Australian Government

STRONGER·FAIRER·SIMPLER
A tax plan for our future

OVERVIEW

STRONGER·FAIRER·SIMPLER

A tax plan for our future

OVERVIEW

STRONGER·FAIRER·SIMPLER

A tax plan for our future

ISBN 978-0-642-74601-6

A message from the Treasurer

Let's seize this opportunity to build a stronger economy, and a fairer, simpler tax system.

As we emerge from the global recession, Australia's economy continues to outperform the major advanced economies. This is not an accident. This is the result of concerted action by Australian businesses, workers, governments and communities.

As the global economic outlook improves, we now look to the challenges ahead. We face challenges such as how to deal with the impact an ageing population will have on our health system, and how to ensure we have the skills and capacity needed to drive further economic growth. We also face the challenge of tax reform.

Everybody has a stake in our vision for the tax system. We want a tax system where everybody pays their fair share, so all benefit. A tax system that builds a stronger economy with more jobs and a higher standard of living. A fairer system with fewer loopholes and better rewards for work. And simpler taxes, so families and businesses spend less time bound up in red tape.

We are at a critical point in our nation's history.

The return of boom conditions in the mining sector means great opportunities for our economy, our nation and our people. As a nation, we must manage the next boom better than the last, when our economy fell prey to capacity constraints and our non-resource industries fell prey to a 'two-speed economy'. And spending the proceeds of the boom meant Australia got to the end with relatively little to show for it. Unless we make smarter decisions now, we will fail again to convert our minerals bounty into a stronger economy and enduring gains for working families.

This is why the Government has developed a major package of tax reforms to harness the super profits of our mining boom and redirect them to the vital task of national economic reform.

We will ensure Australia gets a fair share of our resource wealth, directing the proceeds towards sustainable economic growth right across the economy.

We will promote growth in the resource sector by providing ongoing infrastructure funding to remove capacity constraints and supporting small resource companies.

We will promote growth in the broader economy by driving investment through lower company taxes and by simplifying and reducing taxes for small business.

And we will ensure that success now creates lasting benefits, by increasing national savings through: a 12 per cent superannuation guarantee; removing the tax penalty for superannuation contributions of low income earners; and providing more generous contribution caps for workers approaching retirement.

Tax reform is a big project and it can't be done all at once. But this package is the significant step we need to take now if we are to maximise responsibly the economic benefits for all Australians from the opportunities of the Asian century.

The Hon. Wayne Swan MP

Contents

Commodity boom mark II is here

We are at a crucial point in Australia's history. We are planning ahead to maximise the opportunities the emerging commodity boom presents, and meeting the associated challenges.

As the storm clouds of the global recession begin to clear, it is becoming apparent that commodity boom mark II is here.

Continuing growth in China and India will support global growth, and will be associated with strong demand for Australia's abundant natural resources. This means higher commodity prices which will support the Australian economy as we rebound from the global financial crisis.

However, these opportunities also present hefty challenges.

To take advantage of our opportunities, workers and investment will move into the mining and related sectors that can provide higher profits and wages. However, capacity constraints may stand in the way of the expansion of mining and related sectors. Without strong infrastructure in place these opportunities may be lost.

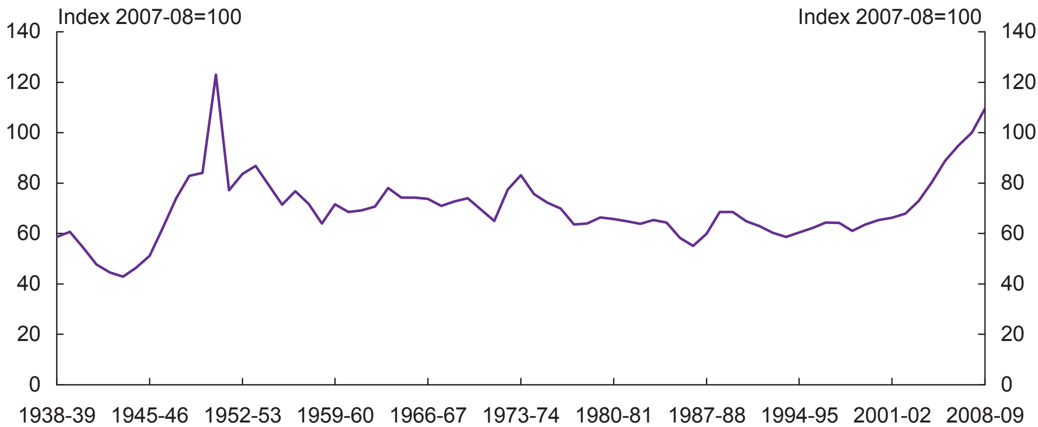
Further, the success of our resources industry can lead to a 'two speed economy'. Non-resource industries find it harder to attract workers and investment. For other exporters, and firms competing with imports, this is evident in the stronger Australian dollar that makes their products relatively less competitive than before.

