

## CLIENT ALERT – MAY 2010

### GOVERNMENT TAKE ON THE HENRY TAX REFORM

The Federal Government has finally released its long awaited report (The Henry Review) on overhauling the Australian Tax System, which is expected to be an ongoing program for the next ten years.

The following comments outline some of the proposed changes that will directly affect our clients.

The whole scheme is predicated on the introduction of a “non-negotiable” resource super profits tax (RSPT) which is intended to operate from 1 July 2012. This tax will be 40% of profits made from the exploitation of Australia’s non-renewable resources.

The Government intends to use this tax to:

- generate more superannuation savings for working families;
- lower taxes for all companies, especially small businesses; and
- invest in Australia’s future infrastructure needs, particularly for mining states.

According to the Government it “will be a better way to tax resources because it only taxes profits and fully recognises the large investments made in resource projects”. The RSPT will include refundable credits for any State Government royalties paid.

The Government has announced that it will not adopt all of the Henry Review recommendations but has announced that it will implement the following changes (subject to the passage of legislation):

1. Company tax rates
  - a. company tax rate for small businesses will be reduced to 28% for the 2012-2013 income year;
  - b. Other company tax rates will be reduced to 29% for the 2013-2014 income year.
2. Capital allowances
  - a. While the former tax breaks for new asset acquisitions have ended, small businesses will benefit from a new instant write-off for assets worth up to \$5,000 from 1 July 2012;
  - b. Depreciation for other assets will be able to be pooled at a rate of 30% from 1 July 2012.
3. Superannuation
  - a. The superannuation guarantee will be gradually increased from 9% to 12% over 7 years;
  - b. The Super Guarantee age limit will be increased to 75 so that older employees may be eligible for superannuation contributions;
  - c. Low income earners (less than \$37,000 pa) will be eligible to receive a Government super contribution of up to \$50;
  - d. From 1 July 2012, individuals aged 50 or above with superannuation balances below \$500,000 will be entitled to make concessional superannuation contributions of up to \$50,000 without exceeding the cap.

Some of the above changes, notably the increase in the superannuation guarantee, will have a marked impact on operating costs for small businesses.

The Henry Review also recommends changes to the personal income tax rates as follows;

0 – 25,000	0%
25,001 – 180,000	35%
More than 180,000	45%

According to the Henry Review “this approach aims to set the tax-free threshold at \$25,000, where income support recipients would either have exhausted their payments or have substantial private income. This would mean that more than 1.2 million additional people would no longer pay tax — over 10 per cent of current taxpayers. Many of these would not have to file a tax return (although some would continue to do so

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to claim withheld amounts or imputation credits). Setting the tax-free threshold at this level would remove the need for the low income tax offset and limit the need for the senior Australians tax offset”.

The Government has not commented on whether it will introduce these personal income tax measures.

What is of particular interest is the number of the Henry Review recommended changes that the Government has stated will not be implemented at any stage.

- including the family home in means tests for Commonwealth benefits;
- imposing land tax on the family home;
- requiring parents to work when their youngest child turns 4;
- restricting eligibility to rent assistance for families;
- changing the tax treatment of the not-for-profit sector, including removing the benefit of tax concessions, raising the gift deductibility threshold or changing income tax arrangements for clubs;
- reducing overall remuneration for members of the defence forces;
- applying a discount to negative gearing deductions;
- removing the Medicare levy;
- reducing indexation of the age pension;
- removing the benefits of dividend imputation;
- introducing a bequests tax;
- offering a government annuity product;
- asking the States to charge market rents to public housing recipients;
- abolishing the luxury car tax;
- indexing fuel tax to the CPI; and
- changing the tax on alcohol.

With Governments always looking at ways of increasing its revenue base who can say for certain that such changes indicated above will not be implemented in some way or form by this or the next Government?

The Government is yet to produce draft legislation and any explanatory memorandum for the above changes. As these come to hand we will provide further details on our website.

Full details of the Government response to the Henry Review report is available from the Treasury Website at: [http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs\\_reports.htm](http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm)

The Australian Government also has a separate website devoted to this report at: <http://www.futuretax.gov.au/pages/default.aspx>

Sources: Australia's Future Tax System – Final Report together with media reports from futuretax.gov.au.