

Howdy All,

Following on from our communiqué in June, we now have further clarity in terms of the make up of the proposed Carbon tax and its potential implications.

We hope that you find this information memorandum to be of benefit.

## Implications of Proposed Carbon Tax

July 2011

The Australian Government has announced plans to introduce a carbon pricing scheme from 1 July 2012. By putting a price on carbon, the Government aims to reduce carbon emissions by 5% by 2020 and 80% by 2050 (as compared to emission levels in 2000). Full details of the legislation are expected to be released over the next few months.

## Key Points

1. It is projected that 500 of the biggest polluters in Australia will be required to pay for their pollution (mostly CO<sub>2</sub> and methane emissions) under the carbon pricing mechanism. As a result, approximately 60% of Australia's annual carbon emissions will be covered by the carbon price. Of the 500 businesses:
  - 60 are primarily involved in electricity generation;
  - 100 are primarily involved in coal or other mining;
  - 40 are natural gas retailers;
  - 60 are primarily involved in industrial processes;
  - 50 operate in a range of other fossil fuel intensive sectors; and
  - The remaining 190 operate in the waste disposal sector.
2. A carbon price will not apply to agricultural emissions or emissions from light on-road vehicles. Households, smaller businesses and farmers will have no direct obligations under the carbon price.
3. The carbon price will be fixed for the first three years, starting at \$23 per tonne (rising by 2.5% per annum in the first 2 years) before moving to an emissions trading scheme in 2015 (price to be determined by the market).
4. For the first three years of the flexible price period, a price ceiling and a price floor will apply.
5. Treasury modelling suggests a carbon price of \$131 per tonne is required by 2050 to achieve the 80% emissions reduction target.

6. The price of non-aviation transport fuel is not affected for households and business, although businesses operating in rail and diesel generators at mines will see a reduction in their fuel tax credit from 38 cents per litre to 32 cents per litre. Large road transport is to be captured from 1 July 2014. Domestic aviation will see an increase in fuel excise costs equivalent to the carbon price.
7. Compensation will be made available for industries classified as emissions intensive trade exposed (EITE). These industries would trade at a severe disadvantage to overseas competitors without compensation.
8. Of the \$27bn to be raised by the Government over the three years to 2015;
  - \$14bn will be used to provide assistance to households via income tax cuts, increased family benefits, low income supplements and lump-sum payments to pensioners.
  - \$9.2bn will be used to provide assistance over the first three years of the carbon pricing mechanism to support local jobs and production.
  - \$1.2bn will be used to support the manufacturing industry develop low pollution technologies (Clean Technology Program).
9. A \$10bn new commercially oriented Clean Energy Finance Corporation (CEFC) will be established by the Government to invest in clean energy technology through loans, loan guarantees and equity investments.

## Timetable

- 31 July 2011 - Draft legislation to be released
- Q4 2011 - Legislation to be introduced into parliament
- Q1 2012 - Legislation expected to be passed through the senate
- 1 July 2012 - Carbon pricing to be introduced

## Macro Economic Impact

Treasury estimates that the carbon tax will result in:

- A 0.7% one-off rise in the CPI in 2012/13 and 0.9% rise over the next four years.
- The RBA is expected to treat the CPI increase as a one-off event and is unlikely to result in higher interest rates in the short term.
- Economic growth (GDP) is expected to shrink by 0.1% to 2.6% p.a. over the next forty years.
- A cost to the budget of around \$4.3bn over the next four years.

## Household Impact

Treasury estimates that:

- Electricity prices will rise 10%, gas prices 9% and food by less than 1% following the introduction of the carbon tax.
- Eight million households out of a total of nine million will receive funding assistance to cover the cost, with 5.7 million of these households fully reimbursed as a minimum.
- Weekly household spending is forecast to increase by \$9.90 with average compensation of \$10.10.
- Overall, the short-term increase in household living costs is expected to be offset by increases in pensions, allowances and family payments and income tax cuts.

## Equity Market Impact

Whilst many companies have not yet provided an update on the impact of the proposed carbon tax on future earnings, we draw your attention to the potential impact of the scheme on shares commonly held by RetireCare investors.

### Potential Impact of Carbon Tax on FY13 Earnings

Bank Sector; CBA, NAB, WBC, ANZ	NIL
QBE Insurance	NIL
Primary Health Care	NIL
Cochlear Limited	NIL
Computershare Limited	NIL
Crown Limited	NIL
UGL Corporation	NIL
Origin Energy	+1.0%
AGL Energy	+1.0%
Woolworths Limited	-0.5%
BHP Billiton	-1.0%
Woodside Petroleum	-1.0%
Newcrest Mining	-1.0%
Incitec Pivot Limited	-1.5%
Orica Corporation	-2.0%
Wesfarmers Limited	-2.0%
Toll Holdings Limited	-2.0%
RIO Tinto Limited	-3.0%

\* Estimated impact on earnings assuming that each respective company qualifies for relevant compensation from the Government in 2013

While it is fair to say that the projected impact will vary from industry to industry, the ultimate beneficiary of increased costs will be the end consumer as it would be fanciful to assume that business would not look to pass the cost on.

