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Henry Tax Review Update

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On Sunday 2 May 2010, the Government released the final report of the review into Australia's taxation system, *Australia's Future Tax System Review* (the Henry Review), led by then Treasury Secretary Dr Ken Henry. This paper provides an outline of the key recommendations contained in the final report, as well as the measures the Government has announced in response to the Review and other recent developments.

Background to the Henry Tax Review

The Henry Review commenced in May 2008 and was the culmination of a consultative process consisting of a series of discussion papers, over 1,500 submissions and extensive public consultations.

The purpose of the Review was to provide a medium to long term framework for reform of Australia's taxation system. The scope of the Review encompassed Commonwealth and State government taxes, except the rate and base of the Goods and Service Tax (GST), and interactions with the transfer system (the welfare system).

The broad aim of the Review was to create a modern tax and transfer system that would position Australia to deal with contemporary challenges such as technological and environmental change, rapid globalisation and the impact of demographic change such as high population growth and the ageing of the population, which will diminish the efficiency of the current tax system.

Key recommendations of the Review

There are 135 recommendations contained in the final report of the Review.

A list of all the recommendations is available online at

http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final_Report_Part_1/chapter_12.htm.

The Federal Government has explicitly ruled out a number of Review recommendations, such as to:

- Include the family home in means tests (see Rec 88c)
- Introduce land tax on the family home – this is a state tax and thus an issue for the states (see Rec 52 & 53)
- Require parents to work when their youngest child turns 4 (see Rec 85)
- Hit single income families (see Rec 92 & 93)
- Restrict eligibility to rent assistance for families (see Rec 103)
- Make any changes to the tax system that harm the not-for-profit sector, including removing the benefit of tax concessions, raising the gift deductibility threshold or changing income tax arrangements for clubs (see Rec 9e, 13, 41, 43 & 44)
- Reduce overall remuneration to the members of our defence forces (see Rec 6d, 8c & 9e)
- Reduce the CGT discount, apply a discount to negative gearing deductions, or change grandfathering arrangements for CGT (see Rec 14 & 17c)
- Remove the Medicare levy (see part of Rec 5)
- Reduce indexation of the age pension (see Rec 84)
- Remove the benefits of dividend imputation (see Rec 37)
- Think of hitting pensioner and low income concessions for utilities, transport and other

- essential services (see Rec 107)
- Introduce a bequests tax (see Rec 25)
- Align preservation age with pension age (see Recommendation in AFTS Retirement income strategic issues paper)
- Offer a government annuity product (see Rec 22)
- Ask the States to charge market rents to public housing recipients (see Rec 106)
- Abolish the Luxury car tax (see Rec 80)
- Index fuel tax to CPI (see Rec 65)
- Change alcohol tax in the middle of a wine glut and where there is an industry restructure underway (see Rec 71)

The Government also reaffirmed that it will never increase the rate or broaden the base of the GST or remove tax free superannuation payments for over 60s, which were both ruled out in the Henry Tax Review Terms of Reference.

The Government has indicated it intends to consult on outstanding recommendations and to implement some as and when Budgetary circumstances permit.

Government's Response to the Henry Tax Review

On 2 May 2010, the Government announced its 'first wave' reform measures in response to the Henry Review. They are primarily related to company and small business taxes, superannuation, infrastructure and resources and are intended to be implemented over the short to medium term (over the next ten years).

The original reform package was centred around the Resources Super Profits Tax (RSPT). Following consultation with key mining companies, on 2 July 2010 the Government announced that a 'breakthrough agreement' had been reached with the mining industry.

The Agreement includes a number of amendments to the original reform proposal:

"The changes recognise the views of industry about how they would like new investment to be treated – through higher uplift factors and faster depreciation of new investment, rather than guaranteed refundability of unused tax deductions."¹

The main changes were:

- The name of the tax changed from the Resource Super Profits Tax to the Minerals Resource Rent Tax (MRRT).
- The MRRT rate was reduced from 40 per cent to 30 per cent, and will apply to iron ore and coal only.
- The existing Petroleum Resources Rent Tax (PRRT) will be extended to cover all onshore and offshore oil, gas and coal seam methane projects.
- The PRRT will apply at a rate of 40 per cent.
- The company tax rate will be cut to 29 per cent (instead of to 28 per cent as originally proposed).
- There will be no Resources Exploration Rebate.

