Tax Tips

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New tax bill introduced

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On 3 May 2016, the Government introduced the Taxation (Annual Rates for 2016–17, Closely Held Companies, and Remedial Matters) Bill. The Bill covers a wide range of issues that have been subject to consultation over the past year and expected to be introduced in draft legislation for some time. Hence, the Bill contains few surprises.

In this issue of Tax Tips, we consider the key proposals outlined in the Bill, which include:

- changes relating to closely-held companies
- changes to the non-resident withholding tax (NRWT) and approved issuer levy (AIL) rules for related party and branch lending
- amendments to the debt remission rules for debt remission between related or associated parties
- changes to allow commonly owned companies to transfer imputation credits as part of loss grouping
- GST amendments to ensure GST continues to function as a tax on consumption in New Zealand.

The deadline for submissions on the Bill has not yet been set. Please contact us if you would like to discuss the proposed legislation or make a submission.

Closely-held companies

In September 2015, the Minister of Revenue released an Officials' issues paper, *Closely held company taxation issues*, that foreshadowed this draft legislation. Most of the proposed changes relate to the look-through company (LTC) rules. However, the Bill also proposes a significant change to the tainted capital gains rule and certain other proposals that will apply to all companies.

Entities affected	Key proposals
LTCs	Modifications to the LTC eligibility requirements for companies owned by trusts
	Excluding charities and Maori authorities from being shareholders in LTCs or beneficiaries of trusts that own shares in LTCs (other than grandparented Maori authorities that currently have interests in LTCs)
	Untaxed revenue reserves will be taxed at the shareholders' marginal tax rates, rather than the 28% company rate, on entry into the LTC regime
	Restricting the amount of foreign income that can be earned by LTCs controlled by non-residents
	Narrowing the application of the deduction limitation rule
	Allowing companies with more than one share class to qualify as an LTC
	Clarifying when debt remission income arises for an LTC shareholder
Qualifying companies (QCs)	Existing QCs will be allowed to continue but will lose QC status upon a change of control
Other companies	Tainted capital gains rules narrowed
	Resident withholding tax (RWT) simplification for dividends
	Shareholder salaries could be subject to a combination of PAYE and provisional tax

Tainted capital gains

Capital gains can usually be distributed tax free to New Zealand shareholders on liquidation of a company. However, under current law, distributions of capital gains derived by a company from a sale of a capital asset to an associated person are treated as taxable dividends on liquidation. The future tax liability on such "tainted capital gains" is often overlooked at the time of sale and taxpayers get caught out during liquidation of the company.

The Bill proposes a welcome change to the tainted capital gains rule, which significantly narrows its scope. Specifically, the rule will only apply to asset sales between companies that have at least 85% common ownership at the time of disposal, *and* where the original owners still retain at least an 85% interest in the asset at the time of liquidation.

This means the tainted capital gains rule will no longer apply to:

- asset sales from a company to a non-corporate associated person
- asset sales from a company to another company which is less than 85% commonly owned
- an asset sale between companies with 85% or greater common ownership provided the asset (or more than a 15% interest in the asset) is sold to a third party prior to each company being liquidated.

The revised tainted capital gains rule is now much more targeted. The proposed threshold has been set at 85 percent because the Government considers a transfer of ownership to an unrelated third party of more than 15 percent provides sufficient assurance that the transaction is genuine and involves a real transfer of the underlying assets rather than, say, being in lieu of a taxable dividend.

The proposed change applies to liquidation distributions that occur on or after the date the Bill is enacted. There is now an opportunity for taxpayers to revisit their corporate structures and identify any related party gains not caught by the revised tainted capital gains rule that can be distributed tax-free on liquidation.

While we would have preferred a full repeal of the tainted capital gains rule, we are pleased to see that the final proposal in the Bill goes further than initial proposals outlined in the Issues Paper. In particular, we are pleased to see that the change in scope applies to all companies and is no longer confined to "close companies"[1] only.

1 A company that has five or fewer natural persons who between them own more than 50% of the voting interest in the company.

LTC rules

The final design of the LTC proposals remains generally consistent with that outlined in the Issues Paper. The proposed changes will apply generally from the 2017-18 income year. We provide further details on the key proposals below.

