Appendix 12

Initial summary of the government response to the Henry Tax Review recommendations

Initial Summary of the Government Response to the Henry Tax Review Recommendations		
Australia's Future Tax Review Recommendation	**Government Response in report Stronger, Fairer, Simpler: a tax plan for our future**	**Relevant Fuel and Energy Terms of Reference**
Tax and Transfer System		
Recommendation 1	The Government will introduce the Resource Super Profits Tax as one of the four taxes listed in this recommendation. See below for further detail.	F
Company and other investment taxes		
Recommendation 27	*Cutting the Company Tax Rate*	E, F, H
Recommendation 32	*Resource Exploration Rebate*	E, F, H
Land and resource taxes: Charging for non-renewable resources		
Recommendation 45	*Resource Super Profits Tax (RSPT)*	E, F, H
Recommendation 46	Could be covered under RSPT measure.	E, F, H
Recommendation 47	See *Resource Super Profits Tax* above.	E, F, H
Recommendation 48	*State Infrastructure Fund*	E, F, H
Recommendation 49	Could be covered under RSPT measure.	E, F, H
Recommendation 50	Could be covered under RSPT measure.	E, F, H
Enhancing social and market outcomes: Taxes to improve the environment		
Recommendation 58	No response received to date.	D, E, F, H
Recommendation 59	No response received to date.	D, F, H
Recommendation 60	No response received to date.	D, E, F, H
Enhancing social and market outcomes: Road transport taxes		
Recommendation 61	No response received to date.	I
Recommendation 62	No response received to date.	I
Recommendation 64	No response received to date.	I
Recommendation 65	Will not be implemented.	E, F, I
Recommendation 66	No response received to date.	I
Recommendation 67	No response received to date.	I
Recommendation 68	No response received to date.	I
Enhancing social and market outcomes: Rationalising other taxes		
Recommendation 80	Will not be implemented.	E, F, I
Institutions, governance and administration: State tax reform		
Recommendation 119	No specific measure relating to this recommendation. Consultation is planned with States and Territories in relation to the measures discussed above.	E, F, H, I
NOTE: Initial assessment made on documents available as at 6 May 2010. Assessment based on the following resources: *Australia's Future Tax System: Report to the Treasurer, Tax Policy Statement: Stronger, Fairer, Simpler - a tax plan for our future, and Prime Minister and Treasurer Press Release: Stronger, Fairer, Simpler - a tax plan for our future (dated 2 May 2010).*		

Initial Summary of the Government Response to the Henry Tax Review Recommendations		
NOTE: Initial assess ment made on documents available as at 30 June 2010. Assessment based on the following resources: *Australia's Future Tax System: Report to the Treasurer, Tax Policy Statement: Stronger, Fairer, Simpler - a tax plan for our future, and Prime Minister and Treasurer Press Release: Stronger, Fairer, Simpler - a tax plan for our future (dated 2 May 2010).*		
Australia's Future Tax Review Recommendation	**Government Response in report Stronger, Fairer, Simpler: a tax plan for our future**	**Relevant Fuel and Energy Terms of Reference**
Tax and Transfer System		
Recommendation 1: Revenue raising should be concentrated on four robust and efficient broad-based taxes: • personal income, assessed on a more comprehensive basis; • business income, designed to support economic growth; • rents on natural resources and land; and • private consumption. Additional specific taxes should exist only where they improve social outcomes or market efficiency through better price signals. Such taxes would only be used where they are a better means to achieve the desired outcome than other policy instruments. The rate of tax would be set in accordance with the marginal spillover cost of the activity.User charging should play a complementary role, as a mechanism for signalling the underlying resource cost of publicly provided goods and services. With both specific taxes and user charges, revenue would be a by-product of the tax or charge, not the reason for it. Other existing taxes should have no place in the future tax system and over time should be abolished.	The Government proposes to introduce the Resource Super Profits Tax as one of the four taxes listed in this recommendation. See below for further detail.	F

