



The Henry Review

The Henry Review: Release & Governments Initial Response

Yesterday the Government released the Henry Review (commissioned almost two years ago) into Australia's tax and transfer system. It also released its initial response to the Henry Review which set out a blueprint for tax reform for the foreseeable future in Australia.

While the Henry Review report laid out a platform for comprehensive tax reform (1300 pages of reform encompassing 138 recommendations), our view is that the Government took a conservative approach and interestingly used the media release of the review to announce a number of planned changes to superannuation and state infrastructure funding which were not recommended by the Henry Review. The reforms primarily targeted are a small reduction in the company tax rate, some simplification for small business, and additional changes to the superannuation regime all of which are to be funded by a new Resource Super Profits Tax. None of these changes will take place before the 2013 tax year. The main winners to emerge from the reforms announced are clearly the superannuation industry and small business. The Government foreshadowed further announcements in relation to simplified compliance for individuals, savings incentives and revenue authority governance which Lachlan Partners will detail once formally released and approved.

Proposed reforms - Detailed below is a brief summary of the announced reforms tabled for immediate implementation:

Corporate tax

The company tax rate will be reduced to 29% for the 2014 income year and 28% for the 2015 income year. Small business will move to a 28% corporate tax rate from the 2013 income year

Whilst the reduction in the company tax rate is a small step in making Australia's corporate tax rate more competitive the Government did not fully support the Henry recommendation of a reduction to 25%. This leaves our domestic tax rate still above the average of our Asia Pacific competitors. There is no comment by the government in relation to Henry's suggestion that the small business turnover threshold be lifted from \$2m to \$5m.

Energy and Resources

A 40% resource rent tax, termed a resource super profits tax (RSPT), will be introduced for all non-renewable, natural resource projects

Clearly this is the principal revenue raising measure accepted for introduction by the Government. Henry recommended that the tax replace existing state royalty arrangements. Complex transitional arrangements have been proposed to assist the migration from the state based PRRT to the new RSPT.

A refundable income tax offset should be introduced for expenditure incurred on exploration activity within Australia

The offset is to be introduced from 1 July 2011 and will provide an incentive for start-ups and junior explorers to increase domestic exploration, by allowing them early cash tax benefits from their exploration spend.

Our view is that this will likely be the most controversial and contested element of reform and has the ability to affect not only the resource companies themselves but also those who invest in them. Should the RSPT impact after tax earnings of the resource sector it may have the effect of reducing dividends payable and lowering share values. Additionally, it has not been proposed that the RSPT would be a creditable tax under the imputation system.



Superannuation and Retirement Incomes

Independent of the Henry Review recommendations, the Government has announced a number of superannuation related changes:

- increasing the superannuation guarantee rate to 12 per cent (incrementally from 1st July 2013 to 1st July 2020)
- increasing the Superannuation Guarantee age limit from 70 to 75 (from 1st July 2013)
- a government superannuation contribution of up to \$500 for low income earners (from 1st July 2012 for workers with incomes up to \$37,000), and
- the \$50,000 concessional contributions cap to be extended permanently for individuals aged 50 and over with superannuation balances less than \$500,000.
- The Government has reaffirmed its promise to never remove the tax-free status of superannuation payments for the over 60s'

The implementation of these recommendations will no doubt have a positive impact for the superannuation industry and those individuals considering their retirement options. The increased rate of mandated contributions coupled with the government contribution for low income earners (aimed at eliminating the effect of taxation on contributions) will provide higher retirement balances. It remains to be seen whether these measures will of themselves deliver the desired outcome of empowering people to fund their own retirement.

The increase of superannuation guarantee payments over the next 10 years will impact employers; however the delayed implementation will enable employers to consider the future increases when negotiating current employment contracts and reviews.

Small Business

The capital allowance arrangements for small business will be streamlined from 1st July 2012, by:

- allowing depreciating assets costing less than \$5,000 to be immediately written off (the current threshold is \$1,000), and
- allowing all other depreciating assets (except buildings) to be pooled together, with the value of the pool depreciated at a single declining balance rate of 30%.

This recommendation by the Government is substantially reflective of the Henry recommendation (Henry recommended a low value threshold of \$10,000). This will have a positive impact on small businesses by reducing the complexity of the capital allowance system and bringing forward the value of income tax deductions on capital acquisitions.

State Infrastructure Funding

The government has announced a new infrastructure fund to assist the States and Territories to invest in major infrastructure.

Commencing in the 2013 financial year an estimated initial sum of \$700m will be distributed to the states on a basis yet to be negotiated but taking into account the burden placed upon resource rich states for investment in projects that both support and develop the resource industry. The timing of the commencement of the infrastructure fund will coincide with the introduction of the RSPT.

Alcohol, gambling, tobacco

Retain the existing regime for tobacco taxation, but increase taxation rates substantially, based on evidence of costs of harm from tobacco smoking

This was adopted before the release of the Henry report last week when the Government announced its policy to significantly increase tax on tobacco products.



Rejected reforms

A number of reforms recommended by the Henry Review have been rejected by the Government as not being in the interest of business and community certainty. These include:

- including the family home in means tests
- extending land tax to the family home
- reducing the CGT discount
- reforms to the not for profit sector, including removal of fringe benefits tax concessions
- applying a discount to negative gearing deductions
- removing the Medicare Levy
- reducing indexation of the age pension and changing concession entitlements for essential services
- restricting eligibility to rent assistance for families and asking the states to charge market rents to public housing recipients
- aligning the preservation age with the pension age
- offering a Government annuity product
- reconsidering the dividend imputation system
- indexing fuel tax to the CPI
- consideration of a “bequests” tax, and
- alcohol tax reform

Under consideration

Many of the Henry report recommendations were neither accepted nor rejected in the Governments initial response. The government has suggested that these proposals do not form part of their current proposal strategy and will be subject to further consideration in coming months or years as part of a second term agenda (should they be re elected)