

# The Henry Review into Australia's Future Tax System

**On 2 May 2010, the Government released the [report](#) of the review into Australia's Future Tax System (the Henry Review).**

The Government also released its response to the review, including a [tax reform plan](#) to be implemented over the next decade. The proposals in the plan are the 'first wave' of the agenda to reform resource, company and small business taxes and superannuation. Important elements of the plan include:

- a gradual increase in the superannuation guarantee (SG) rate to 12 per cent
- an increase in the SG age limit from 70 to 75
- a new superannuation contribution of up to \$500 per financial year will be provided by the Government in respect of concessional contributions made by or for workers with adjusted taxable income (ATI) of up to \$37,000
- the \$50,000 transitional concessional contributions cap will be extended permanently for individuals aged 50 or over with superannuation balances of less than \$500,000 to allow them to make 'catch up' contributions
- a reduction in the company tax rate from 30 per cent to 29 per cent for the 2013/14 financial year and to 28 per cent for the 2014/15 and later financial years. For eligible small businesses, a company tax rate of 28 per cent will apply from the 2012/13 financial year
- a new instant write-off for small business assets worth less than \$5,000 and simplified depreciation for most other small business assets, and
- the introduction of a Resources Super Profits Tax (RSPT) of 40 per cent on profits made from the exploitation of Australia's non-renewable resources, commencing from 1 July 2012.

The RSPT is being used to fund the \$2.4 billion cost over four years of the superannuation measures and to also fund the reduction in company tax and increased spending on infrastructure.

## Superannuation changes

The Government proposes to introduce a number of superannuation reforms that are intended to deliver improved retirement incomes for workers, boost national savings and help meet the challenges of an ageing population.

### Increasing the SG rate from 9 to 12 per cent

Commencing from 1 July 2013, there will be a phased increase of the SG rate from 9 per cent to 12 per cent. The lead time and phase in will allow employers to take the increased SG contributions into account in future wage negotiations. The SG rate will be increased as follows:



**redefining** /  
financial services

Financial year	SG rate (%)	Increase from previous year (%)
2009/10 to 2012/13	9.00	-
2013/14	9.25	0.25
2014/15	9.50	0.25
2015/16	10.00	0.50
2016/17	10.50	0.50
2017/18	11.00	0.50
2018/19	11.50	0.50
2019/20	12.00	0.50

#### Implication/comment

It will continue to be important to review salary sacrifice agreements to take into account the impact of increased SG contributions. Individuals who are paid on a total employment cost (TEC) basis may experience a reduction in cash salary as the SG rate increases.

#### Increasing the SG age limit from 70 to 75

From 1 July 2013, employees aged 70 to 74 will be entitled to SG contributions, with the SG age limit increasing from 70 to 75. The new age limit will bring employer obligations in line with the age limit for voluntary and self-employed contributions.

#### Implication/comment

This may increase the cost of employing individuals aged 70 or over.

#### Government superannuation contribution for low income earners

From 1 July 2012, the Government will make a superannuation contribution of up to \$500 annually for individuals with an ATI of up to \$37,000. This is aimed at improving the equity of superannuation taxation arrangements for individuals with a marginal tax rate of less than 30 per cent.

The amount payable will be calculated by applying a 15 per cent matching rate to the concessional superannuation contributions made by or for individuals with an ATI of up to \$37,000. The annual maximum of \$500 will be available where an individual has concessional contributions of \$3,333 or more, and will be paid by the Government into the individual's superannuation account. The \$500 maximum amount will not be indexed.



**redefining /**  
financial services

The measure will apply with respect to concessional superannuation contributions made from 2012/13, with the first amounts to be paid in 2013/14.

#### **Implication/comment**

For individuals with an ATI of less than \$37,000, this measure may remove some of the disincentive to make salary sacrifice or personal deductible superannuation contributions. Depending on the amount and type of contributions made, these lower income earners may attract a Government co-contribution of up to \$1,250 (2012/13 and 2013/14 financial years) as well as a \$500 low income earners Government contribution.

#### **Extending the concessional contributions cap for persons aged 50 or over**

From 1 July 2012, the \$50,000 transitional concessional contributions cap will be extended permanently for individuals aged 50 or over with total superannuation balances of less than \$500,000.

This measure is intended to allow individuals with low superannuation balances the opportunity to 'catch up' on their superannuation contributions at the stage in their lives when they are most able to do so.

#### **Implication/comment**

This measure will allow older clients with total superannuation balances under \$500,000 to continue to take advantage of salary sacrifice and transition to retirement strategies. Superannuation splitting may become attractive once again.

#### **Other recommendations**

The Government has highlighted a wide range of policies that it does not intend to implement in the future, including:

- alignment of the superannuation preservation age with pension age
- the Government offering an immediate annuity and deferred annuity product that would allow a person to purchase a lifetime income stream
- removal of the Medicare levy
- reducing the CGT discount, applying a discount to negative gearing deductions, or changing grandfathering arrangements for CGT
- removing the benefits of dividend imputation
- inclusion of the family home in means tests for income support payments, and
- removing indexation of the Age Pension.

The Government also reaffirmed that it will never increase the rate or broaden the base of Goods and Services Tax (GST) or remove tax-free superannuation payments for individuals aged 60 and over.

In summary, superannuation is still one of the most attractive savings vehicles and is likely to remain the cornerstone of Government policy, albeit with some changes impacting efficiency (and costs) arising from the combined outcomes of the Cooper, Ripoll and Henry reviews.



**redefining /**  
financial services

**Please note that the changes outlined in this summary are proposals only at this stage, and will not take effect until the passage of relevant legislation.**

*For more details on any of the above information and the implications for your clients, please contact the AXA Technical Services team on 1800 644 644 or [axatechservices@axa.com.au](mailto:axatechservices@axa.com.au).*

***Important information***

*This article is based on our interpretation of information available at the time of publication (May 2010) and is intended to provide general information only. It has been prepared for distribution to professional financial advisers and AXA does not authorise the distribution of this publication to or use by existing or potential investors.*

Brought to you by AXA Technical Services

Timely Expert Creative Helpful



**redefining /**  
financial services