned with broader budget themes, Defence infrastructure investment remains high."

- $231 million for Maritime operational support facilities at HMAS Stirling WA, Randwick Barracks and Fleet Base East NSW.
- $230 million for Explosive Ordnance Reform.
- $223 million for Campbell Barracks WA redevelopment.
- $212 million for Joint Health Command Garrison Upgrade.

This infrastructure spend is on top of the $2.25 billion the Singapore Government will provide under the Comprehensive Strategic Partnership to develop training areas and facilities in Australia, particularly Queensland.

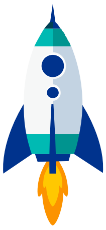
A further $2 billion is also planned to be invested in facilities in Northern Australia under the US Force Posture Initiative.

A Continuing Veteran Welfare Commitment

- Of interest to the many Australian businesses that employ service personnel, three veterans programs received additional funding; $16.1 million over four years for veterans compensation; $8.3 million over four years for veterans employment initiatives; and $2.2 million over four years for Reservist Mental Health support.
- On balance, there are no real surprises in this 2018 Budget for Defence. The roadmap outlined in the 2016 Defence White Paper continues to be followed, with the emphasis moving to programs supporting industry competitiveness and innovation.

Key insights

- Reprofiling of defence spending will see $500 million brought forward to 2017-18, then effectively repaid over the subsequent four years.
- Defence industry innovation and competitiveness programs feature. With the right initiative, there are several avenues for business to access defence grants and support.
- In line with the broader Budget theme, defence infrastructure spending continues, with major redevelopments planned across the country.



Space

The anticipated $41 million investment in an Australian Space Agency, commencing 2018-19, including $15 million dedicated toward Australian business competitiveness in the global space economy.

This is a conservative, but important step towards Australia playing a more active role in the global space market.

KPMG's view is that the new National Space Agency will have two key priorities:

Priority 1: Industry Coordination

For the first time at the Federal level, industry coordination provides Australian market participants with a 'front door' through which they can engage the government. If central coordination is coupled with sound strategy, KPMG believes that this is a measured response to industry requirements.

Priority 2: Industry Support

Federal investments in technology infrastructure including artificial intelligence, GPS and satellite access technologies are positive incentives for the Australian space industry to collaborate and enable access to the global market.

The establishment of the National Space Agency will support Australian researchers and industries, as well as support international projects and research infrastructure.

Mike Kalms

National Sector Leader, Defence Industry

"Australia is back in the space race. Our new National Space Agency will act as a lighting rod for space investments."

Emergent Australian space industry is expected to take advantage of the Research & Development tax incentives announced as part of the Budget.

Along with the government's investment in technology and research infrastructure, GPS and satellite access and capabilities were also highlighted as potential areas of investment.

A further $224.9 million over four years to provide accurate satellite-based positional, navigation and timing capability is a further opportunity for the space industry to exploit.

Key insights

- $41 million to create a new Australian Space Agency and enable space business growth.
- $224.9 million over four years to provide accurate satellite-based positional, navigation and timing capability.

National Security, Cyber Security & Home Affairs

A continued investment in intelligence agencies, a commitment to national security reform and building resilience to cyber threats are embedded in this budget.

Airport Security

The Budget funds airport security upgrades after an alleged plot to put a bomb on a Sydney flight. The government announced a $293.6 million investment with $50.1 million announced to upgrade security infrastructure.

Independent Intelligence Review

The Budget allocates further funding to respond to the recommendations of the Review. This includes $52.1 million to augment the Office of the Inspector-General of Intelligence and Security and $18.1 million for the Attorney General's Department and Office of Parliamentary Counsel to undertake a comprehensive review of the legal framework governing the National Intelligence Community. The government has committed $24.4 million to ASIO to support current operations and undertake preliminary work to enhance future operations.

Growing cyber threats

Cyber threats continue to be a focus for agencies, and both proactive and reactive funding has been allocated. DTA's Govpass and Home Affairs' improved cyber capabilities lay the groundwork for a safer and more secure government, where other funding has focused on reacting to previously notified breaches.

Anthony Court

Partner, Operations Advisory

"The government has invested in our national security agencies to empower them to respond to the exponential growth in data driven intelligence analysis."

Don Cross

Partner, Management Consulting

"The government is continuing its commitment to reform national security for a safer Australia through the Home Affairs Portfolio."

Ian Gray

Partner, Technology, Risk & Consulting

"The big winners were DTA, Home Affairs, Health and Human Services and the Bureau of Meteorology, all of which have been prominent in the public domain in the past 12 months."

