



# BUDGET

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2015

## Fairness in Tax and Benefits

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### Content

Strengthening our systems	2
Enhancing public confidence in Australia's tax system	4
Closing the digital tax loophole	5
Diverting profits from Australia	6
Multinational Anti-Avoidance Law	7
Leading the global fight against tax avoidance	8
Fighting tax and financial crime	9
Strengthening the foreign investment framework	10
Foreign investment	11
Personal income tax	12
A fairer HELP scheme	13
Welfare integrity measures	14

# Strengthening our systems

The Government's Budget reforms are aimed at strengthening our systems to ensure that they are fair and sustainable.

## Multinational taxation

The vast majority of Australians do the right thing, and our systems are built on trust and voluntary compliance.

Around 95 per cent of our tax revenue comes from taxpayers who pay voluntarily.

Our high level of willing participation is the result of many factors — such as support in paying taxes, trust in the fairness of our system, strength of our laws and effectiveness of the Australian Tax Office (ATO).

But we know that some multinationals engage in deliberate tax avoidance, exploiting legal loopholes to pay less tax than the law intended.

Families, small businesses and other companies that are doing the right thing, paying tax on their incomes, paying GST on what they consume and charging GST on their sales, rightly expect multinationals to do the same and pay their fair share.

Through our leadership of the G20 in 2014, Australia led the charge on global action to crack down on tax avoidance by multinationals through the two-year Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) Action Plan.

While this work is essential, the Government will go further and faster. This Budget will take significant steps to strengthen the integrity of our tax system.

And we will work with other countries that are taking a lead role, including the United Kingdom, to address profit shifting by multinational companies and be absolutely sure that companies earning profits pay tax in the jurisdictions where they earn the profits.

## Tax evasion and financial crime

Tax evasion and financial fraud are crimes where individuals and businesses hide income and conceal assets from authorities.



# Strengthening our tax, foreign investment and welfare systems to deliver outcomes that are fair, sustainable and support future growth and prosperity.

A comprehensive whole of government approach is necessary to counter tax and financial crime and protect financial markets, regulatory frameworks and revenue collection.

## Strengthening our foreign investment framework

The Government is committed to strengthening Australia's economy, creating new jobs and unlocking innovation. Foreign investment is essential to this, which is why the Government welcomes all foreign investment that is not contrary to our national interest.

A robust regulatory framework reflecting changing demands is essential to maintain community support and a welcoming investment environment. The current system has not kept pace.

The Government is strengthening the foreign investment framework to make sure the rules are enforced. This includes tougher penalties, stronger enforcement and greater transparency around agriculture and residential real estate investment.

## Welfare

The Government is committed to providing a fair and sustainable welfare system that provides benefits for those most in need, improves compliance and maintains integrity.

This also means investing in our welfare payment system to make sure we have a world class system to deliver services and encourage compliance.

## Individual benefits

There are a number of loopholes in our tax system that can be exploited by individuals.

For example, it is not fair that some people have unlimited use of tax concessions to subsidise weddings and cruises. Similarly, it is not fair if Australians living and working overseas do not repay their Higher Education Loan Programme debts.

Better targeted concessions will help deliver a fair and sustainable system for the future.



# Enhancing public confidence in Australia's tax system

## Digital disruption and globalisation

Digitisation and globalisation of the economy are positive developments that are reshaping the world.

A globalised economy means that companies have greater choice about where to locate their activities.

This also increases the opportunities for companies to use legal means to minimise their tax liabilities through multinational tax avoidance.

This is placing pressure on the international tax system which was developed almost 100 years ago.

Australia relies more heavily on corporate tax than most other countries. The vast majority of businesses do the right thing and pay their share of tax, but it is important that our tax system remains robust and sophisticated to deal with multinational tax avoidance.

Last year, the Government took important steps to further strengthen Australia's defences against tax avoidance. These steps tightened Australia's thin capitalisation

rules to stop multinationals claiming excessive debt deductions and closed other tax loopholes.

It is important to ensure that any changes to our tax system do not compromise economic activity or deter investment, which ultimately costs Australian jobs.