The new resource tax reforms are estimated to reduce revenue by \$1.5 billion over the forward estimates

¹ Media Release, 2 July 2010,

<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/055.htm&pageID=003&min=wms&Year=2010&DocType=0>, p. 4.

compared to the original proposal.

The Prime Minister's media release is available at

<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/055.htm&pageID=003&min=wms&Year=2010&DocType=0>.

Outline of the Amended Tax Reform Package

In summary, the package of measures includes:

1. Introducing a Minerals Resource Rent Tax at a rate of 30 per cent for coal and iron ore.
2. Extending the Petroleum Resource Rent Tax to cover all onshore and offshore oil, gas and coal seam methane projects at a rate of 40 per cent.
3. Cutting the company tax rate to 29 per cent in 2012-13.
4. Giving small business an early start to the company tax rate cut from 2011-12.
5. Allowing instant asset write-off for small business.
6. Establishing a state infrastructure fund.
7. Increasing the Superannuation Guarantee rate to 12 per cent.
8. Introducing a Government superannuation contribution for low income earners.
9. Raising the Superannuation Guarantee age limit from 70 to 75
10. Changing concessional contributions caps for people over 50 with low superannuation balances.
11. Reforming the tax-free threshold and the Low Income Tax Offset.
12. Reforming the fringe benefits tax treatment of cars.
13. Reforming family, disability and unemployment benefits to encourage participation.
14. Establishing the Tax System Advisory Board.

The Government has established a website dedicated to the reform package at

<http://www.futuretax.gov.au>.

Essentially, the revenue the Government will receive from the tax on resources will be channelled into increased superannuation benefits, infrastructure and business tax cuts.

These measures are fully funded and designed so that the MRRT offsets the benefits to small business, infrastructure and superannuation. Indeed, it is "not possible to do one without the other", the Treasurer noted.

The Minerals Resource Rent Tax

- Iron ore and coal will be subject to a new profits-based Minerals Resource Rent Tax (MRRT) at a rate of 30 per cent.
- Other commodities will not be included, so the number of affected companies will be around 320.
- These arrangements will operate in parallel with State and Territory royalty regimes.
- A refundable credit for royalties paid to State and Territory Governments will be available.
- MRRT assessable profits are calculated on the value of the commodity, determined at its first saleable form (at mine gate), less all costs to that point.
- Projects will be entitled to a 25 per cent extraction allowance that reduces taxable profits subject to the MRRT. This allowance recognises the contribution of the miner's expertise to profits at the mine gate.
- Small miners with resource profits below \$50 million per annum will not have an MRRT liability.
- Miners may elect to use the book or market value as the starting base for project assets, with depreciation accelerated over 5 years when book value, excluding mining rights, is used; or effective

life (up to 25 years) when market value at 1 May 2010, including mining rights, is used. All post 1 May 2010 capital expenditure will be added to the starting base.

- A book value starting base will be uplifted with the long term bond rate plus 7 per cent. However, a market value starting base will not be uplifted.
- Investment post 1 July 2012 will be able to be written off immediately, rather than depreciated over a number of years. This allows mining projects to access the deductions immediately, and means a project will not pay any MRRT until it has made enough profit to pay off its up front investment.
- The deductibility of expenditure under MRRT will be broadly based on the categories used in the PRRT regime.
- MRRT losses will be transferable to other iron ore and coal projects in Australia. This supports mine development because it means a company can use the deductions that flow from investments in the construction phase of a project to offset the MRRT liability from another of its projects that is in the production phase.
- Unutilised MRRT losses will be carried forward at the government long term bond rate plus 7 per cent.
- Unused credits for royalties paid will be uplifted at the government long term bond rate plus 7 per cent, as per other expenses. Unutilised royalty credits will not be transferrable or refundable.

Petroleum Resource Rent Tax Arrangements

- The Petroleum Resource Rent Tax (PRRT) regime, which currently only applies to offshore petroleum projects will be extended to cover all oil, gas and coal seam methane projects, onshore and offshore Australia.
- The PRRT will apply at a rate of 40 per cent.
 - Companies may elect to use market value as the starting base for project assets, including oil and gas rights.
 - All state and federal resource taxes will be creditable against current and future PRRT liabilities from a project.
- The standard features of the current PRRT will otherwise apply, including the range of uplift allowances for unutilised losses and capital write-offs; immediate expensing for expenditure and limited transfer of the tax value of losses.

