



Halley's Comet, Y2K and Henry

Every few years an event comes along promising to be *once in a lifetime*. The buildup is tense. The population counts down the days and minutes until it arrives; the general public holds their breath.

I recall the weeks and months before the appearance of Halley's comet in 1986. Knowing that this was not due in our region of the universe again until 2062, it was important to catch a glimpse of this astronomical oddity as it blazed its way across the stratosphere, leaving a long tail of gasses which would encompass the horizon and light up the night sky. The reality of the event was somewhat a fizzer. Even with the technological assistance offered by a \$50 K-Mart telescope, Halley was little more than a fuzzy point in a crowded night sky.

Fourteen years later, the world held its collective breath as computers all over the world would read the year 2000 as 1900. Aircraft would fall from the skies, world commerce would shut down, countries would be thrown into anarchy, cats would marry dogs etc etc.

A decade on, we have the trifecta. After two years in the making and with the Government sitting on it since December last year, the Henry tax review and Government response were released yesterday. One must feel a bit sorry for Dr Henry. There is no doubt that his review was exhaustive, weighing up the relative pros and cons of the 126 taxes in force in Australia. His report provided 138 recommendations, for which the Government has effectively decided to run with two recommendations at this point.

The reality of yesterday's announcements is that clients of BL&A will have very little to get worried or excited about. Nonetheless, for the record we have provided a summation of yesterday's Government response.

Superannuation - Increasing super guarantee rate to 12%

The superannuation guarantee (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

Increasing the SG rate in the manner proposed will provide for higher super balances, particularly for younger individuals. For example, a 30 year old with a \$30,000 current super balance earning a salary of \$60,000 per year could see their super balance increase by \$194,000 in nominal terms, or \$69,000 in real terms. This assumes investment returns of 7.7% pa net of fees and inflation of 3% pa.

What has been very interesting about this change is the way that it has been sold. This morning most media outlets reported “Mining tax to pay for higher superannuation contributions”. The reality is that the increase in superannuation guarantee is being financed by the country’s employers and not the mining tax. This may well flow through to reductions in employees’ take home pay, if small business (in particular) cannot afford to fund (both) higher superannuation and wage increases.

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. The Government estimates 33,000 employees will benefit from this measure. The combination of an increased SG rate and longer availability mean that a person who will continue working until age 75 may see an increase in their retirement savings of up to \$232,050 in today’s dollars. This assumes investment returns of 7.7% pa net of fees and inflation of 3% pa.

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.

Higher concessional contributions caps retained for over-50's

As reported in our BLa BLa BLa, the \$50 000 concessional superannuation cap for the over 50s is due to reduce to \$25 000 on 1 July 2012. Under yesterday's announcements, 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 devil for this will be in the detail. A member of the Commonwealth Superannuation Scheme (CSS) is likely to pass the \$500 000 test, as the value of their accumulation in the fund (the member and productivity component) is almost always going to be lower than \$500 000. However, when one considers the value of the unfunded Commonwealth pension that they will receive when they retire, the net present value of that indexed pension will invariably take them over the \$500 000 threshold. Clearly schemes like CSS, DFRDB, PSS and MSBS are not as straight forward as private sector schemes as there will need to be some decisions made as to exactly what is "in" or "out".

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%.

For those running a small business (like BL&A), this is welcomed.

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 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 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.

Henry Review recommendations ruled out

The difficulty with a review of this nature is that Treasury will have conducted the review in a very "non political" manner. Their role was to ensure that the recommendations were constructive and made without fear or favour.

Those who spent a lifetime watching shows such as *Yes Minister*, *Yes Prime Minister* and (more recently) *The Hollowmen*, will appreciate that the Government of the day will not always make *courageous* political decisions, particularly not in an election year.

The Henry review was always going to touch on a number of *sacred cows*, such as the tax exempt nature of the family home and changes to negative gearing. Given that one in seven Australian taxpayers owns a rental property, large scale changes to the taxation benefits of this strategy would have been seen as *particularly courageous*.

The Government advises that it will not implement the following policies at any stage. Some of these are recommendations of the Australia's Future Tax System review; some are potential misinterpretations of the recommendations:

- include the family home in means tests (see Rec 88c)
- introduce land tax on the family home – this is a state tax and thus an issue for the states (see Rec 52 & 53)
- require parents to work when their youngest child turns 4 (see Rec 85)
- restrict eligibility to rent assistance for families (see Rec 103)

- do 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 (see Rec 9e, 13, 41, 43 & 44)
- reduce overall remuneration to the members of our defence forces (see Rec 6d, 8c & 9e)
- reduce the CGT discount, apply a discount to negative gearing deductions, or change grandfathering arrangements for CGT (see Rec 14 & 17c)
- remove the Medicare levy (see part of Rec 5)
- reduce indexation of the age pension (see Rec 84)
- remove the benefits of dividend imputation (see Rec 37)
- review pensioner and low income concessions for utilities, transport and other essential services (see Rec 107)
- introduce a bequests tax (see Rec 25)
- align preservation age with pension age (see Recommendation in AFTS Retirement income strategic issues paper)
- offer a government annuity product (see Rec 22)
- ask the States to charge market rents to public housing recipients (see Rec 106)
- abolish the luxury car tax (see Rec 80)
- index fuel tax to CPI (see Rec 65)
- change alcohol tax in the middle of a wine glut and where there is an industry restructure underway (see Rec 71) .

The Government has also reaffirmed that it will never increase the rate or broaden the base of the GST or remove tax free superannuation payments for the over-60s, which were both ruled out of the Henry Review Terms of Reference.

All things considered, clients of BL&A can feel relatively comfortable that life, as they know it, will continue on.

As always, please do not hesitate to contact us if you have any questions whatsoever.

The BL&A team.
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