



Budget 2016



Supporting Small Business

Australians know that our future depends on how well we continue to grow and shape our economy as we transition from the largest mining investment boom in its history to a stronger, more diverse, new economy.

The Government's Ten-Year Enterprise Tax Plan will remove impediments and create the right conditions for Australian small businesses to grow and become more productive, creating more jobs.

As part of that plan, this Budget provides a strong foundation on which we can build a brighter, more secure future, in a stronger, new economy with new and higher paying jobs.

In order to encourage investment, increase the level of economic activity and raise real wages, it is important that the tax system support and encourage our small businesses to hire and invest to grow.

Small and medium businesses are also overwhelmingly Australian owned and more likely to reinvest their earnings in future growth, as they seek to build their businesses.

Small businesses employ over 3 million workers and in 2013-14 added around \$340 billion to our economy.

This is why we will reduce the tax burden on small businesses.

In this Budget the Government will build on previous support and introduce new measures to further help small businesses invest in and grow their business.

The Australian Government is increasing the small business turnover threshold from \$2 million to \$10 million to allow more businesses to access a range of small business tax concessions.

These changes will provide access to the small business concessions for over 90,000 additional businesses, covering more than 3 million small businesses in total.

The extension of the small business concessions will mean that businesses with turnover less than \$10 million will, from 1 July 2016, be able to access the following concessions:

- a lower small business company tax rate of 27.5 per cent (the lower tax rate will be extended gradually to more and more companies);
- simplified depreciation rules including immediate tax deductibility for assets costing less than \$20,000 until 30 June 2017;
- simplified trading stock rules;
- a simplified method of calculating PAYG instalments by the ATO;
- the option to account for GST on a cash basis and pay GST instalments as calculated by the ATO; and
- other tax concessions currently available to small businesses such as the Fringe Benefits Tax (FBT) concessions (FBT changes will commence from 1 April 2017, the beginning of the next FBT year) and immediate deductibility of professional expenses.

These changes will enable eligible businesses to use the small business concessions to reduce compliance costs and improve their cash flow. It also provides incentives for small businesses at or near the existing \$2 million turnover threshold to grow, as currently they would lose these concessions once they pass the threshold.

The increased turnover threshold will not affect eligibility for the small business capital gains tax concessions, which will remain available for businesses with annual turnover of less than \$2 million or that satisfy the \$6 million maximum net asset value test.

Since many small businesses are not companies, the Government will extend the unincorporated tax discount for small businesses.

From 1 July 2016, the unincorporated tax discount will increase from 5 per cent to 8 per cent, capped at \$1,000, for businesses with annual turnover less than \$5 million. The tax discount will progressively increase to 16 per cent by 1 July 2026.

Increasing the threshold from \$2 million to \$5 million will allow around 30,000 additional unincorporated small businesses to access the discount.

Providing encouragement for small business will encourage investment, enhance productivity, increase the level of economic activity and over time, increase real wages and living standards.

Reducing the burden of tax enables small businesses to retain more money to reinvest in their business, pay higher wages, lower prices for their products and/or make higher distributions to investors.

These changes to the tax system are expected to increase business investment and we share the ambition for smaller businesses to become bigger businesses.

The Government's Ten-Year Enterprise Tax Plan encourages enterprise, especially small businesses, to support higher living standards for Australians. Higher investment will drive growth, stimulate more start-ups, and encourage businesses to hire more Australians.

The measures contained in this Budget are expected to generate a permanent increase in the size of the economy of just over one per cent in the long term.

Immediate deductibility for small businesses

The Government's Ten Year Enterprise Tax Plan ensures many more small businesses have access to important measures such as immediate deductibility.

Access to immediate deductibility increases cash flow for small businesses across Australia.

From 1 July 2016, small businesses with turnover less than \$10 million can purchase assets costing less than \$20,000 for their business and immediately deduct the full amount from their income, reducing their tax burden for that year.

These deductions for small businesses are available until 30 June 2016 and there is no limit on the number of items that can be immediately deducted as long as each is under less than \$20,000.

From 1 July 2016 until 30 June 2017, small businesses with turnover less than \$10 million can benefit from this measure at the \$20,000 level. After this, the threshold returns to \$1,000. Small businesses with turnover less than \$2 million don't need to wait until 1 July 2016 and can continue to immediately deduct assets purchased costing less than \$20,000.

