

The Government's Response: *Stronger, Fairer, Simpler: a tax plan for our future*

Australia's Future Tax System (AFTS) Review makes 138 recommendations under nine broad themes. The following provides an overview of the initial Government response.

1. Cutting the company tax rate

- The company income tax rate will be reduced from 30 per cent to 28 per cent in stages:
 - The company income tax rate will be reduced to 29 per cent for the 2013-14 income year and to 28 per cent from the 2014-15 income year, in conjunction with the introduction of the Resource Super Profits Tax (RSPT).
- Reducing the company tax rate to 28 per cent, funded through the introduction of the RSPT, is expected to increase long run GDP by 0.4 per cent (excluding the gains from refunding royalties).
- This falls short of adopting the AFTS Review recommendation of a company tax rate of 25 per cent over the medium term (but leaves open this possibility).

2. Early start to company tax rate cut for small business

- As part of the company tax rate cuts, there will be a rate cut to 28 per cent for eligible small businesses from the 2012-13 income year.
- Small business will have a lower tax rate than other companies until the reduction of the general company tax rate to 28 per cent in 2014-15.
- This measure is welcomed given that smaller businesses continue to face patchy economic conditions and problems accessing credit. There are approximately 720,000 small business companies that can benefit from this measure.
- The small business threshold of (group wide) turnover below \$2 million will apply for this measure.

3. Small business instant asset write-off

- The small business instant asset write-off will also be welcomed by SMEs. From 1 July 2012 small businesses will be able to immediately write-off assets valued at under \$5,000 (this is up from \$1,000 under the present law); and to write-off all other assets (except buildings) in a single depreciation pool at a rate of 30 per cent.
- This nonetheless falls short of the AFTS Review recommendation to allow depreciating assets costing less than \$10,000 to be immediately written-off and increasing the small business entity turnover threshold from \$2 million to \$5 million.

4. State infrastructure funding

- This measure will provide the States and Territories (the States) with a new infrastructure fund with an initial total amount of \$700 million in 2012-13, rising to \$735 million in 2013-14.
- Funding will be distributed in a manner which recognises that resource rich States face large associated infrastructure demands.

- It remains to be seen how the funds will be distributed to the States and the role to be played by Infrastructure Australia and the Commonwealth Grants Commission.

5. Resource super profits tax

- A Resource Super Profits Tax (RSPT) will be introduced on 1 July 2012 at a rate of 40 per cent on profits above a threshold made from the exploitation of Australia's non-renewable resources.
- The RSPT tax base is the value of the resource at the taxing point less all allowable costs incurred in getting the resource to the taxing point — for example, exploration costs, mine/well development costs, processing and haulage costs.
- 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.
 - The refundable credit will eliminate investment distortions associated with the state royalty systems and ensure there is no 'double taxation' of resource profits.
- The RSPT will apply to all existing resource projects, except those already within the scope of the PRRT regime. These projects will have the option of electing into the RSPT regime or staying in the PRRT regime.
- The RSPT is consistent with the AFTS Review recommendation that revenue raising should be concentrated on four robust and efficient tax bases that includes economic rents from natural resources and land.
- The transition provisions will help ensure that industry can plan ahead given existing projects and those in the pipeline. The credit for payments made through state royalty schemes is appropriate although more could have been done in this area to eliminate the less efficient state based royalty schemes.

6. Resource exploration rebate

- This measure will provide a refundable tax offset at the company level, set at the prevailing company tax rate, for exploration expenditure carried out in Australia.
- It will be available for exploration expenditure incurred on or after 1 July 2011. As part of 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 Resource Exploration Rebate, to avoid the complexity of defining the concept of an 'Australian small listed exploration company' in the tax law.
- This measure will assist mining companies in the transition to the RSPT and in particular smaller companies who do not get this type of benefit until they are profitable.

7. Superannuation — increasing the superannuation guarantee (SG) rate to 12 per cent

- The SG rate will be increased gradually from the current 9 per cent with initial increments of 0.25 percentage points on 1 July 2013 and on 1 July 2014. Further increments of 0.5 percentage points will apply annually up to 2019-20, when the SG rate will be set at 12 per cent.
- Unlike the initial compulsory superannuation contributions which were introduced in the context of a trade-off for wage restraint, there is no formal link in the current environment. This will raise the importance of wage restraint in upcoming wage bargaining negotiations.

