# The Henry Tax Review and what it means for you

On Sunday 2 May, the Government released the long awaited report on Australia's Future Tax System (commonly referred to as the Henry Tax Review), as well as its response on the recommendations made. It's fair to say that there was a lot of speculation prior to the release of the report about what measures the Government may have adopted.

In all, the Henry tax Review made 138 recommendations for reform to the Australian tax and transfer (i.e. social security) system. To date, the Government has far ruled out (in full or partially) 26 of these, and responded only on a few, leaving many questions unanswered.

In an election year, the Government's current response is clearly positioned to deliver benefits to the majority of working Australians. Indeed, the Government has stated that these are just the first steps in a 10 year agenda and that in the coming months they "will have more to say on a number of other areas considered by the review, especially making tax simpler for everyday Australians, improving incentives to save and improving the governance and transparency of the tax system. This would represent a full second term agenda."

Their comments about 'improving incentives to save' could be a reference to a recommendation to provide a 40% discount taxation on certain non-superannuation savings, although the Government is yet to make any announcement in this area.

## The proposals announced

An overview of the major proposals announced is below. However, it is important to be aware that legislation to support these initiatives has not yet been introduced into Parliament, and as evidenced by experiences around recent climate change initiatives, there are questions as to whether these reforms could pass through Parliament in its current construction. However, the outcome of these and other possible measures may ultimately be determined by the outcome of the next Federal election which is due later this year.

### Resource Super Profits Tax

From 1 July 2012, a 40% resource super profits tax will apply to the profits made from mining and petroleum projects.

The major impacts for individuals will be how this impacts on the returns from investments in affected companies and how the market reacts to these changes.

### Reduced company tax rate

The current company tax rate of 30% will be reduced to 29% for 2013/14 and to 28% from 2014/15.

Small business companies will adopt the lower 28% tax rate from 2012/13. Small businesses will also benefit from 1 July 2012 from an increase in the immediate depreciation write-off limit from $1,000 to $5,000. A small business is currently defined as one with less than $6million of net assets or annual income below $2million.

For investors, these changes will reduce the value of a franking/imputation credit as the company tax rate will be less. However, with less tax to pay, for some companies it may increase the level of cash dividends they are able to pay.

**An increase in the superannuation guarantee rate from 9% to 12% by 2019/20**

The superannuation guarantee (SG) rate will be increased from 9% to 12% over a seven year period, commencing from 1 July 2013, with the increased rate of 12% applicable from 1 July 2019, as per the following table:

| • Year | • SG rate |
|---|---|
| • 2013/14 | • 9.25% |
| • 2014/15 | • 9.50% |
| • 2015/16 | • 10.00% |
| • 2016/17 | • 10.50% |
| • 2017/18 | • 11.00% |
| • 2018/19 | • 11.50% |
| • 2019/20 | • 12.00% |

On a salary of $50,000, the additional 3% SG contribution will add an extra $1,500 per annum to superannuation (before tax). If that contribution was to earn 7% per annum (net of fees and taxes), its value would double every 10 years.

A question remains as to how these increases will be funded as current legislation allows employers to deduct this from an employee's overall package (this may be different under some award arrangements). Some employers may be able to fund it through savings generated through the reduction in the company tax rate. For an employee on $50,000 per annum, the extra $1,500 contribution will provide $1,275 in super after tax per annum against a tax home after tax amount of $923 if that had continued to be received as salary. The extra super contribution delivers an extra 38% value.

**A low income earners Government super contribution of up to $500**

From 1 July 2012, low income earners will be entitled to an additional Government contribution into their superannuation fund of up to $500. This is in addition to any Government co-contribution payment the individual may be entitled to.

The payment is available for those with an adjusted taxable income of $37,000 or less, with the amount of the contribution being equal to the contributions tax that would be payable on their compulsory SG contributions.

For example, a person with a salary of $37,000 would have compulsory SG contributions of $3,300 made for the year ended 30 June 2013. Standard tax on those contributions (at 15%) amounts to $499.50 so the individual would receive the maximum benefit from the contribution. For a person earning a salary of $25,000 the contribution would amount to $337.50 (being $25,000 x 9% x 15%).

Importantly, the Government has stated that the $500 contribution will not be indexed. As a result, from 1 July 2013 when the increased SG levy starts to kick in, those with adjusted taxable incomes will still be paying some tax on their SG

