Mischel & Co. Advisory Services Pty Ltd
Accountants and Advisors

We enclose a summary of the Federal Budget 2013-14 for the exclusive use of clients of The Mischel & Co Group of Companies.

It is important to note that there may be further amendments to the proposals contained in the Federal Budget as a result of the Federal Election later this year.

Tuesday 14 May, 2013

The Federal Budget 2013-14

The budget delivered by Federal Treasurer Wayne Swan could be reasonably described as anti-climactic in many respects. It comes as no surprise therefore that the budget was devoid of any attempt to genuinely work towards true reform of the overall tax system (rather than periodic band-aid measures) to adequately face the challenges of the 21st century.

Many key announcements were made pre-budget and confirmed by the government in the budget papers, including:

1. Wide-ranging changes to the superannuation system such as the 15% tax on certain earnings in the pension phase, the increase in the concessional contribution cap to $35,000 for older Australians and the changes to the excess contribution tax regime;
2. The deferral of tax cuts due for the 2015-16 year which were to be funded out of carbon tax receipts;
3. The abandonment of proposed increases in Family Tax Benefit -Part A payments; and
4. An increase in the medicare levy of 0.5% to contribute to the cost of the proposed National Disability Insurance scheme (NDIS).

Announcements which were unexpected and which will have a significant impact on middle class Australia were:

- The removal of the baby-bonus, to be replaced by a significantly reduced payment which will only be available to taxpayers who qualify for Family Tax Benefit - Part A; and
- The phase-out of the net medical expense offset (which will in fact be immediate for some taxpayers).

An announcement of interest from the Assistant Treasurer was titled "ATO taskforce to target trust misuse." It is to be hoped that the activity undertaken by the taskforce is targeted at what would be considered by a reasonable person as "misuse" (which should not be tolerated) and not merely the use of trusts as part of ordinary family or commercial dealings.

Given that a federal election is imminent it is hardly surprising that the most obvious pain arising from the budget is likely to be felt by the corporate sector, in particular multi-nationals. The government has announced a focus on:

- Anti-profit shifting measures, in particular the operation of the thin capitalisation rules;
- Restructuring arrangements which have a profit manipulation intent; and
- Reducing the tax concessions available for depreciating assets used in exploration activities.

The government has presumably concluded that not a lot of voters will be conscious of, or understand, measures of this type!

The expected major "social reform" initiatives, the NDIS and the Gonski education measures, were announced but the funding in the long term appears brittle and the extent of implementation and funding will no doubt be influenced by the accuracy of cost estimates and projected government revenues.

Whilst some Australians will be impacted by budget measures in the short term, for the majority it is likely to be a case of roll on to the federal election!

The following sections now appear for your easy reference

Individuals and Family Tax Measures

INDIVIDUALS

Personal Income Tax Rates - residents

The 2013-14 Budget confirmed the income tax cuts for the 2012-13 income year however the government has decided to defer the subsequent tax cuts contained in this legislation that were to commence on 1 July 2015. A summary of how the resident personal rates will apply is set out below:

INDIVIDUAL RESIDENT TAX RATES PER BUDGET			
Taxable Income		**RATES**	
		2012-13, 2013-14 & 2014-15	
LOWER THRESHOLD	**UPPER THRESHOLD**	**Tax on income up to lower threshold**	**Rate of tax for each $1 over lower threshold**
-	18,200	-	0%
18,201	37,000	-	19%
37,001	80,000	3,572	32.5%
80,001	180,000	17,547	37%
180,001	-	54,547	45%

The 2015-16 personal tax rates originally proposed but that will now **not come into effect** were:

INDIVIDUAL RATES DEFERRED BY 2013-14 BUDGET			
Taxable income		Tax on income up to lower threshold	Rate of tax for each $1 over lower threshold (up to upper threshold)
LOWER THRESHOLD	UPPER THRESHOLD		
-	19,400	-	0%
19,401	37,000	-	19%
37,001	80,000	3,344	33%
80,001	180,000	17,534	37%
180,001	-	54,534	45%