Small business will now have greater cash flow to replace or upgrade out-dated or inefficient machinery or equipment.

Items worth over \$20,000 can continue to be placed in a depreciation pool that can be depreciated at 15 per cent in the first income year and at 30 per cent each year after that.

Immediate deductibility does not apply to inventory or stock. For example, an electronics store cannot claim accelerated depreciation for TVs or other items that they sell but the TV used by staff in the lunch room would be eligible.

In our transitioning economy Australian businesses are seeing opportunity to invest in their productive capacity. As these developments translate into increasing profits they will support increased capital spending and employment in the future.

Many businesses are seizing the potential and opportunity of our transitioning economy, and are out there investing in their future, and hiring more Australians, with continued strong performance in labour market conditions.

This strong employment activity can be expected to be followed by investments in fixed capital such as plant and equipment and the increased access to the instant asset deduction for small and medium businesses will provide further support for their investment plans.

Conditions are in place though for an improvement in non-mining investment. Historically low interest rates, the depreciation of the exchange rate, improved business conditions and rising utilisation of existing capital are encouraging small businesses across Australia to invest, grow and hire.

Simpler BAS for small business

The Government is making life easier for small business owners and operators by simplifying their GST administration.

Simpler Business Activity Statements (BAS) will become the standard reporting option for all small businesses with turnover of less than \$10 million from 1 July 2017, reducing GST compliance costs for these businesses.

A trial of the new simpler reporting arrangements will commence on 1 July 2016 and continue over the first two quarters of the 2016-17 financial year.

During the trial the Australian Taxation Office will work closely with industry representatives, software providers, tax professionals and approximately 2,000 small businesses to test the new arrangements to ensure all small businesses can transition to Simpler BAS from 1 July 2017.

Simpler BAS will reduce compliance costs because small businesses will only report against three labels instead of the current seven labels. For GST purposes, small businesses will only report against the GST on sales, GST on purchases and total sales labels. Small businesses will no longer need to separately report against four labels (export sales, other GST-free sales, capital purchases and noncapital purchases).

Small businesses using Simpler BAS will also benefit from greater accounting system automation, allowing both them and their tax professionals to spend more time growing the business rather than filling in forms.

Youth employment

Youth employment increased by more than 50,000 persons over the past 18 months. The \$840 million Youth Employment Package steps this up with an enterprising new approach to youth employment, and will help up to 120,000 vulnerable young people over four years take advantage of job opportunities as the economy becomes more diversified and transitions to broader-based growth.

Long-term welfare dependency is not good for the economy or society. For example, if a person stays on a Newstart or Youth Allowance (Other) payment for two years, on average they will remain on a working-age payment for another five to six years.

The Government's innovative Youth Jobs PaTH (Prepare Trial-Hire) Programme will help young job seekers to move off welfare and into employment.

Youth Jobs PaTH – Stage 1: Employability skills training

To help young people gain a foothold in the labour market, from 1 April 2017, young job seekers will participate in intensive pre-employment skills training within five months of registering with jobactive (unless extenuating circumstances exist).

The first three weeks of training will focus on skills such as working in a team, presentation, and appropriate IT skills. A further three weeks of training will centre on advanced job preparation and job hunting skills.

Youth Jobs PaTH – Stage 2: Internship placements

Up to 120,000 internship placements over four years will be provided to help young job seekers who have been in employment services for six months or more gain real work experience within businesses.

From 1 April 2017, job seekers and businesses, with the help of employment service providers, will be able to work together to design an internship placement of 4 to 12 weeks duration, during which the job seeker will work 15 to 25 hours per week. Participation in the internship program will be voluntary for both job seekers and businesses.

In addition to gaining hands on experience in a workplace, job seekers will receive \$200 per fortnight on top of their regular income support payment while participating in the internship.

Businesses that take on interns will receive an upfront payment of \$1,000, and will also benefit from the opportunity to see what a young worker can do and how they fit in to the team before deciding whether to offer them ongoing employment.

Youth Jobs PaTH – Stage 3: Youth Bonus wage subsidy

Stage three of the new Youth Jobs PaTH provides increased and streamlined wage subsidies for youth.