Company and small business taxes

- The Government will decrease the company tax rate to 29 per cent in 2013-14 and to 28 per cent in 2014-15.
- The Government will bring forward the tax cuts for small businesses to 2012-13.
- Further detail on company tax rates is available at www.deewr.gov.au/Department/Documents/Files/1_Fact_sheet_Company_Tax_Cut_Final.pdf.
- The Government will also introduce a new instant write-off for assets worth up to \$5,000 for small businesses and will deliver simpler depreciation arrangements for other assets.

Superannuation

- The Government is making an overall investment in superannuation of \$2.385 billion over the next four years.
- The Government will increase the Superannuation Guarantee (SG) from 9 per cent to 12 per cent by 2020, beginning with a 0.25% increase in 2013-14.

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

- The Government will contribute up to \$500 annually into the superannuation account for workers on taxable incomes of up to \$37,000. This measure is essentially a refund on tax contributions on superannuation for low income earners. This represents an investment of \$830 million over the forward estimates.
- The Government will increase the concessional contribution cap for those aged over 50. From 1 July 2012, workers aged 50 and over with superannuation balances below \$500,000 will be able to make up to \$50,000 in annual, concessional superannuation contributions.
- The Government will raise the SG age limit from 70 to 75 from 1 July 2013 which will mean that workers aged 70 to 74 will be eligible to have SG contributions made on their behalf.
- The Government will retain the co-contributions scheme.
- The Government will ask Fair Work Australia to take these increased superannuation contributions into account in setting minimum wages.

Infrastructure

- The Government will provide the States and Territories with a new infrastructure fund that will make infrastructure spending a permanent feature of State and Commonwealth budgets.
- The infrastructure fund will be paid to the States and Territories each year, with an initial total amount of \$700 million in 2012-13. This will total an investment of approximately \$5.6 billion in infrastructure over ten years.
- Resource-rich States and Territories will receive relatively more funding which can be used to support investment in infrastructure, including resources infrastructure.
- The final details will be negotiated with the States and Territories.
- Further detail is available at www.deewr.gov.au/Department/Documents/Files/4_Fact_Sheet_State_infrastructure_funding.pdf.

Budgetary Impact

The table below shows the impacts of the original reform package as outlined in the 2010-11 Budget. At that time the Resources Super Profits Tax was expected to generate approximately \$12 billion in the years to 2013-14.

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.

The changes announced on 2 July 2010 (outlined below) obviously affect the figures in the table above. The following table is from the Pre-Election Fiscal Outlook (PEFO), issued in July 2010. It shows the effect of policy decisions since the 2010-11 Budget.

Table B1: Revenue measures: 2010-11 Budget to Economic Statement ^(a) (continued)

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
TREASURY (continued)					
Stronger, fairer, simpler					
– improved resource taxation arrangements ^(b)	-	-	-	-1,000.0	-6,500.0
– early cut to the company tax rate for small business companies	-	-	-	200.0	150.0
– revised company tax cut	-	-	-	-	600.0
– revised growth dividend	-	-	-	-99.0	-197.0
Superannuation					
– account based pensions – extension of drawdown relief for retirees	-	-3.0	-9.0	-	-
– enabling the confiscation of the proceeds of crime from superannuation	-	*	*	*	*
Taxation laws – minor amendments	-	*	*	*	*
<i>Department of the Treasury</i>					
European Bank for Reconstruction and Development – increased capital	14.1	-	-	-	-
Portfolio total	14.1	-3.0	-10.3	-900.3	-5,947.1
Total impact of revenue measures^(c)	14.1	-3.0	-10.2	-901.2	-5,950.0

* The nature of the measure is such that a reliable estimate cannot be provided.

.. Not zero, but rounded to zero.

- Nil.

nfp not for publication.

(a) A minus sign before an estimate indicates a reduction in revenue, no sign before an estimate indicates a gain in revenue.

(b) The improved resource taxation arrangements measure does not take account of parameter changes that are expected to increase revenue by \$2.0 billion in 2012-13 and \$4.0 billion in 2013-14 relative to the fiscal projections published in the 2010-11 Budget.