Entry criteria for LTCs

- A beneficiary of a trustee shareholder will be treated as a counted owner if the beneficiary has received *any* distributions from the trust within the last three years, irrespective of whether the distributions are from the LTC or other sources or whether it is received as beneficiary income, trustee income, trust capital or corpus. The testing period has not been extended to six years as proposed originally in the Issues Paper.
- Charities and Māori authorities will be precluded from being LTC owners either directly or indirectly through a trust. The restriction will not apply to "grandparented" Māori authorities that currently have ownership interests in LTCs. Trusts that own LTCs can make distributions to charities that have no influence over the LTC or trust from which they receive the distribution.
- An LTC with a trustee shareholder will lose its LTC status if the trust makes a distribution to a corporate beneficiary.
- The foreign income that a foreign-owned LTC (i.e. an LTC that is more than 50% owned by non-residents) can earn annually will be limited to the greater of $10,000 or 20% of the LTC's gross income. This change applies to foreign-owned LTCs only – there are no restrictions on New Zealand owned LTCs doing business offshore or earning foreign income.
- The restriction that an LTC only have one class of shares will be relaxed.

A fundamental concern is that, aside from grandparenting Māori authorities, the Bill does not contain any transitional rules for current LTCs that elected into the regime in good faith under the original entry criteria but will breach the eligibility criteria from 1 April 2017. In the absence of a concession, the owners of such LTCs will be deemed to have disposed of their proportionate share of the company's underlying assets and will be required to pay any tax associated with the deemed disposal at their marginal rates. For example, tax will be payable on any depreciation recovery income from fixed assets, gains on revenue account property and financial arrangement income from debt instruments (among other cases).

This can create a cash flow issue for the owners as there are no sale proceeds to fund the tax liability. We raised this in our submission on the Issues Paper and we intend to raise this again as part of our submissions in relation to the Bill.

We also question why the grandparenting rules available to Māori authorities do not extend to registered charities that held interests in LTCs before the Bill was proposed. In our view, there is no justifiable policy reason for why Māori authorities are grandparented and registered charities are not.

Assuming these changes are enacted as proposed, an LTC is unlikely to be an attractive ownership structure for most businesses or investors other than companies with a very constricted group of owners that is not expected to change.

Existing LTCs will need to carefully consider the changes to the eligibility criteria, particularly those with trustee shareholders. Further, any trustee owners of an LTC will need to review and monitor their distribution policies on an ongoing basis to ensure future distributions do not cause the LTC to breach the counted owners test.

Deemed income for shareholders on entry into the LTC regime

The calculation of the deemed income adjustment when an existing company elects into the LTC regime will be determined based on each shareholder's marginal tax rate rather than the company rate.

Deduction limitation rule for LTCs

The Bill proposes to limit the application of the deduction limitation rules to LTCs in partnership or joint venture – this is the rule that limits an LTC owner's LTC deductions to the economic amount they have at risk. The proposed change should mean that the deduction limitation rule will not apply to most LTCs.

Further, deductions that were previously restricted and carried forward will become unrestricted from the 2017-18 income year and can be offset against the LTC owner's other income in that income year.

Other proposals

RWT simplification for dividends

- Companies can opt-out of deducting RWT from a fully imputed dividend paid to corporate shareholders.
- A cash and non-cash dividend that is paid concurrently will be treated as a single dividend for RWT provided the cash dividend is equal to or greater than the amount of RWT payable.
- An amendment is proposed to the rule that allows taxpayers to backdate a dividend to clear an overdrawn shareholder current account and prevent deemed dividends or the need to charge interest. The amendment will clarify that a fully imputed dividend can be backdated, irrespective of any RWT obligation, as originally intended.

Shareholder salaries and PAYE

- Shareholders of close companies will have the option to split their earnings so that their base salaries will be subject to PAYE while the variable amount is subject to provisional tax.

Non-resident withholding rules for related party debt

The Bill proposes several changes to the application of the non-resident withholding tax (NRWT) and approved issuer levy (AIL) rules to interest paid by New Zealand borrowers to non-residents. The proposals were initially outlined in the issues paper, *NRWT: related party and branch lending*, released in May 2015. However, several changes have been made to the proposals in the Bill.

The structure of the final reform package contained in the Bill reflects the earlier Issues Paper and consists of three parts. They are:

- changes to the NRWT rules for related party debt
- changes to the AIL registration process to combat the perceived risk that AIL is paid on loans from associated lenders, and
- changes to the NRWT/AIL rules for branch structures.

We provide further detail about the proposed changes under each of these three areas below.