The key is providing other areas of the economy with a better environment in which to grow, without restraining the ability of the mining sector to expand to take advantage of world demand.

Finally, we must also manage the boom so that when it ends, we have something lasting to show for it. Instead of spending now, we need to save and invest some of the benefits to provide lasting returns for the economy.

This plan will capture a fair share of the wealth generated from our resources, but in a way that better recognises the significant investments that are made in resource projects, and ensures we use our share in the best way possible to build a stronger economy for Australian families and businesses.

Australia's Terms of Trade are at levels not seen since the 1950s



Source: From September quarter 1959, quarterly data from ABS National Accounts, Catalogue Number 5206.0; prior to September quarter 1959, M W Butlin (1977) 'A Preliminary Annual Database 1900-01 to 1973-74', RBA Discussion Paper 7701.

A tax plan for our future

This plan will strengthen and broaden our economy, boost savings, make life easier for small business, and take important steps towards a fairer and simpler tax system.

Stronger

The Government's tax plan will promote growth across the entire economy. A lower company tax rate for larger companies, as well as a head-start tax rate cut for small companies and the instant write-off of assets for all small businesses, will take the brakes off the slower lane of a 'two-speed economy'.

The Government's tax plan will also help the resource industry. A new infrastructure fund in partnership with State governments will provide a permanent structural response to capacity constraints that would inevitably re-emerge and would otherwise hold our economy back. More generous treatment of investment and exploration activity will increase both investment and employment in our resource industry.

The plan will also bank some of the returns into individual superannuation accounts. A 12 per cent superannuation guarantee will provide a lasting benefit to Australian workers, and more generous superannuation caps will help older Australians catch up on their retirement savings.

Fairer

The Resource Super Profits Tax will tax resource projects on their profits rather than just their production. This will see Australia get a fair share from our natural resource wealth, which we will use to promote growth across the entire economy.

Resource States will be the major beneficiaries. They will keep their royalties, but also be eligible for new ongoing infrastructure funding. This will deliver the infrastructure they need to allow their State to grow.

New concessions will be given to the 3.5 million lower income Australians who currently get no or little concession on their superannuation guarantee savings.

Simpler

Small businesses can suffer the most from tax system complexity. Instant write-off of assets worth up to $5,000, and having a single depreciation pool for other assets will cut red tape.

The Government is also interested in ways to make tax time simpler for individual taxpayers, and will have more to say on this in the coming months.

Stronger	• Promoting growth across the economy, through company tax cuts and small business tax cuts and simplification. • Supporting the resource sector, through infrastructure funding, and better support to smaller resource and exploration companies. • Boosting national savings through a 12 per cent superannuation guarantee and more generous catch-up contribution caps.
Fairer	• Australia keeps a fair share of our resource wealth, to promote growth across our entire economy. Benefits are targeted at the particular needs of resource states. • New super concessions for 3.5 million lower income Australian workers.
Simpler	• Helping small business with instant write-off and simplified depreciation. • Further announcements on making tax time simpler for working families.

Growing the economy by cutting company tax

By reducing the company tax rate we will encourage new industries and businesses to set up and new jobs to be created, growing the entire economy right around Australia.

