

1998

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

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A NEW TAX SYSTEM (INCOME TAX LAWS AMENDMENT)  
BILL 1998

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EXPLANATORY MEMORANDUM

(Circulated by authority of the  
Treasurer, the Hon Peter Costello, MP)

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# **General outline and financial impact**

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## **Bonuses for Older Australians**

Inserts new Subdivision 52-E in the *Income Tax Assessment Act 1997* (the Act) to provide that bonus payments made to certain older Australians will be exempt from income tax. The bonus payments will also be treated as 'excluded exempt income' for the purposes of the carry forward loss provisions of the Act.

**Date of Effect:** 1 July 2000.

**Proposal announced:** 13 August 1998.

**Financial impact:** Nil.

**Compliance cost impact:** Compliance costs will be negligible.

## **Repeal of Savings Tax Offset**

Repeals Subdivision 61-A of the *Income Tax Assessment Act 1997*, which provides for a savings tax offset designed to give assistance to individual taxpayers who save or invest, and encourage potential savers or investors.

**Date of Effect:** Will apply to assessments for the 1999-2000 income year and later income years.

**Proposal announced:** 13 August 1998.

**Financial impact:** The measure will increase revenue by \$0.79 billion in 1999-2000, \$2.04 billion in 2000-2001, \$2.14 billion in 2000-2002 and \$2.24 billion in 2002-2003.

**Compliance cost impact:** Compliance costs will be negligible.

## **Increase in rebates for low income aged persons and certain pensioners**

Amends the Income Tax Regulations to provide for an increase in the maximum rebate available to low income aged persons and certain pensioners by \$250 a year (for a single person) and \$175 a year (for each of a couple). The higher rebates will ensure that an extra 70,000

pensioners and self-funded retirees are not required to pay tax, and will provide an extra tax cut to 330,000 older people.

***Date of effect:*** Will apply to assessments for the 2000-2001 year of income and later years of income.

***Proposal announced:*** 13 August 1998.

***Financial impact:*** The total budgetary cost of the measure is \$0.08 billion in 2000-2001, \$0.08 billion in 2001-2002 and \$0.08 billion in 2002-2003.

***Compliance cost impact:*** Compliance costs will be negligible.

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# Chapter 1

## Bonuses for Older Australians

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### Overview

1.1 *Schedule 1* to the Bill will amend the *Income Tax Assessment Act 1997* (the Act) so that:

- bonuses paid to older Australians are exempt from income tax; and
- such bonuses are treated as ‘excluded exempt income’ for the purposes of the carry forward loss provisions of the Act.

### Summary of the amendments

#### Purpose of the amendments

1.2 The amendments will give effect to the Government’s announcement in its tax reform policy document, *Tax Reform: not a new tax, a new tax system: The Howard Government’s Plan for a New Tax System*, to provide special payments to older Australians – pensioners and self-funded retirees – who have income from savings.

#### Date of effect

1.3 *Clause 2* of the Bill provides that this Act commences, or is taken to have commenced, after all of the GST-related Acts have received the Royal Assent. This reflects the integration of the measures that will give effect to the Government’s plan for a new tax system.

1.4 Eligible persons will be entitled to claim the bonuses from 1 July 2000.

### Background

1.5 The Government, as part of its tax reform plan, announced its intention to provide special payments to older Australians – pensioners and self-funded retirees – who have income from savings. The Aged Persons Savings Bonus and the Self-funded Retirees Supplementary Bonus will help maintain the value of the savings and retirement income of those older Australians.

## **Explanation of the amendments**

1.6 These amendments are complementary to the A New Tax System (Bonuses for Older Australians) Bill 1998 which implements the Government's policy to provide bonus payments to older Australians.

1.7 Specifically, *Schedule 1* to this Bill will ensure that a bonus payment made directly to an eligible person:

- will be treated as exempt income [*Item 3*]; and
- will not be taken into account in calculating their net exempt income for the purpose of determining whether or not tax losses of earlier income years are deductible. [*Item 2*]

1.8 The list of classes of exempt income will also be updated to include the bonus payments. [*Item 1*]

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## Chapter 2

# Repeal of the Savings Tax Offset

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### Overview

2.1 *Schedule 2* to the Bill will amend the *Income Tax Assessment Act 1997* (the Act) to repeal the savings tax offset.