(c) Measures may not add due to rounding.

The table is available in the PEFO at http://www.treasury.gov.au/documents/1858/PDF/PEFO_2010.pdf, p. 20.

The Opposition and Minor Parties' Response

The Opposition

The Coalition has indicated that it will oppose, and if implemented, rescind, the MRRT and extension of the PRRT. The Coalition has also previously indicated that it would not implement any of the spending measures that would be funded by the MRRT and extension of the PRRT.

The Australian Greens

On 18 August 2010, the Leader of the Australian Greens, Senator Brown, addressed the National Press Club. He indicated that the Greens will pursue changes to the proposed MRRT, but would not oppose the legislation should their amendments fail.

"The Greens will negotiate an adjustment to the mining tax so it raises an additional \$2 billion that will boost the public school system to fund a range of important areas,"

"We will negotiate strongly, inject better ideas into the mining tax proposal Labor has, and I think we will get a dividend."

Independent Members of Parliament

The 2010 Federal Election resulted in the election of five Independents. Given the context of minority Government, it is worth exploring each of the Independents' positions regarding the MRRT.

Tony Crook –O'Connor (WA)

Mr Crook is not supportive of the MRRT. He called the MRRT a *"major stumbling block"* to any alliance with the incumbent Labor Government.

"It's unfortunate that Ms Gillard said the mining tax is still on the table. That sort of narrows the field considerably."

Bob Katter – Kennedy (QLD)

Mr Katter is not supportive of the MRRT.

Rob Oakeshott –Lyne (NSW)

On 2 September 2010 Mr Oakeshott issued a joint media release with Andrew Forrest (Fortescue) calling for a summit to have a public debate on tax reform and re-examine the MRRT.

"I think there is a lot of sense for government to go back to that document and to then have a big public discussion about genuine tax reform in this country and release responses to recommendations. In that environment, if there is room to move from state-based royalties to resource rents taxes then I would be [a] backer of that through a sensible process."²

² The Brisbane Times, 2 September 2010, *Forrest backs call for tax summit*, available online at <http://news.brisbanetimes.com.au/breaking-news-national/forrest-backs-call-for-tax-summit-20100902-14rib.html>.

Andrew Wilkie – Denison (SA)

Mr Wilkie is broadly supportive of a mining tax, but suggests more work is needed to perfect the MRRT.

“The most profitable companies should pay more tax on those profits. But the Rudd Government’s Resource Super Profit Tax was recklessly constructed, especially regarding retrospectivity, threshold and rate. The replacement Minerals Resource Rent Tax also seems far from perfect in its detail and more work will be needed if it is to function well. In both cases the policy appears to have been developed too quickly.”³

Tony Windsor –New England (NSW)

Mr Windsor looked to his electorate on the MRRT, undertaking a survey of around 2,000 people in his electorate on the Resources Super Profits Tax. He found that most people were unsure about the super profits tax, but broadly supportive of the superannuation and company tax reform package. He concluded that,

‘..the mining tax needs more work both in its detail and explanation if it is to be supported by the community.’⁴

It is not clear whether he is supportive of the revised MRRT.

Independent Senators

It is unclear whether Senators John Madigan and Nick Xenophon are supportive of the tax. Senator Xenophon has previously said that he needs to take some time to decide on his position. In an interview on 4 July 2011, Senator Madigan said “I’m opposed to a carbon tax. I’m opposed to anything that makes people’s lives harder.”⁵ However he was not asked to comment on the MRRT.

Recent Developments

Policy Transition Group

The MRRT will apply from 1 July 2012 subject to the legislation’s passage through the Parliament.

In the period leading up to the new resource taxation arrangements, the Government is continuing to engage and consult with industry through the Policy Transition Group (PTG), led by the Minister for Resources, Energy and Tourism, the Hon. Martin Ferguson MP and Mr Don Argus, Chairman BHP Billiton. The PTG was set up to consult with industry and advise the Government on the implementation of the new MRRT and PRRT arrangements.

The PTG released an issues paper in October 2010 to engage stakeholders and provide a framework for discussion. The paper is available at

http://minister.ret.gov.au/MediaCentre/MediaReleases/Documents/10100_ptg-issues-paper.pdf.

