Chapter 1
Lowering the corporate tax rate

Outline of chapter

1.1 Schedule 1 to this Bill amends the *Income Tax Rates Act 1986* to reduce the corporate tax rate from 30 per cent to 29 per cent for the 2013-14 income year and for subsequent income years. For small business companies, the 29 per cent rate also applies in the 2012-13 income year.

Context of amendments

1.2 In conjunction with the introduction of the Minerals Resource Rent Tax, the corporate tax rate is reduced from 30 per cent to 29 per cent for the 2013-14 income year and for subsequent income years. This will make Australia a more competitive destination for investment.

1.3 Small business companies are being given a head start to the cut in the corporate tax rate. They move to the 29 per cent rate from the 2012-13 income year.

1.4 The reduction in the corporate tax rate comes into effect following the commencement of the Minerals Resource Rent Tax.

Summary of new law

1.5 The corporate tax rate is reduced to 29 per cent for the 2013-14 income year and for subsequent income years.

1.6 For small business companies, the 29 per cent rate also applies in the 2012-13 income year.

Comparison of key features of new law and current law

New law	*Current law*
The corporate tax rate will be 29 per cent for the 2013-14 income year and for subsequent income years. For small business companies, the 29 per cent rate will also apply in the 2012-13 income year.	The corporate tax rate is 30 per cent.

Detailed explanation of new law

Reduction in the corporate tax rate from the 2013-14 income year

1.7 The corporate tax rate is reduced to 29 per cent. This reduction in the corporate tax rate will apply to:

- for a company that is an ordinary company—the company's taxable income;
- for a company that is a retirement savings account provider—the standard component of the company's taxable income;
- for a company that is an authorised deposit-taking institution and a first home savers account provider—the standard component of the company's taxable income;
- for a company that becomes a pooled development fund during an income year—that part of the company's taxable income which exceeds the pooled development fund component;
- for a company that is a life insurance company—the ordinary component of the company's taxable income;
- for a corporate unit trust or a public trading trust—the net income of the trust.

[Schedule 1, items 1, 2, 5 and 6, subsection 23(2), paragraphs 23(3)(b), 23(3A)(b), 23(4)(c) and 23A(a), and sections 24 and 25 of the Income Tax Rates Act 1986]

1.8 Except for small business companies, the reduction in the corporate tax rate applies for the 2013-14 income year and for subsequent income years. ***[Schedule 1, subitem 16(1)]***

Head start for small business companies

1.9 A company that is a small business entity has a head start in the cut the corporate tax rate. The 29 per cent corporate tax rate applies to these companies for the 2012-13 income year. ***[Schedule 1, subitems 16(2) and (3)]***

1.10 A small business entity is defined in section 328-110 of the *Income Tax Assessment Act 1997* (ITAA 1997). Therefore, a company is a small business entity that qualifies for the head start to the cut in the corporate tax rate if, broadly:

- the company carried on business in the 2011-12 income year and had an aggregated turnover of less than $2 million in that income year; or
- the company carries on business in the 2012-13 income year and has an aggregated turnover of less than $2 million in that income year.

Non-profit companies

1.11 Non-profit companies pay no tax on the first $416 of their taxable income. Tax is then shaded in at a rate of 55 per cent of the excess over $416 until the tax on taxable income equals the corporate tax rate. Where the taxable income exceeds the shade-in limit, the full taxable income is effectively taxed at the corporate tax rate.

1.12 The shade-in limit is currently $915 (reflecting the current 30 per cent corporate tax rate). As the corporate tax rate is being reduced to 29 per cent, the shade-in limit is being reduced to $880. ***[Schedule 1, item 3, subsection 23(6) of the Income Tax Rates Act 1986]***

1.13 Therefore, the rates of tax payable by a non-profit company are as follows:

- first $416 of taxable income—nil;
- taxable income between $416 and $880—55 per cent;
- taxable income above $880—29 per cent.

1.14 This reduction in the shade-in limit for non-profit companies applies for the 2013-14 income year and for subsequent income years. However, if a non-profit company is a small business entity, the reduction will also applies in the 2012-13 income year. ***[Schedule 1, item 16]***

Medium credit unions

1.15 Credit unions fall into three categories for income tax purposes:

- recognised small credit unions;
- recognised medium credit unions; and
- recognised large credit unions.

1.16 A credit union is a recognised small credit union if, broadly, its notional taxable income is less than $50,000. Recognised small credit unions are exempt from tax on interest derived from loans to members. Other taxable income derived by a recognised small credit union is taxed at the corporate tax rate.