From 1 January 2017, Australian employers will be eligible for a Youth Bonus wage subsidy if they hire a young job seeker who has been in employment services for six months or more.

The most job ready job seekers will attract a wage subsidy of \$6,500. A larger \$10,000 wage subsidy will be available to businesses that employ job seekers classified as less job ready by jobactive providers. Businesses will have the flexibility to employ young job seekers either directly, through labour hire arrangements, or combined with an apprenticeship or traineeship.

As part of these reforms, existing wage subsidies (including those for youth, parents, indigenous, mature age, and the long term unemployed) will be streamlined, making them easier for employers to access.

Wage subsidy arrangements will be simplified and made much more flexible.

- Wage subsidies will be available to employers from day one of a job seeker's employment.
- Employers will have flexibility to choose how often instalments are paid (fortnightly, monthly, or some other arrangement) and over what time period.
- Wage subsidies will be paid out sooner over six months rather than 12 months.
- Wage subsidies will be paid more simply at a flat rate instead of pro-rated instalments.

In addition to creating the Youth Jobs PaTH, the Government will also provide a further \$89 million to encourage young people to start their own businesses, including by expanding the successful New Enterprise Incentive Scheme (NEIS). This will assist more job seekers, including youth, by connecting them with business training, finance and networks they need to develop their innovative ideas into successful businesses.

Backing enterprise and innovative small business

Australians are rich with ideas. We must back our entrepreneurs in order to keep pace with other countries. Investing in innovation will create new jobs and products, solve problems and keep our living standards high.

Australia has the fundamentals in place to be an innovation leader. Australians are educated, skilful and resourceful and we need to capitalise on these strengths to boost business activity and innovation.

Small businesses are the home of Australian enterprise and opportunity and they are where many big ideas begin.

With over 280,000 new businesses established in Australia during 2014-15, we need to support these hard working Australians who are working, saving and investing in our new economy. We are encouraging and supporting Australians to get involved in innovation and help those with high growth potential to succeed by overcoming the challenges of collaboration and risk-taking.

The **\$1.1 billion National Innovation and Science Agenda** is making it easier for Australians in rural, regional and city areas right across the country to undertake research in collaboration with industry and develop their ideas into new products and services for Australia and the world.

To be a truly innovative nation, a culture of entrepreneurs and ideas is necessary in all sectors of the economy – including healthcare, education, agriculture, defence, transport, information and communications technology and financial technology (FinTech).

The National Innovation and Science Agenda will continue to encourage entrepreneurs, especially small businesses, to innovate by improving collaboration and also access to capital. This will be achieved by providing tax incentives for investments in early

stage innovation companies and early stage venture capital limited partnerships, encouraging collaborative research and attracting new talent from overseas, as well as removing unnecessary regulation.

Innovation in Government

'Data61' – a merger of National ICT Australia and CSIRO's digital research unit – will create Australia's largest data innovation group, develop and apply cutting edge technology and improve industry cyber security.

The Government's Digital Transformation Office (DTO) delivers a better experience for Australians when they access government services online. Funding of \$18.8 million over five years will allow the DTO to create a Digital Marketplace to make it easier for small and medium enterprises and startups to deliver digital services to government, helping to support Australian innovators and entrepreneurs.

Capitalising on our innovation

The Government is ensuring entrepreneurs can access the funds to develop an idea and make it succeed. Employee Share Schemes enable staff to share in the success of the business from the early stages by providing an option to acquire shares in the company. They can better align the employee's interests to those of the company. Recent reforms will make Employee Share Schemes more user-friendly by reducing the disclosure requirements.

We are facilitating the development of crowd-sourced equity funding. This will expand financing options for innovative businesses, allowing funds to be raised from a large number of small investors.

Improving bankruptcy and insolvency laws will reduce the stigma associated with failure and foster enterprise in Australia. This will encourage entrepreneurship while still protecting creditors.

The Government is increasing access to company losses through improvements to our tax system. This means that entrepreneurs and loss making start-ups are encouraged to remain agile and seek out new opportunities to innovate and grow.

Australia needs more people to start a business, be successful in that business, then scale up their business to grow and expand.