## Australia's tax administration

Good policy and robust legislation requires the support of a well-resourced and skilled tax administration.

The Government is providing \$87.6 million to the ATO over the next three years to continue the International Structuring and Profit Shifting programme. To date this programme has raised over \$250 million in tax liabilities and is estimated to raise \$1.1 billion in total.

The ATO now has more resources than ever dedicated to dealing with multinational tax avoidance.

As part of this Budget, the Government is providing additional funding to the ATO to assist with their investigations.

## Some of today's largest companies are reshaping the economy

Taxi companies that do not own a taxi



Global retailers who do not have a shop front



Media companies that do not employ journalists



# Closing the digital tax loophole

Consumers are increasingly turning to the growing digital economy to purchase products and services from anywhere in the world which traditionally they may have purchased from Australian suppliers.

Improving the tax system by ensuring the GST applies to digital products and services imported by Australian consumers will help level the playing field between domestic and international suppliers and ensure that all suppliers pay a fair share of tax.

This will result in a more consistent application of the GST to digital products and services.

Australian based businesses must currently account for GST on sales of digital products and services, but their overseas counterparts do not unless their supply is performed in Australia.

Under new arrangements, these anomalies will be removed and Australia's taxation system will take another step into the 21st century.

## Coordinated international action

There is growing international consensus for value-added taxes such as the GST to be applied to digital products and services imported by consumers.

The OECD is developing guidelines for business-to-consumer supplies of imported digital products and services as part of the Base Erosion and Profit Shifting project. These are expected to be finalised by the end of 2015.

A growing number of countries have or will introduce similar rules. These include Japan, Norway, South Africa, South Korea, Switzerland and member countries of the European Union. The Canadian Government also announced that they would consider introducing similar laws.

## Closing the digital loophole



These diagrams represent digital products and services that may include online music, movies, e-books and legal and consultancy advice.

# Diverting profits from Australia

The Government is taking action on multinationals that exploit loopholes and artificially structure to avoid paying tax in Australia or elsewhere in the world. This is contrary to the intention of international agreements.

To the extent this erodes Australia's tax base, this may mean that individuals and other businesses face higher rates of tax in the future, hurting the economy and jobs, if action is not taken.

## Example of a diverted profits scheme

A business in Australia, that is part of a large multinational group, employs thousands of highly skilled Australians who undertake significant levels of economic activity to generate profits. The local business is responsible for marketing, customer relations, business support, product awareness and research and development.

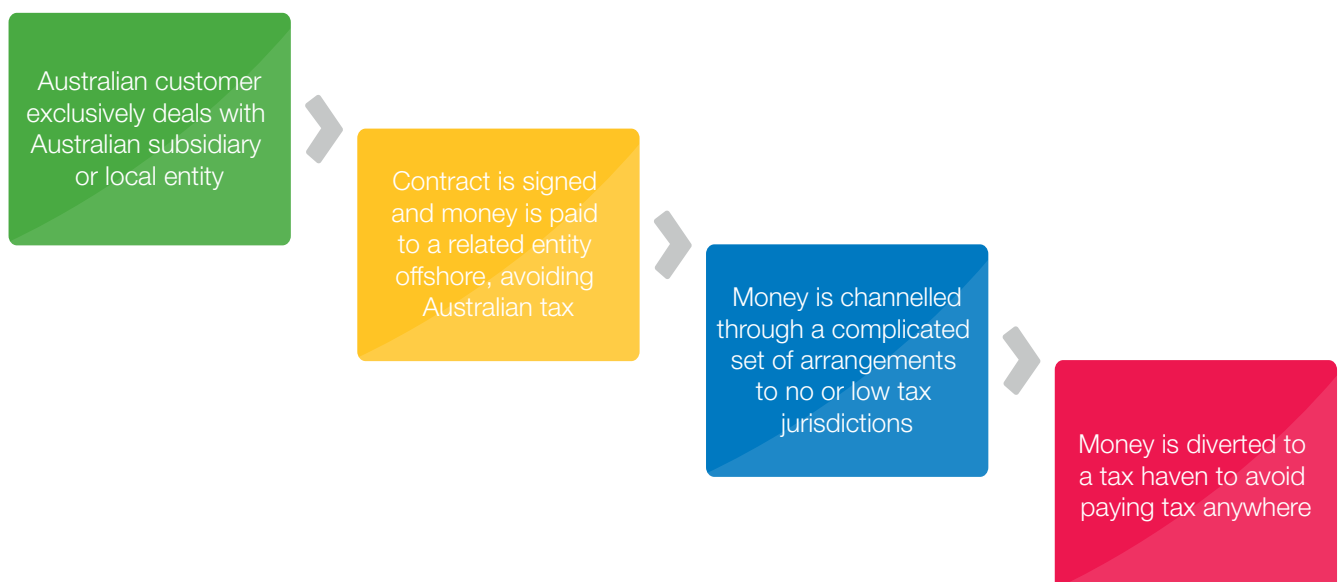
Australian customers interact almost exclusively with the local business, but when it comes time to sign the contract, it is signed with a related company in another country and therefore escapes Australia's tax net.