The success of our resources industry can make it harder for other industries to attract workers and investment. A strong Australian dollar can make it harder for other export industries to compete overseas.

The Government will ensure the benefits of the mining boom are spread more fairly across industries and regions.

This is why we will reduce the company tax rate to 29 per cent for the 2013-14 income year and to 28 per cent from the 2014-15 income year, in conjunction with the introduction of the new Resource Super Profits Tax. This will have a number of benefits.

It will improve the international competitiveness of Australia's company tax rate, moving Australia from 22nd to 17th amongst similar sized OECD countries.

Currently, Australia's company tax rate is high relative to other similar sized OECD countries.

By reducing it we can reinforce that Australia is a good place to invest.

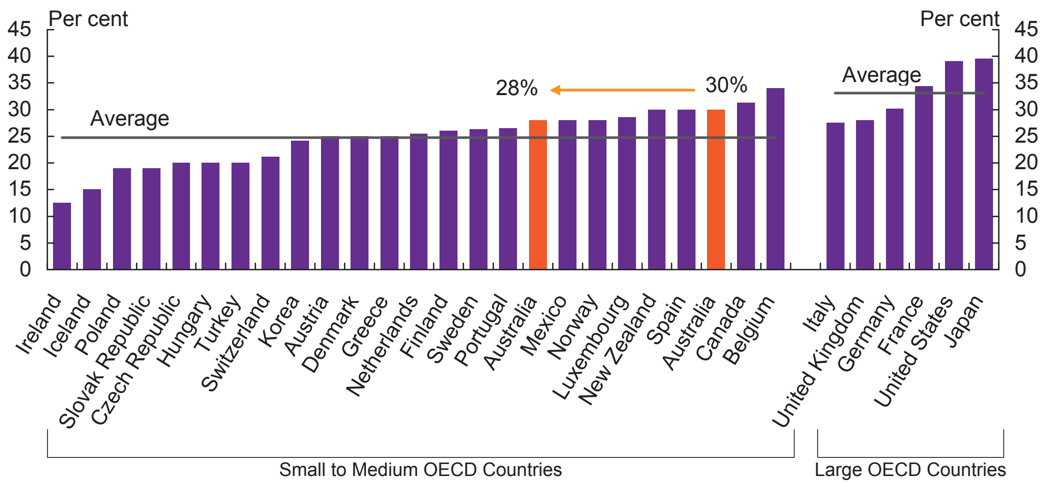
Over time, this will lead to an increase in investment, particularly from overseas. Increased investment means a larger capital stock, higher productivity and higher wages.

More investment will also mean more innovation and entrepreneurial activity.

By making sure our corporate sector continues to be productive and competitive, we can remain at the forefront of technological change and knowledge generation.

The combination of the new RSPT and reduced company tax rate will make Australia a more attractive place to invest across all sectors.

The reduction in the company tax rate is expected to increase GDP by 0.4 per cent in the long run. Together with the resource tax reforms, this will lead to a long run increase in GDP of around 0.7 per cent. Independent modelling indicates these changes are expected to increase average real after tax wages by 1.1 per cent (equivalent to an extra $450 per year in the pocket of a full-time worker on around average weekly earnings).



Source: OECD Tax Database

Tax relief and less red tape for small business

Reducing complexity, cutting red tape and providing tax relief will help small businesses grow and expand — benefitting all Australians.

The vast majority of businesses operating in Australia are small businesses, representing the backbone of the Australian economy.

While all businesses face compliance costs in meeting their tax obligations, complexity has a proportionately greater impact on Australia's estimated 2.4 million small businesses.

Smaller businesses may also experience greater cash flow difficulties than their larger counterparts. In some cases, these can be an impediment to growth and expansion.

Our small business package addresses these issues and provides a practical benefit to a large number of small businesses.

Small businesses currently have to keep a range of records and classify the assets they buy into a number of depreciation 'pools'. Small items worth less than $1,000 can be immediately written off and others allocated to one of two depreciation 'pools' which are depreciated at either a 30 or 5 per cent rate depending on the life of the asset (half these rates in the year of purchase).