After an extensive process including the review of formal submissions and consultation sessions around the country, the PTG provided two reports of its findings to the Government in December 2010: one focusing

³ Andrew Wilkie website, see http://www.andrewwilkie.org/content/index.php/aw/issues_policy_extended/C14.

⁴ Media Release, 29 June 2010, *Survey shows most not sure about mining tax but other Govt tax reforms supported*.

⁵ Interview with Sabra Lane on AM, *DLP Back in the Senate*, ABC Radio, <http://www.abc.net.au/am/content/2011/s3259875.htm>

on new taxation arrangements (available at http://www.futuretax.gov.au/content/Publications/downloads/New_Resource_Taxation_Arrangements_Report.pdf) and the other focusing on exploration (available at http://www.futuretax.gov.au/content/Publications/downloads/Minerals_and_Petroleum_Exploration_Report.pdf).

Further information about the PTG Consultation process is available at <http://www.alp.org.au/federal-government/news/policy-transition-group-membership-and-terms-of-re/>.

On 24 March 2011, the Treasurer and Minister for Resources and Energy announced that the Gillard Government accepted all 98 of the PTG's recommendations.

Their press release is available at <http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/024.htm&pageID=003&min=wms&Year=&DocType=0>.

On 10 June 2011, the Treasurer released an exposure draft of the proposed MRRT legislation for public comment. The draft has been produced on the basis of the PTG's recommendations and is available at <http://www.treasury.gov.au/contentitem.asp?NavId=037&ContentID=2070>. A summary of the proposed legislation is available at <http://www.treasury.gov.au/documents/2070/PDF/Minerals%20Resource%20Rent%20Tax%20Bill%202011.pdf> and the Treasurer's press release at <http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/065.htm&pageID=003&min=wms&Year=&DocType=>. Consultation on the preliminary draft is invited from stakeholders and closes on 14 July 2011.

Resource Tax Implementation Group (RTIG)

A recommendation of the PTG was that the Government should establish an implementation group to support the drafting of the legislation. Accordingly, the Resource Tax Implementation Group has been created and will be chaired by Paul McCullough from the Treasury. Other officials from the Treasury, the Tax Office and the Department of Resources, Energy and Tourism will be joined by representatives from the resources industry as well as from taxation, legal and accounting bodies.

For a full list of those participants who have already been named see p. 2 of the Treasurer's joint press release (linked above). Further details of the Resource Tax Implementation Group will be available soon.

Costings Release

On 28 October 2010 the Treasurer released additional material relating to the Henry Tax Review, including working papers commissioned by the AFTS Panel and costings of final AFTS recommendations, prepared by Treasury and the ATO. See <http://www.treasury.gov.au/contentitem.asp?NavId=035&ContentID=1895>.

The Treasurer's media release is available at <http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/074.htm&pageID=003&min=wms&Year=&DocType=>

Budget 2011-12

Further reform to the tax system was introduced in the 2011-12 Budget, bringing the number of reforms

from the Henry Tax Review that have been announced since the 2010-11 Budget to 12:

1. Removing the unintended tax incentive for people to drive more than they need to in order to obtain a larger tax concession, by reforming the "statutory formula" method for valuing car fringe benefits (implements recommendation 9[b]);
2. Improving participation incentives for spouses without children, by phasing out the Dependent Spouse Tax Offset (consistent with recommendation 6[a]);
3. Better targeting tax incentives, by replacing the Entrepreneurs Tax Offset (ETO) (consistent with recommendation 6[c]);
4. Improving small business tax rules, by replacing the ETO with a small business tax package that includes a \$5,000 immediate deduction for motor vehicles (consistent with the intent of recommendation 29);
5. Improving certainty for investors, by allowing infrastructure projects of national significance to carry forward losses with an uplift factor to maintain their value (consistent with the intent of recommendation 31);
6. Increasing support for families, by increasing Family Tax Benefit Part A payments for 16 to 19 year olds (consistent with recommendation 91[a]);
7. Reforming family payments, by reducing the overlap between Family Tax Benefit Part A and Youth Allowance (consistent with recommendation 98);
8. Improving regulation and reducing red tape for the not-for-profit sector, by establishing the Australian Charities and Not-for-profits Commission (consistent with recommendation 41);
9. Improving certainty for the not-for-profit sector, by introducing a statutory definition of 'charity' (consistent with recommendation 41);
10. Improving tax system governance, by committing to a principles-based approach to tax law design (consistent with recommendation 112);
11. Allowing the Board of Taxation to initiate its own reviews of how tax policies and laws are operating (consistent with recommendation 113); and
12. Establishing a new Tax System Advisory Board (consistent with recommendation 115).