Promoting better services and lower prices for consumers

The Government is promoting stronger, more competitive markets to strengthen Australia's transitioning economy, support more jobs and deliver greater choice and lower prices for all Australians.

The Government is advancing the recommendations of the Harper Competition Policy Review, the first major review of Australia's competition framework in more than 20 years and a key election commitment.

Competition allows inventive Australians to back themselves by building a business and bringing new products to market, or finding new ways of providing better services and better value for consumers.

The Government believes all businesses – big and small – should compete on their merits and not be unfairly excluded by rivals. That is why we are **strengthening Australia's competition law** to prevent big businesses from misusing their market power or seeking to dominate markets.

The Government is working with the States and Territories to develop a new competition and productivity enhancing agreement to drive ambitious reform across all levels of government. This will build on the legacy of the National Competition Policy reforms undertaken in the 1990s, which directly contributed to increasing Australia's GDP by at least 2.5 per cent, equivalent to \$40 billion in today's economy.

The Productivity Commission will review how human services are delivered by government to lay the groundwork for future reforms, innovation, improved consumer choice, high quality services and better outcomes.

The Government is also removing parallel import restrictions, which will lower book prices for students and families. Through our Regulatory Reform Agenda, we will review and remove unnecessary barriers to competition and innovation throughout the economy.

Embracing Financial Technology (FinTech)

Global disruption in financial services is changing the way the world does business. Australia must keep pace with innovation to stay competitive.

Financial technology – or FinTech – is changing how businesses and consumers interact, enabling new products and services which enhance competition and create new jobs right across the economy. This is why the Government is supporting FinTech as part of our innovation future.

Backing Australian FinTech is our plan for a strong and vibrant FinTech industry. This Budget announces a number of initiatives which further this plan and will drive expansion of Australia's financial services exports across the Asia-Pacific region.

Australia's FinTech industry is already gaining prominence, with nine Australian companies listed amongst the leading global FinTech innovators in 2015. We will build on this by promoting Australia internationally as a FinTech destination – ensuring we seize the opportunity to boost Australian jobs.

Regulatory framework

The Government believes that our financial system can support a 'regulatory sandbox', where FinTech businesses can test their ideas and business models.

The Australian Securities and Investments Commission is developing a regulatory sandbox to support and encourage entrepreneurs to test ideas for up to six months with a limited number of retail clients and within prescribed investment thresholds. Certain consumer protections will be maintained.

Blockchain

Blockchain, or distributed ledger technology, has the potential to revolutionise transactions. Data61, part of CSIRO, will review opportunities for its application across government and the private sector, and undertake concurrent pilot testing in areas such as sharable registry information and verifiable supply chains.

GST on digital currencies (such as Bitcoin)

The Government has released a discussion paper on changing the GST treatment of digital currencies. This change will ensure that consumers are no longer 'double taxed' when using digital currencies to buy goods and services already subject to GST. The discussion paper can be found at www.treasury.gov.au.

Digital Marketplace

The Government is developing a Digital Marketplace for businesses to compete for government information and communications technology (ICT) work. Large scale ICT projects will be broken into individual components to allow more innovative solutions.

Increasing data use

Effective data use is integral for an efficient, modern economy. The Productivity Commission is investigating ways to improve data availability and use across the public and private sectors.

eInvoicing

The Government will undertake a study into the costs and benefits of electronic invoicing (eInvoicing) by agencies. eInvoicing could improve efficiency by 60 to 80 per cent with annual savings to the economy of up to \$10 billion.

This furthers our ambition to explore FinTech solutions that reduce administrative burdens for businesses.

Defence industry transformation

The Defence White Paper sets out the Government's vision to enhance Australia's defence capability, deepen our international security partnerships and collaborate with defence industry and science and technology research partners in support of the nation's security.

The Government will provide \$1.6 billion over the period to 2025-26 to fund:

- a Next Generation Technologies Fund to invest in strategic technologies (\$730 million);
- a Defence Innovation Hub to encourage collaboration on innovation (\$640 million); and
- a Centre for Defence Industry Capability to help build the capacity of Australian industry to support Defence (\$230 million).

The Government is creating an enhanced naval capability, both with surface ships and submarines, which ensures that for the first time we have a continuous naval shipbuilding industry in this country.