Not only does it escape Australia's tax net, but following a series of contrived and artificial arrangements, the Australian income ends up in another related entity in a tax haven, essentially escaping paying tax anywhere.

Profits should be taxed where economic activities deriving the profits are performed and where value is created, not in the tax haven where it is diverted to.

It is unfair and unsustainable for local businesses to pay company tax on their profits, when their competitors do not.

*Some multinationals are diverting their Australian income offshore to avoid paying their share of tax*



# Multinational Anti-Avoidance Law

The Government is determined to do what is needed to protect Australia's tax base and ensure all businesses pay their fair share of tax.

The Government is taking immediate action by introducing a Multinational Anti-Avoidance Law to stop multinationals artificially avoiding a taxable presence in Australia, and force them to pay tax in Australia on profits from economic activities undertaken in Australia.

## Multinational Anti-Avoidance Law

From 1 January 2016, the new law will ensure that when Australian customers deal with an Australian subsidiary or local entity that is integral to the customer's decision to enter into the contract, those Australian sales will be recognised as Australian income. Therefore tax will now

*Ensuring that businesses with economic activities in Australia pay tax in Australia*

be paid on profits from economic activities undertaken in Australia.

Approximately 30 large multinational companies are suspected of diverting profits using artificial structures to avoid a taxable presence in Australia.

Where the law applies, multinationals will be subject to the Government's new doubled penalty regime for tax avoidance and profit shifting schemes.

This means that not only will tax avoiders need to pay the tax that they owe, they will also face penalties of up to 100 per cent of the tax they owe and interest.

This is only the beginning. The Government will commence consultations with the community on whether further amendments are required to Australian law, consistent with the work being carried out by the G20 and OECD, to address other profit shifting strategies used by multinationals to avoid paying tax in Australia on economic activities performed in Australia.



# Leading the global fight against tax avoidance

As the G20 President in 2014, Australia led progress on the OECD's BEPS Action Plan to ensure multinationals pay the right amount of tax.

Australia is not waiting for the rest of the world to agree to all fifteen items of the Action Plan and is now taking the next step, consistent with the directions of the G20 and OECD dialogue.

We are acting now to commence implementation of four of the key actions that Australia delivered as G20 President to stop multinational tax avoidance.

## 1 Country-by-Country reporting

Australia will implement the OECD's Country-by-Country reporting from 1 January 2016.

This measure will be a game changer in helping expose multinational tax avoiders.

For the first time, multinationals will be required to provide tax authorities with a global picture of their operations including income and tax paid in every country they operate in.

This information will be shared between tax authorities.

## 2 Treaty Abuse rules

Countries enter into tax treaties with each other to facilitate trade and investment. Tax treaties aim to avoid double taxation but some taxpayers exploit treaty rules to avoid taxation altogether.

The OECD has developed a plan to tackle this problem. While Australia already includes anti-abuse rules in its tax treaties, we will act now to incorporate the OECD's recommendations into our treaty practice.

