

Overview

For business, the Australian Government's initial response to the Henry Tax Review (Henry Review) is a mixed bag, with some tax savings and some extra taxes.

While the Government only acted on a handful of the 138 recommendations, the Federal Treasurer has said that the Government response is only the first phase of the tax reform agenda.

Most small businesses will benefit from simpler depreciation rules on capital and from the ability to immediately write-off assets valued under \$5,000.

The company tax rate will be reduced from 30% to 28%, in two stages from 2013-14. Small businesses will receive the company tax rate reduction earlier.

The Henry Review recommended that State payroll tax be abolished. This was a breakthrough recommendation for the nation's employers after years of lobbying by ACCI and our member organisations. The Government has not, in its initial response, acted on this recommendation.

The Government proposes to fund its business tax reductions and other initiatives through a new tax on the Resources Industry from 1 July 2012, projected to raise an extra \$9 billion per year. This tax is not a good idea because it ends up costing all businesses indirectly.

The Government also announced an increase to the compulsory superannuation levy paid by employers from 9% to 12%. Increases will be phased in over seven years from 2013 to 2020.

The levy increase hits about one million employers, large and small. In adopting this measure, the Government ignored the Henry Review's recommendation that employers NOT be forced to pay higher superannuation levies.

The Government has made the business tax reductions conditional on the implementation of the proposed new Resource Tax. ACCI does not agree with that approach. Tax relief for small business is justified in its own right and should not be made a political football by linking a tax reduction to a tax rise.

The Government did not announce any capital gains tax (CGT) relief. The Government continues to make tax concessions to enhance employee superannuation but has not matched them with the CGT concessions necessary to also nurture the small business retirement nest egg.

Government Announcement

Increase in superannuation guarantee levy

The employer-funded superannuation guarantee will increase from 9% to 12% between 2013 and 2020. The cost to employers will increase incrementally, commencing with a 0.25% increase in both 2013-14 and 2014-15 with annual 0.5% increases thereafter until 2019-2020.

Extension of age limit for super guarantee

From 2013 employers will be required to provide the superannuation guarantee to employees aged between 70-75 years of age. There is expected to be approximately 33,000 additional eligible employees.

New small business asset write-off & depreciation rules

From 1 July 2012 new rules will allow small enterprises to immediately write-off assets valued under \$5,000 and benefit from simplified depreciation rules on all assets except buildings.

Payroll tax

There was no immediate action from the Government on the Henry Review's recommendation that payroll tax be abolished.

What it Means for Business

- Was not recommended by the Henry Review. The Retirement Income Report produced for the Henry Review recommended that the superannuation guarantee rate should remain at 9%.
- This is a one-third (33%) increase on current employer payments. It is likely to cost business in excess of \$20 billion annually (in current dollar terms) once fully implemented. The Government intends that the burden on business will be softened by a 2% cut in company tax. However, two thirds of small businesses are not companies. As a result, about 420,000 unincorporated small business employers will not benefit from the company tax cut while still having to pay the higher superannuation levy.
- The seven year phase-in period softens the impact but does not make the increase fair.
- Breaks the Government's 2007 pre-election promise to business not to increase the 9% levy.
- Government suggests that a wages trade-off will help fund the increase but this is hard to deliver in a less centralised wage system and is likely to be resisted by unions once legislated.
- Not a major problem, but a broader eligibility base means increased costs for employers employing mature Australians.
- These are good measures even though the Henry Review recommended they go further. It suggested a \$10,000 asset value rather than \$5,000.
- This will benefit businesses with annual turnover less than \$2 million.
- It is estimated that 2.4 million business will benefit from the new depreciation rule.
- A simplified depreciation regime for all assets except buildings will help with cash flow and simplify tax compliance. Assets will be depreciated in a single pool rate of 30%.
- This is the big missed opportunity in the Government's initial response to the Henry Review.
- Unlike cuts to company tax, abolishing payroll tax would benefit employers regardless of whether their business is a company.
- Abolishing what is effectively a tax on jobs would have a very positive impact, especially for small businesses recovering from the Global Financial Crisis.
- While the government has not ruled out implementing this recommendation in the future, it should immediately set up a process with State governments to lay the groundwork and examine alternative funding sources.

Government Announcement

What it Means for Business

New 40% tax on resources sector

A 40% tax on the profits of the resources sector via the proposed Resources Super Profits Tax (RSPT), paid on top of other taxes like company tax. It replaces the crude oil excise in parallel with state royalties.

- The RSPT is projected to collect \$3 billion in 2012-13 and \$9 billion in 2013-14 and annually thereafter.
- The Government proposes that the RSPT will be retrospective, therefore including current projects.
- The Government claims that the RSPT will fund the increase in the superannuation levy but this is not the case. Employers fund the levy increase. Only other superannuation measures would be funded from the proposed resources tax.
- The Treasurer has advised that the implementation of the Government's initial response to the Henry Review depends on the implementation of the proposed RSPT, making the other changes a political football.
- The initial share market reaction to the proposed tax saw a sell-off of resources shares wiping millions off the value of Australian's investments, including their superannuation.

Company tax cut

Staggered cut in the company tax of 2% from 30% to 28%. The cut will be implemented by 1% cuts in 2013-14 and 2014-15 respectively. Small business receive the 2% tax cut earlier from 2012-13.

- This is a good initiative but two-thirds of small businesses are unincorporated (therefore don't pay company tax), meaning that 1.6 million will miss out on the benefits of the tax cut while 800,000 will benefit.
- For many businesses, the cut in company tax will not offset the cost of the increase in the compulsory superannuation levy.
- The Henry Review found that company tax is one of the most inefficient forms of taxation due to the mobility of international capital. It recommended The Government go further to reduce the rate to 25%.

New national infrastructure fund

The Commonwealth will establish a new State and Territory fund to invest in infrastructure projects. \$700 million will be paid into the fund in 2012-13 and \$735 million in 2013-14.

- The proposed distribution method promises the ability to respond to strains on existing infrastructure in resource-rich States. Projects should be required to pass rigorous and transparent cost/benefit criteria and address infrastructure bottlenecks.
- The scale of the fund is relatively modest, less than 2% of the size of the Nation Building and Jobs Plan announced by the Government in 2009.

Tax offset for resources exploration

From 1 July 2011, the resources industry will be provided with a refundable tax offset equal to the company tax for exploration expenditure within Australia. The rebate is designed to encourage exploration and is estimated to be worth \$520 million and \$620 million in 2012-13 and 2013-14 respectively.

- The rebate provides an incentive to carry out exploration in Australia.

Extension of superannuation concessional rate for over 50's

An extension beyond 1 July 2012 of the concessional cap of \$50,000 for individuals aged 50 years and over with superannuation balances of less than \$500,000.

- A good initiative that supports savings.
- Continuing the concessional rate beyond its initial expiration date will allow employees approaching retirement to make additional contributions to their superannuation at the concessional rate.

New government superannuation contribution for low income earners

From 1 July 2013-14 the Government will provide a superannuation co-contribution of up to \$500 annually for those earning less than \$37,000.

- A good initiative which the Government estimates will benefit 3.5 million low income Australians.
- Small business owners whose retirement savings are locked-up in their business will not benefit from this change or receive any capital gains tax relief.

ACCI represents over 350,000 businesses in every State and Territory and all industries.

Our network employs around 4 million employees, ranging from the top 100 companies to hundreds of thousands of small and medium businesses.