Issue 12

Autumn 2010

Rana Jewell
Public Accountant & Lifestyle Consultant

BENEATH THE SURFACE

HENRY REVIEW UPDATE

On 2 May 2010, the Government released to the public the "Henry Report" on the future of Australia's taxation system. In all, there are 138 recommendations – more than 100 of which the Government has put its response to, on the "back-burner", probably until after the next election.

Many of the recommendations will cost taxpayers dearly should they become law. For example, recommendations still "alive" waiting for the Government to respond to, include:

- ◊ taxing fringe benefits in the hands of employees
- ◊ changing the nexus rules making it more difficult to claim personal tax deductions
- ◊ removing important small business concessions (eg the 50% active asset reduction and the 15 year exemption on capital gains made from business assets)
- ◊ taxing employer superannuation contributions in the hands of employees, and
- ◊ taxing superannuation funds in pension phase on their investment earnings.

TAXATION MEASURES ANNOUNCED BY THE GOVERNMENT

The following is a summary of the taxation measures actually announced by the Government, as part of its response to the Henry Report.

***Note**: The Government has stated that the Resource super profits tax (RSPT) is a key part of its overall tax reform agenda, which includes the following measures relating to phasing down the company tax rate, the simplification of claiming depreciation deductions for small business, and the superannuation reforms. Therefore, it appears that passage of these measures is **dependent** on the RSPT being passed.*

Increasing the Superannuation Guarantee (SG) Contribution Rate

From 1 July 2013, the rate will be increased as outlined in the following table:

Income Year	SG Contribution Rate (%)
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

Increasing the SG Age Limit from 70 to 75

From 1 July 2013, the SG age limit will be increased to 75 years (currently 70 years), so that employees aged 70 to 74 will generally be eligible for SG contributions made on their behalf. It also aligns the SG age limit with the age limit for voluntary and self-employed contributions.

Government Contributions to Low Income Earners

From 1 July 2012, the Government will match concessional contributions (ie basically deductible contributions) which are made by or for the benefit of individuals with adjusted taxable incomes of up to $37,000 (not indexed). The amount payable by the Government will be calculated at the rate of 15% for each $1 of concessional contributions, with an annual maximum amount payable of $500 (not indexed). For example, someone earning $25/hour for 15 hours/week in the 2012-13 income year would receive $263.25 paid direct to their individual superannuation fund in the 2013-14 income year.

Increasing Concessional Contribution Caps for People Aged 50 or More

From 1 July 2012, individuals aged 50 or above with superannuation balances below $500,000 will be entitled to make concessional superannuation contributions up to $50,000 without exceeding the cap.

(Continued on page 2)

ACKNOWLEDGEMENTS
National Tax and Accountant's Association

(Continued from page 1)

Lowering the Company Tax Rate

Note *that many small businesses are run as sole traders, partnerships or trusts, and not as companies – see our separate 2010 Budget newsletter for individual marginal tax rates.*

The company tax rate will be reduced as follows:

(a) For eligible small business companies – the company tax rate will be reduced to 28% from the 2012-13 income year, and

(b) For other companies – the company tax rate will be reduced to 29% for the 2013-14 income year, and then down to 28% form the 2014-15 income year.

Small business (turnover <$2.0 M) instant asset write-off

From 1 July 2012, the following capital allowance (ie depreciation) concessions will be available to small businesses:

(a) An immediate write-off for assets costing less than $5,000 (currently, an immediate write-off is generally available for assets costing less than $1,000), and

(b) All other assets (except buildings) can be depreciated in a single depreciation pool at a rate of 30%.

Resource super profits tax – all over the news at present, watch this space!

From 1 July 2012, a Resource Super Profits Tax (RSPT) will be introduced at a rate of 40% on profits made from the exploitation of Australia's non-renewal resources. The RSPT will replace the crude oil excise, and operate in parallel with State and Territory royalty regimes. Projects within the scope of the Petroleum Resource Rent Tax (PRRT) will have the option of opting into the RSPT or staying in the PRRT. The election into the RSPT will be irrevocable. Under the RSPT, a refundable credit for royalties paid to State and Territory Governments will be available.

Resource exploration rebate (RER)

A refundable tax offset will be available at the company level (set at the prevailing company tax rate), for exploration expenditure incurred on or after **1 July 2011.** Under this measure, the definition of exploration expenditure will be expanded to include expenditure incurred in exploring for geothermal energy. All companies will be able to access the RER, to avoid the complexity of defining the concept of an 'Australian small listed exploration company' in the tax law.