Changes to the NRWT rules for related party debt

The proposed reforms to the NRWT rules are intended to address Inland Revenue's concerns about the application of the rules to ensure there is a level playing field for taxpayers to whom the NRWT rules apply (or are intended to apply).

The proposed changes are threefold:

i. ensuring that the NRWT liability arising on interest on related party debt is better aligned to the income tax deduction available to the borrower for that interest
ii. defining what debt will be viewed as related party debt and therefore the consequential applicable NRWT / AIL application
iii. confirming the availability of AIL for related party borrowing by New Zealand banks.

In respect of (i) and (ii), the Bill proposes the following to bring the NRWT treatment of substantially similar transactions into line and address Inland Revenue's concerns:

- requiring NRWT to be paid at approximately the same time as interest is deducted by the New Zealand borrower if the borrower and lender are associated. This should mean that the NRWT consequence of economically similar loan structures are similar.
- adjusting the boundary between NRWT and AIL so that AIL is no longer available when a third party is interposed into what would otherwise be a related party loan (including certain cash pooling arrangements) or where a group of shareholders are acting together as one to control and fund the New Zealand borrower.

The principles underlying the proposals remain broadly consistent with the Issues Paper. However, the mechanics proposed in the Bill to align NRWT with the interest deductions of the New Zealand borrower have changed substantially following submissions on the Issues Paper.

The proposals are intended to apply to existing arrangements on and after the first day of the borrower's income year that starts after the date of enactment. For all other arrangements, the amendments will come into force on the date of enactment.

Proposals on the AIL registration process

The new proposed AIL registration changes are aimed at reducing Inland Revenue's perceived risk that borrowers will pay AIL (rather than NRWT) on interest payments to non-residents that they are actually associated with. The commentary to the Bill reflects that incorrect payments of AIL on related party debt is difficult for Inland Revenue to police.

The Bill proposes changes to the *Stamp and Cheque Duties Act 1971* which will restrict securities an approved issuer will be able to register and therefore pay AIL on. These restrictions focus on the borrower, the lender and/or the size of the borrower's interest payments to non-residents to ensure that borrowers registering a security for AIL are more likely to treat payments to associated non-residents correctly. These proposals are intended to increase the integrity of the AIL rules while minimising additional compliance costs on compliant borrowers.

Three categories under which a security can be registered for AIL are proposed:

- The first two categories outline types of New Zealand borrowers and non-resident lenders respectively who have not been observed to be treating associated party transactions incorrectly and where it is reasonably straightforward for Inland Revenue to independently verify that they are not associated with each other. For example, widely held companies are listed in the first category and qualifying non-resident financial institutions are listed in the second category.
- The third category covers New Zealand borrowers who make, or expect to make, interest payments of at least $500,000 per year to non-residents.

The Bill also proposes to allow the Commissioner to issue determinations for certain categories (not taxpayer-specific) of borrower, lender or transaction types that will mean a security is eligible to be a registered security. The purpose of these determinations is to enable additional categories to be added in a timely manner.

The proposals will apply to new securities registered on or after 1 April 2017. Securities registered before this date will continue to be registered consistent with existing rules and will apply the proposed rules on 1 April 2018. As at 1 April 2018, such securities will be required to meet one or more of the new categories outlined above.

Proposals on branch lending

The Bill proposes several amendments to the NRWT rules and the source rules so that interest payments from a New Zealand resident (or branch of a non-resident) to a non-resident will be subject to NRWT or AIL irrespective of whether that funding is channelled through a branch or an entity that has a branch. This is achieved by the following changes:

- ***Offshore branch exemption:*** changes to the source rules will mean that NRWT or AIL will apply to an interest payment from the offshore branch of a New Zealand resident to a non-resident to the extent that the offshore branch lends money to New Zealand residents.
- ***Onshore branch exemption:*** changes to the NRWT rules will apply NRWT or AIL to an interest payment from a New Zealand resident (or branch of a non-resident) to a non-resident if that non-resident has a New Zealand branch, unless the interest is derived by the New Zealand branch. These changes will not apply to a New Zealand resident (or a branch of a non-resident) that pays interest to a non-resident that they are not associated with and that has a New Zealand branch that holds a banking licence.
- ***Onshore notional loans:*** NRWT or AIL (to the extent it is not already) will apply to a notional interest payment from a New Zealand branch of a bank to its head office. This interest payment will be equal to the amount already included in the branch's financial statements and claimed as a deduction against the New Zealand income of the branch.