The Government will introduce instant write-off for small business assets worth up to $5,000. This means many small business investments will be able to be written off in the year of purchase.

Small businesses will also be able to depreciate all other assets (other than buildings) in a single pool, at a rate of 30 per cent. This means small businesses won't need to do complex tax classification of different asset types. These changes will let small businesses write off many assets more quickly, increasing their cash flows at the time when they are investing to grow.

Small businesses will be able to spend less time with their accounts, and more time with their customers and their families.

Small business companies will also benefit from a head start in the cut to the company tax rate. They will move straight to the new 28 per cent rate from the 2012-13 income year. This will provide a direct financial benefit (and, as a result, a cash flow benefit) and will act as an incentive for small business companies to retain profits to grow the company.

Example of how the instant write-off works

Small business café purchases a display fridge for $4,000

Existing small business depreciation rules

$600 deduction in first year

Proposed small business depreciation rules

$4,000 deduction in first year

=

Tax deduction increase to small business of $3,400 in first year

Investing in infrastructure

For the first time ever, the Australian Government will make infrastructure spending a permanent structural feature of State and Commonwealth budgets.

Nation building infrastructure

World class infrastructure is essential to ensure Australia continues to be an attractive place to set up a business, creating new jobs for now and the future.

Unless we have the right infrastructure to support the resource industry, bottlenecks will prevent us taking full advantage during times when demand for our resources is high.

Investing in major infrastructure will also help improve our potential to grow the economy beyond the resources industry into the future.

The Government is already making a substantial investment in the nation's infrastructure, including the $22 billion Nation Building for the Future package announced in the 2009-10 Budget.

The Government will build on this commitment by establishing a new ongoing infrastructure fund, and make annual contributions starting at $700 million from 2012-13.

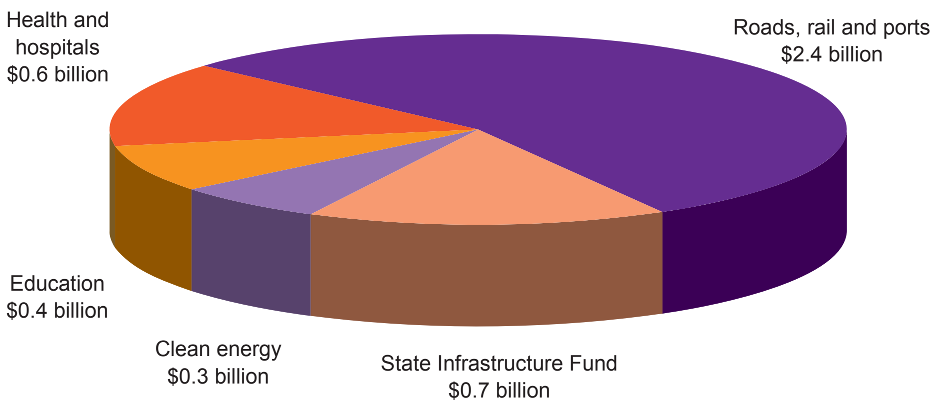
This fund will recognise that resource rich States also face large associated infrastructure demands. It will be used to invest in infrastructure, including to develop Australia's natural resource wealth.

The fund will deliver resources to the States when they are needed — as projects are built. The States will not have to wait until projects are complete and production comes on line for infrastructure resourcing to flow.

The details of the fund will be settled through negotiations with the States.

By reinvesting some of our resource profits into capacity building infrastructure, we will help workers to make the best use of their skills, and businesses to make the best use of their capital, building sustainable growth well into the future.

Australian Government infrastructure funding (estimated), 2012-13



Attracting new resource development

Better support to resource exploration companies will help our resource sector continue to grow and develop.

Resource Exploration Rebate

The Government wants to grow investment and jobs in our vital resources sector. This is why we will invest $1.1 billion in the two years commencing 2012-13 in a new Resource Exploration Rebate to provide better support to resource exploration companies.

The Resource Exploration Rebate will provide a refundable tax offset at the company tax rate for eligible exploration expenses from 1 July 2011. This will be available to all companies.