## 3 Anti-Hybrids rules

Different tax rules in different countries can allow multinationals to claim a tax deduction in one country but not pay tax in the other. The OECD has developed a draft plan to tackle this. Australia will be one of the first countries to act on these draft rules.

The Government has asked the Board of Taxation to consult on the implementation of these rules.

## 4 Harmful Tax Practices and Exchange of Rulings

Some countries provide secret or preferential tax deals to multinationals to attract their business, which can be harmful to other countries. The OECD has found Australia does not engage in any harmful tax practices.

The ATO has commenced exchange of information on secret tax deals provided to multinationals by other countries that may contribute to tax avoidance in Australia.

## Public tax transparency code

To complement Country-by-Country reporting, which will provide enhanced information to tax authorities, the Government will also work with businesses to develop a code on the public disclosure of greater tax information by large corporates.

This code will provide support and confidence in our tax system by large corporates taking the lead and being more transparent to help educate the public.

The Government has asked the Board of Taxation to lead the development of this transparency code. Progress will be monitored and the Government will consider further changes to the law if required.

*Stopping multinationals from shifting profit created in Australia to other countries to avoid paying tax anywhere in the world*



# Fighting tax and financial crime



## Tackling financial crime

Serious financial crime is a significant risk to Australia's financial markets, regulatory frameworks and our tax revenue base.

Coordinated information exchange is needed to tackle the threat.

The Government will provide \$127.6 million to establish a Serious Financial Crime Taskforce that will develop inter-agency intelligence and conduct operations to target nationally significant serious financial crime and tax evasion.

## Tackling international tax evasion

Under Australia's leadership, the G20 endorsed a new Common Reporting Standard (CRS) to catch individuals evading tax.

This automatic exchange of financial account information between tax authorities is critical to combating tax evasion. Australia will implement this from 1 January 2017.

Australia will also sign the international multilateral agreement to enable information to be exchanged between countries' tax administrators.

This will better equip the ATO to receive crucial information from other jurisdictions to help identify, catch and prosecute tax cheats.

## Exchange of information with Switzerland

Earlier this year, Australia became the first country to sign a declaration with Switzerland to share automatic financial account information.

This will expose offshore income that was previously hidden, so there will be nowhere to hide.

## GST compliance programme

The GST compliance programme will be extended for three years to support the ATO in identifying fraudulent GST refunds, under reporting of GST liabilities, failure to lodge GST returns and outstanding GST debts. This will help deter the black economy. This measure is expected to increase GST by \$1.8 billion, to be paid to the states and territories.

*The Government continues to crack down on tax and financial crime*

# Strengthening the foreign investment framework

The Government is committed to strengthening Australia's economy, creating new jobs and unlocking innovation. To achieve this, foreign investment is essential and that is why the Government welcomes all foreign investment that is not contrary to our national interest.

## Open for business

Australia is open for business, with foreign investment approval granted for \$167 billion of proposed investment in 2013–14, a 23.4 per cent increase on 2012–13.

## Strengthening Australia's foreign investment framework



## Enforcing the rules

A robust regulatory framework is essential to maintain community support and a predictable and welcoming environment for investors. Australia's foreign investment system continues to play an important role in facilitating investment. A lack of substantive reform to the system in the past 40 years has seen it fail to keep pace with changing demands and community expectations.

On 2 May 2015, the Government announced a package of measures to strengthen the foreign investment framework to make sure the rules are enforced. The ATO will be given responsibility for regulating foreign investment in residential real estate, including stronger enforcement, audit and compliance of the existing rules. Greater enforcement will be supported by enhanced data matching systems to pinpoint possible breaches.

## Stricter penalties and fees

There will be additional and stricter civil and criminal penalties to ensure foreign investors and intermediaries do not profit from breaking the rules. There has been growing community concern around transparency and enforcement of the rules over recent years.

The introduction of application fees on all foreign investment applications from 1 December 2015 will provide improved service delivery for investors and ensure Australian taxpayers are no longer funding the administration of the system.

# Foreign investment

## Additional agriculture investment scrutiny

The Government is also delivering on its commitment to increase scrutiny and transparency around foreign investment in agriculture.