It is proposed that grandparenting rules apply for existing arrangements. As a result, the application dates of the various proposals differ. However, for all other arrangements, the branch amendments will apply to interest payments on or after the date the Bill is enacted.

Our comment

The draft legislation represents a significant change from the existing NRWT rules and will impact taxpayers widely. All taxpayers with cross-border arrangements should review the proposals and consider the impact of the new proposed rules on their structures, including instances where offshore lending does not prima facie appear to arise from a related party source such as cash pooling arrangements.

The Bill's proposals will still place an increased compliance burden on taxpayers. However, there appears to be a simplification of certain processes proposed in the Bill from that outlined in the Issues Paper which is welcomed, although more should be done.

We encourage those affected by the proposals to consider the impact on their business, including associated cash flow consequences and implications for the overall group tax position such as where foreign tax credits are unavailable for the non-resident lender where NRWT is deducted. Please contact your PwC adviser to discuss any aspects of the proposals further.

Related parties debt remission

The Bill introduces long awaited legislation to amend the debt remission rules to address the current asymmetric tax outcome that can arise when debt is remitted between related or associated parties (referred to as an "economic group"[2]). As indicated by the Minister of Revenue in September 2015, tax relief will be available not only for domestic debt but also for inbound cross-border debt (e.g. New Zealand subsidiaries of foreign companies).

The need to address the asymmetric outcome arose when a Questions We've Been Asked (QB 15/01) released early last year gave a new interpretation of the law and concluded that the capitalisation of a debt (as opposed to remitting the debt) could be avoidance and the amount would be treated as taxable remission income to the debtor.

The final proposals

At present, where debt is forgiven by the creditor, taxable debt remission income arises for the debtor. However, when these arrangements are between related parties, the creditor does not receive a tax deduction for the bad debt, which can result in over-taxation.

The proposed amendment will ensure that the debt remission rules do not produce debt remission income in circumstances where the debt remission causes no change in the net wealth of the economic group or dilution of ownership. Instead, the debt (and any unpaid interest) will be regarded as being fully repaid on the date the debt is forgiven.

It is proposed that the new rule will apply when:

- the debtor is a company or a partnership (including look-through companies and limited partnerships).
- the creditor is a member of the "creditor group"[3] of the debtor.
- the debt forgiven is "pari passu" debt (being debt that is held and forgiven in proportion to ownership).

The proposed changes mean that debt remission within a wholly owned group of companies will not cause a dividend to have been paid with the removal of associated imputation considerations.

Further, the remitted amount will be deemed to create "available subscribed capital" for a corporate debtor and increase the cost of the creditor's investment in the debtor (i.e. akin to a capital injection as recognised by International Financial Reporting Standards). This ensures the benefit of the proposed changes does not get clawed back on liquidation of the debtor company.

The Bill also contains several technical amendments to ensure that the bad debt and debt guarantee rules work as intended within the economic group context as a consequence of the core debt remission changes.

2 The economic group can refer to: members of the same wholly owned group of companies; or situations where the debtor is a company or partnership (including look-through companies and limited partnerships); and all of the debt remitted is owed to shareholders or partners of the debtor and the debt remitted is held and remitted pro-rata to ownership.

3 "Creditor group" which is the group of creditors who are also owners of the debtor, and includes the "creditor's associates" which is defined as either companies in the same wholly owned group of companies as the creditor or associated natural persons who have "natural love and affection" for the creditor.

As originally proposed, the core amendment and its associated changes are backdated to the commencement of the 2006-07 income year to provide certainty to taxpayers. Further, positions taken before the commencement of the 2014-15 income year are final and it is proposed that reassessments will not be allowed. If enacted, the bad debt and debt guarantee amendments will apply from the commencement of the 2017-18 income year.

Our comment

The release of QB 15/01 created much uncertainty for taxpayers and in many instances limited the ability of a business to restructure debt in a commercial manner. The draft legislation provides a much needed solution to enable businesses to reorganise related party debt without generating debt remission income.

New imputation credit transfer mechanism

The Bill proposes a new mechanism that will allow certain companies that are commonly owned (> 66% common voting interest) but not wholly owned to transfer imputation credits as part of loss grouping (i.e. loss offsets or subvention payments). The proposed changes will allow the company receiving the benefit of loss grouping (the profit company) to pay a fully imputed dividend despite engaging in loss grouping thereby retaining the benefit of the loss transfer. An election to transfer imputation credits must be made electronically at the time of the loss grouping, with the actual imputation credit transfer taking place within a specified time limit or 4 years from the end of the year in which the election is made, and in conjunction with the payment of an imputed dividend.

