The National Report

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Aged & Community Services Australia

Special Edition

Contents:

The Henry Tax Review and the Government's Response were released yesterday (Sunday 2nd May). The Treasurer's Media Release (Joint with the Prime Minister) states: *"These are the first steps in a 10 year 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."*

Government has announced implementation of only a few of the proposed reforms, deferring some decisions until the Budget next week (although some media commentary this morning suggests the budget will only focus on system simplification) and some for consideration in a second term of Government.

Some proposals have been expressly ruled out.

The outcome for not-for-profit services was neutral with no change to the current taxation concessions. ACSA advocated for this throughout the review and in the lead up to its release.

This special edition of the National Report provides an overview of the review as well as providing specific information on how the reforms will affect aged care, not-for-profit and housing services. The material is taken from an analysis prepared for Uniting Care Australia and ACSA.

Henry Tax Review Overview

Despite the broad sweep of the Henry Tax Review – formally, *Australia's Future Tax System* – the Government has limited its response to introducing a new resources tax –the Resource Super Profits Tax – which will be used to fund a range of superannuation and company tax concessions.

All decisions on personal income tax, personal benefits, pensions, housing, welfare and aged care have been postponed, possibly to be announced in the Budget (11 May) or during the election campaign.

However the Government has given no clear indication whether it will implement a number of the recommendations in these areas.

It has announced an increase in the Superannuation Guarantee (SG) payment to 12 per cent (from the current 9 per cent), to be paid by employers. This increase was not recommended by the Henry Review – it was silent on the issue. It did however recommend the abolition of the Superannuation Contributions Tax, which the Government has not implemented.

The Government says that its reduction in company tax rates – to be funded from the new resources tax – will enable businesses to meet the higher SG payments, to be phased in over six years.

The Government has expressly ruled out a number of the Review's recommendations including the abolition or tightening of a number of concessions for the Not for Profit sector, changes to negative gearing, including the family home in means test assets tests, abolishing the Medicare levy, reducing indexation of the age pension and requiring parents to seek work when their youngest child turns four.

The Review proposes a broad range of other changes including measures to increase the progressivity of personal income tax, which the Government has neither specifically ruled in or out.

In a joint statement, Prime Minister Kevin Rudd and Treasurer Wayne Swan said: "In the coming months we will have more to say on a number of other areas considered by the review, especially making tax time simpler for everyday Australians, improving incentives to save and improving the governance and transparency of the tax system.

"This would represent a full second term agenda."

They said: "Other recommendations in the review are not government policy. We have called for a mature tax debate and expect the other recommendations to be the subject of much discussion in the coming years."

Implemented

The Government has announced it will implement:

- A new Resource Super Profits Tax (RSPT) on natural resource projects
- Reduction in the company tax rate to 29 per cent from 2013-14 and to 28 per cent from 2014-15. The 28 per cent company tax rate will apply to small business from 2012-13.
- Increase the Superannuation Guarantee (SG) rate to 12 per cent over six years to 2019-20.
- Superannuation co-contribution of up to $500 annually for individuals on taxable incomes of up to $37,000.

Implementation Postponed

The Government has not made any decisions on the following recommendations:

- All personal income tax changes
- All personal benefits and pension changes.
- Abolition of Superannuation Contributions tax.

Review Proposals Rejected

The Government has rejected the following recommendations:

- Remove tax concessions for the Not for Profit sector, including raising the gift deductibility threshold
- Include the family home in means tests
- Introduce land tax on the family home
- Require parents to work when their youngest child turns 4
- Reduce the CGT discount, apply a discount to negative gearing deductions, or change grandfathering arrangements for CGT
- Remove the Medicare levy
- Reduce indexation of the age pension
- Abolish dividend imputation

The Government also said it "reaffirms that it will never increase the rate or broaden the base of the GST or remove tax free superannuation payments for the over 60s, which were both ruled out of the AFTS Terms of Reference."

Aged Care Funding

The Review recommends but the Government is yet to respond to the following proposals:

- Funding in the aged care sector should make greater use of user-directed funding.
- It says the Productivity Commission should consider this potential reform direction in its upcoming inquiry into aged care.
- Governments should determine what an adequate level of aged care should be, the necessary pricing and regulatory arrangements to deliver it, and the most sustainable funding arrangement to ensure access by those who cannot afford it.
- The Productivity Commission consider how insurance could be used for the funding of aged care, particularly in the context of its inquiry into disability insurance.
- Unbundling government assistance for aged care into accommodation, care and daily living expenses would allow the most appropriate subsidy to be targeted to each (including consistent means-testing).
- There should be greater opportunity for people to receive care in their preferred setting, whether in a home or care facility.
- Some additional forms of insurance might be appropriate to enhance national savings and help pre-fund community needs arising from ageing and disability, but the mode and delivery would need to be carefully considered. Ideally, it should be universal, applying to all taxpayers

These are of course the themes that will be considered in the Productivity Commission Inquiry into Aged Care so the delay in responding to these is predictable. The Sydney Morning Herald has picked up the aged care issues this morning (3 May 2010) saying the review has called for a radical change to financing aged care. The consistency of views around reform of aged care continues and ACSA will be working hard to ensure reform occurs and addresses our long standing and fundamental issues.

