

TAX REFORM

ROAD MAP

MAY 2012

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CONTENTS

Tax Reform: Next Steps	3
A road map for tax reform	5
Building a stronger, fairer and simpler tax system	5
Australia is a low taxing country	6
Government’s tax reform vision.....	9
Investment for a productive economy	16
Participation and reward for effort	20
A fairer and more sustainable tax system	24
Conclusion	29
Appendix 1: Tax Reform — SUMMARY	30

TAX REFORM: NEXT STEPS

The taxes Australians pay are an essential part of funding the world-class living standards and high quality services we all aspire to enjoy, while remaining one of the lowest taxing countries in the developed world.

As we grow, and the world around us changes, we need to make sure our tax system continues to support our standard of living and our success in the world.

Tax reform is necessary to help business and the community respond effectively to the challenges of our times in order to secure the best life for all Australians — the challenges and opportunities of a transforming economy, be it from an ageing population, a clean energy future, a technology revolution, or the Asian century.

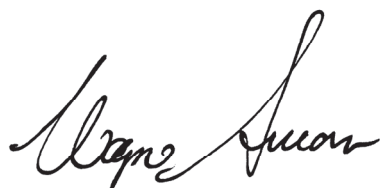
Recognising this, the Government commissioned the most comprehensive review of Australia's tax and transfer system in its first year. Following extensive consultation, the *Australia's Future Tax System* review presented a vision of a future tax system that would position Australia to deal with the challenges of our transforming economy.

The Government's response to the AFTS review, the *Stronger, Fairer, Simpler* package, included minerals and petroleum taxation, as well as wider business tax and superannuation reforms. The Government has progressed nearly 40 measures advancing the AFTS Review recommendations.

The Government has also engaged the broader community and business in ongoing discussions about tax reform, including through last year's Tax Forum, comprising 180 participants, and through subsequent working groups and consultative roundtables.

Our tax reform road map builds on the work already undertaken and charts a course through the challenges and opportunities we're facing. It continues the national conversation, and builds on the historic reforms that are already helping the economy and the community.

The road map shows the directions our reforms will take over the next ten years to improve our tax system and help keep Australia strong, fair and prosperous in the twenty-first century.



The Hon Wayne Swan MP
Deputy Prime Minister and Treasurer



The Hon David Bradbury MP
Assistant Treasurer

A ROAD MAP FOR TAX REFORM

The Government has a strong record on tax reform. We recognise that Australia needs a tax system that allows it to grow and prosper. Our tax system needs to facilitate a stronger economy, a fairer society, a modern economy for the 21st century, all while rewarding effort.

The Government's vision for reforming the tax system has three key aspects.

First, the tax system should seek to **enhance productivity in the economy** and lift growth. It should promote sensible risk taking and generate new investment opportunities. This will translate into more jobs and higher living standards.

Second, the tax and transfer system should encourage, not discourage, **participation in the workforce**. It should provide reward for effort.

Finally, the tax system should be **fair and sustainable**. It should make society more equitable, so that those who have the ability to contribute do so, and those on similar incomes are treated within the tax system in similar ways. The tax system should provide revenues to fund our world class living standards and services, now and for the future.

Across all of these aspects of the tax system, simplicity is a major aim of the Government's tax reform. Simplicity cuts across all aspects of our vision. A tax system buried in red tape and complexity will reduce investment, stifle innovation and risk taking, and ultimately reduce productivity and economic growth. Complexity in the tax system will reduce the time an individual or company has for other pursuits, and detract from further participation in the workforce. It also makes the system unfair, as it imposes a higher burden on low income households.

The Government believes that tax reform is an ongoing process that is built around community and business engagement, delivered in a fiscally responsible way.

BUILDING A STRONGER, FAIRER AND SIMPLER TAX SYSTEM

In the Government's first Budget, we commissioned the most comprehensive review of the tax and transfer system in Australia's history. The *Australia's Future Tax System* (AFTS) review, chaired by Dr Ken Henry, presents a vision of a future tax and transfer system that would position Australia to deal with the demographic, social, economic and environmental challenges of the twenty-first century.

The AFTS review outlined a set of guiding principles for Commonwealth and State tax reform for the next 40 years. The Government has progressed nearly 40 measures advancing the AFTS Review recommendations (Appendix 1), starting with the *Stronger, Fairer, Simpler* package, which centred around the mining tax, superannuation and small business tax reforms.

The *Stronger, Fairer, Simpler* package was the first step in a long-term agenda that will help ensure we share prosperity fairly, maximise our opportunities, and keep Australia in the box seat as the global recovery gathers pace.

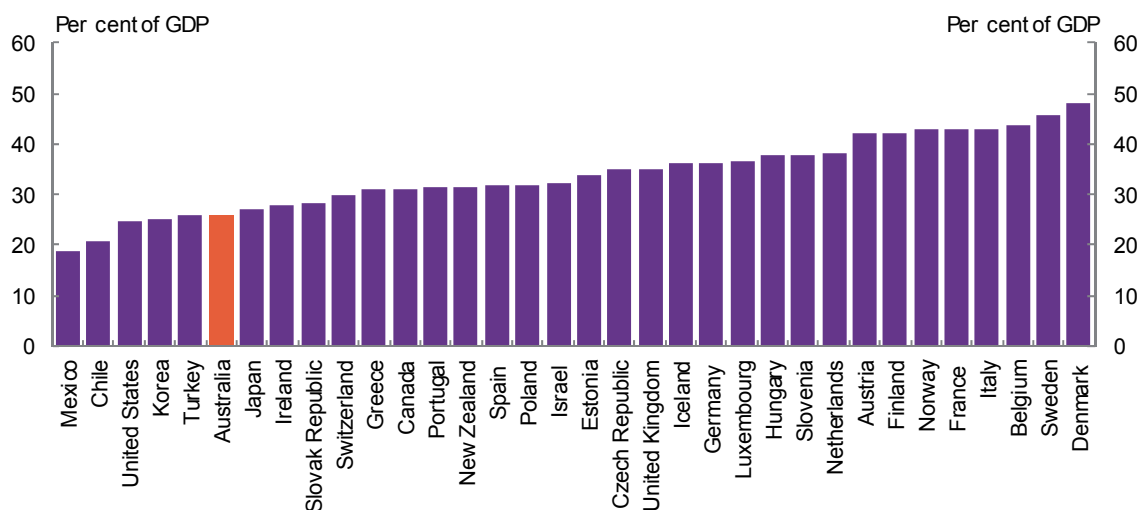
The Tax Forum in October 2011 carried forward the national conversation on tax reform and provided the impetus for a number of processes to develop further reform options: the Business Tax Working Group, the Superannuation Roundtable, the Not-for-profit Sector Tax Concession Working Group and the Tax Studies Institute.

AUSTRALIA IS A LOW TAXING COUNTRY

Australia is one of the lowest taxing economies in the developed world. In 2009, Australia had the sixth lowest tax-to-GDP ratio out of 34 OECD countries (Chart 1). Australia's tax-to-GDP ratio is also on par with developed economies in our region.

The Government is committed to keeping tax as a share of GDP lower than the level it inherited in 2007 (23.7 per cent of GDP). The Government is also committed to allow tax receipts to recover in line with the economy and to hold real growth in spending to 2 per cent a year while the economy is growing above trend until the budget returns to surplus.

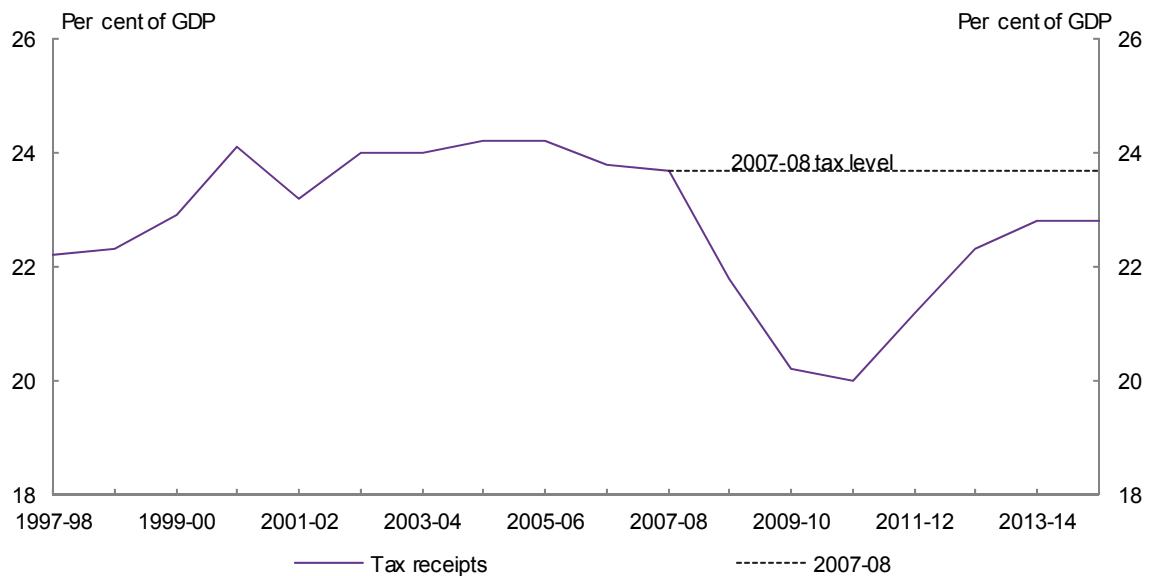
CHART 1: TAX REVENUE TO GDP RATIOS, OECD 2010



Source: OECD Tax Database and ABS. Data for Poland, Japan and Netherlands are for 2009.