These acquisitions provide an additional boost to Australian industry and the Australian economy, through the capacity we will have to engage and enhance our cutting-edge science and technology capabilities. There will be enormous potential knock-on benefits and enhanced opportunities for other Australian businesses supporting our defence industry.

Through our defence procurement program the Government is helping the transition into smart, high-value, export-focused industries in defence and across the entire Australian economy.

Australia's defence capability edge is based on the quality of our training and the professionalism of our forces, in addition to Defence's ability to deploy, operate and sustain technologically superior capabilities that are networked to operate effectively together. Therefore we are ensuring that our defence industry is at the very cutting edge of technology developments.

The Government's significant investment in our defence and defence industries will also support long-term high skilled jobs in building, maintaining and sustaining cutting-edge defence ordinance and machinery.

A vibrant and strong local defence industry promotes innovation and technology, and provides advanced manufacturing jobs for Australians for decades to come. We will work to secure an advanced defence manufacturing industry here in Australia to drive new high tech jobs for decades. We will ensure appropriate levels of skilling and technology transfer to our defence force and workforce.

Export and trade agreements

The Government has implemented three significant trade agreements with China, Japan and Korea. Australia's trade with these nations represents around 38 per cent of our goods and services trade with the world – and 49 per cent of our total exports. They cover a greater proportion of our trade than all of Australia's previous trade agreements combined.

Reducing trade barriers creates opportunities for exporters – including in the services sector – to grow their businesses into key overseas markets, boost jobs and drive higher Australian living standards.

Australia's economic transition towards greater emphasis on the services sector is synchronised with growing Chinese demand for our services. Our trade agreement with China (ChAFTA) offers an unprecedented opportunity by obtaining expanded and preferential access for Australian exporters to further tap into China's burgeoning demand for high value goods and services.

ChAFTA protects our competitive position by automatically granting Australia additional concessions if they are given to other countries.

These agreements will mean key household items such as family cars will become cheaper for Australian households and businesses.

The Government has also signed the historic Trans-Pacific Partnership (TPP) Agreement which will eliminate 98 per cent of tariffs in the TPP region. It will also attract much needed investment and improve Australia's already strong economic linkages with North Asia and the Asia Pacific region.

Exporting funds management services

Our funds managers will be able to grow their exports with the removal of key barriers on the export of funds management services. They will now be able to offer investment products using structures that are internationally recognised.

The Government is also championing participation in the Asia Region Funds Passport which will enable Australian fund managers to more easily export their services to foreign clients.

Supporting our rural and regional industries

The Government is helping Australian businesses with the transition into smart, high value, export focused industries.

Industry Growth Centres will identify opportunities to reduce regulatory burden, increase collaboration, improve engagement with international markets, and enhance workforce skills. Centres will be established for advanced manufacturing, cyber security, food and agribusiness, medical technologies and pharmaceuticals, mining equipment, technology and services, and oil, gas and energy resources.

Developing our resources

The Government is supporting a competitive resources sector through the \$100 million **Exploring for the Future** programme which will produce the next generation of pre-competitive exploration data and stimulate a new wave of exploration investment.

Agricultural competitiveness

The agriculture sector exports over \$40 billion worth of goods each year and is vital to Australia's ongoing economic strength. To ensure its ongoing competitiveness, the Government's Agricultural Competitiveness White Paper is investing \$4 billion to:

- help farmers innovate through the \$200 million extension of the Rural R&D for Profit Programme;
- help farmers take advantage of trade opportunities provided by our FTAs; and
- help build drought resilience by providing more support to communities.

New water storage and pipelines will provide security to farmers. In the 2016 Budget, the Government will provide for a **\$2 billion National Water Infrastructure Loan Facility** to support major water infrastructure projects. The Facility supplements the \$510 million National Water Infrastructure Development Fund.

Investing in infrastructure

Infrastructure investment across Australia

The Government is investing in our cities and regions in infrastructure to reduce congestion, improve safety and better connect Australian products to domestic and international markets. This includes investments in roads, airports, bridges and passenger and freight rail.

The Government is investing a record \$50 billion from 2013-14 to 2019-20 in infrastructure to improve the economy's productive capacity. There are currently around 100 major projects under construction and 80 in the pre-construction stage.