Visas for doctors

The government will improve the targeting of visas for general practitioners for identified shortages. From 1 January 2019, the government will set a planning target of around 2,100 overseas trained doctors per annum to contribute to the continued growth in overall doctor numbers. Visas for other specialties and for State and Territory based employment will not be affected. Better managing the total number of doctors entering the system and directing them to areas of need has also made available $415.5 million over four years from 2018-19 to fund Health policy priorities.

Key insights

- The Government is continuing to respond to threats facing Australian travellers by investing in technology to strengthen screening and security at Australian airports.
- Over a quarter of a billion dollars will be invested to strengthen cyber security.
- The Government has funded the implementation of the modern slavery reporting requirements which will oversee annual reporting by Australian businesses of their supply chains and operations.
- Overseas doctors will be provided visas to address areas of doctor shortages.
- Investment in cyber security remains an enduring priority for the Australian Government.

Agribusiness

In prior years, the agricultural industry has generally welcomed the Budget. The sector has historically expected to see extensions of tax concessions, recommitments to national programs and on occasion, the commitment to a significant project.

With the recent release of the National Farmers Federation, KPMG and Telstra's *Talking 2030*, it was pleasing to see some of the key issues highlighted being considered by the Government in the Budget.

Infrastructure

The proposed investment of $3.5 billion in the Roads of Strategic Importance initiative, backed by the Building Better Regions Fund, is aimed at upgrading key freight routes that will boost regional economies. With the increasing focus on exports, upgrades of freight corridors will be warmly welcomed.

Biosecurity and Trade

A number of trade and export measures have been announced in an effort to secure Australia's position as a world leading agriculture exporter. The Federal Government has included a big push on biosecurity, aimed at better protecting our borders. These biosecurity and trade measures include:

- Investment of $51.3 million over four years from 2018-19 to boost growth in Australia's agriculture and food exports.
- Investment of $86.8 million over four years from 2018-19 to enhance Australia's biosecurity system, aimed at funding technology to better detect biosecurity risks.
- Investment of $50.1 million to upgrade security infrastructure at 64 regional airports.
- Introduction of a new levy on sea imports, imposed from 1 July 2019, to enable the government to invest in measures that will help it detect, identify and respond to exotic pests and diseases earlier than ever before. The $10.02 levy per twenty foot container will look to gain revenue of $360 million over the forward estimates period.

Robert Poole

Partner, Management Consulting

"It was good to see that the Budget has addressed some of the key challenges raised in *Talking 2030*. Investment in a robust biosecurity approach is an important role for government in supporting the farm sector's vision to double output."

Technology infrastructure

As in the trend of technology, the announcement of more than $2.4 billion investment in Australia's public technology infrastructure aims to provide more accurate GPS across Australia, upgrade the Bureau of Meteorology's technology platform and lead research in artificial intelligence.

Increased GPS accuracy and more reliable weather platforms will be welcomed by the farming communities as technology begins to play an integral part in certain aspects of the agricultural industry.

Tax Concessions

As keenly anticipated, the $20,000 immediate asset write-off for small businesses with a turnover of less than $10 million has been extended for another year to 30 June 2019. As a key measure for small businesses, this will be warmly welcomed by farmer groups and regional communities.

Regional communities

A new workforce incentive program in rural and regional areas will fund a plan to get more doctors to where they are needed. This will include the establishment of a new network of five regional medical schools within the broader Murray Darling Region.

The Government has also committed to providing $146 million to improve access to aged care services in rural, regional and remote Australia.

Unfortunately the Budget has overlooked the key challenge of connectivity for regional communities, choosing not to commit funding to the Mobile Blackspot Program.

Conclusion

Overall there are no real surprises in this Budget for agribusiness. Increased funding to infrastructure and trade measures will look to increase Australia's export capabilities and provide increased border protection

Key insights

- $3.5 billion investment in the Roads of Strategic Importance Initiative aimed at upgrading key freight routes.
- Combined $188 million investment in trade and export measures in an effort to secure Australia's position as a leading agriculture exporter.

Overview of changes

The main contributors to the changes in Revenue and Expenditure for 2018–22 as outlined in the Budget papers.