Since the beginning of the Global Financial Crisis (GFC), tax receipts have fallen significantly. The tax to GDP ratio fell 4.2 percentage points to 20.1 per cent in 2010-11, compared to the all-time peak of 24.2 per cent under the former government in 2004-05 and 2005-06 (see Chart 2).

CHART 2: TAX RECEIPTS AS A PERCENTAGE OF GDP



Source: Budget documents.

Although the economy has recovered since the GFC, the recovery in tax revenue has overall been weak.

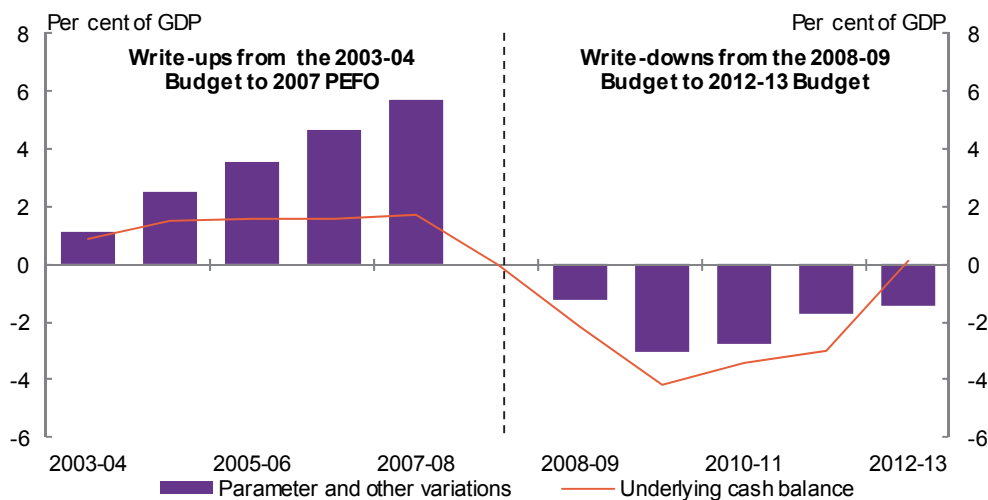
Company tax and resource rent taxes represented around 5.4 per cent of GDP in 2006-07, but fell to around 4.1 per cent in 2010-11. This is partly due to lags in the recovery of company income tax receipts, because losses accumulated during the GFC are now being claimed against current profits. The GFC also caused capital gains tax receipts to fall by around two-thirds from their peak of 1.5 per cent of GDP in 2007-08. Asset markets have remained sluggish and there is an unprecedented stock of losses that remain to be absorbed by future gains before tax will be payable. Capital gains tax receipts are predicted to recover, but not to reach their pre-crisis share of GDP.

There are structural influences also at work on the revenue base. Even with an enduring global recovery, we have not seen a similar recovery in revenues. The first phase of the mining boom before the GFC saw a large increase in company tax receipts driven by high commodity prices, but the second phase hasn't seen a similar increase in tax receipts, because of the dramatic increase in investment in new projects.

The write down in tax receipts following the GFC is in stark contrast to the windfall revenue the previous government received during the first stage of the mining boom. From 2003-04 to 2007-08 Budgets, including the forward estimates, the previous government received an additional \$334 billion in unexpected revenue, and spent an unsustainable \$314 billion in new expenditure and poorly targeted tax policy.

By contrast, this Government has faced substantial write-downs in tax receipts and is undertaking one of the largest fiscal consolidations in history. Since the GFC, revenue write-downs over the 5 years to 2012-13 amount to around \$150 billion.

CHART 3: REVENUE WRITE-UPS AND WRITE-DOWNS FROM 2003-04



Source: Budget documents.

Returning the Budget to surplus and pursuing tax reform have been made much more difficult by weakness in tax receipts that has persisted since the global financial crisis. Weak tax receipts, not high spending, is the main driver behind Australia's tight fiscal circumstances.

The prolonged weakness in revenue makes tax reform especially challenging. There are no rivers of gold to 'buy' reform. As a result, reforms that cost money need to be funded by reforms that raise money.

GOVERNMENT'S TAX REFORM VISION

The Government's tax reform agenda is to build a stronger economy and a fairer, simpler tax system for Australian families and businesses. Our tax reform agenda continues to be rolled out, spreading the benefits of strong economic growth to every corner of the country, across all households and businesses.

Investment for a productive economy

The Government's vision for the tax system is one that attracts investment, increases productivity, lifts economic growth, and prepares Australia for the opportunities of the Asian century. This will translate into more jobs and higher living standards. The Government is reforming business tax arrangements. This will increase investment and promote sensible risk taking, and is an important part of this vision.

- From 2012-13, the Government is also significantly **simplifying small business tax arrangements**. Small businesses will be allowed to claim an immediate deduction for each asset they purchase less than \$6,500, and to depreciate more expensive assets in a single pool. These will assist up to 2.7 million sole traders, partnerships, companies and trusts. In addition, the Government will also allow small businesses to immediately write off the first \$5,000 of the cost of a motor vehicle. This will help companies finance the investments, training and restructuring that is needed to improve competitiveness. These changes will also make the tax system simpler for small business, boosting the productivity of small business owners, as they spend less time on tax matters and more time on their business.
- From 2012-13, we will improve access to company tax losses by **introducing a loss carry-back**, and extending this to a two year carry-back from 2013-14. This tax reform will make it easier for businesses to invest and innovate in order to compete in the patchwork economy. This reform is expected to improve the cash flows of an estimated 110,000 businesses over its first four years, which includes one in six manufacturing companies.
- The Government is **reducing disincentives for business to invest in long life infrastructure**. The Government recognises the long horizon for infrastructure projects of national significance, and will introduce an uplift allowance so that the value of tax losses is preserved over time. It will also exempt these tax losses from the continuity of ownership test and the same business test.

The tax system also needs to adapt to the ever changing economic environment, be it the globalisation of the Australian economy, the mining boom, or the ageing demographic. The Government has recognised these long-term challenges and will roll out key reforms to the tax system to meet these challenges.

- Sharing the wealth of the mining boom is one such key reform. From 1 July 2012, the Government will **introduce the Minerals Resource Rent Tax** to capture a better return for our

non-renewable resources. The Government will also **extend the Petroleum Resource Rent Tax** to onshore oil and gas projects and the North West Shelf from 1 July 2012. The revenue raised from these improved resource taxation arrangements will be used to fund further tax reforms to help businesses and households adapt to structural change, as well as boosting retirement incomes.

- The Government is also directly tackling the long-term issue of an ageing population. The Government will improve retirement income adequacy, particularly for low income earners, by gradually **increasing the Superannuation Guarantee** from 9 per cent in 2012-13 to 12 per cent in 2019-20, providing a benefit to around 8.4 million workers. The Government's superannuation policies will boost retirement savings by \$500 billion by 2037.
- From 2014-15, the Government will **phase down the interest withholding tax** paid by financial institutions on their offshore borrowings and provide a more neutral treatment across financial institutions. In a globalising world, this is expected to help local subsidiaries and branches of foreign financial institutions, thereby adding to competition in the domestic banking sector.

The Government has shown that it is responsive to the immediate needs of businesses by delivering worthy reforms, not quick fixes, and that it is also willing to tackle the longer-term challenges facing Australia.

Participation and reward for effort

The Government's vision for the tax system is to also improve participation in the workforce and provide reward for effort. The tax and transfer system should encourage, not discourage, participation in the workforce.

