



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

BILLS

**Tax and Superannuation Laws Amendment
(2016 Measures No. 1) Bill 2016**

Second Reading

SPEECH

Wednesday, 10 February 2016

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

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Questioner
Speaker Morrison, Scott, MP

Source House
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Mr MORRISON (Cook—Treasurer) (09:22): I move:

That this bill be now read a second time.

This bill is an important part of the government's program to level the playing field for Australian businesses and restore integrity to Australia's tax system.

This government is absolutely committed to creating a better tax system, with taxes that are lower, simpler and fairer—a tax system that is growth friendly and ensures that businesses operating in this country and are delivering services and products in this country meet the expectations of the Australian public in terms of the taxes that should be paid on the delivery of those goods and services in this country. That is what we are committed to.

We are committed to a tax system that ensures everyone pays the right amount of tax and pays the appropriate amount of tax based on what they are earning in this country.

But we also want to make sure the tax system does not impose unnecessary red tape or inappropriately restrict taxpayers from conducting their affairs as they see fit.

This bill modifies the scope of Australia's tax laws to make sure they apply fairly and appropriately.

Schedule 1 of this bill applies the goods and services tax to digital products and services imported by Australian consumers.

It levels the playing field—it ensures Australian businesses selling digital products and services are not disadvantaged relative to overseas businesses that sell equivalent products in Australia.

With the introduction of this bill, the government will require overseas vendors, many of whom are multinationals, to collect and remit GST on the sale to Australian consumers of their digital products and services to consumers in this country.

Overseas vendors—often multinationals, typically multinationals in many cases—selling digital products or other services, such as 'apps' and downloads of digital content—movies, these types of things—will be required to register, collect and remit GST on their sales to Australian consumers. It will be one of the rules of doing business with Australians in this country if you are seeking to sell them services from overseas. You will not be able to avoid it.

As an example, a software subscription service provided by a resident supplier attracts the GST. However, currently a similar software subscription service provided by an offshore provider may not attract the GST. This creates an uneven playing field and may create distortions in consumer choices. It is also just not very fair to Australian businesses that are doing business with Australian consumers. It provides an unfair opportunity for overseas company to take advantage of. That is why the government is acting.

This legislation will apply the GST to that overseas company, that non-resident supplier, and thus level the playing field for Australian business.

This example highlights an anomaly that has existed in the GST system for some time. These sorts of things are not new. The internet has been around a while. This is not new, but it has taken this government to take action on these matters.

When we came to government, we inherited a tax system from Labor that had failed to keep pace with the changing times and with the growing importance of intellectual property, digital technology and integrated global supply chains.

This government, however, is determined to reform our tax system and ensure that it is fit for purpose, modern, fair and growth-friendly.

This measure is the product of this government's extensive work with international tax authorities. Australia has been working with the G20 and the OECD, alongside other stakeholders, to address weaknesses in the current rules that create opportunities for base erosion and profit shifting.

Action 1 of the OECD Base Erosion and Profit Shifting Action Plan deals with the tax challenges of the digital economy, including the difficulties of collecting value-added taxes such as the GST on cross-border sales in the digital economy.

This legislation applies the OECD destination principle, which recommends that consumption should be taxed in the destination country of the imported digital products or services.

The European Union has recently implemented this model, and several other countries, including Japan and New Zealand, are in the process of developing similar rules.

This measure will restore tax neutrality and level the playing field for domestic Australian businesses.

It is estimated to have a gain to GST revenue of \$350 million over the forward estimates, which will be allocated to the states and territories—which is what occurs, as we all know, with GST revenue. This is additional revenue—some \$350 million in additional revenue—that this government is making available to the states and territories as a result of taking this action to ensure the GST applies to these suppliers of services and products to Australians in this country,

This measure is a result of significant stakeholder engagement with both resident and non-resident businesses, as well as their advisers.

This is a bill that shows the substance of this government's commitment to ensuring that, in particular, multinationals pay the right tax on what they are doing in this country. I sincerely hope that those opposite will support this measure. They did not support a measure we brought into this place last year that introduced far-reaching changes to ensure that multinationals would have to pay their fair share of tax in this country and that gave the Australian Taxation Office the power they needed, and that they had asked for, to ensure that multinationals could be made to pay the appropriate amount of tax on their earnings in Australia.

Those opposite opposed that measure. They voted against it in this place and the other place. The government, undeterred, went forward and came to an arrangement with the Australian Greens to ensure that multinationals are now more likely to pay—and will be paying—their fair share of tax under the laws we have introduced. This is another demonstration of our commitment to leave no stone unturned when it comes to doing the practical things that are necessary to take action on what are the quite rightful concerns of the Australian people about the level of taxes remitted by multinational companies operating in this country.

We as a government have taken action on it in this parliament. Those opposite had six years to introduce this bill. They had six years to introduce multinational anti-avoidance laws—that were passed by this parliament with no support from those opposite—and they did nothing. But they do a lot of talking. This is not talk; this is a bill which once again takes action. I commend that schedule of the bill to the House.

Schedule 2 of this bill implements an announced but unenacted measure from the 2010-11 budget which seeks to avoid non-resident businesses from being drawn into the Australian GST system unnecessarily.