### Summary of the amendments

#### Purpose of the amendments

2.2 The amendments will give effect to the Government's announcement in its tax reform policy document, *Tax Reform: not a new tax, a new tax system: The Howard Government's Plan for a New Tax System*, to close the savings tax offset.

#### Date of effect

2.3 *Clause 2* of the Bill provides that this Act commences, or is taken to have commenced, after all of the GST-related Acts have received the Royal Assent. This reflects the integration of the measures that will give effect to the Government's plan for a new tax system.

2.4 The amendments in *Schedule 2* will apply to assessments for the 1999-2000 income year and later income years. *[Items 7 and 12]*

### Background to the legislation

2.5 The Government, as part of its tax reform plan, announced its intention to terminate the savings tax offset.

### Explanation of the amendments

2.6 The savings tax offset measure is contained in Subdivision 61-A of the Act. The offset was to apply at a rate of 15% (7.5% in 1998-99 assessments) to undeducted superannuation contributions made by employees and the self-employed, and net personal income from

savings and investment (including net business income), up to an annual cap of \$3,000.

2.7 The Government decided that, in view of the major impact that the proposed across-the-board reductions in tax rates will have on incentives to work and save, and in view of the cut in marginal tax rates on saving, the savings tax offset will be terminated with effect from the 1999-2000 year of income.

2.8 *Item 5 of Schedule 2* repeals Subdivision 61-A of the Act. *Items 1, 2, 3, 4 and 6* make consequential amendments to the Act.

2.9 *Items 8, 9, 10 and 11 of Schedule 2* make consequential amendments to the *Income Tax Assessment Act 1936*.

2.10 The amendments made by items 8, 9, 10 and 11 of Schedule 2 will apply for the purposes of working out amounts of provisional tax (including instalments) payable for the 1999-2000 income year and later income years. [*Schedule 2, item 12*]

2.11 The effect of the proposed amendments is that taxpayers will no longer be able to claim the savings tax offset in their income tax returns after the 1998-99 year of income.

2.12 The compliance costs borne by the community are expected to be negligible.

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## Chapter 3

# ***Increase in rebates for low income aged persons and certain pensioners***

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### **Overview**

3.1 *Schedule 3* to the Bill will amend the Income Tax Regulations to increase the maximum rebates available for low income aged persons and certain pensioners.

### **Summary of the amendments**

#### **Purpose of the amendments**

3.2 The amendments will give effect to the Government's announcement in its tax reform policy document, *Tax Reform: not a new tax, a new tax system: The Howard Government's Plan for a New Tax System*, to increase these rebates.

#### **Date of effect**

3.3 *Clause 2* of the Bill provides that this Act commences, or is taken to have commenced, after all of the GST-related Acts have received the Royal Assent. This reflects the integration of the measures that will give effect to the Government's plan for a new tax system.

3.4 The amendments in *Schedule 3* giving effect to the proposed increases in the maximum rebates will apply to assessments for the 2000-2001 year of income and later years of income.

### **Background to the legislation**

3.5 The Government, as part of its tax reform plan, announced its intention to provide for an increase in the pensioner and low income aged person rebates. The maximum rebates for low income aged persons and certain pensioners will be increased by \$250 a year (for a single person) and \$175 a year (for each of a couple).

## **Explanation of the amendments**

3.6 The rebates for low income aged persons and certain pensioners are available under sections 160AAAA and 160AAA of the *Income Tax Assessment Act 1936*. The amount of the rebate is not fixed but is calculated annually by reference to formulae in the Income Tax Regulations. The calculation of the rebate for certain pensioners is determined under Income Tax Regulation 151 and the rebate for low income aged persons is calculated under Income Tax Regulation 150AD.

3.7 *Items 3 and 6 of Schedule 3* insert new subregulations that extend the definition of *rebate amount* (for low income aged persons) and *taxpayer's rebate amount* (for certain pensioners) so that each of the rebates is increased by either \$250 (for a single person) or \$175 (for each of a couple). The new definitions will apply to assessments for the 2000-2001 year of income and later years of income.

3.8 *Items 1, 2, 4, 5, and 7 of Schedule 3* make consequential amendments to related regulations.

3.9 *Item 8 of Schedule 3* makes it clear that the amendment of the Income Tax Regulations by this Schedule does not prevent the future amendment or repeal, by regulations, of the regulations that have been amended by this Schedule.