2017-18 Australian Budget fintech outcomes

On 9 May 2017, the Australian Government released its 2017-18 Budget.

This fact sheet provides a summary of the major outcomes from the budget for the Australian and international fintech community.

Competition initiatives

The government took a number of major steps to increase competition in Australia's banking system. As part of the budget, Treasurer Scott Morrison released a detailed statement entitled "Building an Accountable and Competitive Banking System".

This statement included a commitment by the government to reduce regulatory barriers for new and innovative entrants to the banking system, including fintech firms.

"For those entrants, the government will relax the legislative 15 per cent ownership cap, whether through the existing Ministerial discretion or legislative change," the statement said.

"The prohibition on the term 'bank' by authorised-deposit taking institutions (ADIs) with less than $50 million in capital will also be lifted by legislation to allow them and other ADIs to benefit from the reputational advantages of the term."

The government has not given a date for when these initiatives will be introduced.

The above initiatives followed the government's announcement on 8 May that it had tasked the Productivity Commission to commence a review on the state of competition in the financial system.

The government has also provided the Australian Competition and Consumer Commission some $13.2 million over four years to undertake regular inquiries into specific financial competition issues.

Major banking levy

From 1 July, 2017, the government will impose a levy on Australia's largest banks. This will raise around $6.2 billion over four years and will apply to ADIs with liabilities of at least $100 billion.

The Treasurer's statement said this levy, among other things, would "contribute to a more level playing field for smaller banks and non-bank competitors."

Expansion of regulatory sandbox

In the budget, the Australian Government reaffirmed its commitment to position Australia as a global fintech centre.

The Treasurer's statement said the government will legislate to "establish an enhanced regulatory sandbox".

"This world-leading regulatory sandbox will allow businesses to test, for a period of 24 months, a wide range of new financial products and services, allowing businesses to evaluate the commercial viability of new concepts without a licence but subject to meeting minimum consumer protection requirements," the statement said.

A separate government fact sheet on fintech and innovation released as part of the budget stated that the sandbox is set to be extended to "providing more holistic financial advice, issuing consumer credit, offering short-term deposit or payment products, and operating a CSEF intermediary."

This fact sheet includes a hypothetical case study of a marketplace lender who is currently not able to use the sandbox licensing exemption, and states that in the future she will.

This is a welcome announcement, which indicates that the government is looking at expanding the types of products which can be tested in Australia's regulatory sandboxes.

At present, fintech companies have a 12-month limit to exemptions from Australian Securities and Investments Commission licensing requirements in the regulatory sandbox. They are also limited to a relatively small number of fintech products, such as advising on and distributing deposit and payment products, general insurance and liquid Australian securities investments.

Open financial data to be introduced in 2018

In the Treasurer's statement, he said the government will "introduce an open banking regime that will increase access to banking products and consumer data by consumers and third parties, if the consumer consents. This will empower consumers to seek out banking products better suited to their needs and create further opportunities for innovative business models in banking that enhance competition."

The government has committed to introducing an open data regime by 2018, following an independent review on the best approach to implement this regime, to report by the end of 2017. The Australian Treasury has been given an additional $1.2 million in 2017-18 to conduct this review.

This follows the tabling of a report by the Productivity Commission into the freeing up private and public data which was published by the government on 8 May.

Equity crowd-funding expansion

On budget day, the government released draft legislation which will enable proprietary companies to access crowd-sourced equity funding. It also announced some $4.5 million in funding to the Australian Securities and Investments Commission over four years to implement and monitor this framework.

"This will open up new funding for business ideas that may struggle to attract funding from traditional sources. Stakeholders will be protected by higher governance and reporting requirements," the Treasurer's statement said.

A separate fact sheet on innovation and fintech released by the government confirmed that "proprietary companies using CSEF will be able to have an unlimited number of CSEF shareholders."

This initiative follows the Australian Parliament's support for crowd-sourced equity legislation for unlisted public companies in March 2017.

This legislation is expected to take effect in September 2017.

The extension of crowd-sourced equity legislation to proprietary companies, which represent the vast majority of companies, is a welcome step which should drive fintech innovation and also help smaller businesses to grow.

Digital currency 'double taxation' reforms

The government used the budget to set a date for the removal of goods and services taxation on digital currencies (such as Bitcoin).

From 1 July 2017, digital currencies will no longer be liable to GST, just like existing traditional currencies. The government's budget papers says this change will have a "small but unquantifiable decrease in GST collections".

"This delivers on the government's commitment to remove obstacles to the growth of the FinTech industry," the Treasurer's statement said.

Fintech firms are increasingly supporting customers to use digital currencies. As such, the removal of potential GST taxation on these currencies is a welcome step.

Comprehensive credit reporting changes

Consistent with the Productivity Commission's report on data availability and use, the government will legislate a mandatory comprehensive credit reporting regime, if credit providers are not reporting at least 40 per cent of their data by the end of 2017.

"Credit markets will operate more efficiently and effectively if credit providers have access to sufficient and reliable data about borrowers to inform decisions," the Treasurer's statement said.

This initiative should give fintech firms improved access to positive client credit data, so they can offer better deals to these clients.

Dispute resolution

The government used the budget to announce it would radically overhaul the resolution of financial disputes, through the creation of a one-stop-shop Australian Financial Complaints Authority. This authority will be an industry-funded complaints resolution body for all financial and superannuation disputes and will be operational from 1 July 2018.

The Australian Securities and Investments Commission will be provided with stronger powers to oversee this new one-stop-shop and to require financial service providers to report on their internal dispute resolution activity. It has been provided $4.3 million over four years to help with this task.

FinTech Australia will seek to be involved in discussions leading up to the creation of this new body to ensure it delivers a fair and low-cost dispute resolution outcome for smaller fintech firms alongside larger industry players.

Temporary skilled visa levies

Under changes announced in the budget, businesses with turnover of less than $10 million per year will be required to make an upfront payment of $1,200 per visa per year for each employee on a Temporary Skill Shortage visa and make a one-off payment of $3,000 for each employee being sponsored for a permanent Employer Nomination Scheme (subclass 186) visa or a permanent Regional Sponsored Migration Scheme (subclass 187) visa.

In addition, visa application charges have been increased for short-term Temporary Skills Shortage visas, from $1,060 to $1,150 and a new $2,400 application charge for the new medium-term visa stream.

This follows changes to the government's skilled migration visa system several weeks ago.

Many fintech firms rely on employees using skilled migration visas, due to skills shortages in areas such as ICT, sales and marketing.

FinTech Australia will work with other startup industry bodies to review the impact of these changes.

More information

The Australian Government has also released its own fact sheet entitled "Australia as the innovation and FinTech nation".