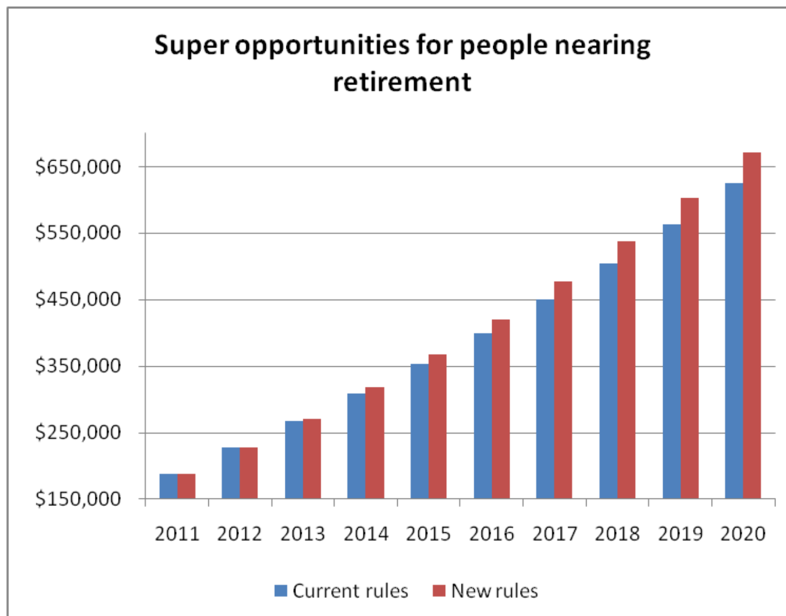
contributions. The effective tax free threshold on SG contributions from 1 July 2012 is as follows:

| • Year | • Base salary for SG purposes |
|---|---|
| • 2012/13 | • $37,000 |
| • 2013/14 | • $36,036 |
| • 2014/15 | • $35,088 |
| • 2015/16 | • $33,333 |
| • 2016/17 | • $31,746 |
| • 2017/18 | • $30,303 |
| • 2018/19 | • $28,985 |
| • 2019/20 | • $27,778 |

A permanent extension of the current transitional concessional contributions cap of $50,000 for those aged 50 and over if their superannuation balance is below $500,000.

The transitional concessional contributions cap of $50,000 for those aged 50 and over will no longer cease on 30 June 2012, but instead will become a permanent measure. However, this will only be available from 1 July 2012 if your total superannuation balance is below $500,000. The concessional contributions cap applies to contributions for which a tax deduction is available, such as SG payments, salary sacrificed amounts and personal deducted contributions to super.

This measure certainly has the opportunity to assist people to boost their savings as they near retirement. For example, take Joe, a 51 year old working Australian who takes advantage of the opportunity to increase his concessional contributions to $30,000 (this amount includes their employer's compulsory super) over a 10 year period. He will end up with almost $50,000 more in his superannuation. This is 8 years where an additional $5,000 per annum can now be contributed (noting that if Joe was able to afford to do so, he could have contributed an extra $25,000 for those 8 years).




Assumes investments return 7%pa net of fees and taxes

The $50,000 increased contribution level will continue to be indexed, where as the Government has not indicated at this time whether the $500,000 qualification threshold will be indexed or not.

Opportunities may arise to maximise advantage of this extended concession through appropriate use of transition to retirement and contribution strategies and through careful management of the timing of contributions.

### Raising the superannuation guarantee age limit from 70 to 75

In a move designed to address some of the concerns arising from the 2010 Intergenerational Report and as an incentive to keep people working for longer, the age limit at which an employer's requirement to make SG contributions for employees ceases will be lifted from 70 to 75. This change will have effect from 1 July 2013, coinciding with the increased rate of SG contributions.

### Specific changes that have been ruled out

Whilst there is conjecture on whether the Government will take action on other recommendations from the Henry Tax Review at some future point in time, in order to provide certainty and avoid potential mis-interpretation, the Government has stated a number of policies that it will not implement at any stage, many of which would have had the potential to impact on financial planning strategies for clients. The policies that the Government has stated it will not implement are:

Superannuation related

- Remove tax free superannuation payments for the over 60s
- Align preservation age with pension age
- Offer a government annuity product

Social security related

- Include the family home in means tests
- Require parents to work when their youngest child turns 4
- Hit single income families

- Restrict eligibility to rent assistance for families
- Reduce indexation of the age pension
- Think of hitting pensioner and low income concessions for utilities, transport and other essential services
- Ask the States to charge market rent to public housing recipients

Taxation related

- Introduce land tax on the family home
- Make any changes to the tax system that harm the not-for-profit sector, including removing the benefit of tax concessions, raising the gift deductibility threshold or changing income tax arrangements for clubs
- Reduce overall remuneration to members of the defence forces
- Reduce the CGT discount, apply a discount to negative gearing deductions, or change grandfathering arrangements for CGT
- Remove the Medicare levy
- Remove the benefits of dividend imputation
- Introduce a bequests tax
- Abolish the Luxury car tax
- Index fuel tax to CPI
- Change alcohol tax in the middle of a wine glut and where there is an industry restructure underway
- Increase the rate or broaden the base of the GST

## Where to next?

As mentioned previously, none of the announced measures have yet been introduced into Parliament in the form of legislation, and with the earliest start date of any of the measures being from 1 July 2012, it is likely that the legislation won't be introduced until after the next Federal election.

It is strongly recommended that you consult with your financial adviser before taking action on any of the announced proposals to ensure that the right strategies are being implemented based on your particular circumstances and goals.

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