Additionally, the 2011-12 Budget includes measures to:

- Reduce access to income splitting by high-income earners, by removing the Low Income Tax Offset for the unearned income of minors; and
- Increase fairness in the tax system, by improving the reporting of taxable payments made to some contractors, and taking stronger action against fraudulent 'phoenix' activity (the act of transferring the assets of an indebted company into a new company to avoid paying creditors, tax or employee entitlements), fraudulent tax refunds, and non-payment of tax on government payments.

The Treasurer's Press Release is available at

<http://www.dpm.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/048.htm&pageID=003&min=wms&Year=&DocType=0>.

Tax Forum

As part of the agreement with the Independents following the 2010 election, the Gillard Labor Government agreed to hold a Tax Forum in order to have an open debate about tax reform and the recommendations of the Henry Tax Review. The forum took place on 4-5 October 2011 in Canberra. Information on the tax forum, including a discussion paper, list of attendees, program outline and a paper on the fiscal context in which the forum took place is available at

<http://www.futuretax.gov.au/content/Content.aspx?doc=TaxForum>.

In his closing remarks at the tax forum on 5 October 2011, Treasurer Wayne Swan MP thanked the participants for engaging in a mature and forward-looking policy debate. He noted the following outcomes

of the forum:

1. Chairman of the Board of Taxation Mr Chris Jordan AO has been appointed chair of a new business tax reform working group, which will include business leaders, tax experts and unions with the support of Treasury. The working group will examine potential business tax responses to the pressures of the patchwork economy, focussing initially on options for losses and options for savings to fund them. An initial report is to be provided by November 2011 with a final report by March 2012. The second priority of the working group will be longer term company tax options, with a report expected during 2012. Further details of the working group were announced on 12 October 2011 (see below).
2. Treasury and the ATO will meet with the Council for Small Business to identify the best ways to reduce complexity for small businesses.
3. The Council of Australian Federation will work with NSW Treasurer the Hon. Mike Baird MP and Queensland Treasurer the Hon. Andrew Fraser MP to develop a state tax reform plan. The plan will be discussed by treasurers before being taken to COAG for agreement and implementation, with the first iteration by the end of 2012.
4. The Government will contribute around \$1 million towards establishing an independent Tax Studies Institute as a centre for research excellence to examine the tax-transfer system. The Institute will welcome contributions from state governments and will accept tax deductible donations from the public.
5. The priority in personal tax reform will be to further increase the tax-free threshold to \$21,000 and remove the Low Income Tax Offset entirely.
6. More effective support for the not for profit sector will be explored by the Not-For-Profit Reform Council with Assistant Treasurer the Hon. Bill Shorten MP and Minister for Human Services and Social Inclusion the Hon. Tanya Plibersek MP, as well as a broad and diverse range of sector representatives.

Business Tax Working Group

On 12 October 2011, Treasurer Wayne Swan released details of the membership and terms of reference for the Business Tax Working Group. The terms of reference are as follows:

Objectives

1. The Working Group will make recommendations on how the Australian business tax system can be improved to make the most of the challenges and opportunities arising from transformations in the broader economic environment, including the patchwork economy.
2. The revenue neutral reforms to the business tax system will aim to increase productivity, while delivering tax relief to struggling businesses.