Personal Income Tax Rates - non residents

The non-resident individual tax rates were announced when the carbon tax legislation was enacted. These personal tax rates are set out below:

SUMMARY OF INDIVIDUAL NON-RESIDENT TAX RATES			
Taxable Income		**RATES**	
		2012-13	
LOWER THRESHOLD	**UPPER THRESHOLD**	**Tax on income up to lower threshold**	**Rate of tax for each $1 over lower threshold**
-	80,000	-	32.5%
80,001	180,000	26,000	37%
180,001	-	63,000	45%

The proposed rate changes for non-residents have been deferred.

Personal income tax - exempting disaster payments from income tax

The Government has made certain payments associated with natural disasters exempt from income tax.

The Disaster Income Recovery Subsidy (DIRS) payments provided between 3 January 2013 and 30 September 2013 were exempted. The DIRS provides financial assistance to employees, small business persons and farmers who experience a loss of income as a direct consequence of a natural disaster occurring in Australia.

Also, income tax ex-gratia payments to New Zealand non-protected Special Category Visa holders affected by natural disasters that occurred in 2012-13 were also exempted. These ex-gratia payments are equivalent to the tax-exempt Australian Government Disaster Recovery Payment (AGDRP) and assist New Zealanders who would have been eligible for the AGDRP, but for their visa status.

Increase in the Medicare levy and Medicare levy low income threshold - DisabilityCare Australia

Increase in the Medicare levy

The Medicare levy is proposed to be raised by half a percentage point from 1.5 to 2 per cent from 1 July 2014. This is proposed to provide strong and stable funding for DisabilityCare Australia. The increase will occur in the 2014-15 income tax year.

Low-income earners will continue to receive relief from the Medicare levy through the low income thresholds for singles, families, seniors and pensioners. The current exemptions from the Medicare levy will also remain in place.

The revenue proposed to be raised by the increase in the Medicare levy will be invested in a new fund - the DisabilityCare Australia Fund (the Fund) - to be drawn on for expenditure directly related to DisabilityCare Australia.

The States and Territories will be able to draw down from the Fund when they meet key conditions, including agreement to the full scheme, and once at least 50 per cent of their eligible population are covered by the scheme.

Medicare levy low-income threshold

The Government will increase the Medicare levy low-income threshold for families to $33,693 for the 2012-13 income year, with effect from 1 July 2012.

The additional amount of threshold for each dependent child or student will also increase to $3,094. The increase in these thresholds takes into account movements in the Consumer Price Index and ensures that low-income families are not liable to pay the Medicare levy.

The Government increased the Medicare levy low-income thresholds for individuals and pensioners for 2012-13 as part of the *Household Assistance Package*. The Medicare levy low-income thresholds increased to $20,542 for individuals and $32,279 for pensioners eligible for the Seniors and Pensioners Tax Offset.

Net medical expenses tax offset phase out

The Government will phase out the net medical expenses tax offset (NMETO) with transitional arrangements for those currently claiming the offset. The NMETO will continue to be available for taxpayers with out of pocket medical expenses relating to disability aids, attendant care or aged care expenses until 1 July 2019. The DisabilityCare Australia is proposed to be fully operational by this time and aged care reforms have been in place for several years.

From 1 July 2013 those taxpayers who claimed the NMETO for the 2012-13 income year will continue to be eligible for the NMETO for the 2013-14 income year if they have eligible out of pocket medical expenses above the relevant thresholds. Similarly, those who claim the NMETO in 2013-14 will continue to be eligible for the NMETO in 2014-15.

This reform is consistent with the recommendations of the *Australia's Future Tax System* review.

Work-related self-education expenses capping

An annual $2,000 cap on these expenses is proposed from 1 July 2014. Deductible education expenses are costs incurred in undertaking a course of study or other education activity, such as conferences and workshops, and include tuition fees, registration fees, student amenity fees, textbooks, professional and trade journals, travel and accommodation expenses, computer expenses and stationery, where these expenses are incurred in the production of the taxpayer's current assessable income.