- In its first three Budgets, the Government delivered three rounds of tax cuts worth \$47 billion in total.
- From 2012-13 we will more than **treble the tax free threshold** from \$6,000 to \$18,200. This will boost participation by reducing the tax burden on the lowest paid workers and significantly simplify the system by freeing up to one million additional taxpayers from the need to lodge a tax return. The increases in the tax free threshold will also simplify the tax system for many individuals in a considerable way. Simplifying the tax system for individuals, as we are doing for small business, is a key goal of the Government's tax reform vision. From 2015-16 the tax free threshold will increase further to \$19,400, freeing up to an additional 100,000 people from lodging a return. The Government will increase the threshold to \$21,000 when fiscal conditions permit.
- The Government will reduce outdated workforce participation disincentives for spouses, without dependent children, to take up paid employment by **better targeting the Dependent Spouse Tax Offset** to those with spouses born before 1 July 1952. It phases out an outdated

measure from a time when male breadwinners were expected to maintain a housewife, and there were limited employment opportunities for women. The Government is also consolidating eight existing dependency tax offsets into a single offset for those maintaining a dependent who is genuinely unable to work.

- The Government will also encourage greater participation for single parents. By **reforming the income test for single parents** on Newstart Allowance through lowering the taper rate to 40 cents from 1 January 2013, single parents will keep up to an extra \$4,100 of their income each year. This will better support part-time work for up to 50,000 single parents on Newstart Allowance. Furthermore, the Government will strengthen participation incentives for parents by removing grandfathering arrangements for Parenting Payments from 1 January 2013.

A fairer and more sustainable tax system

The Government's reforms will ensure that the tax system is fairer and more sustainable. It will reduce red tape and complexity for taxpayers, while ensuring the integrity of the tax system.

- The Government is **reforming the tax concession for living-away-from-home allowances and benefits**, by ensuring it can only be used for the expenses of people who are legitimately maintaining a second home in addition to their actual home, for a maximum period of 12 months.
- The Government is **reforming the fringe benefits tax (FBT) treatment of cars**, to remove the unintended incentive for people to drive their vehicle further than they need to, in order to obtain a larger tax concession. Instead of providing a sliding scale of rates that rewards those who drive further, the Government is transitioning to a flat rate by 1 April 2014 that will apply, irrespective of the distance travelled. The Government is also **modernising the method for determining the taxable value of airline transport fringe benefits**, to a market value method, which is consistent with commercial practice.
- The Government is **removing a large tax concession for generous executive salary packages** by better targeting the Employment Termination Payment (ETP) tax offset — keeping the offset for ETPs relating to genuine redundancies and other hardships, but taking into account the total taxable income of those receiving other ETPs, including golden handshakes. The tax treatment of people who become genuinely redundant, or lose their job due to illness or disability, will be unchanged.
- To ensure the integrity of the tax system, the Government also **removed the Low Income Tax Offset for non-work income of minors**. This measure has enhanced the fairness of the taxation system and discourages the tax avoidance that can occur when high income earners income split with their children to avoid tax.
- The Government is also **converting the Education Tax Refund into a simple twice yearly payment — the Schoolkids Bonus**. This will mean that more people will be able to access the

payment, and some will be eligible for more than they were previously. In addition, eligible recipients will no longer have to keep receipts to support their claim. Not only does this make tax time simpler for families, it makes the payment timely and gives families greater flexibility in how they choose to use the bonus.

- The Government will be investing in better targeted participation programs in a more cost effective way, by **phasing out the mature age worker tax offset (MAWTO)** which was a very high cost method of facilitating participation. The Government will be maintaining the MAWTO for people who are 55 or older on 1 July 2012, as they have built the MAWTO into their household budgets.
- The Government is ensuring the sustainability of tax revenues and the health system, while protecting those on modest incomes. From 1 July 2012, the Government will **introduce a means test for the Net Medical Expenses Tax Offset**, preserving the benefit for those under the Medicare Levy Surcharge (MLS) threshold, and reducing the rate and increasing the threshold for those over the MLS threshold.
- From 2012-13 the Government will improve the fairness of the superannuation tax system by **introducing a Low Income Superannuation Contribution**, which will ensure that 3.6 million low income earners effectively pay no tax on their Superannuation Guarantee contributions. The Government will also improve fairness by **reducing the tax concession which very high income earners receive** on their concessional contribution, so it is more in line with the concession received by average income earners.
- In addition, the Government will increase the concessional contributions cap for individuals aged 50 and over with superannuation balances below \$500,000 from 1 July 2014.
- The Government will make the transfer system more sustainable by **increasing incrementally the eligibility age for the Age Pension** from 65 in 2016-17 to 67 in 2023-24, recognising the retirement plans that people have already made.

Further consultation

These are the three basic principles for the Government's ongoing tax reform, and the Government has demonstrated that it has been steadily progressing these reforms since coming to office. However, the work has not finished, and the Government has committed to several tax reform processes to deliver the next steps in the reform process.

- The **Business Tax Working Group** recently identified the loss carry-back reforms, introduced in this Budget, as a worthy initiative. The Working Group will continue to identify and consult on other reforms to the business tax system, delivering further fiscally responsible recommendations by the end of the year.

- The Government has established the **Superannuation Roundtable** to consider additional ways of providing Australians with more options in retirement and improving superannuation concessions.
- The New South Wales and South Australian Treasurers have agreed to work with the Council for the Australian Federation to develop a **state tax reform plan**. This will progress much needed reform of inefficient taxes, as well as harmonise arrangements for business and the community.
- The Government also established the **Not-for-profit Sector Tax Concession Working Group** to examine whether existing taxation support for the sector can be provided in a fairer, simpler and more effective way. The Working Group was established in response to the discussions at the Tax Forum about whether the current support provided through tax concessions to the sector can be better delivered.
- The Government will provide funding to establish a **Tax Studies Institute** to deliver high quality, independent research into the tax and transfer system.

These initiatives represent a clear and compelling reform agenda. They are designed to maximise Australia's opportunities while also meeting the challenges posed by the ageing of our population and shifts in the global economy that will see the return of boom conditions in our mining sector.

This reform challenge should not be underestimated, particularly in these fiscally challenging times, but the Government is committed to meeting these challenges in an economic and fiscally responsible way, while remaining a low taxing country.

ROLLING OUT TAX REFORM



- ▼ Increase the tax free threshold from \$6,000 to \$18,200
- ▼ Introduce the Minerals Resource Rent Tax and extend the Petroleum Resource Rent Tax
- ▼ Increase the small business instant asset write-off threshold to \$6,500
- ▼ Introduce a single depreciation pool for small business assets costing more than \$6,500 and immediate write-off for the first \$5,000 of the cost of a motor vehicle
- ▼ Introduce loss carry back arrangements for companies
- ▼ Introduce an uplift factor for losses on infrastructure projects
- ▼ Introduce the Low Income Superannuation Contribution
- ▼ Reduce the higher tax concession on superannuation contributions for very high income earners
- ▼ Convert the Education Tax Refund into the Schoolkids Bonus
- ▼ Reform living-away-from-home allowances and benefits
- ▼ Introduce fairer taxation arrangements for golden handshakes
- ▼ Reform the Dependent Spouse Tax Offset and consolidate the dependency tax offsets
- ▼ Decrease the taper rate of Newstart Allowance for single principal carers, and increase the hours worked for Disability Support Pension
- ▼ Phase out the Mature Age Workers Tax Offset
- ▼ Reform the Net Medical Expenses Tax Offset
- ▼ Establish a Tax Studies Institute

- ▼ Increase the tax free threshold from \$18,200 to \$19,400
- ▼ Increase the Superannuation Guarantee rate from 9.5 per cent to 10 per cent
- ▼ Phase down Interest Withholding Tax (IWT) paid by financial institutions:
 - For an Australian branch of a foreign bank borrowing from its head office, the IWT rate will be reduced from 2.5 per cent to zero
 - For other offshore borrowings by financial institutions, the IWT rate will be reduced from 7.5 per cent to 5 per cent

2012

2013

2014

2015

- ▼ Increase the Superannuation Guarantee rate from 9 per cent to 9.25 per cent
 - ▼ Abolish the Superannuation Guarantee age limit
 - ▼ Decrease the taper rate of the Newstart Allowance for single principal carers
 - ▼ Reform the Parenting Payment
- Processes for identifying future tax reform options to report by end of 2013
- ▼ Review to modernise the taxation of trust income

- ▼ Increase the Superannuation Guarantee rate from 9.25 per cent to 9.5 per cent
- ▼ Increase the concessional contribution caps on superannuation from \$25,000 to \$50,000.
- ▼ Phase down Interest Withholding Tax (IWT) paid by financial institutions:
 - For an Australian branch of a foreign bank borrowing from its head office, the IWT rate will be reduced from 5 per cent to 2.5 per cent
 - For other offshore borrowings by financial institutions, the IWT rate will be reduced from 10 per cent to 7.5 per cent

FUTURE REFORM DIRECTIONS

The Government has a number of aspirational reform objectives:

- ▼ Further increase the tax free threshold to \$21,000.
- ▼ Reduce interest withholding tax paid by financial institutions to zero.

The Government has put in place a number of processes to develop options for further reform of the tax system to improve the living standards of all Australians. These processes will help the Government identify future tax reform options to report by the **end of 2012**.