TAXATION MEASURES NOT YET RESPONDED TO BY THE GOVERNMENT

Below is an outline of some of the taxation measures, not all, that are not yet responded to by Government. They are in addition to the bullet points listed at the beginning of this newsletter and are summarised without full explanations – please contact our office if you want more detail.

Personal Income Tax Recommendations

(a) As follows:

Taxable Income ($)	Tax Rate (%)
0 - 25,000	0
25,001 - 180,000	35
180,000+	45

(b) Concessional **tax offsets** should be removed (eg zone, mature age worker, entrepreneurs', employment termination payment, overseas civilian, etc) or replaced by outlays - the education tax refund should be replaced as part of the single family payment, but as a back-to-school (lump sum) amount

(c) The medical expenses tax offset should be removed

(d) All forms of salary and wages for Australian resident taxpayers should be taxable on an equivalent basis, ie at marginal rates, and without exemptions, including fringe benefits (where they are a direct substitute for salary and wages), and employer superannuation contributions

(e) Introduce an automatic standard deduction for work-related expenses and the cost of managing tax affairs – allow taxpayers to choose actual (with full substantiation) if above the threshold

(f) Where possible, collect tax liability and transfer entitlement amounts from third parties and provide taxpayers with pre-filled personal income tax returns as a default method of settling their tax affairs each year

Small Business Capital Gains Tax (CGT) Recommendations

(a) Increase the lifetime limit of the retirement exemption (currently $500,000) to

(Continued from page 2)

permanently align it with the CGT cap for non-concessional contributions (currently $1.1 million)

(b) Allowing taxpayers who sell a share in a company or an interest in a trust to access the concessions via the turnover test

Superannuation-Related Recommendations

(a) Tax on superannuation contributions in the fund (currently 15%) should be abolished, and taxed as income in the hands of the individual and taxed at their marginal tax rate with a flat-rate refundable tax offset being available.

(b) Halve the rate of tax on superannuation fund earnings to 7.5%, and also apply this rate to capital gains (without a discount), **and** to earnings from assets supporting superannuation pensions - allow funds to retain their access to imputation credits

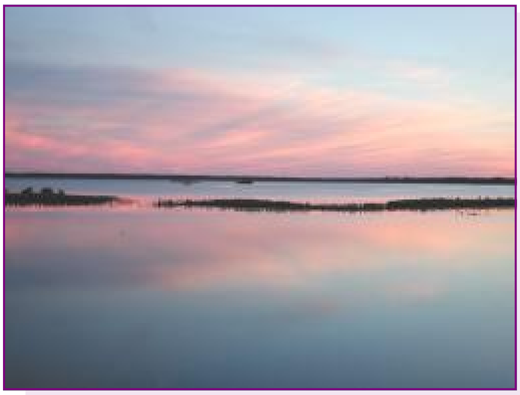
(c) Allow people over 75 to continue to make superannuation contributions, however, keep the 'work test' for people aged 65 +

(d) Employers to pay superannuation guarantee more often, ie at the same time as wages are paid

Fringe Benefits Tax Recommendations

(a) Benefits incidental to an individual's employment should remain taxed to employers at the top marginal rate (and non-reportable for employees) – and subject to a small *de minimis* threshold, below which fringe benefits are exempt from tax

(b) Scope of fringe benefits that are subject to tax should be simplified



GOOD NEWS - RECOMMENDATIONS THAT WON'T BE ADOPTED BY GOVERNMENT

(a) Won't be changing the fringe benefits capped concessions for not-for-profit organisations.

(b) Won't be reducing the 50% individual capital gains tax discount.

(c) Won't be limiting negative gearing deductions or losses.

(d) Won't be changing the grandfathering arrangements for pre-CGT assets.

(e) Won't be aligning the superannuation preservation age (currently 55 to 60) with the age pension age (expected to increase to 67).

(f) Won't be abolishing the luxury car tax.

ANNUAL HOLIDAYS

Our office will be closed for annual holidays from
Thursday 1 July 2010 – Monday 12 July 2010 inclusive.

Rana Jewell
Public Accountant & Lifestyle Consultant
13 Park Rd
Ferny Hills Q 4055
M 0408 51 0001
P 07 3351 4689 F 07 3851 0132
ranajewell@beneaththesurface.com.au