

## **The Henry Review into Australia's tax system + The Cooper Review into Australia's Superannuation Industry**

### **The Henry Review into Australia's tax system**

On 2 May 2010, the Government finally released The Henry Review into Australia's tax system together with the Governments' much anticipated initial response to the Review.

The Henry Review was directed to perform a comprehensive review of the Australian tax system. Its primary objectives was to identify the reforms necessary to enable the Australian Taxation System to meet the challenges of the 21<sup>st</sup> Century

The Henry Review which comprised 1,300 pages, produced 138 recommendations for comprehensive tax reform – of this, only 5 have been accepted whilst 29 recommendations have been clearly rejected either partially or wholly, and 114 will be subject to further consultations.

The government has announced a number of proposed changes to the taxation system, in particular changes to the superannuation system, reducing the corporate tax rate and some small business tax concessions.

We have summarised the changes which we feel are relevant below:

### **Reduction in Corporate Tax Changes**

The government has supported calls for the reduction in the company tax rate by reducing the company rate, currently 30%, to 29% for the 2014 income tax year and 28% from the 2015 income tax year. Small business will gain additional benefit with a reduction to the 28% rate effective from 1 July 2012.

The reductions are the first since 2001 and long overdue. In the medium to long term, the Henry Review recommended that the corporate tax rate be reduced to 25%. It is disappointing that the government has **not** made any commitments or comments to support this recommendation.

The government has noted that it will not make any changes to the dividend imputation system.

### **Small Business**

Starting from 1 July 2012, small businesses will benefit from the immediate write off available for assets purchased for less than \$5,000.

Along with changes to the depreciation rules, the depreciation of all other assets (excluding buildings) would be permitted to be "pooled" or grouped at a simpler 30% rate.

This would allow small businesses to bring forward the tax deduction which will assist with cashflow.

The government has not issued any guidelines as to what entities would qualify as “small business entities”. Currently a small business is generally one which has an aggregated annual turnover of less than \$2 million annually.

### Superannuation

The government has announced that superannuation guarantee payments made to employees, currently 9%, will progressively increase to 12% by the 2020 income tax year as follows:

Income Tax Year Ended	Superannuation Guarantee Rate
1 July 2013 to 30 June 2014	9.25%
1 July 2014 to 30 June 2015	9.50%
1 July 2015 to 30 June 2016	10%
1 July 2016 to 30 June 2017	10.5%
1 July 2017 to 30 June 2018	11%
1 July 2018 to 30 June 2019	11.5%
1 July 2019 to 30 June 2020	12%

The age limit in which these superannuation guarantee payments will need to be made will also increase from the current 70 years old to 75 years old.

For workers earning less than \$37,000 per annum, the government will also make a contribution of 15% of the concessional contributions made on their behalf, up to a \$500 limit. In effect, the tax on the superannuation contributions for these workers – currently 15%, would be nil. These changes will come into effect from 1 July 2012.

For people over 50 with superannuation balances of less than \$500,000, the government has also increased the amount of deductible superannuation that they can make, increasing the limit from \$25,000 to \$50,000. This would allow older taxpayers nearing retirement with small superannuation balances to increase their super balances at a time when they require it most.

The Henry report also suggested that the tax on superannuation contributions, currently 15% be reduced to 7.5%. The government has not issued any comment accepting nor rejecting this recommendation.

The announced measures should increase the superannuation savings of many Australians and encourage more savings towards superannuation. It is also a major step forward in assisting lower income earners with their retirement savings.

### Energy & natural resources tax

The government will introduce a new 40% Resources Super Profits Tax from 1 July 2012 for petroleum and mining projects.

It is anticipated that the additional taxes will go to fund a new State infrastructure fund to support infrastructure used to support the resources industry.

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### **Resource Exploration Refundable Tax Rebate**

Exploration conducted in Australia after 1 July 2011 will be eligible for a refundable tax offset. This will enable companies with tax losses access to cash tax refunds.

This rebate has been implemented to encourage more direct investment into the Australian Resources Industry.

### **Recommendations Rejected by the Government**

The government has also rejected many recommendations made by the Henry review, and stressed that they will NOT be adopting any of the following recommendations:

- Introducing land tax on the family home
- Requiring parents to work when their youngest child turns 4
- Reducing the general 50% capital gains tax discount
- Introducing a bequest or death tax
- Removing tax deductions for “negatively gearing” rental properties – where the rental expenses exceed rental income on a rental property
- Increasing the 10% GST rate

### **Balance of Recommendations**

There are a further 114 recommendations of the Henry review that have neither been rejected nor adopted. While this is disappointing no doubt we will be hearing more about these in the Budget next week and the lead up to the next Federal Election.

### **Self Managed Superannuation – The Cooper Review**

In May 2009, the government announced a review into the taxation and administration of self management superannuation funds (SMSF).

On 29 April 2010, the Chairman of the Review, Jeremy Cooper, issued the following recommendations:

- prohibiting investment in collectables and personal-use assets (such as artworks, wine collections, exotic cars and yachts);
- tightening the SMSF registration process, including the introduction of member identity requirements, to reduce instances of fraud and illegal early release schemes; and
- reducing the potential to benefit illegally from related party transactions by prohibiting the acquisition of in-house assets and imposing restrictions on the way in which an SMSF can transact with related parties.

The government has yet to respond to the recommendations; however, given the ever increasing numbers of SMSF's we expect a response will be forthcoming sooner than later.

### **What to do next?**

The above announcements have not yet been enacted into law and are only proposed changes.

We will closely monitor any announcements or changes that may affect your circumstances and will advise according to your personal financial situation.

Should you have any questions or concerns regarding the matters discussed above, please contact us on +61 7 3266 1488 or by email at [mail@dfkhn.com.au](mailto:mail@dfkhn.com.au).