- ▼ The Business Tax Working Group will look at long-term options for reform of the business tax system such as a cut to the company tax rate or a move towards a business expenditure system, including an allowance for corporate equity.

- ▼ The Not-for-Profit Sector Tax Concession Working Group will consider ideas for better delivering the support currently provided through tax concessions to the not-for-profit sector.
- ▼ The Superannuation Roundtable will consider ideas for providing Australians with more options in retirement and improving certain superannuation concessions.
- ▼ The state tax reform plan, led by the New South Wales and South Australian Treasurers, will consider options for state tax reform, with a view to informing discussions by the Council of Australian Governments.
- ▼ The Government will establish a Tax Studies Institute to be a centre of research excellence for the tax and transfer system.

2016

- ▼ Increase the Superannuation Guarantee rate from 10 per cent to 10.5 per cent

2017

- ▼ Increase the Superannuation Guarantee rate from 10.5 per cent to 11 per cent
- ▼ Increase the age pension age by 6 months. The qualifying age for the Age Pension will be increased by 6 months every 2 years. At 1 July 2023, the qualifying age will reach 67

2018

- ▼ Increase the Superannuation Guarantee rate from 11 per cent to 11.5 per cent

2019

- ▼ Increase the Superannuation Guarantee rate from 11.5 per cent to 12 per cent
- ▼ Increase the age pension age by 6 months

INVESTMENT FOR A PRODUCTIVE ECONOMY

The Government will continue to reform the tax system to support economic growth by:

- ▶ Ensuring that Australia captures a better return for its non-renewable resources through the introduction of a Minerals Resource Rent Tax on iron ore and coal projects
- ▶ Extending the Petroleum Resource Rent Tax to onshore oil and gas projects, and the North West Shelf.
- ▶ Supporting struggling businesses through a loss carry back arrangement to improve incentives for investment, and encouraging innovation and sensible risk taking.
- ▶ Encouraging small business to invest by replacing the Entrepreneurs Tax Offset with simpler and more effective measures.
- ▶ Simplifying tax for small businesses and boosting their cash flow, by allowing small businesses to instantly write off each and every business asset costing less than \$6,500, and introducing an immediate write-off for the first \$5,000 of the cost of a motor vehicle purchased.
- ▶ Streamlining tax for small businesses, by providing a single depreciation pool for assets costing \$6,500 or more.
- ▶ Freeing over one million low income earners from needing to lodge a tax return by increasing the tax free threshold.
- ▶ Stimulating infrastructure investment and providing investor certainty, with the introduction of an uplift factor for losses on projects of national significance.
- ▶ Supporting research and development through a simplified and timely tax incentive.
- ▶ Reforming the fringe benefits tax treatment of cars, to remove the unintended incentive for people to drive their vehicle further than they need to, by introducing a single statutory rate of 20 per cent that applies regardless of kilometres travelled.
- ▶ Reducing borrowing costs and encouraging banking competition by reducing the interest withholding tax on offshore borrowings, as well as providing an overall lower withholding tax rate on managed investment trusts.
- ▶ Establishing several tax reform processes to deliver the next steps in the reform process that will add to productivity, notably the Business Tax Working Group, a state tax reform plan working with the Council of Australian Federation, and the Not-for-profit Sector Tax Concession Working Group.

Supporting structural change

While our economic fundamentals are strong, the Australian economy faces new challenges and opportunities from the transformation of the global economy. The strong terms of trade and high dollar are driving structural change in our economy. This makes the need for business tax reform imperative. The tax system should facilitate, not hinder, the economy's response to structural pressures.

In order to boost living standards, it is important that we have the right tax settings to support investment and a productive allocation of resources, as well as not discourage sensible risk-taking. By reducing the burden of business tax, Australia becomes a more attractive place to invest. New investment means that workers will have more capital equipment to get the job done, thereby lifting productivity and real wages.

From 2012-13 the Minerals Resource Rent Tax (MRRT) will capture a better return for the use of our non-renewable resources, which is an important part of this nation's wealth. The Government will also extend the Petroleum Resource Rent Tax to onshore oil and gas projects from 1 July 2012. This provides the Government greater flexibility to reform the business tax system. It also provides revenue for reforms to help business to adapt to structural change, including the introduction of a loss carry-back and significant small business tax reform.

The Government is engaged with the business community on future reforms through the Business Tax Working Group (BTWG). The initial focus of the BTWG's work has been improvements to the tax treatment of losses.

The Government has acted on a recommendation of the BTWG by introducing a one-year loss carry-back in 2012-13, which will extend to a two-year loss carry-back in 2013-14. This is consistent with a recommendation of the AFTS Review.

Loss carry-back will provide immediate relief to once-profitable businesses to support their return to profit. They will receive a refund of some of the tax they have previously paid, based on their current losses. This will help companies to finance the investments, training and restructuring that is needed to improve competitiveness, which will support productivity and promote employment. It will temporarily support business with volatile revenue flows (due to factors like weather events and currency fluctuations) and businesses that need to make large new investments, including the tourism sector and property sector.

The Government will also explore ways to relax the same business test, which the BTWG identified gets in the way of businesses taking up new opportunities.

The next stage of the BTWG's work is to look at the long-term reform direction of the corporate tax system. This will involve considering cuts to the company tax rate or other reforms.

Encouraging small businesses to invest

The Government will support Australia's 2.7 million small businesses through tax reform that will cut red tape and improve cash flows. These measures will support small businesses and encourage them to invest.

Consistent with the directions articulated in the AFTS Review, from 1 July 2012 small businesses will be able to immediately write-off each and every business asset they buy that costs less than \$6,500. For example, a small business that purchases four items of equipment worth \$6,000 each will get a deduction of \$24,000 in the first year rather than \$3,600 under current arrangements. As a result, a small business company will pay around \$6,120 less tax. This could be even more valuable for an unincorporated business, if they are on a higher marginal tax rate.

From 1 July 2012, business assets costing \$6,500 or more will be depreciated in a new single depreciation pool. In addition, small businesses will also be able to immediately deduct the first \$5,000 of the cost of new or used motor vehicles they purchase from 2012-13.

Reducing borrowing costs

The Government will phase down the interest withholding tax (IWT) paid by financial institutions on their offshore borrowings and provide a more neutral treatment across financial institutions. This is expected to support competition in the banking sector.

- The rate of IWT for foreign bank branches which borrow from their overseas head office will fall from 5 per cent to 2.5 per cent in 2014-15, and to zero in 2015-16.
- The rate of IWT for other financial institutions which borrow from foreign financial institutions, and financial institutions which borrow from offshore retail deposits, will fall from 10 per cent to 7.5 per cent in 2014-15, and to 5 per cent in 2015-16.

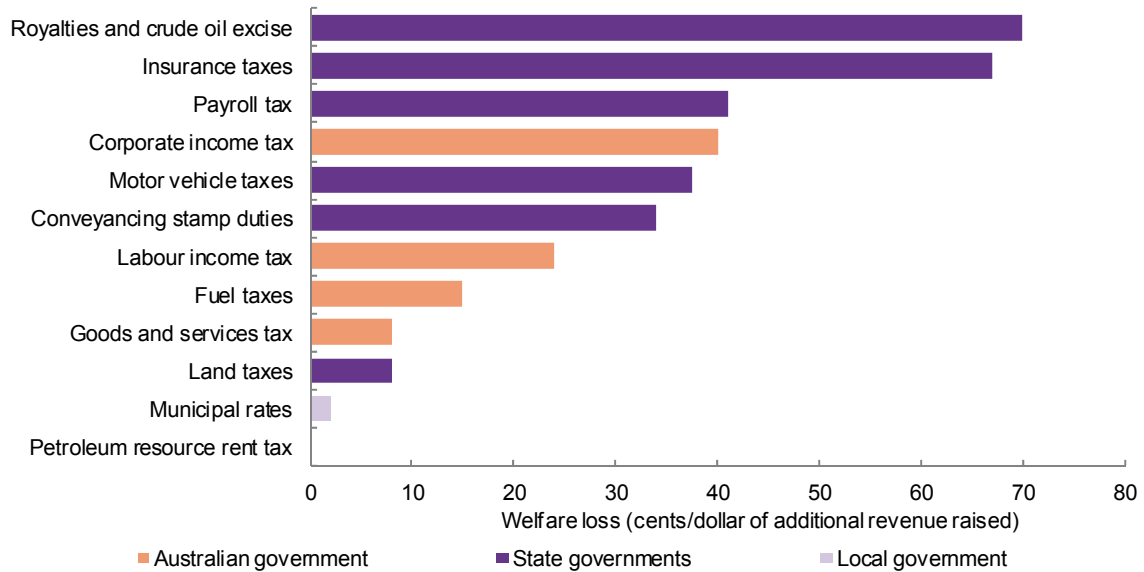
This measure will help local subsidiaries and branches of foreign financial institutions, including smaller foreign banks, to access cheaper offshore funding from their parents, supporting them in putting more competitive pressure on the major banks over time. This is another reform which is consistent with the directions articulated in AFTS.