The Resource Exploration Rebate will be simpler than a flow-through shares scheme and will make exploration in Australia more attractive to investors.

Supporting small exploration companies

Small exploration companies currently do not get a tax benefit from their deductible exploration expenses until they become profitable. For many companies this means waiting for many years to receive a benefit – years in which a project may stall and jobs can be lost.

This disadvantages small companies compared to larger companies who can deduct exploration expenses immediately against other profits.

The Resource Exploration Rebate will mean that no exploration company will have to wait to use its deductions.

For a company in a tax loss position that spends $1 million on exploration, the Resource Exploration Rebate will provide a cash benefit of $300,000.

Encouraging exploration for geothermal energy

The Government will also expand the definition of exploration expenditure to include expenditure incurred in exploring for geothermal energy. This will put geothermal energy on an equal footing to exploration for minerals and petroleum, and reflects geothermal energy's emergence as an important new energy source.

Company in tax loss spends $1 million on exploration*
$1 million x 30 per cent* = $300,000

Current Deduction

$300,000 included in company tax loss
No Immediate Cash Benefit

Resource Exploration Rebate

$300,000 refunded to the company
Immediate Cash Benefit

* Applies to eligible expenditure incurred after 1 July 2011. The company tax rate will be reduced from 1 July 2013.

Banking the benefits of the boom

Banking some of the benefits of the boom in the superannuation accounts of individual Australians will boost national savings and help invest in the country's future.

An important part of managing commodity boom mark II is ensuring that when it ends we have something real to show for it.

Our natural resources are finite, so we need to make sure that we save some of the proceeds.

A 12 per cent superannuation guarantee

Having sufficient retirement savings is a key concern for many Australians. The Government is taking action to increase retirement savings by raising the superannuation guarantee to 12 per cent.

The Government recognises that this affects wage negotiations between employers and employees and is providing a three year lead time before any changes start.

When changes do start, there will be two smaller steps of 0.25 per cent, in 2013-14 and 2014-15. These will be followed by steps of 0.5 per cent in every year until the superannuation guarantee reaches 12 per cent in 2019-20.

The Government will also extend the superannuation guarantee to workers who are aged between 70 and 75, to ensure they are remunerated on an equal footing with their younger co-workers.

Better retirements

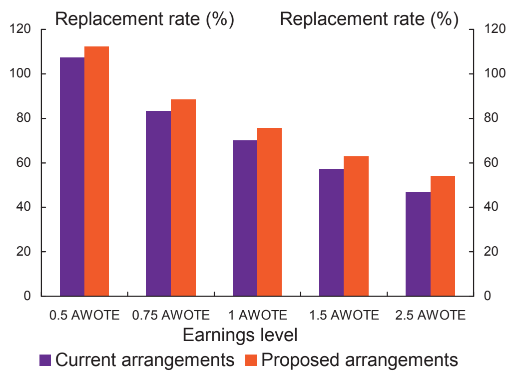
The Government's changes will help Australians to enjoy a better lifestyle in retirement.

This means an extra $108,000 in the retirement superannuation balance of an average worker aged 30 now.

These changes will also assist those Australians whose superannuation balance is affected by significant periods outside the paid workforce.

A female aged 30 now on average weekly earnings with a broken work pattern will have an extra $78,000 upon retirement.

The changes will mean better retirement incomes



Year	SG Rate (%)
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

… with fairer concessions for super

Fairer super concessions will help lower income earners save and older workers catch up on their retirement savings.

Fairer super concessions

Around 3.5 million Australians currently get next to no concession on their superannuation guarantee contributions or, worse still, have these contributions taxed more heavily than their normal income, due to the superannuation contributions tax.

From 1 July 2012 the Government will provide a contribution of up to $500 for workers with incomes up to $37,000. This ensures that no tax will be paid on superannuation guarantee contributions for those with incomes up to that amount in 2012-13.

This will provide a real reward for saving to many low income workers.

Helping older workers make catch-up contributions

The Government recognises that many workers want to make larger catch-up superannuation contributions as they approach retirement. The Government will facilitate this through concessions for workers with a superannuation balance under a certain threshold.

