

FirstChoice Employer Super

Henry Tax Review Summary

May 2010

The government has released its response to the Henry Review into taxation. Largely funded by a new Resource Super Profits Tax, the reforms include some key changes to superannuation and company taxation.

Major changes to superannuation include a phased increase in the rate of superannuation guarantee from 9% to 12%, the extension of the superannuation guarantee for workers aged between 70 and 75, a government contribution of \$500 for low income earners and the doubling of allowable concessional contributions from 1 July 2012 for workers aged 50 and over with less than \$500,000 in superannuation.

Key changes to taxation include the gradual reduction in the company tax rate to 28% and simplified rules for small business depreciation.

This Henry Tax Review Summary provides details of the employer relevant super and tax announcements.

Government proposals

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 reach 12%.

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 higher super balances, particularly for younger individuals who should benefit from this change for longer periods of time.

Business implications

The government has provided a generous lead time to implement this change to minimise the burden to businesses. Employers should begin to budget for these increases in the years ahead.

Some employers may also begin factoring the SG increases into salary negotiations. For example, where a salary increase of 3% is agreed, some employers may choose to pay a 2.5% increase in an employee's pay packet with the remaining 0.5% being their SG increase.

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 personal and voluntary employer contributions.

Business implications

This change means that where you previously could choose to pay super contributions for those aged 70 – 75, it will be compulsory in three years time.

The government estimates that roughly 33,000 employees will benefit from this measure. This means few businesses should be impacted by the change, and for those who are, the impact may be minor.

Businesses should consider the impact on their workforce and consider how they will budget for these increases in the years ahead.

Higher concessional contributions caps retained for over - 50s

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 government will consult with the super industry on the operation of the \$500,000 threshold. Note that superannuation funds currently report end of financial year account balances to the ATO through the member contribution statement.

Business implications

This may result in a two-tier remuneration approach for over 50s to allow payments up to their limits.

Age	Super balance	Concessional cap
Aged 50 or over	<\$500,000	\$50,000 pa
Aged 50 or over	>= \$500,000	\$25,000 pa

Further information will be provided when it is known.

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%.

Where to now?

The government has commented that tax reform is a long term process and that its plan is a significant first step in that process, representing a full reform agenda for several years. The proposed resource super profits tax is an important part of that process, as progress on the initial elements announced on 2 May 2010 will depend on securing revenue from its implementation.

The government has said that it will continue to develop its tax reform agenda over the coming years. In particular:

- The government will consider how it can make the personal tax system simpler and more transparent.
- The Board of Taxation has completed its review of the taxation arrangements applying to managed investment trusts and provided its report to the Assistant Treasurer.
- The Australian Financial Centre Forum has provided its report on Australia as a Financial Centre (the Johnson Report), with several Henry report recommendations in line with its recommendations.

The 2010 Federal Budget, to be handed down on Tuesday 11 May 2010, is likely to reiterate the government's commitment to these proposals and provide details around funding and revenue implications.

Want to find out more?

For more information, please contact your Relationship Manager or Employer Services on 1300 654 666, 8am to 7pm Sydney time.

Alternatively, please email us on employer@colonialfirststate.com.au.

Source: FirstTech Henry Tax Review Briefing.

The information contained in this Henry Tax Review Summary is based on the understanding Colonial First State Investments Limited ABN 98 002 348 352 AFS Licence 232468 (Colonial First State) has of the published Review materials and relevant Australian laws.

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