taxmatters & business affairs pty ltd

Ground Floor, 127 Smith St, Fitzroy Vic 3065
Tel: 03 9416 1679 Fax: 03 9417 2106
info@taxmatters.net.au www.taxmatters.net.au

The Henry Tax Review What is it ?

Ken Henry is the Treasury Secretary, he was asked to do a wide-ranging review on the nation's tax system in 2008, with the aim of making it simpler.

This he did by providing the Rudd Government with a 1,000 page report in time for Tuesday's Federal Budget (04/05/10).

The Henry Tax Review – What it means for you and your family

Kevin Rudd's government confirmed it would introduce a huge new tax on mining companies.

Allegedly, Australians will be better off by up to $108,000 at the end of their working lives. Furthermore the mandatory 9% Super Contribution required to be paid by employers on behalf of employees will increase to 12% by 2019 – 2020.

These and other changes will be phased in over 7 years starting in 2013. Employees aged 30 today will have a further $108,000 in super savings, the Government estimates.

The first wave of tax reform focuses on super and company tax. The Government has chosen not to release the flagged changes regarding savings tax and simplifying tax returns.

As a matter of specific interest the government has suggested that a 30-year-old female worker who takes time off to have kids, will retire with an extra $78,000 according to treasury estimates.

These measures are to cost an additional $2.4 billion dollars over the next 4 years and are dependant on the mining tax being brought into effect. The changes in are expected to add around $85 billion dollars to the nation's pool of super savings.

Changes announced:

- Super contributions to rise to 12% by 2010.
- New taxes takes 40% of miners' profits
- Company tax to be cut to 28% in 2013 /2014
- Small business to benefit a year earlier
- First wave of reform now – more later.
- Workers who earn under $37,000 will get upto $500 from the Government, effectively cancelling out any taxes these workers pay on their super contributions.
- Changes on savings tax and personal tax to be revealed in coming months.

Tax Returns

The report suggests that workers receive a 'default return' from the ATO. In order for this to come into effect, the review recommends the scrapping of work deductions.

Basically, a deduction is money spent throughout the year on work-related expenses, which is then refunded by the government when you submit your tax return. The Henry review proposes that most work related deductions be scrapped, to be replaced by a standard rate that is linked to the level of income from work.

An automatic standard deduction should be introduced to simplify people's interactions with the tax system and facilitate much greater levels of pre-filling of tax returns.

A standard deduction would remove the need to keep receipts. However to ensure workers with a high amount of deductions are protected, you would still be able to claim substantiated expenses.

The review also suggests that a tax-free threshold of $25,000 be put in place. This is how much you would have to earn before you start paying tax.

Tax on savings

The review proposes a 40% discount on all income derived from savings as well as on residential rental income and losses, and capital gains. This is to encourage more savings, as currently interest on savings and term deposits are taxed at a worker's highest marginal rate.

More soon.