The government feels the potential for uncapped claims for the wide range of expenses that can potentially be claimed under this deduction provides an opportunity for some people to enjoy significant private benefits at taxpayers' expense.

Employers are generally not liable for fringe benefits tax for education and training they provide or fund for their employees, in order to support employers investing in the skills of their workers. This treatment will be retained, unless an employee salary sacrifices to obtain these benefits.

Savings from this measure will be redirected to the *Better Schools - A National Plan for School Improvement* package.

Further information can be found in the press release of 13 April 2013 issued by the Deputy Prime Minister and Treasurer. As outlined in this release, the Government will consult closely to better target this deduction while still supporting essential training. A discussion paper will be released in late May 2013 as part of this process of consultation.

Minor amendments

- The Government as part of the *Anzac Centenary Program 2014-18* will specifically list the Anzac Centenary Public Fund as a deductible gift recipient (DGR). Taxpayers may claim an income tax deduction for certain gifts of money or property to DGRs.
- The Government will provide an income tax exemption for compensation provided for legal advice to beneficiaries under the *Military Rehabilitation and Compensation Act 2004* (MRC Act) from 1 July 2013.
- The Government will make a series of minor amendments to the tax laws to correct technical defects, remove anomalies and address unintended outcomes which have been recently identified in the tax legislation.

FAMILIES

Replacing the Baby Bonus with new family payment arrangements

Family Tax Benefit Part A (FTB Part A) payments will be increased by $2,000. The payment is to be made in the year following the birth or adoption of a first child or each child in multiple births, and $1,000 for second and subsequent children. The additional FTB Part A will be paid as an initial payment of $500, with the remainder to be paid in seven fortnightly instalments.

Parents who take up Paid Parental Leave (PPL) will not be eligible for the additional FTB Part A component. However, the work test under the PPL scheme will be extended so that parents will be able to count periods of government PPL as "work", just like employer-funded PPL.

As a result of these reforms, the Baby Bonus will be abolished.

This measure acts on a recommendation of the *Australia's Future Tax System* review (the Henry Review). The measure will apply from 1 March 2014.

HECS-HELP discount and voluntary HELP repayment bonus: discounts to end

The following discounts relating to the Higher Education Loan Program will be removed:

- the 10% discount available to students electing to pay their student contribution up-front, and
- the 5% bonus on voluntary payments made to the Tax Office of $500 or more.

This measure will apply from 1 January 2014.

Indexation pauses

The following items will be subject to a pause on their indexation:

- FTB end of year supplements
- the Child Care Rebate annual per child cap,
- the higher income tests for family payments, and
- the income threshold for the dependency tax offsets

These will be extended for a further three years.

2012-13 Budget measures that will not be introduced

The Government will not proceed with the increase to FTB A announced in the 2012-13 Budget.

M&Co. Superannuation

The superannuation proposals in the 2013-14 budget were released jointly by the Treasurer and the Minister for Financial Services and Superannuation on 5 April 2013. They were promoted on the grounds of improving the fairness, sustainability and efficiency of the superannuation system.

Superannuation – a fairer excess contributions tax system

As previously announced, the government will reform the system of excess contributions tax ('ECT') in respect of excess concessional contributions made from 1 July 2013, by allowing individuals to withdraw such excess contributions from their superannuation fund. Any such excess concessional contributions will then be taxed at an individual's marginal tax rate, plus an interest charge to recognise that the tax on excess contributions is collected later than normal income tax.

This measure is estimated to cost the government $60.0 million over the next four years.

Under the current ECT arrangements, excess concessional contributions are taxed at the top marginal tax rate (46.5%) regardless of the personal marginal tax rate faced by the individual. In addition, individuals are only able to withdraw excess concessional contributions the first time they make an excess contribution after 1 July 2011, and only where that excess does not exceed $10,000.