From 1 March 2015, the screening threshold for agricultural land was lowered to \$15 million (applying to total agricultural land investment by an investor) — down from \$252 million — while the definition of agricultural land will be changed to better reflect common understanding.

A new \$55 million screening threshold (based on the value of investment) will apply from 1 December 2015 to investments in agribusiness.

Additional scrutiny of agricultural investments will provide confidence to the community that investments are not contrary to our national interest.

It will also provide investors with greater certainty that foreign investment is welcomed.

## Strengthening Australia's foreign investment framework

### Foreign ownership of land register

A comprehensive land register will provide for greater scrutiny and transparency around the level of foreign ownership in Australian agricultural land and real estate.

The ATO will commence collecting data for the agricultural land register on 1 July 2015, with negotiation underway for the inclusion of state and territory land titles data to expand the register to all land by 1 July 2016.

### Streamlining the system

The Government is also consulting on options to ensure Australia has a modern, streamlined foreign investment system.

## Application fees and penalties from 1 December 2015

Investment Type	Fees	Penalties*
<b>Residential real estate</b>	Property valued under \$1 million – \$5,000 Property valued over \$1 million – \$10,000 then \$10,000 incremental fee increase per additional \$1 million in property value	Maximum criminal penalty increased to \$135,000 or 3 years imprisonment  New maximum civil penalty of the greater of capital gain or 25 per cent of the value of the property
<b>Business</b>	\$10,000 – \$100,000	Maximum criminal penalty increased to \$135,000 or 3 years imprisonment  New maximum civil penalty of \$45,000
<b>Agriculture</b>	\$5,000 – \$100,000	Maximum criminal penalty increased to \$135,000 or 3 years imprisonment  New maximum civil penalty of \$45,000

\*Penalty rates for individuals, a multiple of 5 applies for company penalties

# Personal income tax

## Improving the fairness of 'meal entertainment' benefits

Generous fringe benefits tax (FBT) exemptions or rebates are available for not-for-profit and public health sector workers. In addition, these employees have been able to salary package a range of benefits not available to other taxpayers. These 'meal entertainment' benefits include holidays, cruises, weddings, and meals and alcohol in restaurants. The benefits are not capped and not reportable for FBT or for other government tax and transfer payment income tests. These benefits will now be subject to a new reportable grossed-up exemption cap of \$5,000, which improves fairness in the taxation system.

The overall FBT exemptions for these employees will remain more generous than other employee groups.

## Better targeting the Zone Tax Offset (ZTO)

Fly-in fly-out (FIFO) and drive-in drive-out workers will no longer be eligible for the ZTO. The ZTO was originally introduced to compensate residents for the disadvantages of an uncongenial climate, isolation and high cost of living in remote areas.

Excluding workers whose normal residence is not in these areas will better target the ZTO to the taxpayers who have taken up genuine residence within these zones. For example, someone who lives with their family in Perth but has a FIFO job in the Pilbara will no longer be eligible to claim the ZTO.

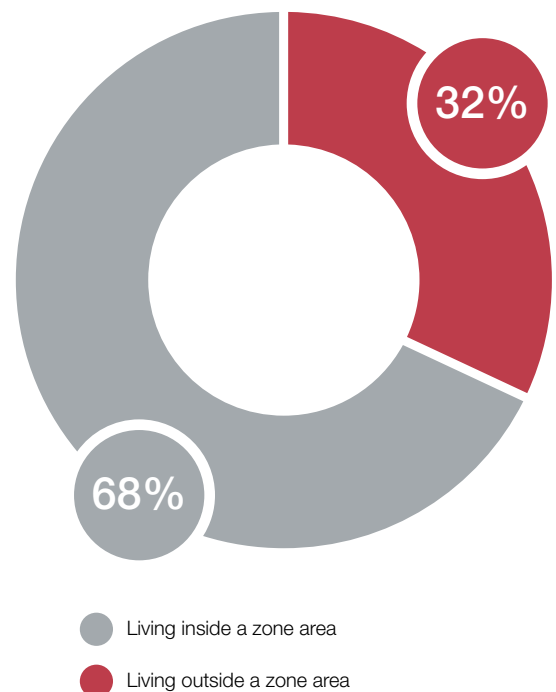
## Non-resident tax treatment for working holiday makers

The Government will change the tax residency rules to treat most working holiday makers temporarily in Australia as non-residents for tax purposes. Therefore, they will no longer be able to access the tax-free threshold.