## Compensation Measures

The proposed compensation measures are summarised as follows:

- From 1 July 2012, the tax free threshold will be increased threefold. A further adjustment will occur from 1 July 2015.

Tax scale	Current		From 1 July 2012		From 1 July 2015	
	Threshold	Tax rate	Threshold	Tax rate	Threshold	Tax rate
1 <sup>st</sup> rate	\$6,000	15%	\$18,201	19%	\$19,401	19%
2 <sup>nd</sup> rate	\$37,001	30%	\$37,001	32.5%	\$37,001	33%
3 <sup>rd</sup> rate	\$80,001	37%	\$80,001	37%	\$80,001	37%
4 <sup>th</sup> rate	\$180,001	45%	\$180,001	45%	\$180,001	45%

In addition the Government intends to roll in the Low Income Tax Offset Rebate into the increased tax free threshold which means that over a million taxpayers will no longer need to lodge a tax return.

- Small businesses with an aggregated turnover of less than \$2 million per year will be able to write off \$6500 in depreciable assets from 1 July 2012.
- A clean energy supplement to be paid to pensioners and allowees is proposed from 1 July 2012. This supplement will be equivalent to 1.7% of the maximum rate of a person's pension or allowance, and will be paid as follows:
  - In June 2012, an advance payment will be made to cover the period to 20 March 2013.
  - From 20 March 2013, the clean energy supplement will be paid as a fortnightly amount

The maximum clean energy supplement will be \$338 per annum for singles and \$510 per annum for couples.

- The clean energy supplement is also proposed for those eligible for the Commonwealth Seniors' Health Card. As with pensioners and allowees, the maximum supplement will be \$338 per annum for singles and \$510 per annum for couples and it will follow the same payment methodology as described above.

- A lump sum advance is proposed to be paid to family tax benefit recipients in June 2012 to cover the period to 30 June 2013. From 1 July 2013, a fortnightly tax-exempt clean energy supplement is then proposed. The initial lump sum advance and the future fortnightly supplement will be equivalent to a 1.7% increase in the maximum annual rate of the relevant family tax benefit payment.
- From 1 July 2012, it is proposed that single income families may be eligible for a single income family supplement of up to \$300 per annum. This measure is designed to protect single income families who may not benefit from proposed changes to the income tax system by as much as dual income families in a comparable financial position.
- From 1 July 2012, a low income supplement is also proposed for low income households who can demonstrate that the income tax and social security assistance will not fully compensate them against the expected cost impacts of a carbon price.
- For those using a dialysis machine or other life-support equipment at home, an annual cash payment of \$140 is proposed in addition to any other assistance. As with all other proposals this is expected to take effect from 1 July 2012.

### RetireCare Personal Wealth Management View

At this stage, the direct and indirect impact of carbon tax reform remains very much uncertain for industry and households alike.

In the short term, we expect the impact to be low because:

- only the major emitters will be included;
- the carbon tax rate will be set at a low start base; and
- compensation measures will be afforded at various levels.

However, post 2015 we expect the impact to be significantly higher because:

- emission intensive industries will look to pass on the cost burden
- gas and electricity prices will rise appreciably for businesses and households
- increased energy costs could result in increased costs for goods and services
- increased cost pressures could result in a slowdown in economic growth
- increased cost pressures could result in a slowdown in consumer consumption
- carbon price to be determined by an emissions trading scheme
- compensation measures will eventually lose their purchasing value
- inflationary impact remains very much undefined

It is fair to say that we are finding it difficult to get excited about this reform.



From what is being proposed, one cannot help but feel that this is a veiled attempt by the Government to redistribute income rather than to tackle climate change proper.

That being said, we do openly acknowledge that we have both a moral and ethical obligation to ensure that our planet is protected for future generations, and if the introduction of a carbon tax is the way to achieve this objective, then so be it. The only request we have here is that the rest of the world join us on this escapade as standing alone makes no sense at all.

For further information please feel free to contact our office on 9336 7800.

Take care,

**RetireCare Personal Wealth Management**

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*The following Warning, Disclaimer, Disclosure and Analyst Certification relate to material presented in this document published by RetireCare Personal Wealth Management (ABN 66 082986641) and should be read and discussed with your advisor prior to making any investment decision.*

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