From 1 July 2012, the Government will allow workers aged 50 and over with balances below $500,000 to make up to $50,000 in concessional superannuation contributions. This doubles the cap of $25,000 which is scheduled to apply to these workers from 1 July 2012.

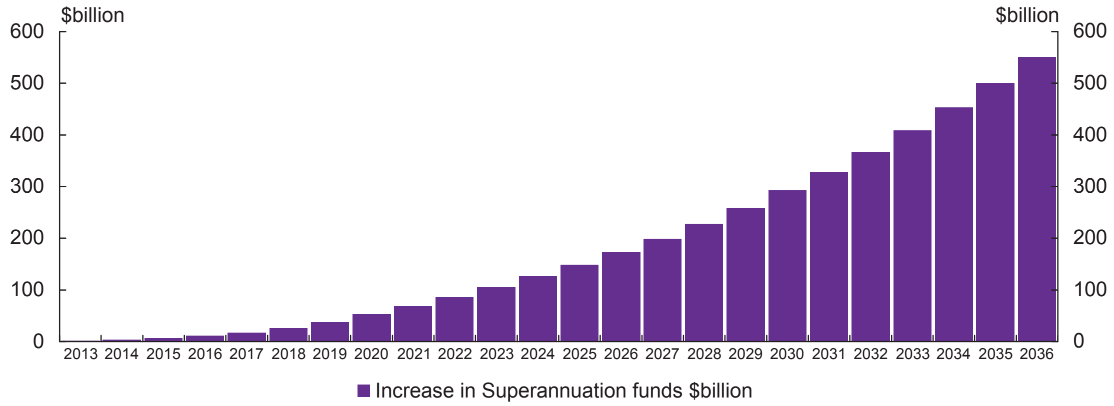
Super asset impacts

The Government's changes will increase Australia's pool of superannuation savings by $85 billion over 10 years.

A proportion of this savings pool will be channelled back into the Australian economy to fund jobs, infrastructure and growth. It is estimated that $284 billion of assets of superannuation funds and life offices was invested in Australian equities alone as at 30 June 2009.

Further, superannuation has a key role in financing Australia's infrastructure projects. Additional superannuation savings will provide an important private contribution towards the nation's infrastructure needs.

… and a greater national pool of superannuation savings



A fair share from our natural resources…

These important reforms will be funded through the introduction of a new Resource Super Profits Tax.

Australia has abundant non-renewable resources, which are expected to continue to command high prices driven by increased demand, particularly from China and India.

The community, through the Australian and State governments, owns the rights to these resources.

This plan seeks to convert the proceeds of the next mineral boom into a stronger and broader economy for all those Australians who work hard and contribute to our economic success. Our resources are among our most important assets — but we can design better ways to tax them.

State governments currently tax resource projects through state royalties. These are generally based on a fixed amount per tonne of production or on a fixed percentage of the value of production.

The amount of tax collected does not recognise that some projects required a lot of investment to get underway, while other projects required relatively little. The tax does not vary with profits made.

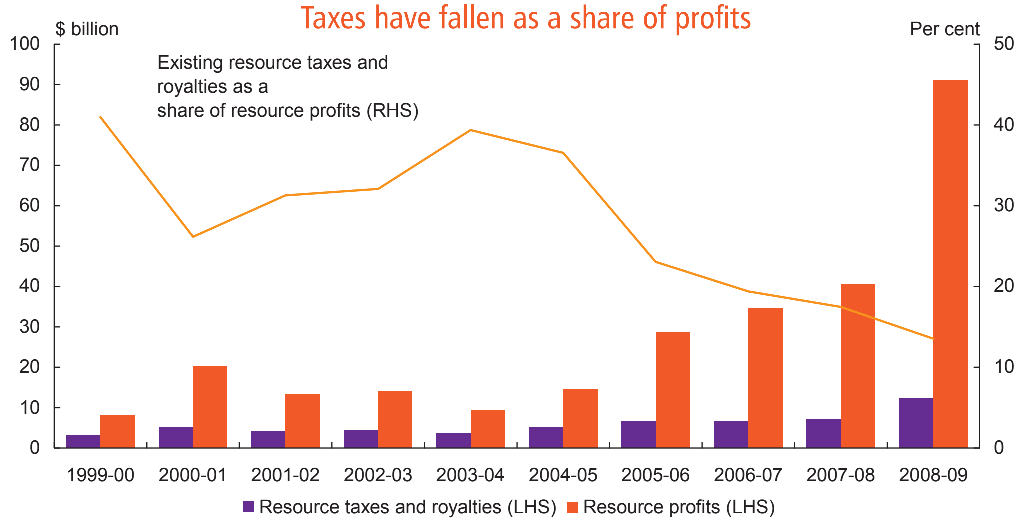
During the mining boom this has meant that as profits from our nation's resources have increased, the community's share of those earnings has decreased. And about half of the profits have gone overseas.