Company and other investment taxes		
Recommendation 27: The company income tax rate should be reduced to 25 per cent over the short to medium term with the timing subject to economic and fiscal circumstances. Improved arrangements for charging for the use of non-renewable resources should be introduced at the same time.	Cutting the Company Tax Rate: Company income tax rate will be reduced to 29 per cent for the 2013-2014 income year, and to 28 per cent from the 2014-2015 income year, in conjunction with the introduction of the Resource Super Profits Tax on 1 July 2012. The reduction of the company tax rate for eligible small business companies will commence earlier, starting in the 2010-2013 income year, at a rate of 28 per cent.	E, F, H
Recommendation 32: If earlier access to tax benefits from exploration expenses (relative to other expenses) is to be provided, it should take the form of a refundable tax offset at the company level for exploration expenses incurred by Australian small listed exploration companies, with the offset set at the company income tax rate.	***Resource exploration rebate (RER)***: a refundable tax offset for exploration expenditure will be provided at the company level, and set at the prevailing company tax rate (provided the exploration is undertaken in Australia). This measure will be available for exploration expenditure incurred on or after 1 July 2011. $1.1 billion will be invested in the rebate in the two years commencing 2012-2013. The RER will be available to all companies, not just Australian small listed exploration companies as suggested in the Henry Tax Review recommendation. In addition, the definition of exploration expenditure will be expanded to include expenditure incurred in exploring for geothermal energy. if a company receives a refund under the Resource Exploration Rebate, a franking debit will not arise in the company's franking account, however, when the company pays its PAYG instalment, franking credits will not arise until deferred franking debits are recovered. Subject to various eligibility criteria, expenditure incurred in exploring or prospecting for minerals, petroleum or quarry minerals can be immediately deducted. Expenditure on depreciating assets first used for exploration can be written off immediately. The Government will consult on the exposure draft legislation which will give effect to the rebate.	E, F, H

Land and resource taxes: Charging for non-renewable resources		
Recommendation 45: The current resource charging arrangements imposed on non-renewable resources by the Australian and State governments should be replaced by a uniform resource rent tax imposed and administered by the Australian government that: (a) is levied at a rate of 40 per cent, with that rate adjusted to offset any future change in the company income tax rate from 25 per cent, to achieve a combined statutory tax rate of 55 per cent; (b) applies to non-renewable resource (oil, gas and minerals) projects, except for lower value minerals for which it can be expected to generate no net benefits. Excepted minerals could continue to be subject to existing arrangements if appropriate; (c) measures rents as net income less an allowance for corporate capital, with the allowance rate set at the long-term Australian government bond rate; (d) requires a rent calculation for projects; (e) allows losses to be carried forward with interest or transferred to other commonly owned projects, with the tax value of residual losses refunded when a project is closed; and (f) is allowed as a deductible expense in the calculation of income tax, with loss refunds treated as assessable income.	***Resource Super Profits Tax (RSPT):*** a RSPT will commence on 1 July 2012 at a rate of 40 per cent on profits made from Australia's non-renewable resources. The RSPT will replace the crude oils excise, and will operate in parallel with State and Territory royalty regimes. The Government will provide resource entities with a refundable credit for state royalties paid, allowing the states to continue to collect a stable stream of revenue from royalties, while removing the effects they have on investment and production. Projects which are already covered by the current Petroleum Resource Rent Tax (PRRT), will remain in the scope of the PRRT unless they elect to transfer to the RSPT. Transitional arrangements have been made for existing projects. The government intends to consult with stakeholders on design issues, and this process has commenced with the release of the Announcement Paper *The Resource Super Profits Tax: a fair return to the nation*.	E, F, H

Recommendation 46: The resource rent tax should not provide concessions to encourage exploration or production activity at a faster rate than the commercial rate or in particular geographical areas, and should not allow deductions above acquisition costs to stimulate investment.	Could be covered under ***RSPT*** measure.	E, F, H
Recommendation 47: Existing projects should be transferred into the proposed system with an adjustment, as appropriate, to the starting base for the allowance for corporate capital. The Australian government should set out a time-frame to implement the resource rent tax and provide guidance at the time of announcement on how existing investments and investment in the interim will be treated under the resource rent tax.	See ***Resource Super Profits Tax*** above.	E, F, H
Recommendation 48: The Australian and State governments should negotiate an appropriate allocation of the revenues and risks from the resource rent tax.	***State infrastructure fund***: some of the proceeds from the RSPT will be used to create a fund to assist States to invest in infrastructure. The fund is intended to be provided as projects are built, so that States do not have to wait until projects are complete and production commences to receive funds. The fund will start in 2012-2013 at an amount of $700 million and is expected to grow over time.	E, F, H
Recommendation 49: The Australian and State governments should consider using a cash bidding system to allocate exploration permits. For small exploration areas, where there are unlikely to be net benefits from a cash bidding system, a first-come first-served system could be used.	Could be covered under ***RSPT*** measure.	E, F, H
Recommendation 50: The Australian and State governments should abolish fees and stamp duties on the transfer of interests in a resource project except those related to administrative costs.	Could be covered under ***RSPT*** measure.	E, F, H