Top 8 Revenue contributors/expenditure savings	
2018–22	**$ billion**
Black Economy Package — combatting illicit tobacco	3.7
Black Economy Package — new and enhanced ATO enforcement against the Black Economy	3.0
Changes to R&D Tax incentive rates	1.4
Personal Income Tax — ensuring individuals meet their tax obligations	1.1
Better targeting the Research & Development tax incentive – compliance activity	1.0
Department of the Environment and Energy - Snowy Hydro Limited Acquisition	0.9
Black Economy Package — further expansion of taxable payments reporting	0.8
Protecting Your Super Package — changes to insurance in superannuation	0.8

Top 8 Revenue reductions/expenditure increases	
2018–22	**$ billion**
Personal Income Tax Plan	(13.4)
Personal Income Tax — retaining the Medicare levy rate at 2 per cent	(12.8)
In home aged care packages	(1.6)
Pharmaceutical benefits scheme	(0.7)
Infrastructure, Regional Development and Cities Portfolio — other priorities	(0.5)
Remote indigenous housing	(0.4)
Backing Small Business Investment — further extending the immediate deductibility threshold	(0.4)
Federal Interstate Registration Scheme Closure	(0.3)

Announced but unenacted measures

The tables below summarise a number of announced but unenacted tax measures, as well as other outstanding tax related developments.

Measures before Parliament	
1	Enterprise Tax Plan – large company tax cuts continue to be sought
2	Enterprise incentives – similar business test
3	Intangible assets – self-assessing effective lives
4	Whistleblower Protections – enhancing protections and remedies
5	Multinational Anti-Avoidance Law – integrity measures
6	Multilateral instrument – enacting BEPS treaty measures
7	Corporate tax cuts – passive income test
8	Superannuation – objectives of the superannuation system
9	Housing affordability – eliminating the main residence exemption for foreign residents

Measures not yet introduced/decided	
1	Petroleum Resource Rent Tax (PRRT) revisions
2	Debt and equity integrity rules
3	Transparency measures – Mandatory Disclosure Regime, Register of Beneficial Ownership of Companies
4	Corporate Collective Investment Vehicle and Limited Partnership Investment Vehicle – establishing a regulatory framework
5	Hybrid mismatch rules – OECD BEPS action
6	Phase two of Whistleblower Protections

ATO administrative developments	
1	Black Economy – funding provided for ATO enforcement on black economy activity with the ATO leading a multi-agency Black Economy Standing Taskforce
2	R&D Incentive – Increased resourcing to improve the integrity of the R&D program
3	Individual taxpayers -- $131 million provided to the ATO to increase compliance activities targeting individual taxpayers and their agents
4	Debt collection -- $134 million provided to the ATO to increase debt collection
5	Super account consolidation package – protecting super
6	Black economy – data analytics and data matching
7	Black economy – funding provided for ATO enforcement on black economy activity with the ATO leading a multi-agency Black Economy Standing Taskforce

CFO / Head of Tax checklist

	Detail	checklist
1	**R&D Incentive reform** • Review how the revised scope and eligibility rules will affect your claims for the R&D Incentive • Consider how the changes will affect your future R&D activities	☐
2	**Personal Income Tax Cuts** • Adjust payroll systems to reflect changes to personal income tax thresholds • Employers anticipating changes to the Medicare Levy should revise their plans as these changes are not proceeding	☐
3	**Thin Capitalisation** • Consider how the requirement to use financial statement values for asset valuations will impact on thin capitalisation calculations from 1 July 2019 onwards	☐
4	**Digitalisation** • Review the upcoming government discussion paper that will explore options for taxing digitalised business • Consider the impact of any developments following the release of the paper	☐
5	**Black Economy** • Implement processes to ensure compliance with new measures arising out of the task force recommendations • Review the potential impact of the government's changes on future Commonwealth tenders • Businesses in the road freight transport industry, the security and investigation industry, and the computer system design industry should prepare for new reporting obligations under the Taxable Payments Reporting System	☐
6	**Managed investment trust measures** • Review the extent to which the 15% managed investment trust withholding tax rate may apply in future • Review the application of the the Capital Gains Tax discount	☐
7	**Broadening the Significant Global Entity definition** • Members of multinational groups that are headed by private companies, trusts, partnerships or investment entities should consider if they now fall within the Significant Global Entity definition	☐
8	**Stapled Structures** • Taxpayers employing or investing in stapled structures should review the effect of new rules on their businesses and potential tax liabilities	☐
9	**Small businesses** • Consider capital expenditure plans in light of the extension of the $20,000 small business asset write-off to 30 June 2019 • Review changes to private company loan rules for unpaid trust distributions	☐

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