Improving productivity through state tax reform

There are also opportunities for tax reform at the state level to lift economic growth.

The AFTS Review confirmed that some taxes are more inefficient than others when it comes to the impact they have on living standards. Moving away from inefficient taxes to more efficient taxes will promote economic growth without increasing the total tax take.

CHART 4: MARGINAL EXCESS BURDENS OF SELECTED AUSTRALIAN TAXES



Source: KPMG Econtech 2009, CGE Analysis of the Current Australian Tax System. Reproduced from AFTS.

The AFTS review highlighted that many state taxes are particularly inefficient. The review found that royalties and insurance taxes are the most inefficient taxes (see Chart 4). It identified alternatives for revenue collection, including more efficient state taxes.

Stamp duty is recognised as a particularly inefficient tax. It raises the cost of moving house, or business premises, which slows activity and stifles efficient resource allocation. For example, stamp duty on housing deters homeowners from moving to take up a better job.

Royalties are also recognised as an inefficient form of state tax. Royalties do not account for the cost of production associated with mining, and hence, the overall level of profitability of the sector.

Going forward, State Treasurers will work on tax reform proposals with a view to discussion by all Treasurers before the end of 2012. The Commonwealth Government supports these efforts.

PARTICIPATION AND REWARD FOR EFFORT

The Government will improve participation and reward for effort by:

- ▶ Providing \$47 billion worth of tax cuts in its first three years.
- ▶ Tripling the tax free threshold from \$6,000 to \$18,200 from 1 July 2012, and then further to \$19,400 from 1 July 2015.
- ▶ Improving participation incentives for carers by allowing single principal carers to earn more income before they lose income support. Due to the decrease in the taper rates single principal carers will be able to earn around \$440 extra per fortnight, while still receiving some payment.
- ▶ Reducing barriers to participation in the transfer system, including the consolidation of eight existing dependency tax offsets into a single offset, for those maintaining a dependent who is genuinely unable to work.
- ▶ Reforming out-dated workforce participation disincentives for spouses without dependent children, by restricting the Dependent Spouse Tax Offset to taxpayers with spouses born before 1 July 1952.
- ▶ Strengthening incentives for young people to work by increasing the income they can earn before they start to lose benefits.
- ▶ Increasing the number of hours that a person on the Disability Support Pension can work and retain access to their pension from 15 to 30 hours per week.
- ▶ Providing participation incentives for parents by removing grandfathering arrangements for Parenting Payment recipients, so that they lose eligibility when their youngest child turns six (PP) or eight (PPS).
- ▶ Enhancing the incentive for mature workers to remain in the workforce, by removing the age limit for the Superannuation Guarantee.

BOOSTING PARTICIPATION TO HELP WITH AN AGEING POPULATION

The Government has a strong belief in the value of work for individuals, communities and our nation as a whole. By acting quickly to support economic activity during the Global Financial Crisis, the Government's stimulus package helped to keep people in their jobs and connected to the workplace.

In the long-term, participation will become increasingly important as our population ages. The proportion of working age people is projected to fall markedly over the coming decades. Today there are about 4.8 people of traditional working age for every person aged 65 and over. This is expected to fall to around 4 people within the next 10 years and to around 2.7 people by 2050. This means there will be proportionately fewer people working to support the needs of an older population.

This makes it even more important to act now to lift workforce participation and increase the reward for effort through our tax and transfer system. Both personal income taxes and the withdrawal of benefits as income increases can lower participation incentives by lowering the returns from work. This makes it important that policies are designed with their impact on participation in mind.

Some are more responsive to effective tax rates than others. For example, the participation decisions of low income earners and secondary earners are more sensitive to effective marginal tax rates. This is particularly relevant to low income earners who may choose to reduce their hours or not work at all.

The Government has also recognised that the ageing of Australia's population presents great opportunities for our community and economy. Seniors are not only living longer, they are generally better educated, healthier and more financially secure. The Government is responding positively to the Final Report of the Advisory Panel on the Economic Potential of Senior Australians. The \$41 million package focuses on the opportunities presented by maintaining the skills and experience of older Australians in the workforce.

Many of the Government's landmark tax and transfer reforms reduce the negative incentives created by the interaction of the tax and transfer systems so as to ensure that low and middle income earners see more of the rewards from their work.

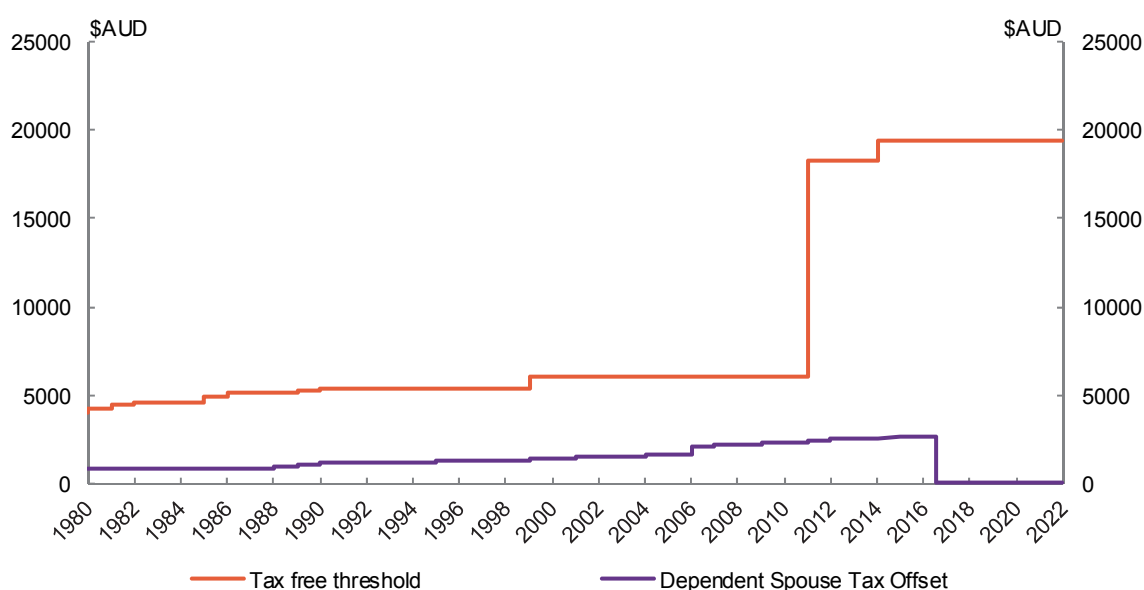
Increasing the rewards from work

From 1 July 2012 the Government is more than tripling the tax free threshold, from \$6,000 to \$18,200. This is the largest increase in the tax free threshold ever and the first increase in more than ten years. From 1 July 2015, the tax free threshold will increase again to \$19,400.

The higher tax free threshold means tax cuts for all taxpayers up to \$80,000, lifting the returns from work for low and middle income earners. It provides more timely assistance than the Low Income Tax Offset, which is being scaled back, meaning that workers will receive more tax relief in their fortnightly pay packets, rather than having to wait until tax time.

This structural reform will also reduce the complexity of the tax system and is a key recommendation of the AFTS Review. Eventually over one million additional low income earners will be freed from the need to lodge a tax return. The Government aspires to further raise the tax free threshold to \$21,000 when fiscal circumstances permit. This will provide timely tax relief for even more low-income Australians and promote the value of work.

CHART 5: MAKING WORK PAY FOR MORE AUSTRALIANS



Note: DSTO line indicates the amount of offset available to taxpayers with a dependent spouse under age 65.

As the Government rolls out increases to the tax free threshold it will also be phasing out the Dependent Spouse Tax Offset (DSTO). The DSTO dates back to a time when male breadwinners were expected to maintain a housewife, even if they were without caring responsibilities or a disability. The DSTO effectively meant that spouses without children received \$2,355 to stay at home. It also meant that secondary income earners faced a high effective tax rate of 25 per cent on the first \$10,000 of income that they earned.

For these reasons, the Government is phasing out the DSTO. From 1 July 2012, the DSTO is being phased out for dependent spouses less than 60 years old at that point in time.

By 1 July 2017, nobody with a dependant spouse under Age Pension age will have access to the DSTO, representing an important reform furthering the Government’s participation agenda and reversing the trend of the past twenty years, over which government decisions led to the DSTO

growing more rapidly than the tax free threshold. This simply entrenched barriers to workforce participation.

Finally, in this Budget, the Government is consolidating a further eight dependency tax offsets, as the AFTS Review recommended. This will provide more targeted assistance for individuals caring for dependants who are genuinely unable to work, but will remove offsets that are clearly anchored in yesteryear.