Superannuation

The Government will increase the Superannuation Guarantee

- increase the existing 9 per cent Superannuation Guarantee (SG) rate to 12 per cent over six years to 2019-20.
- The SG rate will be increased gradually with initial increments of 0.25 percentage points on 1 July 2013 and on 1 July 2014. Further increments of 0.5 percentage points will apply annually up to 2019-20, when the SG rate will be reach 12 per cent.

- The increase will be fully-paid by employers. The Government said the six year phase-in “will allow employers to take the increased SG contributions into account when negotiating future wage settlements.”

The Government also said, “While employers will take increases in SG contributions into account when negotiating future wage agreements, future wage increases are expected to be sufficient to ensure that overall real wages continue to grow.”

As aged care wages are funded principally by the Government these increases will need to be built into subsidy rates as they were when the Superannuation Guarantee was first introduced under the Hawke Government. ACSA will raise this issue with Government

Not for profit sector

In its response to the Henry Review the Government specifically ruled out a number of changes recommended by the review including specific not-for-profit fringe benefit tax concessions.

Although the Government response may leave some “wriggle room” it said it would not 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.”

ACSA has argued for the restoration of the full value of the $30,000 FBT cap which has not been indexed since its introduction in 2000.

Proposals which the Government ruled out were:

- “Not-for-profit entities’ FBT concessions should be reconfigured”
- Fringe benefits, including those incidental to an individual’s employment, should remain taxed to employers at the top marginal rate (and non-reportable for employees).
- The scope of fringe benefits that are subject to tax should be simplified.
- Gift deductibility should be retained, but the deductibility threshold raised from $2 to $25.

On FBT the Review recommended (but the Government rejected):

- The capped concessions should be phased out over ten years. In the transition period, the value of the caps would gradually be reduced. Reportable fringe benefits for affected employees (that is, those benefits that are easily valued and attributed) would be exempt from tax up to the relevant cap, and taxed at the employee’s marginal tax rate above the cap. The market value of these benefits would be taken into account for transfer payment purposes. Non-reportable fringe benefits would be taxable for NFP employers.
- The FBT concessions should be replaced with direct government funding, to be administered by relevant Australian government portfolio agencies or the charities commission. All NFP organisations eligible for tax concessions should be able to apply to the relevant body for funding for specific projects or for assistance with the costs of recruiting specialist staff.

The Review backed the Productivity Commission’s recommendation for a National Charities Commission to monitor, regulate and provide advice to not-for-profit (NFP) organisations (including private ancillary funds). It said the charities commission should be tasked with streamlining the NFP tax concessions (including the application process for gift deductibility), and modernising and codifying the definition of a charity. It is not clear at this stage whether Government will support this recommendation.

One NFP recommendation not specifically ruled out by the Government (nor was it endorsed) was that Categories of NFP organisations that currently receive income tax or GST concessions should retain these concessions. NFP organisations should be permitted to apply their income tax concessions to their commercial activities.

Housing and Housing Affordability

The Review committee recommended but the Government is yet to respond to the following proposals:

To support more affordable housing the Review recommends:

- Maximum rates of Rent Assistance for income support recipients should be substantially increased and linked to movements in market rents.
- Public housing rent concessions should be replaced by Rent Assistance and a new form of assistance for high-needs tenants, to improve equity and work incentives.
- Over a long transition period, a land tax should be introduced on all land on a more efficient and uniform basis linked to unit land values, removing disincentives for institutional investment in rental property and integrated over time with property rate assessments.
- Over a similar period, transfer taxes on property should be reduced, and ultimately removed, with revenues replaced by efficient taxes, preferably annual land tax.
- Subject to transitional provisions, and following action to improve the current shortfall in housing supply, a more neutral personal income tax treatment of private residential rental investment should be introduced, with less volatile market effects, through a 40 per cent discount on all net residential rental income and losses, and capital gains.
- Rent Assistance should be part of the income support system, with eligibility based on rent paid and the income support means test, rather than on eligibility for another payment (for example, Family Assistance).
- A high-need housing payment should be paid to social housing providers for their tenants who have high or special housing needs or who may face discrimination in the private market. This payment should be funded by the Australian Government.
- Income-linked rents should be phased out in social housing, with providers charging their tenants rents linked to the market rate

ACSA will review these recommendations for their implications for the provision of seniors' housing.

To see the full Henry Review and Government Response go to
http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm
You will find the specific aged care recommendations in the Final Report Part 2, Detailed Analysis, Volume 2 Chapter F7.

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