Enhancing social and market outcomes: Taxes to improve the environment		
Recommendation 58: Once the Carbon Pollution Reduction Scheme (CPRS) is operational, additional measures which seek to reduce emissions (in sectors covered by the CPRS), and which are not justified on other grounds, should be phased out.	No response received to date. The government has announced that the introduction of a CPRS will be delayed until after 2012.	D, E, F, H
Recommendation 59: The industry assistance arrangements introduced in consequence of the CPRS should be regarded as transitional. The Government's policy is to commission an independent review of the CPRS, including in relation to emissions-intensive trade-exposed (EITEs) assistance, every five years starting in 2014. To complement this, the Productivity Commission should be asked to undertake and publish an annual review of CPRS-related assistance arrangements for the life of the CPRS to provide a basis for future decisions on assistance policy. To assist the Productivity Commission, an Associate Commissioner with appropriate knowledge and industry expertise should be appointed to the review.	No response received to date. The government has announced that the introduction of a CPRS will be delayed until after 2012.	D, F, H
Recommendation 60: The government should continue to monitor tax concessions aimed at supporting environmental outcomes, and consider replacing them with targeted spending programs where this would be a more effective and efficient method of achieving the appropriate environmental outcome.	No response received to date. The government has announced that the introduction of a CPRS will be delayed until after 2012.	D, E, F, H

Enhancing social and market outcomes: Road transport taxes		
Recommendation 61: Governments should analyse the potential network-wide benefits and costs of introducing variable congestion pricing on existing tolled roads (or lanes), and consider extending existing technology across heavily congested parts of the road network. Beyond that, new technologies may further enable wider application of road pricing if proven cost-effective. In general, congestion charges should apply to all registered vehicles using congested roads. The use of revenues should be transparent to the community and subject to further institutional reform.	No response received to date.	I
Recommendation 62: The Council of Australian Governments (COAG) should accelerate the development of mass-distance-location pricing for heavy vehicles, to ensure that heavy vehicles pay for their specific marginal road-wear costs. Revenue from road-wear charges should be allocated to the owner of the affected road, which should be maintained in accordance with an asset management plan. Differentiated compliance regimes to enforce this pricing policy may need to be considered to balance efficiency benefits from pricing against the costs of administration and compliance for some road users.	No response received to date.	I

Recommendation 64: On routes where road freight is in direct competition with rail that is required to recover its capital costs, heavy vehicles should face an additional charge on a comparable basis, where this improves the efficient allocation of freight between transport modes.	No response received to date.	I
Recommendation 65: Revenue from fuel tax imposed for general government purposes should be replaced over time with revenue from more efficient broad-based taxes. If a decision were made to recover costs of roads from road users through fuel tax, it should be linked to the cost of efficiently financing the road network, less costs that can be charged directly to road users or collected through a network access charge. Fuel tax should apply to all fuels used in road transport on the basis of energy content, and be indexed to the CPI. Heavy vehicles should be exempt from fuel tax and the network access component of registration fees if full replacement charges are introduced.	The section of the recommendation relating to the indexation of fuel tax to CPI will not be implemented. See Prime Minister and Treasurer Press Release: Stronger, Fairer, Simpler - a tax plan for our future (dated 2 May 2010). No response to the rest of the recommendation has been received to date.	E, F, I
Recommendation 66: The revenue-raising component of State taxes on motor vehicle ownership and use should be made explicit, and over time only be used to recover those costs related to road provision. The administrative costs of providing government services should be recovered through user charges where applicable. Quantity limits on taxi licences should be phased out.	No response received to date.	I

Recommendation 67: Governments should continue to reform road infrastructure provision, applying economic assessment to investments comparable to that for other forms of infrastructure.	No response received to date.	I
Recommendation 68: COAG should develop a National Road Transport Agreement to establish objectives, outcomes, outputs and incentives to guide governments in the use and supply of road infrastructure. COAG should nominate a single institution to lead road tax reform, and ensure implementation of this agreement.	No response received to date.	I
Enhancing social and market outcomes: Rationalising other taxes		
Recommendation 80: The luxury car tax should be abolished.	Will not be implemented. See Prime Minister and Treasurer Media Release: Stronger, Fairer, Simpler - a tax plan for our future (dated 2 May 2010).	E, F, I
Institutions, governance and administration: State tax reform		
Recommendation 119: Reforms to State taxes should be coordinated through intergovernmental agreements between the Australian government and the States to provide the States with revenue stability and to facilitate good policy outcomes.	No specific measure relating to this recommendation. Consultation is planned with States and Territories in relation to the measures discussed above.	E, F, H, I