THE SENATE

BILLS

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

Second Reading

SPEECH

Wednesday, 4 May 2016

BY AUTHORITY OF THE SENATE
Senator FIFIELD (Victoria—Manager of Government Business in the Senate, Minister for Communications and Minister for the Arts) (12:33): I move:

That this bill be now read a second time.

I seek leave to have the second reading speech incorporated in *Hansard*.

Leave granted.

*The speech read as follows—*

TAX AND SUPERANNUATION LAWS AMENDMENT (2016 MEASURES NO. 1) BILL 2016

Mr Speaker, 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.

We are committed to a tax system that ensures everyone pays the right amount of tax.

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.

Mr Speaker, Schedule 1 of this Bill, applies the goods and services tax (GST) 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 to collect and remit GST on the sale to Australian consumers of digital products and services.

Overseas vendors selling digital products or other services, such as 'apps' and downloads of digital content, will be required to register, collect and remit GST on their sales to Australian consumers.

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.

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

This example highlights an anomaly that has existed in the GST system for some time.

Mr Speaker, 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 and fair.

This measure is the product of this Government's extensive work with international tax authorities. Australia has been working with the G20 and 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.

Mr Speaker, 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, who have agreed to this measure.

Indeed, this measure is a result of significant stakeholder engagement, from both resident and non-resident businesses, and their advisors.

Mr Speaker, Schedule 2 of this Bill, implements an announced but un-enacted 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 get on with the task of creating jobs and growth.

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 CrossBorder 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 was not appropriate.

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.

Together these two measures ensure that only those overseas businesses that should be in our GST system are in the system and collecting GST on their sales to Australian consumers.

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

These two GST measures, Mr Speaker, demonstrate the Government's commitment to simpler, fairer taxes.

Mr Speaker, 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 selfreliant.

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 to which it ultimately should serve.

Farm management deposits help primary producers manage their financial risk by allowing them to set aside pre-tax 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.

Mr Speaker, 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.

Mr Speaker, these amendments also allow a primary producer affected by drought to access their funds held in a farm management deposit early 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 declaration.

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.

Mr Speaker, 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.

Likewise, our domestic law and concessions need to adapt to the difficult conditions primary producers encounter.

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.
Likewise, the changes to farm management deposits reduce red tape for primary producers, and provide primary producers with greater flexibility in dealing with farm management deposits.

These measures ensure Australia’s taxes are up to date; and are fairer, simpler and fit for purpose.