1.17 A credit union is a recognised medium credit union if, broadly, its notional taxable income is between $50,000 and $150,000. A recognised medium credit union is subject to an effective tax rate based on a sliding scale, according to its level of taxable income. The tax payable by a recognised medium credit union (before any offsets or credits) is limited to 45 per cent of the amount by which the credit union's taxable income exceeds $49,999.

1.18 A credit union is a recognised large credit union if, broadly, its notional taxable income is $150,000 or more. The taxable income derived by a recognised large credit union is taxed at the corporate tax rate.

1.19 The 45 per cent rate that applies to the taxable income of recognised medium credit unions reflects the current 30 per cent corporate tax rate. As the corporate tax rate is reduced to 29 per cent, this rate is reduced to 43.5 per cent. ***[Schedule 1, item 4, subsection 23(7) of the Income Tax Rates Act 1986]***

1.20 This reduction applies for the 2013-14 income year and for subsequent income years. However, if a recognised medium credit union is a small business entity, the reduction also applies in the 2012-13 income year. ***[Schedule 1, item 16]***

Application and transitional provisions

1.21 Except for companies that are small business entities, the reduction in the corporate tax rate applies for the 2013-14 income year and for subsequent income years. ***[Schedule 1, subitem 16(1)]***

1.22 For companies that are small business entities, the 29 per cent rate also applies in the 2012-13 income year. ***[Schedule 1, subitem 16(2)]***

1.23 A number of provisions in the ITAA 1997 refer to the corporate tax rate. Therefore, for the purpose of applying such a provision to a company that is a small business entity, or to a distribution by a company that is a small business entity, any reference to the corporate tax rate is taken to be a reference to the 29 per cent rate in the 2012-13 income year. ***[Schedule 1, subitem 16(3)]***

1.24 For example, the amount of franking credit that can be attached to a distribution in an income year cannot exceed the maximum franking percentage (section 202-60 of the ITAA 1997). The maximum franking credit for a distribution is based on the corporate tax rate. For the purpose of applying this provision in the 2012-13 income year:

- if the company is a small business entity, the corporate tax rate is 29 per cent; or
- otherwise, the corporate tax rate is 30 per cent.

Example 1.1

Beach Co pays a dividend of $100 to Carlie in the 2012-13 income year.

If Beach Co is a small business entity in that income year, the 29 per cent corporate tax rate applies. Therefore, the maximum amount of franking credits that can be attached to the dividend is $40.84.

However, if Beach Co is not a small business entity in that income year, the 30 per cent corporate tax rate applies. Therefore, the maximum amount of franking credits that can be attached to the dividend is $42.85.

1.25 However, the amendments to reduce the corporate tax rate commence only after the commencement of the Minerals Resource Rent Tax. That is, if all of the following Acts do not commence, the corporate tax rate will remain at 30 per cent:

- the *Minerals Resource Rent Tax Act 2011*;

- the *Minerals Resource Rent Tax (Consequential Amendments and Transitional Provisions) Act 2011*;
- the *Minerals Resource Rent Tax (Imposition—General) Act 2011*;
- the *Minerals Resource Rent Tax (Imposition—Customs) Act 2011*; and
- the *Minerals Resource Rent Tax (Imposition—Exercise) Act 2011*.

[Section 2]

Consequential amendments

1.26 Consequential amendments are made to various provisions in the *Income Tax Assessment Act 1936* (ITAA 1936) and the ITAA 1997 which refer to a 30 per cent rate which reflects the company tax rate.

1.27 These consequential amendments, broadly:

- ensure that the amount of the rebate allowed under the tax exempt infrastructure borrowing concessions in certain circumstances is calculated based on the reduced corporate tax rate, with effect from 2012-13 income year for companies that are small business entities and from the 2013-14 income year for all other companies;
- ensure that the amount of the rebate allowed to life insurance policyholders in certain circumstances is calculated based on the reduced corporate tax rate, with effect from the 2013-14 income year;
- update examples which illustrate the operation of the company tax loss rules in certain circumstances; and
- update an example which illustrates the operation of capital gains tax discount rules for shareholders in listed investment companies.

[Schedule 1, items 7 to 16, subsections 159GZZZZG(1), 159GZZZZG(2) and 160AAB(1) of the ITAA 1936, the examples in subsections 36-17(5), 36-55(1) and 115-280(3) of the ITAA 1997]