Further information on this measure can be found in the joint press release of 5 April 2013 issued by the Treasurer and the Minister for Financial Services and Superannuation.

Superannuation – higher concessional contributions cap

As previously announced, the government will simplify the design and administration of the proposed higher concessional contributions cap, by providing a $35,000 concessional cap to anyone who meets certain age requirements, as follows:

• From 1 July 2013 (i.e., from the 2013/14 income year), people aged 60 or more will be able to access the higher $35,000 concessional contributions cap; and

• From 1 July 2014 (i.e., from the 2014/15 income year), people aged 50 or more will be able to access the higher $35,000 concessional contributions cap.

The new higher cap will not be limited to individuals with superannuation balances below $500,000 in light of feedback from the superannuation sector that this requirement would be difficult to administer.

When the general concessional cap reaches $35,000 through indexation, it will apply to all individuals from that time forward. The general concessional cap is expected to reach $35,000 from 1 July 2018 based on current forecasts.

The simplification is estimated to save the government $366.1 million over the next four years.

Further information on this measure can be found in the joint press release of 5 April 2013 issued by the Treasurer and the Minister for Financial Services and Superannuation.

The following additional items were released on Budget night. These are relatively minor changes.

- Minor amendments to the 2012-13 Budget measure *Superannuation - reduction of higher tax concession for contributions of very high income earners*, effective from 1 July 2012. This measure is estimated to provide $25.2 million over the forward estimates.
  These amendments involve:
    - exempting from the measure employer contributions for Federal judges sitting on or after 1 July 2012 who are entitled to a benefit payable under the *Judges' Pension Act 1968,* and employer contributions made to constitutionally protected funds for State higher level office holders sitting on or after 1 July 2012 (to mitigate constitutional risks);
    - using a similar definition of income for the measure to that used for calculating whether an individual is liable to pay the Medicare levy surcharge; and
    - refunding former temporary residents the tax paid under the measure as they effectively do not receive any concessional tax treatment on their contributions to superannuation as a result of the operation of other rules.

- The eligibility criteria for the low income superannuation contribution (LISC) will be amended to now pay individuals with an entitlement below $20. Previously, the LISC was not paid if it would be less than $20. Entitlements under $10 will be rounded up to $10.
- Additional funds are provided to compensate members of four APRA-regulated superannuation funds in the Trio Capital Group that suffered losses due to fraudulent conduct. The funds will be recovered through levies on APRA-regulated superannuation funds.
- $200,000 in 2012-13 is earmarked to support a Charter Group that will consult and report on the proposed Charter and Council to advise the Government on appropriate future superannuation changes. Further funding for the Council will be considered once the Charter Group has reported.

For seniors

The Government will support senior Australians with a number of initiatives including $112.4 million for a pilot program to support Age Pensioners and other pensioners over age pension who want to downsize their home, without it immediately affecting their pension.

A new seniors' Work Bonus is intended to ensure pensioners keep more of their pension while working.

Under the Broadband for Seniors program, around 2,000 internet kiosks for seniors around the country, will provide free access to broadband internet as well as training to teach seniors new computer skills. The 2013-14 Budget delivers an extra $9.9 million over four years for new technology and training grants for Broadband for Seniors kiosks.

Key Business Measures

Monthly PAYG instalments expanded beyond large corporate taxpayers

The government will extend the requirement to make monthly Pay As You Go (PAYG) income tax instalments to include all large entities in the PAYG instalment system, including trusts, superannuation funds, sole traders and large investors.

This was previously announced for company taxpayers in the 2012-13 Mid-year Economic and Fiscal Outlook.

This will be progressively introduced from the third tranche of the already announced move to monthly PAYG instalments for corporate entities.