Imputation credits will be transferred to the profit company and be sourced from either the company that provides the benefit of the loss grouping (the loss company) or another company in the group that will receive the benefit of a dividend paid by the profit company (the imputation source company).

This latter option is an expansion of the original proposals outlined in the September 2015 issues paper *Loss grouping and imputation credits*. It seeks to address concerns that, where the loss company is a sister company of the profit company, the loss company will not receive a dividend and therefore will not have been able to receive the benefit of the imputation credits.

The loss company is broadly not required to have tax paid generated imputation credits.

The amendment is proposed to apply for the 2017-18 and later income years.

Our comment

The proposals represent a positive change, providing a way to remove some of the current distortion arising from the interaction between the loss grouping and imputation credit rules within non-wholly owned groups. Unfortunately, the proposed mechanism does not fully eliminate tax leakages in all scenarios. For example, where the percentage of profits offset is greater than the percentage of ownership (e.g. 100% of profits are offset but the profit company is only 90% owned). This is exacerbated when the amount of the dividend is less than 100% of distributable profits. However, we acknowledge that to fully resolve all issues while maintaining the integrity of the tax system is a lengthy and difficult task. Therefore, we appreciate the steps taken to produce the current proposals which will provide relief to a number of companies.

GST changes

The Bill proposes several changes to the GST rules. The changes are intended to help ensure that GST continues to function as a tax on consumption in New Zealand. We outline the key proposals below.

Deductibility of GST incurred on capital raising costs

One of the proposed changes in the Bill will allow GST registered businesses to recover GST associated with capital raising costs. This is a good GST policy move and will be good news for businesses.

Traditionally, Inland Revenue has taken the view that the issuance of shares or bonds to raise capital is an exempt supply of a financial service. This led to irrecoverable input tax where zero-rating under the B2B rules and offshore zero-rating was not possible. To allow businesses to recover this GST, the proposed changes to the law will treat certain supplies of financial services to be zero-rated (rather than exempt).

These financial supplies will qualify for zero-rating to the extent the funds raised will be used for making taxable supplies. Apportionment will be required if the funds are used to make both taxable and exempt supplies. Exempt supplies will include financial services (that are not zero-rated) and residential accommodation.

This proposed amendment will apply from 1 April 2017.

GST apportionment for large businesses

This proposed amendment will allow large businesses to apply alternative methods of input tax apportionment. Under the current rules, only financial services providers are eligible to agree an alternative method with the Commissioner.

If enacted, the new rule will allow businesses to proactively seek an apportionment method suited to their particular business. This should reduce the compliance burden for businesses as well as provide more certainty.

This is another positive change for businesses. However, the current draft legislation only allows businesses with annual turnover exceeding $24 million to apply for an alternative method. Industry associations will also be able to seek the Commissioner's agreement (regardless of turnover). Businesses meeting the threshold and currently performing input tax apportionments should consider whether they would benefit from using an alternative method.

GST on services to non-residents in connection with land in New Zealand

The current general zero-rating rule allows services to be zero-rated if they are performed for a non-resident who is outside New Zealand, provided the services are not "directly in connection with" land or goods in New Zealand.

The proposed amendments will narrow the current zero-rating rule so that services "intended to enable or assist a change in physical condition, or ownership or other legal status" of land in New Zealand are standard-rated.

It is unclear how widely or narrowly aspects of the new rules will be interpreted. However, based on the Issues Paper and commentary to the Bill, the following services will fall outside the amended zero-rating provision and therefore be subject to GST:

- services relating to integrity and risk assessment of land
- intermediation in the sale or lease of land
- architectural, design and engineering services relating to a particular site
- legal services relating to transactions involving land and leases of land.

The Issues Paper indicates that the following services will still qualify for zero-rating:

- advice or information about property prices, or investment in the property market in general
- market research relating to the economic viability of a particular project
- architectural services which do not relate to a particular site
- advice on the tax implications of investing in property generally.

Businesses providing services to non-residents in relation to land will need to undertake a review of their service offerings and the GST treatment.