Scope

3. The Working Group will focus on reform options that relieve the taxation of new investment:
 - 3.1. in the near term, by reforming the tax treatment of business losses; and
 - 3.2. in the longer term, by reducing the corporate tax rate further or moving to a business expenditure tax system, particularly an allowance for corporate equity.
4. For its final reports, the Working Group will provide specific analysis of these business tax reform options, including:

- 4.1. descriptions of how these reform options operate overseas and evidence on their effectiveness;
- 4.2. potential priorities for reform, including transitional paths;
- 4.3. worked examples of how these options would affect business taxpayers, including their financial and tax accounts;
- 4.4. revenue integrity provisions, such as measures necessary to limit: the inappropriate claiming of tax losses; the equity allowance to new equity; and small and closely held businesses converting labour into business income;
- 4.5. how the reform options integrate with the rest of the tax system now and in the future;
- 4.6. impacts on national income and macroeconomic risks; and
- 4.7. costings.
5. The working group will also identify a range of off-setting budget savings from existing Commonwealth business taxation (or spending) measures. Changes to the GST should not be considered.
 - 5.1. The savings to be generated by the particular options will be costed by the Treasury in accordance with the budget rules.
6. In developing its recommendations, the Working Group should have regard to the report of the *Australia's Future Tax System Review* and relevant international experience and expertise.

Timing

7. The Working Group is required to provide the Treasurer with:
 - 7.1. an initial report on the proposed directions for improving the tax treatment of losses and offsetting savings in mid-November 2011;
 - 7.2. a final report on the treatment of losses and the offsetting savings in March 2012; and
 - 7.3. a further report on longer-term business tax reform options and offsetting savings by the end of 2012.

Consultation

8. For its final reports, the Working Group should consult widely with industry and the broader community.
9. The Working Group may establish technical sub-groups to consider specific issues or seek input from other sources of expert advice.

Support

10. The Working Group will be supported by a Secretariat within Treasury.

The Treasurer's Press Release including details of the membership of the working group is available at <http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/123.htm&pageID=003&min=wms&Year=&DocType=>.

Parliamentary Budget Office

In August 2011, legislation was introduced into the House of Representatives to set up a Parliamentary Budget Office (PBO), which will provide research and policy costing advice to all Senators and Members of Parliament. The Government has set aside \$24.9 million over four years to fund the PBO, which will be established as a separate entity headed by an independent statutory officer – the Parliamentary Budget Officer. The funding for the PBO was announced in the 2011-12 Budget. The Treasurer's Press Release is available at

<http://www.dpm.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/051.htm&pageID=003&min=wms&Year=&DocType=0>.

The legislation follows a report from the Joint Select Committee on the Parliamentary Budget Office, which was delivered to the Government in March 2011, and is available at <http://www.aph.gov.au/house/committee/jscpbo/report.htm>. The report recommended that the PBO be provided with ongoing funding of no less than \$6 million per annum with consideration of additional resourcing in election years.

Links

The Hon. Wayne Swan Media Release, Business Tax Working Group, 12 October 2011 –

<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/123.htm&pageID=003&min=wms&Year=&DocType=>

Tax Forum: The Fiscal Context, 26 September 2011 -

http://www.futuretax.gov.au/content/TaxForum/discussion_paper/fiscal_pressures.pdf

The Hon. Wayne Swan Media Release, Tax Forum, 26 August 2011 -

<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/099.htm&pageID=003&min=wms&Year=&DocType=>

Tax Forum Discussion Paper -

http://www.futuretax.gov.au/content/Content.aspx?doc=TaxForum/Discussion_Paper.htm

The Hon. Wayne Swan Media Release, MRRT Exposure Draft, 10 June 2011 -

<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/065.htm&pageID=003&min=wms&Year=&DocType=>

A New Resource Taxation Regime, 10 June 2011 -

<http://www.treasury.gov.au/documents/2070/PDF/Minerals%20Resource%20Rent%20Tax%20Bill%202011.pdf>

Consultation Paper – Minerals Resource Rent Tax, 10 June 2011 -

<http://www.treasury.gov.au/contentitem.asp?NavId=037&ContentID=2070>

The Hon. Wayne Swan Media Release, Parliamentary Budget Office, 10 May 2011 -

<http://www.dpm.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/051.htm&pageID=003&min=wms&Year=&DocType=0>

The Hon. Wayne Swan Media Release, 10 May 2011 -

<http://www.dpm.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/048.htm&pageID=003&min=wms&Year=&DocType=0>

The Hon. Wayne Swan Joint Media Release with the Hon. Martin Ferguson, Minister for Resources and Energy, 24 March 2011 -

<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/024.htm&pageID=003&min=wms&Year=&DocType=0>

Joint Select Committee on the Parliamentary Budget Office Report, 23 March 2011 -