In this Budget, the Government is committing to the Melbourne to Brisbane Inland Rail project and providing \$594 million in additional equity funding to the Australian Rail Track Corporation to buy land and to continue pre-construction activities.

High speed broadband

The Government is investing \$29.5 billion in the *National Broadband Network* (NBN). It will be delivered sooner, at least-cost to taxpayers and with improved affordability for consumers.

A multi-technology mix will match the right technology to the right location, make use of existing infrastructure where possible and seek to finish the network by 2020. Nine out of ten Australians in the fixed line footprint will get access to download speeds of 50 megabits per second or more.

More than 9.1 million homes and businesses will be connected or have construction underway in their neighbourhoods by the end of 2018. By the

end of the rollout more than 12 million homes and businesses will be able to access the NBN.

Our North, Our Future

The *Our North, Our Future: White Paper* on Developing Northern Australia outlined the Government's plan to unlock the region's potential over the next two, five, 10 and 20 years.

The Government is investing over \$1.2 billion in Northern Australia to improve roads, develop water resources, reduce regulatory burdens, build a sustainable workforce and ensure effective governance arrangements.

This includes investing \$600 million to improve key roads and providing a \$100 million Beef Roads Fund to improve cattle supply chains

In addition, the *Northern Australia Infrastructure Facility* will encourage and complement private sector investment by providing up to \$5 billion in concessional financing.

This will support the construction of transformative economic infrastructure which will increase the north's productive capacity.

Cutting red tape

Regulation increases complexity, uncertainty and risk, which impede innovation and entrepreneurship. Cutting red tape has therefore been a key part of the Government's overall strategy to build a stronger, more productive and diverse economy.

The Government has tightened regulation impact analysis and required new regulatory burdens to be

offset by reductions elsewhere to ensure that new regulation is well designed and constrain its growth.

The Government introduced the Regulator Performance Framework to encourage regulators to improve relations with those they regulate.

In just over two years, the Government has reduced the regulatory burden on business and the community by more than \$4.8 billion – well in excess of its 2013 commitment to reduce red tape by \$3 billion over three years. In 2015, the Government introduced legislation to repeal 1,796 redundant Acts of Parliament.

Building on these successes, the Government is strengthening its efforts on regulatory reform. The new Regulatory Reform Agenda will embrace more complex reforms that encourage innovation and competition, and enhance productivity and economic growth. These efforts will support the Government's innovation agenda and its responses to the Financial System Inquiry and the Harper Competition Policy Review.

As part of the new agenda, the Government will provide an additional \$5.7 million to systematically review regulatory regimes to ensure that they are fit for purpose and can adapt to new business models and technological changes.

In partnership with business, the Government's Australian Trusted Trader program streamlines regulatory procedures at the border. Risk-based assessments will result in lower import prices and a higher return on exports by reducing the burden for trusted traders. Independent modelling estimates this will result in exports growing by \$390 million, household consumption by \$2.2 billion and business investment by \$953 million.

Backing small business

The Government's national plan for economic growth and jobs will facilitate the economy's transition to broader-based growth over the next decade and beyond. The Government is ensuring that we have the right economic plan to respond to risks and harness exciting opportunities.

Small businesses make an important contribution to the Australian economy.

They account for the vast majority of the active private businesses in the country and represent large shares of value add to our economy and our employment.

The small business sector has the potential to contribute strongly to national growth and competitiveness, including providing greater employment opportunities.

In many circumstances these businesses have the advantage of being adaptable and flexible and the ability to respond profitably to changing circumstances.

We need our small businesses boosting competition through innovation and efficiency improvements, as many of these nimbler operations have the capacity to respond to changes in the competitive environment with more agility than larger, more established competitors.

It is often these small businesses that test and pioneer innovative ideas and business practices which are critical to future economic growth, job prospects and improved living standards.

The Australian economy is in transition and faces significant structural challenges due to both domestic and international factors.

The switch to broader-based growth driven by activity in non-resource sectors will be driven by those businesses and individuals able to take advantage of the opportunities.

The contribution of small businesses to innovation is increasing as a result of new technologies, which make it easier for small businesses to overcome barriers to entry and access larger markets.