Removing barriers to participation from the transfer system

The Government is also reforming the transfer system to ensure that people with a weaker attachment to the workforce have the incentives and capabilities they need to participate. The Government has made decisions to improve incentives for unemployed people, young people who are not earning or learning, people with a disability and single parents.

For example, the Government will be reducing the taper rate for sole parents on Newstart Allowance to 40 per cent from 1 January 2013, meaning a single parent will be able to earn almost \$160 per fortnight in additional income.

Many young people now also have stronger incentives to work because the Government has increased the amount of income that young people on Youth Allowance can earn before they start to lose benefits, from \$62 to \$143 a fortnight. Similarly, the Government has increased the number of hours that a person on the Disability Support Pension can work and retain access to their pension from 15 to 30 hours per week.

Long periods out of the workforce reduce a person's chance of returning to work. The Government will strengthen participation incentives for parents by removing grandfathering arrangements for Parenting Payments from 1 January 2013. The age of the youngest child at which people move out of Parenting Payment will be 6 years for partnered recipients and 8 years for single parents, for all payment recipients.

A FAIRER AND MORE SUSTAINABLE TAX SYSTEM

The Government will improve the fairness and sustainability of the tax system by:

- ▶ Improving support for families with children in full-time school or training, by increasing the Family Tax Benefit Part A rate for 16-19 year olds in full-time secondary school.
- ▶ Converting the Education Tax Refund into a simple twice-yearly Schoolkids Bonus, paid through the family payments system.
- ▶ Boosting the retirement incomes of 8.4 million workers by significantly increasing the Superannuation Guarantee rate from 9 to 12 per cent.
- ▶ Making superannuation concessions fairer for 3.6 million low income earners, with the introduction of the Low Income Superannuation Contribution of up to \$500.
- ▶ Reducing the superannuation tax concession for very high income earners, by reducing the concessional tax on contributions from 30 to 15 per cent, thereby making it fairer.
- ▶ Working towards a targeted and fairer superannuation concessional cap for people over 50 years of age with low balances.
- ▶ Ensuring the sustainability of the transfer system by increasing incrementally the eligibility age for the Age Pension from 65 in 2016-17 to 67 in 2023-24, recognising the retirement plans that people have already made.
- ▶ Ensuring the tax concession for living-away-from-home allowances and benefits is only available to those legitimately maintaining a home away from their actual home.
- ▶ Better targeting the Employment Termination Payment tax offset to those with genuine redundancies and other hardships, not golden handshakes for high income earners.
- ▶ Considering options which ensure that businesses and individuals can continue using trusts, with confidence that the tax outcomes applying to their circumstances are fair and consistent.
- ▶ Establishing reform processes to deliver the ongoing fairness and sustainability to the tax system, which includes the Superannuation Roundtable and the Not-for-profit Sector Tax Concession Working Group.

Australians value a fair society where we create prosperity to spread opportunity. A progressive tax system is a key to delivering this fairness. Under Australia's tax and transfer system, those who are able to pay more generally do pay more, and resources are made available to people who need the assistance the most.

Rising incomes in Australia have been shared far more evenly across the community than in other countries around the world. Incomes for the poorest 10 per cent of households in Australia have grown at more than double the OECD average in recent decades, while growth in the United States and the United Kingdom has been substantially below average.

Increasing fairness of the tax system

The personal income tax is the primary means of delivering a progressive tax system. The tax free threshold is an important feature of this structure, as are the progressive tax rate scales, under which a person's average tax rate rises along with their income.

In its first three Budgets, the Government delivered three rounds of tax cuts worth \$47 billion.

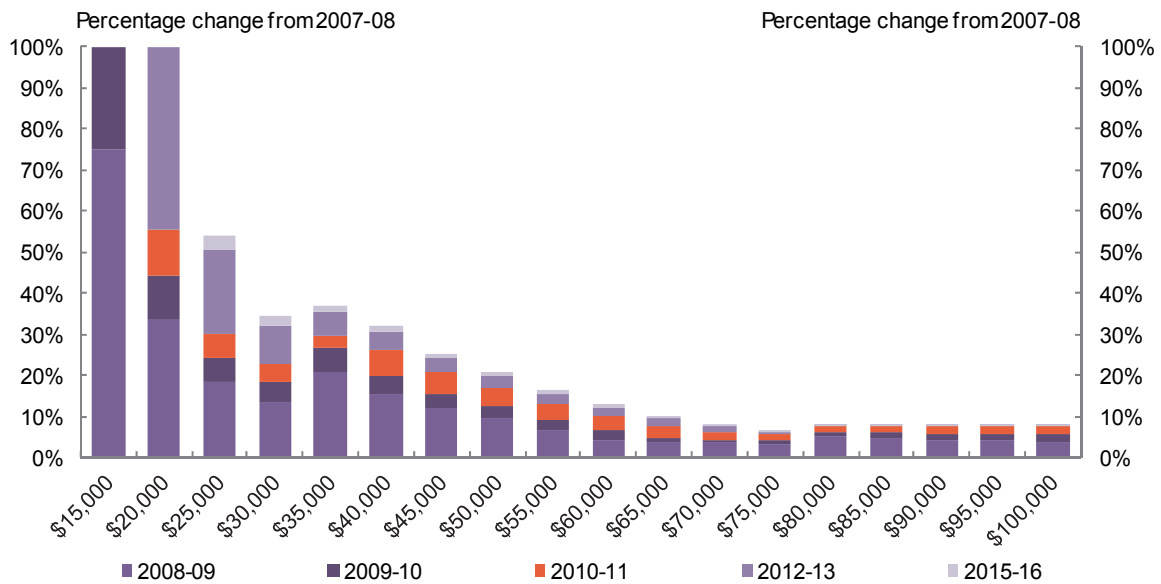
From 1 July 2012 the Government is more than tripling the tax free threshold, from \$6,000 to \$18,200. This is the largest increase in the tax free threshold ever and the first increase in more than ten years. From 1 July 2015, the tax free threshold will increase again to \$19,400.

The tax cuts that are delivered as a result of this change will be targeted to low and middle income earners. The higher tax free threshold means tax cuts for all taxpayers up to \$80,000, lifting the returns to work for low and middle income earners. It provides more timely assistance than the low income tax offset (LITO), which is being scaled back, meaning that workers will receive more tax relief in their fortnightly pay packets, rather than having to wait until tax time.

As can be seen from Chart 6, those on lower incomes will receive the greatest percentage reduction in tax compared to 2007-08. These changes mean that an individual on \$50,000 a year will be paying:

- \$1,750 less tax in 2011-12;
- \$2,053 less tax in 2012-13; and
- \$2,136 less tax in 2015-16.

CHART 6: CUMULATIVE PERCENTAGE REDUCTION IN TAX FROM 2007-08 BY TAXABLE INCOME



Source: Treasury

This structural reform is a key recommendation of AFTS Review and will make the tax system simpler. It will mean by 2015-16, over one million additional people need not lodge a tax return. The Government aspires to further raise the tax free threshold to \$21,000 when fiscal circumstances permit. This will provide timely tax relief for even more Australians on modest incomes and promote the value of work.

Additionally, the Government is making tax simpler for families by converting the Education Tax Refund into a simple twice yearly payment — the Schoolkids Bonus. From 2013, the Schoolkids Bonus will be paid in two equal instalments in January and July. It will be \$410 for primary school aged students and \$820 for secondary school aged students. As a transitional arrangement, \$409 for primary school age students and \$818 for secondary school aged students will be paid automatically to eligible families in June 2012.

The introduction of the Schoolkids Bonus builds on the previous achievements of the Government, notably Family Tax Benefit (FTB) Part A reforms. From 1 January 2012, the maximum rate of FTB Part A for 16-17 year olds in secondary school will be increased by \$4,208, and for 18-19 year olds in school by \$3,741 per year. This will make the tax system fairer, as it helps modest income families with the cost of raising older teenagers and helps them to support their children to stay in school.

The Government is also committed to improving the fairness of the personal income tax system so that people on similar incomes pay similar amounts of tax on that income, regardless of the source of income or how they arrange their tax affairs (horizontal equity). This is an important outcome which improves fairness and promotes public confidence in the personal income tax system by reducing distortions and incentives for people to avoid paying their fair share of tax.

The Government has acted to address concerns about fairness in the personal income tax system through a range of reforms in successive Budgets. We will reform superannuation concessions, living-away-from-home allowances and benefits, golden handshakes, the mature age worker tax offset, net medical expenses tax offset, and dependency offsets. These reforms will build on the reforms in earlier Budgets including reforming the FBT concession on cars and removing access to the Low Income Tax Offset for the unearned income of minors.

These reforms will help broaden the personal income tax base. A broader base means that the revenue needed to provide the government services Australians want can be raised more sustainably by placing a relatively smaller tax burden across a larger number of taxpayers.

