



PCG

PROFESSIONAL CONSULTANTS GROUP  
WEALTH MANAGEMENT



*There's a hole in the tax system, dear Kevin, dear Kevin...  
Well fix it dear Henry, dear Henry...*

## What does the future hold?

Over time the players may change but the sentiment is constant: politicians and Treasury chiefs are always vitally interested in the tax system.

A lot has certainly changed since May 2008 when Treasury Secretary Ken Henry began a 'root-and-branch' overhaul of the federal tax system, with its 5,700 pages of legislation covering 125 taxes<sup>1</sup>, plus a look at transfer payments like income support, and state taxes.

The review, which excluded GST and tax-free super for the over 60s, took 18 months to complete and included 1,500 submissions, 4,700 letters, 10 town hall meetings and one policy conference. The Federal Government took another four months to prepare its response.

And as with most major reports, there were a few leaks before Henry's 1,000+ page report, Australia's Future Tax System, was released on May 2 along with the Government's response.

Of 138 recommendations, only a handful have been adopted by the Government so far. Some have been completely ruled out, others put on hold. First cabs off the rank include a resource rent tax, cuts in company tax rates, tax concessions on some savings income, and the introduction of pre-filled income tax returns.

With such a small number of recommendations adopted initially, it is little wonder those expecting major change were disappointed. But major change was never going to happen immediately; it would have been a nightmare both logistically and politically.

Back in 1975, when the Whitlam Government commissioned the Asprey report into the Australian tax system, it was much the same. The report recommended GST, dividend imputation, capital gains tax, and fringe benefits tax but some took the best part of 25 years to be implemented.



## Superannuation changes

Henry recommended a number of changes to superannuation: abolishing the contributions tax; taxing super contributions as normal income but with a rebate; cutting the tax on earnings within super from 15 per cent to 7.5 per cent but applying it to both the accumulation phase and the currently exempt pension phase. None of these were adopted.

Instead, a key part of the Government's response is the introduction of a gradual increase in the superannuation guarantee, rising to 9.25 per cent from 2013–14, and moving to 12 per cent by 2019–20.

While this change is designed to increase retirement saving levels, unless there are wage offsets it will add some pressure to small businesses that have to make the higher payments. The impact may also be offset by the lowering of the company tax rate from 30 per cent to 28 per cent from 2012–13, though this does not assist small businesses which are not incorporated. Henry recommended a cut in the company tax rate to 25 per cent over the short to medium term.

Henry also recommended scrapping contributions tax altogether and applying the marginal tax rate to contributions, with a flat refundable rebate. This was changed to a \$500 contribution from the Government for people earning \$37,000 or less who receive no tax break as their marginal rate is only 15 per cent. The \$500 will be paid into super accounts in the financial year after the contribution is made.

Another element of the Government's response you won't find in the Henry report is retention of the \$50,000 concessional contributions cap for those aged over 50 but only if there is less than \$500,000 held in super. This kicks in on 1 July 2012. It may encourage more couples to split contributions, to keep one or both superannuation accounts below \$500,000 and maximise their contributions. Either way if you can contribute \$50,000 a year to your existing account, it won't take long to tip it over \$500,000.

The Government also raised the cut-off age for superannuation guarantee contributions from age 70 to age 75 and estimates this will affect 33,000 employees when introduced on 1 July 2013.

## Savings boost

Henry recommended a 40 per cent tax discount on savings income. From 1 July 2011 the Government will introduce a 50 per cent discount on up to \$1,000 of interest income. This is designed to encourage lower income earners to save, without diverting large sums away from super.

The Henry report gives us a taxation 'shopping list' to take us into the future. If Asprey is anything to go by, more holes in Henry's bucket may well be filled down the track.

1. Institute of Chartered Accountants; Charter magazine April 2010