In particular:

- corporate tax entities with turnover of more than $1 billion will still move to monthly PAYG instalments from 1 January 2014
- corporate tax entities with turnover of $100 million or more will still move to monthly PAYG instalments from 1 January 2015
- corporate tax entities with turnover of $20 million or more, and all other entities in the PAYG instalment system with turnover of $1 billion or more, will move to monthly PAYG instalments from 1 January 2016, and
- all other entities in the PAYG instalment system with turnover of $20 million or more will move to monthly PAYG instalments from 1 January 2017.

Further:

- Entities, other than head companies or provisional head companies, that have a turnover of less than $100 million and report GST on a quarterly or annual basis will not be required to pay PAYG instalments monthly, and

- Entities in the taxation of financial arrangements (TOFA) regime will assess their entry to monthly instalments using a modified turnover test, based on their gross TOFA income, rather than their net TOFA income.

Measures to prevent ‘dividend washing' arrangements

Measures will be introduced that will prevent sophisticated investors from engaging in ‘dividend washing' arrangements from 1 July 2013.

According to the government, sophisticated investors can currently engage in ‘dividend washing' to, in effect, trade franking credits. This can result in some shareholders receiving two sets of franking credits for the same parcel of shares. This is outside the intent of the dividend imputation system in the government's view.

The proposed measure will ensure that when an investor engages in ‘dividend washing' by selling shares with a dividend and then immediately buying equivalent shares that still carry a right to a dividend, they will only be entitled to use one set of franking credits.

The changes will be targeted to the two-day period after a share goes ex-dividend.

Mining rights and information excluded from immediate exploration deduction

The government proposes that the immediate deduction for the cost of assets first used for exploration will exclude mining rights and information.

Under this measure, mining rights and information first used for exploration will be depreciated over 15 years, or their effective lives, whichever is shorter.

According to the government, the effective life of a mining right and associated exploration information will be the life of the mine that it leads to. If the exploration is unsuccessful, the remaining amount will be written off when this is established.

The measure will not apply to:

- the costs of mining rights from a relevant government issuing authority
- the costs of mining information from a relevant government authority
- the costs incurred by a taxpayer itself in generating new information or improving existing information, and
- the mining rights acquired by a farmee under a recognised ‘farm-in, farm-out' arrangement - which are often used by small explorers and do not represent a base erosion concern.

These will continue to be immediately deductible.

The measure applies to taxpayers who start to hold the mining right or information after 7.30pm (AEST) on 14 May 2013 unless:

- the taxpayer has committed to the acquisition of the right or information (either directly or through the acquisition of an entity holding the asset) before that time, or
- they are taken by tax law to already hold the right or information before that time. Any commitment will need to be objectively verifiable.

Measures addressing issues related to consolidated groups

The government has indicated that it amend the taxation law to address a number of issues relating to consolidated groups that were identified by the Board of Taxation.

The proposed measures are as follows:

Key amendments

The government plans to amend the law to ensure that:

- non-residents are not able to 'churn' (ie. buy and sell) assets between consolidated groups to allow the same ultimate owner to claim double deductions
- certain deductible liabilities are not taken into account twice, and
- consolidated groups cannot access double deductions by shifting the value of assets between entities.

These amendments will apply to transactions that take place after 14 May 2013.

Changes to the exit consolidation rules for certain intra-group liabilities and assets

The government has indicated that it will ensure that only net gains and losses are recognised for tax purposes for certain intra-group liabilities and assets that are subject to the taxation of financial arrangements regime (TOFA), upon exit of a member from a consolidated group.

In applying this proposed amendment:

- The amendment will apply to all income tax returns and requests for amended assessments lodged from the date of announcement, and
- The Commissioner of Taxation will not have the power to alter the treatment of affected amounts in assessments made before the date of announcement.

Restricting access to tax benefits by multiple entry consolidated (MEC) groups

The government will also address concerns raised by the Board of Taxation about inconsistencies in the tax treatment for MEC groups used by multinationals and ordinary consolidated groups.

It will ensure that MEC groups cannot access tax benefits not available to domestic consolidated groups. A review will be conducted by Treasury and involve the Tax Office and private sector.