Boosting Retirement Incomes

Although the personal income tax is the cornerstone of a progressive tax system, it is not the only feature of the tax system that impacts on its progressivity.

The development of the modern superannuation system was motivated by a desire to deliver fairness through an adequate retirement income for all workers.

From 1 July 2013, the Government will begin gradually raising the Superannuation Guarantee to reach 12 per cent by 1 July 2019. This is in line with the original vision for superannuation, and also reflects increases in life expectancy and current community expectations about living standards in retirement. For example, a 30 year old on average full-time earnings will have an increase in their retirement benefit of \$117,600 (in today's dollars) as a result of the increase in the Superannuation Guarantee.

In lifting the Superannuation Guarantee the Government recognises that the current structure of superannuation taxation provides wealthier Australians with far greater benefits than low and middle income earners. The flat 15 per cent tax rate on concessional contributions provides a tax concession of 30 per cent (excluding the Medicare levy) to those on the top marginal tax rate, but a tax penalty to those below the tax free threshold.

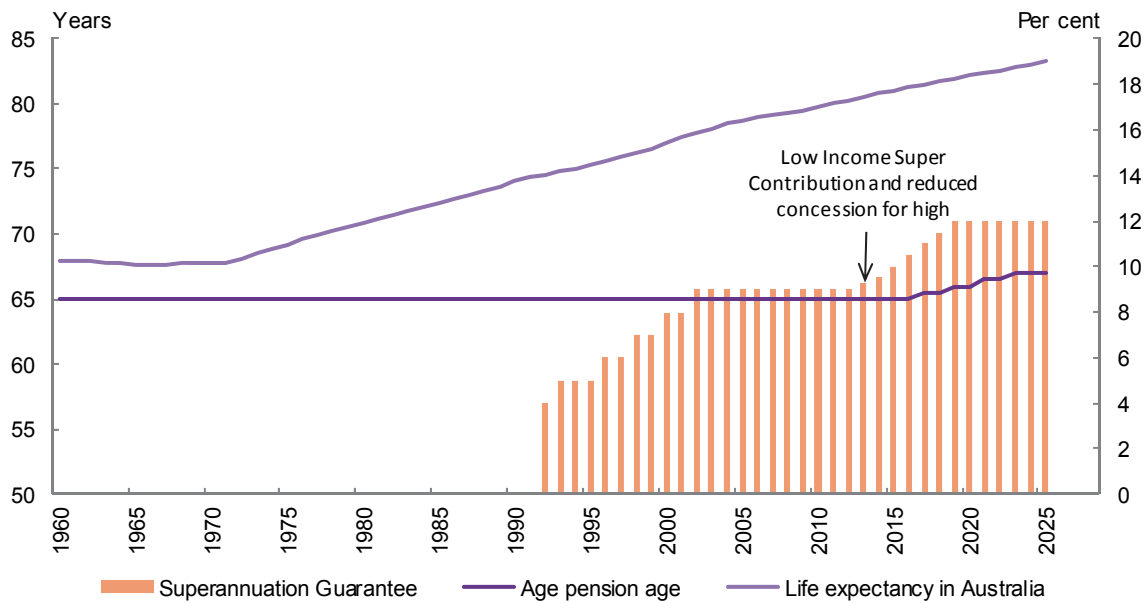
In response, the Government is making the superannuation system fairer. From 1 July 2012, the Government will provide a Low Income Superannuation Contribution of up to \$500 for those with taxable income up to \$37,000. This will effectively refund the tax paid on their contributions under the Superannuation Guarantee. In addition, from 1 July 2012 the Government will reduce the tax concession on contributions received by very high income earners, with income above \$300,000 a year, so that it is more in line with the concession received by average income earners.

These measures also improve the sustainability of the superannuation system. Our ageing population is a good example of a developing pressure on fiscal sustainability. As the population ages, demands on government spending will increase. Fewer people working, and therefore contributing to personal tax revenue, will only exacerbate this problem.

Since 2009, the Government has provided the biggest boost to the pension in Australia’s history, with the maximum rate increase by about \$154 per fortnight for singles and \$156 per fortnight for couples combined. The pension reforms in September 2009 not only addressed the adequacy of the pension system, but also helped ensure its sustainability. To reflect the longer and healthier working lives of Australians, the Age Pension age for men and women will be increased by six months every two years, commencing from 1 July 2017 and reaching 67 on 1 July 2023.

By lifting the Superannuation Guarantee together with other superannuation reforms, the Government will be boosting our retirement savings pool by \$500 billion by 2037. Ensuring that the tax concessions on contributions into this pool are fair will help ensure the sustainability of the superannuation system long into the future.

CHART 7: A SECURE AND SUSTAINABLE RETIREMENT SYSTEM



CONCLUSION

While Australia is a low taxing country, we need to continue to reform the tax and transfer system and to make the most of the challenges and opportunities facing Australia.

Our tax reform agenda seeks to continue to attract investment for a productive economy, support participation and reward for effort, and establish a fairer and more sustainable tax system. This Government has already put in place a raft of historic tax reforms that will underpin this tax reform agenda.

We recognise this is a long-term process, and not something that can be done in a single Budget. Worthwhile reforms will continue to be rolled out, building on the work of the past.

Reform needs broad consultation and it needs to be rigorous. There are often short-term transitional costs to reform, and so many of these reforms will be introduced gradually, with a stream of benefits accruing over a number of years.

The Government will continue to lead a broad national debate to develop and build support for further good tax policy. The Government has established a set of policy development processes — covering business tax, superannuation, small business, not-for-profits and tax research more generally — that will inform future tranches of reform.

The Government understands that this reform will be challenging, especially in times of tight fiscal circumstances, but it is crucial to Australia's prosperity in these changing times, and we will continue to meet this challenge in the years to come.

APPENDIX 1: TAX REFORM — SUMMARY

Measure	Description
Personal tax and transfer payments	
\$47 billion worth of personal income tax cuts	The Government has improved participation incentives, by delivering personal income tax cuts worth a total of \$47 billion in its first three Budgets.
Reform of the tax-free threshold and the Low Income Tax Offset	The Government will free over one million low-income earners from needing to lodge a tax return, improve incentives to participate in the workforce, and increase transparency and fairness, by increasing the tax-free threshold from \$6,000 to \$18,200 from 1 July 2012 and then increasing it further to \$19,400 from 1 July 2015. <i>[Reform consistent with Recommendation 2 of the AFTS Review].</i>
Convert the Education Tax Refund into the Schoolkids Bonus	The Government will transform the Education Tax Refund into the Schoolkids Bonus. This is a simple twice yearly payment, paid through the family payments system, to provide more flexible and timely assistance to families. <i>[Reform consistent with Recommendation 6(c) of the AFTS Review].</i>
Reform of the tax concession for living-away-from-home allowances and benefits	The Government will better target the tax concession for living-away-from-home allowances and benefits, by ensuring it can only be used for the expenses of people who are legitimately maintaining a home away from their actual home for an initial period of 12 months, from 1 July 2012. <i>[Reform consistent with Recommendation 9(c) of the AFTS Review].</i>
Reform of the fringe benefits tax treatment of motor vehicles	The Government has reformed the fringe benefits tax treatment of cars, to remove the unintended incentive for people to drive their vehicle further than they need to. The previous formula for valuing car fringe benefits is being replaced with a single statutory rate of 20 per cent, regardless of the kilometres travelled. <i>[Reform consistent with Recommendation 9(b) of the AFTS Review].</i>
Reform of the fringe benefits tax treatment of airline transport	The Government will modernise the method for determining the taxable value of airline fringe benefits from stand by value to market value which is consistent with commercial practice. <i>[Reform consistent with recommendation 9(a) of the AFTS Review.]</i>

Measure	Description
Consolidation of dependency tax offsets	The Government will remove barriers to participation by consolidating eight existing dependency tax offsets into a single offset for those maintaining a dependent that is genuinely unable to work. <i>[Reform consistent with Recommendation 6(a) of the AFTS Review].</i>
Phasing out the Dependent Spouse Tax Offset (DSTO)	The Government will reduce outdated workforce participation disincentives for spouses without dependent children, by restricting the Dependent Spouse Tax Offset to taxpayers with spouses born before 1 July 1952, from 1 July 2012. <i>[Reform consistent with Recommendation 6(a) of the AFTS Review].</i>
Phasing out the Mature Age Workers Tax Offset	The Government will be investing in better targeted participation programs and improve value for money through phasing out the mature age worker tax offset (MAWTO). The Government will be maintaining the MAWTO for people who are 55 or older on 1 July 2012, as they may have built the MAWTO into their household budgets. <i>[Reform consistent with Recommendation 6(c) of the AFTS Review].</i>
Reforming the Net Medical Expense Tax Offset	The Government is ensuring the sustainability of tax revenues and the health system, while protecting those on modest incomes. From 1 July 2012, the Government will introduce a means test for the Net Medical Expense Tax Offset, preserving the benefit for those under the Medicare Levy Surcharge (MLS) threshold, and reducing the rate and threshold for those over the MLS threshold.
Better alignment between Family Tax Benefit Part A and Youth Allowance	The Government has provided greater consistency between family payments and Youth Allowance, by aligning the eligibility age for Family Tax Benefit Part A with the age of independence for Youth Allowance from 1 January 2012. <i>[Reform consistent with Recommendation 98 of the AFTS Review].</i>
Increase in Family Tax Benefit (FTB) Part A for 16 to 19 year olds	The Government has improved support for families with children in full-time secondary school, and better reflected the cost of raising children, by increasing the rate of Family Tax Benefit Part A for 16 to 19 year olds in full-time secondary study to match that for 13 to 15 year olds from 1 January 2012. <i>[Reform consistent with Recommendation 91(a) of the AFTS Review].</i>

