



SEPTEMBER 2015 CLIENT NEWSLETTER

Welcome...to The Enterprise Sanctuary's September 2015 newsletter. First newsletter of the new financial year and we will talk about arguments for lowering of personal tax rates, GST on offshore sales into the Australian market and for all the Kiwis – working across the Tasman.



Will we get a lowering
of personal tax cuts?

GST to apply to
offshore sales into the
Australian market

Working across the
Tasman?

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TREASURER ARGUES THE CASE FOR PERSONAL TAX CUTS

Speaking at a forum hosted jointly by Chartered Accountants Australia and New Zealand and The Tax Institute, the Treasurer said Australia had “no choice” but to reduce personal income tax. This conclusion was based on the following observations in the speech:

- Australia relies heavily on personal income tax. It is our largest source of tax revenue. It raises around \$170 billion per year. Combined with corporate taxes, this makes up around 60% of our tax revenue, compared with an average of 34 per cent across the world’s top economies in the OECD.
- In Australia, the highest marginal tax rate is 47 cents for each extra dollar earned. To contrast this, New Zealand’s is only 33 cents; Singapore’s is 20 cents; and Hong Kong’s is only 15 cents.
- Our top rate kicks in relatively quickly, at \$180,000. That is only 2.3 times the average full-time wage. This is extremely low when compared with other OECD nations. In the United Kingdom, their top rate kicks in at 4.2 times their average wage. This matters because our existing personal income tax rates make us uncompetitive.
- High personal income taxes - along with company taxes - are particularly harmful for economic growth.
- There is also a social cost associated with high income tax rates. Gradually but increasingly high personal income tax rates will become a major incentive for Australians to live and work overseas.
- At the moment, 2.7% of Australian taxpayers fall into the top income tax bracket. And they are paying more than 28% of all personal income tax. And the top 10% pay almost half of all personal income tax. Back in 1996–97, the tax burden was less concentrated, with the top 25% paying a majority of income tax.
- What this shows is that our redistributive tax system has created a situation in which we as a nation are over-reliant on a very narrow base.
- Lower personal income tax will also encourage our budding entrepreneurs to climb the ladder of opportunity.

Not only is our personal income tax system uncompetitive: it is increasingly penalising lower income or secondary earners in our society. This is particularly the case when our tax rates are mixed in with the transfer system for social security. The combination that determines household net income weighs heavily on the minds of many Australians.

GST TO APPLY TO OFFSHORE SLAES IN THE AUSTRALIAN MARKET

On Friday, 21 August 2015 the Treasurer announced that at the CFFR Tax Reform Workshop the States and Territories agreed in principle that the existing GST threshold for overseas online transactions be reduced to zero.

In order to collect GST on overseas online transactions the Commonwealth has put forward a proposal that relies on a vendor registration model, said to have a relatively low cost. Non-resident (overseas suppliers) will charge, collect and remit the GST for digital and physical products. As is the case in Australia, only vendors with an Australian turnover of \$75,000 will need to register and charge the GST. The Commonwealth will draft legislation for the application of the new arrangements from 1 July 2017.

The Treasurer said the meeting was productive in relation to taxation reform generally, with Treasurers unanimously agreeing to keep all options on the table. In consultation with the States and Territories the Commonwealth is to further develop options discussed, including changes to the Medicare levy or a change to the GST. The Commonwealth is to report back at the next CFFR meeting scheduled for October on options for tax reform.

Please contact us at The Enterprise Sanctuary if you would like to talk about this topic in more detail.

WORKING ACROSS THE TASMAN

So you've been offered work across the Tasman. What now?

What's your residence for tax purposes?

This a two-fold issue:

1. Where are you resident now for tax purposes? Moving to another country to work can change the employee's residence status for tax purposes. So it's important to start the conversation with clarity about the employee's current tax residence. To determine this, we may ask some personal questions, such as where the employee usually lives, whether the current home is owned or rented, where family members live, the location of any investments held and the employee's connections with the local community.
2. Will tax residence change as a result of the employment move? Changing tax residence exposes the employee to the tax laws of the other country, and could trigger potential tax liabilities when the change occurs. The tax residence tests in Australia and New Zealand are slightly different, as are the interpretations adopted by the two revenue agencies - Inland Revenue (IR) in New Zealand, which recently issued a new residence interpretation statement that applies from 1 April 2014, and the Australian Taxation Office (ATO). There is also a Tax Treaty between the countries that may also apply to sort out residency disputes.

Remember, tax residence rules operate independently of rules dealing with citizenship and immigration.

Is the employee eligible for temporary (or transitional) residence concessions?

Both countries recognise the need to attract talented workers by offering temporary (or transitional) residence concessions in their tax laws. These concessions can be very advantageous. For example, they can exclude your home country investment income from being taxed in the country where the work is performed. Again, the rules are slightly different in Australia and New Zealand.

What about superannuation?

Both countries encourage the accumulation of money for retirement, but do so in different ways. In Australia, employers must make compulsory superannuation contributions for their employees (known as the Superannuation Guarantee rules). In New Zealand, the Kiwisaver incentive applies where the employee chooses to become a member.

Special rules also apply to encourage 'top-up' superannuation contributions for those with spare funds to put aside.

Leaving one country to work in the other will raise issues about whether superannuation (or KiwiSaver) contributions should continue to be made in the home country, or discontinued. If continued, we can explain what tax obligations apply in either or both countries for the employer and the employee.

Access to accumulated superannuation funds at the end of the employment secondment period will also be a key question to discuss.

Please contact us at The Enterprise Sanctuary if you would like to talk about this topic in more detail.

Important: Clients should not act solely on the basis of the material contained in Client newsletter. Items herein are general comments only and do not constitute or convey advice. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Client newsletter is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.