The amended tax treatment will apply from 1 July 2014.

Research and Development (R&D) tax incentive limited to certain turnover

The government proposes to limit access to the R&D tax incentive so that it only applies to companies with annual aggregate Australian turnover of less than $20 billion.

This follows an announcement made by the government in a media release on 17 February 2013.

The R&D tax incentive will provide:

- a 45% refundable tax offset to eligible companies with annual aggregate turnover of less than $20 million, and
- a 40% non-refundable tax offset to all other eligible companies.

Large companies with a turnover of $20 billion or more that will no longer be able to access the R&D tax incentive will still be able to claim deductions for the R&D expenditure under general tax law provisions.

The measure will apply to income years starting on or after 1 July 2013.

Venture Australia - Enhancing taxation arrangements

The government will make changes to the Venture Capital Limited Partnership (VCLP) and the Early Stage Venture Capital Limited Partnership (ESVCLP) regimes.

These changes include:

- Deem any gains or losses made by a VCLP on the disposal of an eligible venture capital investment held for 12 months that flow through to partners to be on capital account for eligible domestic partners, and
- Lower the minimum investment capital required for entry into the ESVCLP program from $10 million to $5 million to facilitate increased investment by ‘angel' investors.

These changes will have effect from the date of Royal Assent of the enabling legislation.

Capital Gains Tax

Native Title tax treatment clarified

This measure clarifies that income tax is not payable on certain native title benefits.

This follows the announcement made in the Mid-Year Economic and Fiscal Outlook 2012-13.

Specifically, the measure will apply to CGT events happening on or after 1 July 2008, and clarifies that there are no CGT implications resulting from:

- the transfer of native title rights (or the right to a native title benefit) to an Indigenous holding entity or Indigenous person, or
- the creation of a trust that is an Indigenous holding entity over such rights.

Foreign resident capital gains tax

The Government intends to make two amendments to the foreign resident CGT regime. These amendments will be made to the 'principal asset' test to ensure that indirect Australian real property interests are taxable if disposed of by a foreign resident.

The proposed amendments will:

- remove the ability to use transactions between members of the same tax consolidated group to create and duplicate assets, which will ensure that assets cannot be counted multiple times, and
- value intangible assets connected to the rights to mine, quarry or prospect for natural resources (such as mining, quarrying or prospecting information and goodwill) together with the mining rights to which they relate for the purposes of determining the value of the taxable Australian real property (TARP) assets of the entity in which the interest is held.

These amendments will apply to CGT events with effect from 7.30pm (AEST) on 14 May 2013. The Government will consult on the development of the legislation.

Further, from 1 July 2016, a 10% non-final withholding tax will apply to the disposal by foreign residents of certain taxable Australian property (TAP). The purchaser will be required to withhold and remit to the Tax Office 10% of the proceeds from the sale. This measure will not apply to residential property transactions under $2.5 million. The Government will consult publicly on the design and implementation of the regime.

Goods and Services Tax

Allowing businesses in a net refund position to continue to use the GST instalment system

In the 2011-12 Budget, the Government announced a measure which would allow businesses in a net refund position to access the GST instalment system.

The Government has now announced a revision to the previously announced measure so that only those businesses already using the GST instalment system will be allowed to continue to use it if they move into a net refund position.

These revisions address concerns that the original measure could present a revenue risk.

The measure will have effect from the date of Royal Assent of the enabling legislation.

Not-for-profit Sector Measures

Better targeting of tax concessions

The Government made announcements in relation to the *Not-for-profit sector reforms - better targeting of not-for-profit tax concessions* measure originally announced in the 2011-12 Budget:

- the small-scale threshold will be $250,000 of annual accounting revenue. Unrelated commercial activities under this threshold would be exempt from income tax
- in the case of unrelated commercial activities that commenced after 7.30pm (AEST) on 10 May 2011, the measure will apply to activities undertaken form 1 July 2014, and
- in the case of unrelated commercial activities that commenced prior to 7.30pm (AEST) on 10 May 2011, transitional arrangement for these activities will no longer apply from 1 July 2015. The measure will apply to activities undertaken from 1 July 2015.