Measure	Description
Decrease in the taper rate of the Newstart Allowance for single principal carers	The Government will improve participation incentives for single parents, by decreasing the taper rate of Newstart Allowance for single principal carers from 50 or 60 per cent to 40 per cent from 1 January 2013, enabling these parents to earn almost \$400 extra per fortnight before they lose eligibility for at least some income support. <i>[Reform consistent with Recommendation 85 of the AFTS Review].</i>
Increase in the number of hours that people on the Disability Support Pension (DSP) can work	The Government will improve participation incentives for people with a disability, by increasing the number of hours that a person on the Disability Support Pension can work and retain access to their pension from 15 to 30 hours per week from 1 July 2012. <i>[Reform consistent with recommendation 86 of the AFTS Review].</i>
Reduction in the age of the youngest child at which parents who were eligible for the Parenting Payment prior to 1 July 2006 lose eligibility	The Government will strengthen participation incentives for parents by removing grandfathering arrangements for parenting payment recipients from 1 January 2013. The age of the youngest child at which people move out of Parenting Payment to 6 years for partnered recipients and 8 years, for single parents for all payment recipients. <i>[Reform consistent with Recommendation 85 of the AFTS Review].</i>
Fairer taxation arrangements for golden handshakes	The Government will improve the fairness of the tax system by applying a whole-of-income cap to tax concessions provided to certain employment terminations, which include golden handshakes. <i>[Reform consistent with Recommendation 6(c) of the AFTS Review].</i>
Superannuation	
Increasing the Superannuation Guarantee from 9 to 12 per cent	The Government will boost retirement savings, by progressively increasing the rate of the superannuation guarantee from 9 to 12 per cent.
Introduction of the Low Income Superannuation Contribution	The Government will extend superannuation concessions to 3.6 million low-income earners, by introducing a Low Income Superannuation Contribution of up to \$500 from 1 July 2012. <i>[Reform consistent with recommendation 18(a) of the AFTS Review].</i>
Reduce the tax concession on superannuation contributions received by very high income earners	The Government will make the system of superannuation concessions fairer, by reducing the tax concession which people with income over \$300,000 receive on their concessional contributions from 30 to 15 per cent (excluding the Medicare levy) from 1 July 2012.

Measure	Description
Higher superannuation concessional contributions cap	The Government will help older Australians to make catch-up contributions to super, by working towards a targeted and fairer concessional cap for people over 50 years of age with low balances. <i>[Reform consistent with Recommendation 18(a) of the AFTS Review].</i>
Increase in the Superannuation Guarantee age limit	The Government will increase incentives for mature workers to remain in the workforce, by removing the age limit for the superannuation guarantee. <i>[Reform consistent with Recommendation 20 of the AFTS Review].</i>
Business Tax	
Introduction of the Minerals Resource Rent Tax	The Government will get a fairer return on our resource wealth, by introducing the Minerals Resource Rent Tax on iron ore and coal projects from 1 July 2012. <i>[Reform consistent with Recommendations 45, 46, 47 and 48 of the AFTS Review].</i>
Extension of the Petroleum Resource Rent Tax	The Government will get a fairer return on our resource wealth, by extending the Petroleum Resource Rent Tax to onshore oil and gas projects from 1 July 2012. <i>[Reform consistent with Recommendations 45, 46, 47 and 48 of the AFTS Review].</i>
Company Loss Carry-back	The Government will provide assistance by allowing companies to carry back a revenue loss to offset it against tax previously paid <i>[Reform consistent with Recommendation 31 of the AFTS Review].</i>
Introduction of the uplift factor for losses of certain infrastructure projects	The Government will improve certainty for investors, by allowing infrastructure projects of national significance to carry forward losses with an uplift factor to maintain their value. <i>[Reform consistent with the intent of Recommendation 31 of the AFTS Review].</i>
Replacement of the Entrepreneurs Tax Offset with better incentives for small business	The Government is better targeting tax incentives for small business, by replacing the Entrepreneurs Tax Offset with simpler and more effective measures. <i>[Reform consistent with Recommendation 6(c) of the AFTS Review].</i>
Increase in the instant asset write-off threshold to \$6,500 for small businesses	The Government will simplify tax for small businesses and boost their cash flow, by allowing small businesses to instantly write off each and every business asset costing less than \$6,500 that is purchased from 2012-13. <i>[Reform consistent with Recommendation 29 of the AFTS Review].</i>

Measure	Description
Introduction of the single depreciation pool for assets costing \$6,500 or more for small businesses	The Government will simplify tax for small businesses, by replacing the two depreciation pools that currently exist, with a single depreciation pool. <i>[Reform consistent with Recommendation 29 of the AFTS Review].</i>
Introduction of the immediate deduction for the first \$5,000 of the cost of a motor vehicle by small businesses	The Government will simplify tax for small businesses and boost their cash flow, by introducing an immediate deduction for the first \$5,000 of the cost of a motor vehicle purchased from 2012-13. <i>[Reform consistent with Recommendation 29 of the AFTS Review].</i>
Replacement of the R&D tax concession with the R&D tax incentive	The Government is supporting research and development, and has replaced the out-dated and complex R&D Tax Concession with a simplified R&D tax incentive which will provide larger and timelier assistance.
Phasing down of the interest withholding tax (IWT) paid by financial institutions	The Government will support competition in the banking sector, by phasing down the interest withholding tax paid by financial institutions on offshore borrowings from 2014-15. <i>[Reform consistent with Recommendation 33 of the AFTS Review].</i>
Modernising the taxation of trust income	The Government will consider options which ensure that businesses and individuals can continue using trusts, with confidence that the tax outcomes applying to their circumstances are fair and consistent. <i>[Reform consistent with Recommendation 36 of the AFTS Review].</i>
Managed Investment Trusts Withholding Tax	The Government has halved the withholding tax rate on managed investment trusts, from 30 per cent under the previous government to 15 per cent, continuing to promote Australia's role as an internationally competitive financial centre.
Business Tax Working Group (BTWG)	The BTWG has provided advice on the tax treatment of losses, and will consider the longer term reform directions, including reducing the corporate tax rate or other reforms. Final report will be provided by the end of 2012.

Measure	Description
Environmental and social taxes	
Increase in the excise on tobacco products and reduce the duty free allowance on tobacco	As part of its reforms, the Government increased the excise on tobacco products by 25 per cent, and will reduce the duty free allowance on tobacco to 50 cigarettes or 50 grams of other tobacco product. <i>[Reform consistent with Recommendation 73 and 75 of the AFTS Review].</i>
Protect the integrity of the wine producer rebate	The Government will improve the integrity of the wine producer rebate by ensuring that wine producers cannot claim multiple rebates where wine is blended or further manufactured.
Reform of the taxation of fuels towards energy content based taxation	The Government is providing more consistent tax treatment of fuels, by bringing liquefied petroleum gas (LPG), liquefied natural gas (LNG) and compressed natural gas (CNG) into the tax system over time, but with a 50 per cent discount that recognises the potential environmental and fuel security benefits of their use. <i>[Reform consistent with Recommendation 65 of the AFTS Review].</i>
Governance and institutions	
Establishment of the Tax System Advisory Board	The Government will enable the Australian Taxation Office to benefit from a wider range of perspectives and experiences, by establishing a Tax System Advisory Board. <i>[Reform consistent with Recommendation 115 of the AFTS Review].</i>
Establishment of the Australian Charities and Not-for profits Commission	The Government will introduce smarter regulation, improve accountability and transparency, and reduce red tape for the not-for-profit sector, by establishing the Australian Charities and Not-for-profits Commission. <i>[Reform consistent with Recommendation 41 of the AFTS Review].</i>
Establishment of the Tax Studies Institute	The Government will support additional research into Australia's tax and transfer system, by establishing the Tax Studies Institute. <i>[Reform consistent with Recommendation 134 of the AFTS Review].</i>

