

As many of you may be aware, the Government's response to the Henry review was released yesterday, Sunday the 2nd May. Below is a summary of the main points from the Governments' response. Please keep in mind that these are recommendations from the Government only and will need to pass through parliament as legislation before they can be implemented.

Changes for Small Business

For eligible small businesses there are two recommended changes.

1. The capital allowances provisions (depreciation rules) will be changed in order to allow small businesses:

- to write off immediately assets valued at under \$5,000 (compared with the current \$1,000 limit), and
- to write off other assets (ie assets valued at over \$5,000) in one depreciating pool at the rate of 30%. Currently, depreciating assets may be allocated to 2 different depreciating pools. This will not apply to buildings.
- The revised rules will apply from 1 July 2012.
- The government will consult on the details of the new rules during the 2010/11 year.

2. Decrease in the company tax rate from 30% to 28% starting in the 2012-13 financial year.

- The company tax rate for "eligible small business companies" will be reduced to 28% from 2012/13 (ie two years earlier than for other companies).
- The government will consult on the exposure draft legislation, including on instalment and franking arrangements.

**Please note that the current definition of small business in tax law is a business that has aggregated turnover of less than \$2 million in the relevant financial year. There are some additional requirements to meeting this test that we won't go into here. The Government is yet to release detail as to whether this definition will apply to these measures.

Company Tax Rate Changes

The government has announced that the company tax rate will be reduced to:

- 29% from 2013/14,
- 28% from 2014/15.

This is for all other companies that don't fit the definition of a small business company.

Superannuation

The government has decided to recommend four changes to superannuation.

1. New Concessional Contribution Threshold

The amount of deductible superannuation contributions will be doubled for eligible workers who are 50 years of age and older. Eligible workers are:

- Workers who are aged 50 or older and;
- who have superannuation balances of under \$500,000

These workers will be able to make contributions of \$50,000 per year (indexed annually according to Treasury). The government has referred to the measure as a “catch-up” so it assumed that workers may not be eligible for the higher rebate once their overall superannuation balance exceeds the \$500,000 limit — this will be discussed with the superannuation industry. This low balance cap applies from 1 July 2012 and effectively replaces the current transitional cap for workers aged 50 and older which expires on 30 June 2011.

2. Additional government contribution for low income workers

From 1 July 2012 the Government will provide a contribution of up to \$500 for individual taxpayers with taxable incomes up to \$37,000 who make superannuation contributions. This means that when they receive the government co-contribution into their superfunds it will effectively be a tax free co-contribution by the Government.

3. The superannuation guarantee charge scheme (SGC)

The SGC will be increased up to a target level of 12% and it will now apply to workers below 75 years of age.

The government has announced that it will increase the SGC to a maximum of 12% by the 2019/20 financial year. The charge will increase in increments as outlined in the table below.

Income year	SGC annual rate	Increase from previous year
2009-10 to 2012-13	9%	None
2013-14	9.25%	0.25%
2014-15	9.50%	0.25%
2015-16	10%	0.50%
2016-17	10.50%	0.50%
2017-18	11%	0.50%
2018-19	11.5%	0.50%
2019-20	12%	0.5%

4. SGC cut-out age extended to 75

The entitlement age for the SGC will be lifted for workers, with the cut-out age limit increasing from 70 to 75 years of age. This change will commence on 2013/14 and will align the SGC cut-out age with voluntary and self-employed contributions.

Other Measures

For more information on measures such as the resource super profits tax, resource exploration rebate and State infrastructure funding please refer to the government website www.futuretax.gov.au

Possibly Still to Come

We can expect that there will be more to come from the Government on the Henry review in the next few months. Here are a few items that either haven't been responded to at all by the Government or are listed as being still considered by the Government:

- Simplified tax return system for individuals, this may mean not needing to complete an income tax return for basic individual returns, or receiving a pre-filled tax return from the ATO that you can just sign and return; other suggestions include a standard deduction amount for work related expenses
- Ways for businesses to deal with Government in a more efficient manner
- A high tax free threshold for individuals and a constant marginal rate
- Medical expenses offset should be removed, and the Medicare levy surcharge and assistance for private health insurance should be reviewed
- All salary and wages earned by Australian residents should be taxed at an equivalent rate and without exemptions
- Fringe benefits should be taxed at the individual level through the PAYG system rather than through the employer; the benefits that are taxed should be made simpler; car fringe benefits should be valued at a statutory rate of 20% regardless of the kilometres travelled
- A 40% savings discount on interest income, net rent income, capital gains and interest expenses on listed shares held by individuals
- Capital Gains Tax – Increase exemption threshold for collectables, and exclude personal use assets completely; removing the 50% active asset concession and 15 year exemption; increasing the retirement exemption lifetime limit;
- Small business turnover threshold be increased from \$2 million to \$5 million
- Changes to the way you are eligible for payments from CentreLink, including means testing; changes to the payments for families to simplify these rules

It will be interesting to see what the Government has to say on the above and more in the coming months, and in their second term should they get there.

If you have any concerns or questions about these measures or any other matter, please contact your MB+M Business Solutions adviser on (03) 5821 9177.