8. Superannuation — raising the superannuation guarantee age limit from 70 to 75

- This measure raises the SG age limit from 70 to 75. Workers aged 70 to 74 will be eligible to have SG contributions made on their behalf for the first time. The new SG age limit will now match the age limit for voluntary and self-employed contributions. This measure will commence from 1 July 2013.
- While increasing the SG age limit will provide an incentive for mature workers to remain in the workforce, it may not necessarily provide an incentive for them to be employed unless this additional business cost can be passed on.

9. Superannuation — low income earners government contribution

- This measure will provide a superannuation contribution of up to \$500 annually for individuals on adjusted taxable incomes of up to \$37,000 to improve the equity of superannuation taxation arrangements. Concessional superannuation contributions made from 2012-13 will be eligible for the Government contribution. This will be paid in 2013-14.

10. Superannuation — concessional contributions caps

- This measure will provide greater flexibility for those nearing retirement by continuing, from 30 June 2012, a separate higher concessional contributions cap of \$50,000 (indexed) for those aged 50 or over who have total superannuation balances of less than \$500,000. This measure will take effect from 1 July 2012 when the existing transitional concessional contributions cap was due to fall to \$25,000.
- However the Government response could have addressed the AFTS Review recommendation for tax on superannuation contributions in the fund to be abolished, a measure that was estimated in the Review to increase saving from currently taxed contributions by 17.5 per cent.

Other areas of the AFTS Review without immediate action from the Government

- There will remain a myriad of inefficient State taxes which have not been addressed in the initial Government response. The AFTS Review called for the following taxes to be abolished over time and their revenues replaced by taxes applying to the four robust and efficient tax bases:
 - insurance taxes
 - payroll tax
 - property transfer taxes
 - stamp duties on the purchase of motor vehicles
 - resource royalties, replaced by the rent tax
 - luxury car tax
 - the tax on superannuation contributions in the fund
 - income taxes on all government pensions, allowances and benefits
 - fuel and vehicle registration taxes, if replaced by more efficient road user charges.
- The Government has largely ignored this recommendation, even without outlining a timetable by which it could work with the States to reform or remove these taxes although it leaves open the possibility of revisiting these taxes in the coming months.
- Many of the recommendations outlined in the AFTS Review under the theme of an equitable, transparent and simplified personal income tax have also not been addressed. Moreover, the key issue of more affordable housing has not been addressed.

Budget impact

The budgetary impact of the Government's tax reform agenda is outlined below and expected to raise an additional \$2,595 million by 2013-14.

BUDGETARY IMPACTS OF THE GOVERNMENT'S TAX REFORM AGENDA (\$ MILLION) ^(A)				
	2010-11	2011-12	2012-13	2013-14
Company tax cut	-	-	-300	-2,000
Small business instant write-off and simplified depreciation	-	-	-	-1,030
Head start on a lower company tax rate for small business	-	-50	-300	-200
State Infrastructure Fund	-	-	-700	-735
12 per cent superannuation guarantee	-	-	-	-240
Extend the superannuation guarantee up to age 75	-	-	-	15
Refund of superannuation contributions tax for low income earners	-	-	-	-830
\$50,000 concessional cap for super balances under \$500,000	-	-	-545	-785
Resource Exploration Rebate	-	-	-520	-600
Resource Super Profits Tax	-	-	3,000	9,000
Total	-	-50	635	2,595

(a) Australian Taxation Office administration costs will be reported in the 2010-11 Budget.

Economic impact

The Government commissioned economic modelling into the likely long run macroeconomic impacts from the introduction of a RSPT, including the removal of the impact of royalties and cuts in the company tax rate. The modelling results indicate a long-run improvement of 0.7 per cent for GDP, 2.1 per cent for investment, 1.1 per cent for real wages and 0.1 per cent for employment.

This contrasts with the gains from the major changes in the AFTS Review which were estimated at between 2 to 3 per cent of GDP.