Government tries to fix the glitch in company tax cut. Does it make things worse? Yes!

In December 2017, we published this article and video:

government-tries-fix-glitch-company-tax-cut-make-things-worse

Those publications were in response to a Government Bill to change the way companies could access the lower corporate tax rate. That bill has now become law and has made the determination of the tax position for a company much more complicated.

With the "bright line" test in this new law, companies may fluctuate from being a lower tax "base rate entity" one year and subject to the full 30% corporate tax rate the next year and then, subsequently revert. A change would also trigger for the maximum franking for dividends from that company in the following year.

It's a complete mess!

Having two different tax rates for companies makes things complicated. Having a phased introduction makes things complicated. Creating yet another definition for income makes things complicated. Creating a circumstance where a company's tax rate changes year on year depending on an additional, artificial definition of income, makes things complicated. Reducing the level of franking available where companies have paid tax previously at a higher rate is very adverse to shareholders.

We have ended up with a very confusing tax system for small companies.

Heightening the effect of these complications, the Government and the Labor Party have now further agreed to bring forward the further tax cuts that were previously scheduled for the years between 2024 and 2027 to lower the "base rate entity" corporate tax rate from 27.5% to 25%. Bring forward legislation passed the Senate on 18 October. The new schedule for the lower corporate tax rates is set out in the table below:

Income year	Lower corporate tax rate	Aggregated turnover threshold	Other condition
2016/17	27.5%	< $10 million	Company is a small business entity
2017/18	27.5%	< $25 million	Base rate passive income is no more than 80% of assessable income
2018/19	27.5%	< $50 million	Base rate passive income is no more than 80% of assessable income
2019/20	27.5%	< $50 million	Base rate passive income is no more than 80% of assessable income
2020/21	26%	< $50 million	Base rate passive income is no more than 80% of assessable income
2021/22 and later years	25%	< $50 million	Base rate passive income is no more than 80% of assessable income

Like so many “pro-business” tax changes in the past the tax benefits might be outweighed by the increase in red tape.

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