KPMG

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Regular commentary from our experts on topical tax issues

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Australian 2016 Budget

The headline tax changes in the Budget are a cut in the Australian company tax rate and a new multinational anti avoidance rule

Additional disclosure and transparency obligations may also apply

Snapshot

The Australian Federal Government unveiled its last Budget of the current Parliamentary term earlier this week. The Government is positioning it as a long term "economic plan" that will support Australia's transition into an advanced and diverse economy.

Economic and fiscal position

The Government's fiscal position remains deeply in the red, and economic growth (and other key metrics) are expected to be solid rather than spectacular as the Australian economy continues its transition from reliance on the resources sector.

Company tax rate cut

A phased reduction in the Australian company tax rate to 25% by 2026 is one of the centrepieces of the Budget. The rate will initially reduce to 27.5%, with staggered application based on company turnover.

Base Erosion and Profit Shifting (BEPS) focus

The Australian Government is also taking a hard line on multinational profit shifting. The Budget introduces a Diverted Profits Tax (DPT), which will apply from 1 July 2017.

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A 40% penalty tax rate will apply to arrangements to artificially divert profits from Australia. The DPT is aimed at outbound sales. It supplements the multinational anti-avoidance law already in effect to "negate tax avoidance schemes used by multinational entities to artificially avoid the attribution of business profits to permanent establishments in Australia". That rule is aimed at inbound sales.

The DPT accompanies a range of new disclosure and transparency measure for Australian business, and A$679m of additional funding for the Australian Tax Office, also announced in the Budget.

KPMG Australia Budget commentary

KPMG Australia's 2016 Budget commentary and analysis can be found here.

Our view on the Australian Budget

The performance, and policy settings, of the Australian economy will be of interest to New Zealand businesses. However, the Australian Budget is unlikely to significantly influence New Zealand's Budget on 26 May. This is due to the different economic, fiscal and political challenges facing Australia and New Zealand.

A reduction in the Australian company tax rate to 27.5% will bring it broadly into line with New Zealand's current rate. The phasing of the tax cut will mean that smaller businesses will benefit first. Companies with a turnover of more than A$1b will need to wait until 2023.

The cut is based on the expectation that this will lead to capital deepening, through greater business investment, contributing to economic and real wage growth. This will offset the overall revenue cost of the tax cut. Such "dynamic" analyses of the costs and benefits of changes to tax rates remains a point of debate around the world.

In New Zealand, the work undertaken supports the view that increased economic activity will compensate for a reduction in tax revenue. However, it also suggests that New Zealand may not capture the full economic benefit. Inland Revenue, in its briefings to Government, has cautioned that there are conflicting considerations when deciding on the appropriate company tax rate for New Zealand. Too high a rate may discourage investment and encourage profit shifting. Cutting the rate may result in a wind-fall gain to foreign investors (with any replacement taxes likely to fall predominantly on New Zealanders).

The Australian approach on BEPS issues has been more aggressive than New Zealand's. The ongoing Australian Senate inquiry into corporate tax avoidance, high-profile media coverage of Australian and foreign multinationals' tax affairs, and the recent Panama leaks, seem to have created the perfect political storm to act. The DPT is the latest Australian response.

The New Zealand Government has indicated that its formal response to the various OECD's BEPS recommendations will be consulted on later this year. We are not expecting measures similar to the Australian DPT in New Zealand's Budget. Consideration of such measures are more likely if and when the OECD successfully completes its permanent establishment and transfer pricing BEPS work.

For further information

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