If our share of the profits had remained at the average of the first half of the decade, we would have collected around $35 billion in additional revenue between 1999-00 and 2008-09 to invest in vital social and economic infrastructure.

The RSPT will yield a return to the community as a share of resource profits that is more comparable to the early 2000s, before the last mining boom.

Our natural resources belong to all Australians. We will now tax mining profits in a way that supports the growth of the industry and the economy, and ensures that we get a fair return.

Taxes have fallen as a share of profits



Note: Estimates of resource taxes and royalties excluding income tax.
Source: Treasury estimates

…from a better system of tax

With the right policies, all Australians will benefit from the global demand for our natural resources.

The Australian Government will introduce a resource super profits tax (RSPT) on 1 July 2012. It will replace crude oil excise in parallel with State royalties. Taxpayers currently subject to Petroleum Resource Rent Tax will have the option of electing into the RSPT.

The RSPT will ensure the Australian community gets an appropriate return from our resources.

It will also provide a more consistent tax treatment of resource projects, promoting better outcomes for the industry.

Overall operation

The RSPT will apply a 40 per cent tax to profits from resource projects after allowing for extraction costs and recouping capital investment.

Companies will not pay RSPT until after they provide shareholders with a normal return on capital investments.

The generous tax treatment of capital investment under the RSPT, compared with the royalty regimes, will improve the viability of many less immediately profitable mining ventures, boosting investment and jobs in the sector.

So the RSPT will help mining both during set up and during economic downturns.

When resource prices are high, the community will receive a fairer share of the profits.

Crediting royalties

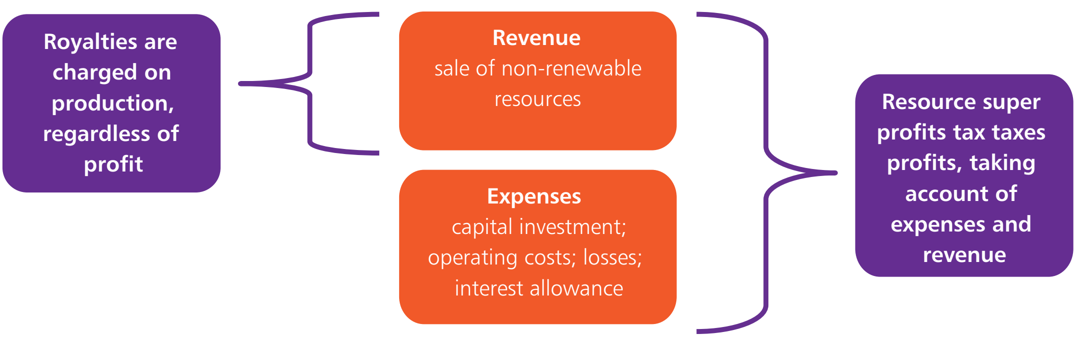
The States will be able to keep their existing royalties, but current State royalty payments will be refunded to companies.

Refunding State royalties under the RSPT will remove their economic effect.

Introducing the RSPT, along with refunding State royalties and removing Australian Government resource charges and taxes, is expected to increase GDP in the order of 0.3 per cent in the long run.