This will ensure that these people are taxed at 32.5 per cent from their first dollar of income up to \$80,000.

*The 2015 Budget includes measures to improve our personal income tax system by reforming the salary sacrificed 'meal entertainment' benefits, Zone Tax Offset and tax residency rules*

Around one third of the ZTO goes to people living outside the zones



# A fairer HELP scheme

## A fairer Higher Education Loan Programme (HELP)

The Government is introducing arrangements to ensure a fairer HELP scheme by requiring Australians residing overseas to repay their HELP debts.

Currently, a banker, engineer or a nurse earning substantial income overseas does not have any legal obligation to repay their HELP debts.

There is no good reason why Australians living overseas earning high incomes cannot pay back what they owe to Australia.

This change to HELP will impose the same repayment obligations to Australians living overseas as currently apply to those who reside in Australia, ensuring fairer and more equitable arrangements.

Recovery of debts from people living overseas is already undertaken by some other countries, including the United Kingdom and New Zealand.

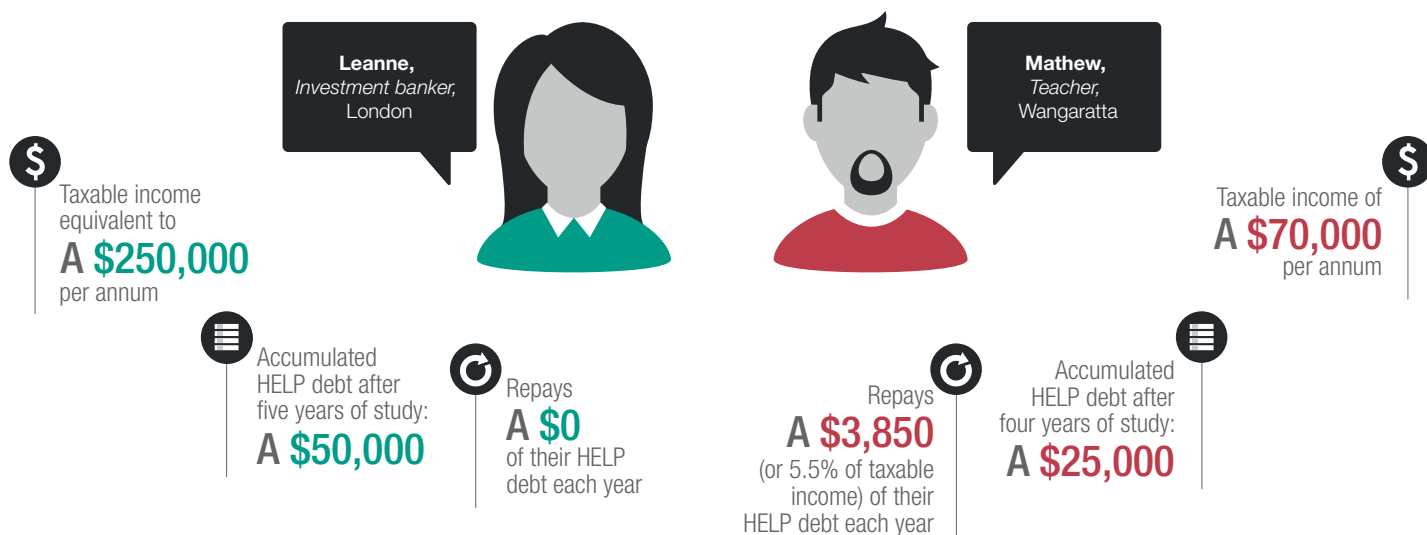
## Repayment obligations will be based on worldwide income

Only those graduates living overseas and earning incomes above the minimum HELP repayment threshold (A\$53,345 in 2014–15) will be required to make payments towards their HELP debts.