Other proposed GST changes

Other proposed changes include:

- Allowing second hand goods deductions on goods made of gold, silver or platinum which were manufactured for sale to the public.
- Zero-rating of goods and services supplied in relation to the construction of vessels or aircraft which will be exported.
- Business friendly amendments to the eligibility criteria to adopt a six-monthly GST return period, which allows businesses to remain eligible to file six-monthly returns even if they exceed the threshold due to, for example, seasonal supplies.
- Tidying up aspects of compulsory zero-rating for commercial leases and supplies to non-profit bodies. Note that several changes apply retrospectively from 1 April 2011.
- Clarifying time of supply rules for when the consideration for a service is unknown.
- Allowing the Commissioner to repay overpaid GST after the expiry of the four-year time bar.
- Allowing agents to opt out of the agency rules for supplies made to principals.
- Allowing a limited partnership to utilise the GST grouping rules.

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Australian Federal Budget 2016-17

The Australian Treasurer, Scott Morrison, recently delivered the 2016-17 Federal Budget. As expected, the Budget focuses on measures to combat multinational tax avoidance. The Government has signalled a reduction of the corporate tax rate over the next decade. The Budget also contains small relief from bracket creep for individuals in the form of minor changes to the marginal rate thresholds and many changes to superannuation.

We outline some of the key tax measures that may be of interest to New Zealand businesses. Please refer to PwC Australia's Federal Budget publication for more in depth analysis.

Corporate tax

The Australian Government has outlined a plan to lower the corporate tax rate to 25 percent for all companies over the next ten years. The corporate tax rate is currently 28.5 percent for small business entities, and 30 percent for all other companies.

The rate cut will begin with a reduction to 27.5 percent for small businesses from the 2016-2017 income year. The annual aggregated threshold will then be progressively increased to ultimately tax all companies at the rate of 27.5 percent in the 2023-2024 income year. From the 2024-2025 income year, the tax rate will be reduced for all companies to 27 percent and then be reduced progressively by 1 percent until it reaches 25 percent in the 2026-27 income year.

Global tax

Unsurprisingly, the Australian Federal Budget contains several global tax measures designed to target perceived "base erosion and profit shifting" (BEPS) by multinational corporations. These include:

- *Diverted profits tax (DPT):* introduction of a 40 percent DPT to apply from income years commencing on or after 1 July 2017 for certain large companies with global revenue of $1 billion or more (companies with Australian revenue of less than $25 million will be exempt unless they are artificially booking revenue offshore).
- *Anti-hybrid legislation:* Australia will implement anti-hybrid rules that will apply to payments made on or after the later of 1 January 2018 or six months after the relevant law is enacted. The rules are based on the OECD developed anti-hybrid rules with some minor modifications as recommended by the Australian Board of Taxation. Pre-existing arrangements will not generally be grandfathered, nor will transitional rules be announced.
- *Transfer pricing guidance:* adoption of the revised transfer pricing guidance issued by the OECD in 2015. These changes introduce a stronger focus on substance over legal form including a framework for analysing risk between related parties, guidance on re-characterisation and non-recognition of transactions, intangibles, cost contribution arrangements, and low value adding intra-group services.

Transparency

Introduction of a voluntary tax transparency code (TCC), which is a set of minimum standards to guide voluntary disclosure of tax information by businesses with annual turnover of $100 million or more from 2016.

Personal tax

To address the issue of bracket creep, the Government announced an increase of the threshold at which the 37 per cent marginal tax rate applies, from $80,000 to $87,000. The Australian Government predicts this will prevent approximately 500,000 taxpayers from entering into this tax bracket until the 2019-20 income year.

Private businesses

The small business entity turnover threshold will be increased from $2 million to $10 million from 1 July 2016. All businesses that meet the new $10 million turnover test will be able to access the simplified depreciation rules, including the existing asset write-off scheme which will allow them to claim an immediate deduction for depreciable asset purchases costing less than $20,000 until 30 June 2017. The current $2 million turnover threshold will be retained for access to the small businesses capital gains tax concessions. Access to the unincorporated small business tax discount will be limited to entities with turnover of less than $5 million.

Taxation of financial arrangements

The Government plans to simplify the taxation of financial arrangements (TOFA) rules for income years on or after 1 January 2018, including a closer link to accounting, simplified accruals and realisation rules, a new hedging regime and simplified rules for foreign exchange gains and losses.

Please get in touch with your usual PwC adviser if you would like to discuss any aspect of the Australian Federal Budget further.

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