Further detail on the operation of RSPT is available in *The RSPT: a fair return to the nation* —available at futuretax.gov.au.

The resource super profits tax will tax resource firms on their profits, not on their production



A smooth transition to the Resource Super Profits Tax

The Government will recognise past investments and provide a generous five year transition period during which existing projects will benefit from reduced liabilities.

Recognition of past investments

The Government has listened to the concerns of resource companies about existing investments.

Projects subject to the Petroleum Resource Rent Tax will have the option of electing into the RSPT.

Other projects will be brought into the RSPT to ensure that the expansion of existing projects will be treated in the same way as the development of new projects.

However, the Government recognises that existing projects represent large past investments. This is why the Government will provide full recognition of the accumulated investments of existing projects under the new RSPT.

Projects will receive full recognition for the book value of existing project assets at the time of announcement, in the form of a starting base to offset against their profits under the RSPT.

Full recognition will also be provided for investment undertaken during the transition period between the announcement of the RSPT and its commencement on 1 July 2012.

A five year phase in

The Government will also provide a five year phase-in period, starting from the commencement of the RSPT on 1 July 2012. Existing projects will have access to accelerated depreciation of their starting base, which will reduce RSPT liabilities by an estimated $16 billion over the first five years of RSPT operation. This will reduce the impact of the RSPT on after tax cash flows and provide a smooth increase in RSPT revenues during the transition.

Transitional Arrangements to Recognise Existing Investment

Recognition of existing investment

The RSPT starting base provides a tax credit to recognise the full book value of existing investment

plus

Reduced RSPT liabilities for the first five years

Accelerated depreciation of the RSPT starting base reduces tax liability of existing projects in the first 5 years of the regime

Ambitious first steps in a long term reform agenda

These are the first steps in a long process of tax reform, to lift growth, wages and living standards right across the nation and make the tax system stronger, fairer and simpler.

Acting now to maximise our opportunities

We are taking these steps now in order to make the most of the opportunities being presented to our nation by commodity boom mark II.

This plan will deliver the structural reforms we need to promote a stronger economy in the years ahead.

Independent modelling of the plan indicates it should have a reform dividend of a 0.7 per cent increase in long run GDP.

A stronger economy means more job opportunities and higher wages. Independent modelling indicates the changes are expected to increase average real after-tax wages by 1.1 per cent in the long-run. In current terms, this reform dividend is equivalent to having around an extra $450 per year in the pocket of a full-time worker on average weekly earnings.

Tax reform is a long term process

Delivering a stronger, fairer, simpler tax system will be a long process.

The Government's plan is a significant first step in that process, and represents a full reform agenda for several years. Progress on the initial elements will depend on securing the revenue from the implementation of the RSPT.

More reforms will be needed in the coming decade. The Government will continue to develop its tax reform agenda over the coming years, consistent with our strict fiscal strategy.

One of the issues that the Government will consider will be how we can make the personal tax system simpler and more transparent for everyday Australians to make tax time easier and deliver real reward for hard work and saving.

Acting on these first steps now will deliver a stronger economy with higher real wages

Source: KPMG Econtech model

Fiscally responsible tax reform

Budgetary impacts of the Government's tax reform agenda ($ million)[a]

	2010-11	2011-12	2012-13	2013-14
Company tax cut	-	-	-300	-2,000
Small business instant write-off and simplified depreciation	-	-	-	-1,030
Head start on a lower company tax rate for small business	-	-50	-300	-200
State Infrastructure Fund	-	-	-700	-735
Superannuation - Increasing the superannuation guarantee rate to 12 per cent	-	-	-	-240
Superannuation - Raising the superannuation guarantee age limit From 70 to 75	-	-	-	15
Superannuation - Low income earners government contribution	-	-	-	-830
Superannuation - Concessional contributions caps	-	-	-545	-785
Resource Exploration Rebate	-	-	-520	-600
Resource Super Profits Tax	-	-	3,000	9,000
Total	**-**	**-50**	**635**	**2,595**

(a) Australian Taxation Office administration costs will be reported in the 2010-11 Budget.