<http://www.aph.gov.au/house/committee/jscpbo/report.htm>

Policy Transition Group Report to the Australian Government: New Resource Taxation Arrangements -

http://www.futuretax.gov.au/content/Publications/downloads/New_Resource_Taxation_Arrangements_Report.pdf

Policy Transition Group Report to the Australian Government: Minerals and Petroleum Exploration -

http://www.futuretax.gov.au/content/Publications/downloads/Minerals_and_Petroleum_Exploration_Report.pdf

The Hon. Wayne Swan Media Release, Tax forum in October to build on reform agenda, 20 March 2011 -
<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/020.htm&pageID=003&min=wms&Year=&DocType=0>

The Government's tax reform package website - <http://www.futuretax.gov.au/>

The final report of the Australia's Future Tax System Review -
http://taxreview.treasurer.gov.au/content/Content.aspx?doc=html/pubs_reports.htm

The list of recommendations made by the Review -
http://taxreview.treasurer.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final_Report_Part_1/chapter_12.htm

The Hon. Wayne Swan, Overview of the Government's responses to the report, 3 May 2010 -
http://www.deewr.gov.au/Department/Documents/Files/Glossy%20B5_final.pdf

The Hon. Wayne Swan Joint Media Release with the Hon. Kevin Rudd, Stronger, Fairer, Simpler: A tax plan for our future, 2 May 2010 -
<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/028.htm&pageID=003&min=wms&Year=&DocType=>

The Hon. Wayne Swan Joint Media Release with Senator the Hon. Chris Bowen, Stronger, Fairer, Simpler Superannuation Banking the Benefits of the Boom, 2 May 2010 -
<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/027.htm&pageID=003&min=wms&Year=&DocType=>

The Hon. Wayne Swan Media Release, Resource Tax Consultation Panel, 2 May 2010 -
<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/029.htm&pageID=003&min=wms&Year=&DocType=>

The Hon. Wayne Swan, Treasurer's Economic Note, 26 April 2010 -
<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=economicnotes/2010/017.htm&pageID=000&min=wms&Year=&DocType=>

Fact sheet on the Resource Super Profits Tax -
http://www.deewr.gov.au/Department/Documents/Files/10_Fact_sheet_Resource_Profit_Tax_Final.pdf

Fact sheet on Cutting the Company Tax Rate -
http://www.deewr.gov.au/Department/Documents/Files/1_Fact_sheet_Company_Tax_Cut_Final.pdf

Fact sheet on the Early Start to Company Tax Rate Cut for Small Business -
http://www.deewr.gov.au/Department/Documents/Files/2_Fact_sheet_Early_start_to_company_tax_rate_cut_for_small_business.pdf

Fact sheet on the Small Business Instant Asset Write-Off -
http://www.deewr.gov.au/Department/Documents/Files/3_Fact_sheet_instant_asset_write_off.pdf

Fact sheet on State Infrastructure Funding -
http://www.deewr.gov.au/Department/Documents/Files/4_Fact_Sheet_State_infrastructure_funding.pdf

Fact sheet on the Resource Exploration Rebate -

http://www.deewr.gov.au/Department/Documents/Files/5_Fact_sheet_Resource_Exploration_Rebate_Final.pdf

Fact sheet on Superannuation – Increasing the Superannuation Guarantee Rate to 12 per cent -

http://www.deewr.gov.au/Department/Documents/Files/6_Fact_Sheet_SG%20_rate_increase.pdf

Fact sheet on Superannuation – Low Income Earners Government Contribution -

http://www.deewr.gov.au/Department/Documents/Files/8_Fact_sheet_Low_income_earner_government_contribution.pdf

Fact sheet on Superannuation – Raising the Superannuation Guarantee Age Limit From 70 to 75 -

http://www.deewr.gov.au/Department/Documents/Files/7_Fact_Sheet_SG_age_increase.pdf

Fact sheet on Superannuation – Concessional Contributions Caps -

http://www.deewr.gov.au/Department/Documents/Files/9_Fact_Sheet_Contributions_Cap_50K_for_balance_below_500K.pdf

Fact sheet on fiscally responsible tax reform -

http://www.deewr.gov.au/Department/Documents/Files/11_Fact_sheet_Fiscally_responsible_tax_reform.pdf