## When do the new arrangements commence?

The new arrangements will apply from 1 January 2016 to both new and existing debts. From this date, debtors going overseas for more than six months will be required to register with the ATO, while those already overseas will have until 1 July 2017 to register. Repayment obligations will commence from 1 July 2017 (for income earned in the 2016–17 financial year).

**Current HELP debt repayment arrangements are unfair: Australians that reside overseas and earn high incomes are not required to repay their debts**



# Welfare integrity measures

In 2015–16, the Government will spend \$154 billion on welfare, which is around 35 per cent of total Government expenditure.

The Government is taking a number of actions to strengthen the integrity of our welfare system to ensure it remains fair and sustainable so that we can continue to provide support to those who need it most. These measures will return around \$3.5 billion to the budget.

## Transformation programme

The Department of Human Services (DHS) is responsible for delivering welfare payments through Centrelink to 7.3 million people annually. It does this via a large information technology system which was developed in 1983 and modified to meet government policy changes. The current welfare payment system manages 40 different payments and 38 supplements. It processes around \$100 billion per year and undertakes up to 1,000 transactions per second.

Changes to policy and processes over the past three decades have made the system extremely complex, inflexible, costly to maintain and difficult to ensure compliance.

In this Budget, the Government will invest an initial \$60 million to kick start the Welfare Payment Infrastructure Transformation (WPIT) to replace the existing welfare payment system and modernise government service delivery to meet the demands of today's digital world.

The new welfare payment system will save customers time and effort by offering smarter and easier online end-to-end services. It will also reduce the costs of administering welfare payments and save taxpayers money in the long run.

For example, currently it can take parents over an hour to fill out 60 pages of paperwork to apply for Family Tax Benefit. If they need to call DHS for assistance, they would have to wait on average 16 minutes. Once their claim has been submitted, they may have to wait several weeks for the claim to be processed.

The new system will allow parents to apply for these benefits online in minutes and can reduce processing time to seconds, without any need or expense to travel or wait in long telephone queues.

### The need for change: the welfare payment system in 1983 and today

	1983	2015
Payments delivered	10 payment types	40 payments and 38 supplements
Payments recipients	2.5 million people	7.3 million people
Payment outlay per year	\$10 billion	\$100 billion
System speed per second	Average of 13 payments	Up to 1,000 transactions

*The Government is upgrading the welfare information technology system, increasing compliance capability and strengthening the integrity of our welfare system.*

## Increasing compliance

From 1 July 2015, the Government will increase DHS's capability to detect, investigate and deter suspected welfare fraud and non-compliance. This initiative includes improved automation of assessment processes, targeted strategies for areas of high risk, and recovery of historical debt from 2010 to 2013. This will enable an additional 200 cases to be investigated each year. It will achieve net savings of around \$1.5 billion over four years.

## Parental Leave Pay (PLP)

The Government will remove double-dipping in PLP from 1 July 2016. Previously, individuals could receive taxpayer funded PLP in addition to any employer-provided parental leave entitlements.

Access to PLP will now be limited to individuals whose employer does not provide parental leave entitlements. In cases where individuals get less generous parental leave entitlements from their employer, the Government will top up the amount paid to be equal to the full amount available under the existing scheme.

## Cap deductible amount for Defined Benefit Income

The Government will ensure fairer treatment of defined benefit superannuation income for pensioners. From 1 January 2016, the level of income from defined benefit superannuation that can be excluded from the pension income test will be capped at 10 per cent.

This measure mainly affects former public sector employees. However, around two-thirds of those involved in these schemes will be unaffected. Their superannuation income will not be reduced. Department of Veterans Affairs Pensions and defined benefit income streams paid by military superannuation funds are exempt from this measure.

## Income Management

Income management helps people manage their welfare payments, encourages socially responsible behaviours and protects vulnerable Australians. The Government will continue existing BasicsCard arrangements for two years while also trialling new income management arrangements and debit card technology in a small number of locations following community and industry consultation.

Upgrading the welfare payment system



Targeting assistance to those most in need



Improving compliance



Ensuring social obligations are met



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