Statutory definition of 'charity'

The Government has announced a deferred start date for the 2011-12 Budget measure *Not-for-profit sector reforms - introducing a statutory definition of 'charity'.* This measure will now take effect from 1 January 2014, rather than 1 July 2013 as originally announced.

The new start date will provide time for the Australian Charities and Not-for-profits Commission to develop guidance for charities regarding the definition.

The proposed statutory definition of ‘charity' preserves common law principles and provides greater clarity and certainty about the meaning of ‘charity' and ‘charitable purpose'.

Minor measures

The Government announced a number of minor measures in relation to the not-for-profit sector:

- the Anzac Centenary Public Fund will be listed as a deductible gift recipient (DGR)
- public funds that are established and maintained solely for the purpose of providing ethics classes in government schools in Australia will be able to be endorsed as DGRs, as a new general category
- the list of specifically listed DGRs has been updated since the *Mid-Year Economic and Fiscal Outlook 2012-13*, and
- the Government will provide the International Committee of the Red Cross and some of its officials with certain privileges and immunities. These privileges and immunities are broadly consistent with corresponding concessions provided to other international organisations and their officials.

International Tax

Anti-profit shifting measures

The Government has announced its intention to address profit shifting by multinationals by tightening and improving the integrity of several aspects of Australia's international tax regimes. In particular, the proposals are intended to prevent multinational enterprises from shifting profits out of Australia by artificially loading debt onto their Australian operations.

The proposals are intended to take effect for income years commencing on or after 1 July 2014.

The proposed changes involve the following:

- tightening and improving the effectiveness of the thin capitalisation rules:
    - the safe harbour limit for general entities will be reduced from 3:1 to 1.5:1 on a debt to equity basis
    - the safe harbour limit for non-bank financial entities will be reduced from 20:1 to 15:1 on a debt to equity basis
    - the capital limit for banks will be increased from 4% to 6% of risk weighted assets
    - the worldwide gearing ratio will be reduced from 120% to 100% for outbound investors. There will be a similar change to the worldwide capital ratio for banks, and
    - the worldwide gearing test will be extended to inbound investors

- increasing the thin capitalisation *de minimis* threshold from $250,000 to $2 million of debt deductions which will reduce compliance costs for small business
- better targeting the exemption for foreign non-portfolio dividends received by Australian companies:
    - ensuring that the exemption is not available to returns on debt interests or interests that are in fact portfolio in nature, and
    - ensure that the exemption will also apply where the foreign non-portfolio dividend income is received via a trust or partnership, and
- removing the provision that currently allows a tax deduction for interest expenses incurred in deriving certain exempt foreign income.

The Government will consult with industry on the implementation of this measure. The Tax Office will also consult with taxpayers and industry to progress any necessary guidance material. In addition, the Board of Taxation will conduct a review of the thin capitalisation arm's length test.

Other measures

The Government also made the following announcements:

- the Government signed a tax information exchange agreement with Uruguay on 10 December 2012. The agreement will enter into force once both countries have completed their respective domestic requirements
- the Government will amend the existing Offshore Banking Unit (OBU) regime to better target genuine mobile financial sector activities and address integrity issues with the current regime, with effect from 1 July 2013, and
- the Government will provide $109.1 million over four years to the Tax Office to increase compliance activity targeted at restructuring activity that facilitates profit shifting opportunities.

The content of this information memorandum does not reflect all the announcements outlined in 2013 Federal Budget but simply highlights those points which are most likely to affects our clients.

Mischel & Co Advisory Services Pty Ltd
Accountants and Business Advisors
27 Ballantyne Street South Melbourne Vic 3205
Ph: 96849999 Fx: 96849988 Email: admin@mischco.com.au
Postal Address: P.O Box 1380 St Kilda South Vic 3182