Business Tax Reform – savers fact sheet

Savers also benefit from new company tax rate

People who save through managed funds such as unit trusts and most superannuation and group investment funds will also benefit from the new 30 per cent company tax rate.

As a complementary measure, the top tax rate on investment income earned on behalf of individuals who invest in managed funds that choose to use the new portfolio investment entity tax rules will also reduce from 33 per cent to 30 per cent.

Less tax paid on income from these savings vehicles will mean faster accumulation of savings by individuals.

How will it work?

- ✓ The tax rate for unit trusts and group investment funds taxed as companies will change to the new, lower company tax rate of 30 per cent.
- ✓ People who invest in life insurance savings products will have tax paid on their behalf by life insurers at the rate of 30 per cent.
- ✓ Widely held superannuation funds and widely held group investment funds that are taxed as trusts will be taxed at 30 per cent.
- ✓ The top tax rate on income earned by portfolio investment entities for individual savers will be 30 per cent, down from 33 per cent.

Example

Sara, whose top personal tax rate is 33 per cent, regularly invests in a widely held superannuation fund (which is one that generally has more than 20 investors). Under current law, her share of the fund's income is $1000, on which the fund pays $330 tax. Her share of after-tax income is $670.

Under the new 30 per cent tax rate, the tax on her investment income of $1000 will be $300. Her share of the after-tax income will be $700, which means additional savings of $30 a year.

If she invests in a managed fund that chooses to use the new portfolio investment entity tax rules, the fund will pay tax on the investment at a top rate of 30 per cent. The $1000 income it earns for her, less $300 tax, will also give her a $700 after-tax return.

Where to from here?

The changes are part of the taxation bill to be introduced following the Budget. Once enacted, the 30 per cent tax rate will apply from the 2008/09 income year.