This measure is about reducing red tape and inefficiencies in our tax system so that businesses can just get on with the task of creating jobs and growth, which is what we want them to do.

It achieves this intent by limiting when GST will apply to supplies involving non-resident businesses.

The measure came from the Board of Taxation's review of the application of GST to cross-border transactions.

The Board of Taxation identified that too many non-resident businesses were being drawn into the GST system on business-to-business transactions where it would make no difference, where it was inappropriate—just creating more paperwork, more compliance and more cost.

The measure ensures that fewer non-residents are unnecessarily drawn into Australia's GST system, reducing the costs of compliance for business and simplifying administration for the Australian Taxation Office so that they can focus on their core job, which is ensuring compliance from those who should be remitting revenue to the Commonwealth to enable the Commonwealth to provide and support the services that are necessary and to ensure a less heavy burden on earners in this country.

Together these two measures ensure that only those overseas businesses that should be in our GST system are in the system—as we have just demonstrated in bringing others into the system via the measures in schedule 1—and collecting GST on their sales to Australian consumers.

At the same time, businesses that should not be caught in the system are removed, reducing red tape and simplifying administration and compliance.

These two GST measures demonstrate the government's commitment when it comes to improving our tax system and making it more growth-friendly.

Schedule 3 of this bill, while unrelated to those two other matters, is incredibly important. As a member representing a rural area, Deputy Speaker Broadbent, you would be very familiar with this. Schedule 3 of this bill takes important steps to improve Australia's taxation laws for primary producers.

The changes contained within this schedule increase the flexibility of farm management deposits, a vital risk management tool for primary producers, to assist primary producers to become more self-reliant.

These changes were announced in the agricultural competitiveness white paper on 4 July 2015, and are the product of extensive stakeholder feedback and consultation.

Farm management deposits help primary producers deal with uneven income between years, which frequently occurs as a result of weather variations, natural disasters and changing market conditions. These events are impossible for primary producers to predict or plan for, making it difficult for them to prepare financially.

The farm management deposit scheme is an example of how the tax system can be designed to be fit for purpose and address the needs of the taxpayers whom it ultimately should serve.

Farm management deposits help primary producers manage their financial risk by allowing them to set aside pretax income from primary production in a special account which can be drawn from in later years. Income deposited is tax deductible in the year the deposit is made and included in assessable income in the year it is withdrawn.

However, there are a number of restrictions currently placed on farm management deposits that impair their effectiveness.

This government is committed to continuously seeking to improve our tax system.

These amendments, which are part of this goal, double the amount a primary producer may hold in their farm management deposits from \$400,000 to \$800,000. This will provide primary producers with the flexibility to manage even greater income volatility and better manage with the funds they have set aside when a downturn occurs.

These amendments also allow a primary producer affected by drought to access their funds held in a farm management deposit earlier if they need them. Farm management deposits usually need to be held for at least 12 months before they can be withdrawn. Currently, a primary producer that withdraws their funds held in a farm management deposit within 12 months as a result of drought will lose access to the tax advantages of that farm management deposit.

This schedule removes this tax impediment and allows a primary producer subject to drought to receive the tax benefits from a farm management deposit even though they have withdrawn some of their funds within the 12 months.

In previous years, a declaration of exceptional circumstances would also allow for early access. However, provision for an exceptional circumstances declaration was removed with the introduction of the farm household allowance, which replaced a number of ad hoc forms of income support for primary producers.

Primary producers will now be able to determine their eligibility by referring to rainfall data on the Australian Bureau of Agricultural and Resource Economics website at the time of withdrawal, rather than waiting on a ministerial decision.

These amendments also provide primary producers with the flexibility to use farm management deposits as offset accounts for other business loans they hold. Currently, farm management deposits may not be used as a mortgage or other interest loan offset. The government is removing these restrictions to allow farm management deposits to be used as an interest loan offset.

Financial institutions and primary producers may now determine what arrangements work best for them in relation to farm management deposits.

This measure will allow financial institutions and primary producers to use farm management deposits to reduce the interest a primary producer pays on a business loan.

In summary, both the GST amendments and the farm management deposit amendments respond to our changing economy and contemporary business needs.

The coalition government recognises that Australia's GST law needs to adapt to the increasing role the international digital economy is having on Australia and the emerging role that multinationals have had for many, many years in how they conduct their business around the world. Where they are earning income that we need to tax to ensure they pay their fair share on what they earn in this country, where they are engaging commerce at point of sale, we need to ensure the tax law falls on those transactions, as it certainly does for Australians, and does not provide that advantage. We recognise that, and that is what these measures are designed to do.

Likewise, our domestic law and concessions need to adapt to the difficult conditions primary producers encounter. I think these measures, particularly through the minister for agriculture, demonstrate that this government does listen. The Turnbull government is a government that does listen.

The first of the GST measures ensures that overseas businesses pay GST on sales to Australian consumers.

The second GST measure reduces red tape by removing non-resident businesses from the GST system which should not be brought in and simply just clog up the system.

Likewise, the changes to farm management deposits reduce red tape for primary producers, and provide primary producers with greater flexibility that they need, particularly in these times, in dealing with farm management deposits.

These measures ensure Australia's taxes are further brought up to date and are supporting a fairer, simpler system that is fit for purpose and that is growth friendly.

Debate adjourned.