

May 2010

Henry Tax Review Briefing

The Government has released its response to the Henry review into taxation. Largely funded by a new Resource Super Profits Tax, the reforms include some key changes to superannuation and company taxation.

Major changes to superannuation include a phased increase in the rate of superannuation guarantee from 9 per cent to 12 per cent, the extension of the superannuation guarantee for workers aged between 70 and 75, a Government contribution of \$500 for low income earners and the doubling of allowable concessional contributions from 1 July 2012 for workers aged 50 and over with less than \$500,000 in superannuation.

Key changes to taxation include the gradual reduction in the company tax rate to 28% and simplified rules for small business depreciation.

This Henry Tax Review Briefing provides a summary of these and other relevant announcements.

Government Proposals

Superannuation

Increasing super guarantee rate to 12%

The SG rate will be increased gradually with initial increments of 0.25 percentage points on 1 July 2013 and 1 July 2014. Further increments of 0.5 percentage points will apply annually up to 2019-20, when the rate will be set at 12%.

Table 1 – Proposed SG timeline

Year	SG Rate (%)
2009–10	9
2010–11	9
2011–12	9
2012–13	9
2013–14	9.25
2014–15	9.5
2015–16	10
2016–17	10.5
2017–18	11
2018–19	11.5
2019–20	12

Raising super guarantee age limit to 75

From 1 July 2013, the age limit for payment of super guarantee contributions will be increased from 70 to 75. This will bring the SG age limit into line with that for personal and voluntary employer contributions.

Low income earners government contribution

The Government will provide a contribution equal to 15% of concessional contributions made, up to \$3,333, for low income earners with an adjusted taxable income of up to \$37,000. The maximum Government contribution paid will be \$500 (not indexed).

This measure will apply to contributions made from 1 July 2012, with the first Government contributions expected in 2013–14.

This measure will apply to concessional contributions, including super guarantee contributions. It means that a person with an adjusted taxable income (ATI) of up to \$37,000 will effectively not pay contributions tax on their SG contributions. The measure makes super contributions tax neutral for those on a 0% and a 15% marginal tax rate, as shown in Table 2. Note that from 1 July 2010, the 15% MTR will apply on incomes up to \$37,000.

Table 2 – Effect of low income earners Government contribution for employees

	Current position	Proposal
Salary	\$37,000	\$37,000
9% SG contribution	\$3,330	\$3,330
Contribution tax	\$500	\$500
Government contribution	NIL	\$500
Net contribution	\$2,830	\$3,330

Low-income earning self-employed people will similarly benefit from the effective removal of contributions tax on deductible contributions. As shown in Table 3, clients in this situation will be able to maximise their net super contributions through a combination of personal deductible and co-contributions.

Table 3 – Effect of low income earners Government contribution for self-employed clients

Income level	Personal deductible contribution only	NCC + co-contribution	Personal deductible + NCC + co-contribution
\$30,000	\$3,330	\$3,281	\$3,870
\$31,000	\$3,330	\$3,281	\$3,870
\$32,000	\$3,330	\$3,278	\$3,869
\$33,000	\$3,330	\$3,245	\$3,851
\$34,000	\$3,330	\$3,212	\$3,833
\$35,000	\$3,330	\$3,178	\$3,815
\$36,000	\$3,330	\$3,145	\$3,797
\$37,000	\$3,330	\$3,112	\$3,779

Assumptions: marginal tax rate of 31.5%, low income earners Government co-contribution applies to reduce effect of contributions tax to 0%, maximum pre-tax contribution \$3,330, combination of personal deduction + NCC + co-contribution assumes maximum co-contribution for level of income, with remainder of pre-tax amount used for a personal deductible contribution.

Higher concessional contributions caps retained for over-50's

From 1 July 2012 the higher \$50,000 concessional contribution cap will be extended permanently for individuals aged 50 or over who have total superannuation balances of less than \$500,000. This measure will enable those with lower superannuation savings to make additional 'catch-up' contributions close to retirement, for example:

- individuals who have not had the benefit of a full working life of superannuation
- those who take time out of the workforce as care-givers to young children, the elderly and those with a disability.

The Government will consult with the super industry on the operation of the \$500,000 threshold. Note that superannuation funds currently report end of financial year account balances to the ATO through the member contribution statement.

Company Taxation

The Government will reduce the company tax rate from its current level of 30% to 29% for the 2013-14 income year and to 28% from the 2014-15 income year. Eligible small businesses will receive the tax cut one year earlier with a company tax rate of 28% from the 2012-13 income year.

This reduction will have little real impact on Australian resident shareholders due to the imputation system. However, this is a direct tax reduction for non-resident shareholders who are not eligible for imputation credits.

Small business taxation

Expanding capital allowances concessions for small businesses This measure will commence from 1 July 2012 and will enhance and expand the existing capital allowance concessions available for small businesses by:

- allowing small businesses to immediately write-off assets valued at under \$5,000 (up from \$1,000), and
- allowing small businesses to write-off other assets, with the exception of buildings, in a single depreciation pool at a rate of 30%.

Resource Super Profits Tax

A key part of the Government's response to the Henry review is the proposed Resource Super Profits Tax (RSPT). While likely to have limited direct impact on financial planning activities and investment products, it is important to note that the Government's progress on other elements of its tax reform agenda will be dependent on the revenue derived from the RSPT.

A Resource Super Profits Tax (RSPT) will be introduced on 1 July 2012 at a rate of 40% on profits made from exploitation of non-renewable resources. It will replace the crude oil excise and operate in parallel with State and Territory royalty regimes, with the latter providing a refundable credit to the resource entity. The Government will consult extensively on the design of the RSPT.

Where to now?

The Government has commented that tax reform is a long term process and that its plan is a significant first step in that process, representing a full reform agenda for several years. The proposed resource super profits tax is an important part of that process, as progress on the initial elements announced on 2 May 2010 will depend on securing revenue from its implementation. The Government has said that it will continue to develop its tax reform agenda over the coming years. In particular:

- The Government will consider how it can make the personal tax system simpler and more transparent.
- The Board of Taxation has completed its review of the taxation arrangements applying to managed investment trusts and provided its report to the Assistant Treasurer.
- The Australian Financial Centre Forum has provided its report on Australia as a Financial Centre (the Johnson Report), with several Henry report recommendations in line with its recommendations.

The 2010 Federal Budget, to be handed down on Tuesday 11 May 2010, is likely to reiterate the Government's commitment to these proposals and provide details around funding and revenue implications.

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Source: FirstTech Henry Tax Review Briefing.

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