

## HENRY REVIEW RELEASED

by Tim Olynyk

On 2 May 2010, the Government released the much-awaited review of Australia's taxation system undertaken by Dr Ken Henry, "the Henry Review". The Government also outlined its responses to certain recommendations made in the Henry Review.

Interestingly, the Government has not responded to all of the 138 recommendations contained in the Henry Review. Instead, the Government has focussed on outlining responses to only some of the key recommendations - given the objective of the Henry Review was to undertake a "root and branch" review of Australia's taxation system, it is hoped that the Government will provide a more thorough response to the Henry Review sooner rather than later.

Detailed below are some of the more interesting recommendations in the Henry Review together with the relevant Government responses:

Personal Tax Recommendations	Government Response
Increasing the tax-free threshold and reducing the amount of marginal tax rates.	No response provided.
Easy to value Fringe Benefits should be taxed in the employee's hands through PAYG rather than to the employer.	No response provided.
A 40% discount on tax should be provided for individual's savings income from interest, rental and capital gains.	No response provided
Rationalising CGT by reducing the Small Business CGT tests and removing pre-CGT concessions.	Removal of the pre-CGT exemption has been rejected. No other response provided.
Undertake a review to determine whether a bequests tax should be introduced.	The Government has rejected this proposal.
A standard tax deduction should be introduced for work related expenses to simplify the preparation of the income tax return.	No response provided.

Corporate Recommendations	Government Response
A 40% non-renewable resource rent tax on "super profits" derived by entities in the resources sector should be introduced.	A 40% resource rent tax will apply to all mining and petroleum projects other than to low value mineral projects. The 40% tax will apply from the 2012-13 financial year.
The corporate tax rate should be reduced to 25%.	The corporate tax rate will be reduced to 29% from 2013-14 and to 28% from 2014-15 (see below for small businesses).
Companies should be able to carry-back revenue losses to offset prior year net income.	No response provided.
The taxation of trusts should be reformed.	No response provided.

Small Business Recommendations	Government Response
The corporate tax rate should be reduced to 25%.	The corporate tax rate for small business will be 28% from 2012-13.
The small business entity turnover threshold should be increased from \$2M to \$5M and consideration should be given to adjusting the \$6M net asset value test.	No response provided.
Assets costing less than \$10,000 should be able to be written off immediately.	Assets costing less than \$5,000 will be able to be written off immediately and all other assets will be able to be pooled into a diminishing value depreciation pool of 30% from the 2012-13 financial year.

Superannuation	Government Response
Not commented on in review.	SG contribution rate to increase from 9% to 12% by 2019-20.
Tax on superannuation earnings should be reduced from 15% to 7.5% while income derived during pension phase should be taxed at 7.5% compared to the current 0%.	No response provided.
Not commented on in review.	SG age limit will be raised from 70 to 75 (work tests need to be satisfied).
Not commented on in review.	From 1 July 2012, the Government will make a contribution of up to \$500pa for low income earners whose taxable income is less than \$37,000

Other Taxes	Government Response
Remove stamp duty and replace it with taxes based on consumption and land valuation.	No response provided.
Broaden the tax base for land to eventually include all land.	No response provided.
Replace existing payroll tax regime to create uniformity and efficiency.	No response provided.
Replace the existing statutory formulas for car fringe benefits with a single 20% fraction which will apply regardless of the kms travelled.	No response provided.

The Henry Review contains a substantial number of suggestions to improve the Australian taxation system – however to date, the Government has failed to comment on the majority of them. The above analysis only represents a small snapshot of recommendations made in the Henry Review.

Banks Group will be holding a briefing session to provide further analysis of the recommendations contained in the Henry Review. Invitations will be sent out shortly.

**If you have further queries, please contact us on (03) 9810 0700.**