

1993

THE PARLIAMENT OF AUSTRALIA

HOUSE OF REPRESENTATIVES

---

TAXATION (DEFICIT REDUCTION) BILL (NO. 2) 1993

---

EXPLANATORY MEMORANDUM

(Circulated by the authority of the Treasurer  
the Hon John Dawkins, M.P.)



## **Overview of the Government's deficit reduction package of legislation**

The deficit reduction package comprises 8 Bills, which will give effect to changes to the tax law announced in the 1993-4 Budget.

### **Taxation (Deficit Reduction) Bill (No. 1) 1993**

This Bill will make the amendments necessary to give effect to the following measures:

- increase the Medicare low income thresholds;
- remove the concessional treatment that applies to the taxation of unused annual and long service leave;
- changes to the taxation treatment of excess domestic travel allowances and expenses, and of certain non-deductible expenses;
- denial of income tax deductions for car parking expenses for self-employed persons;
- changes to the taxation treatment of credit unions.

This Bill will commence on the date on which it receives the Royal Assent.

### **Taxation (Deficit Reduction) Bill (No. 2) 1993**

This Bill contains amendments to give effect to the following 2 measures:

- increase the rate of fringe benefits tax;
- change the taxation treatment of friendly societies, including bringing the rate of tax on their life insurance business into line with the rate of tax on similar business undertaken by life companies.

This Bill will commence on the date on which it receives the Royal Assent.

### **Taxation (Deficit Reduction) Bill (No. 3) 1993**

This Bill will contain the amendments necessary to:

- bring forward the first round of personal tax cuts, and to defer the second round; and
- introduce the \$150 low income rebate.

This Bill will not commence until all of the other Bills in this package, except for the Taxation (Deficit Reduction) Bill (No. 2) 1993, receive the Royal Assent.

**Sales Tax (Customs) (Deficit Reduction) Bill 1993**

**Sales Tax (Excise) (Deficit Reduction) Bill 1993**

**Sales Tax (In Situ Pools) (Deficit Reduction) Bill 1993**

**Sales Tax (General) (Deficit Reduction) Bill 1993**

Each of these Bills will modify the *Sales Tax (Exemptions and Classifications) Act 1992* to the extent necessary to give effect to the following changes to the sales tax laws:

- the general percentage increases in sales tax rates;
- the change of rates on wine;
- the changes to the tax treatment of luxury motor vehicles.

These Bills will be taken to have come into operation on 18 August 1993, for those measures announced to take effect from that date.

**Sales Tax Assessment Amendment (Deficit Reduction) Bill 1993**

This Bill will make the consequential changes to the *Sales Tax Assessment Act 1992* that are necessary to give effect to the changes to the taxation treatment of luxury motor vehicles.

This Bill will be taken to have come into operation on 18 August 1993.

## **GENERAL OUTLINE AND FINANCIAL IMPACT**

---

The Taxation (Deficit Reduction) Bill (No. 2) 1993 will amend various Acts (unless otherwise indicated all amendments refer to the *Income Tax Assessment Act 1936*) by making the following changes:

### **Fringe Benefits Tax**

#### **Rates of tax**

- Amends the *Fringe Benefits Tax Act 1986* to increase the rate of fringe benefits tax from 48.25% to 48.4%.

*Date of effect:* 1 April 1994

*Proposal announced:* 1993-94 Budget, 17 August 1993

<i>Financial Gain:</i>	93-94	94-95	95-96	96-97
	-	\$9m	\$8m	\$8m

### **Taxation of Friendly Societies and Other Registered Organisations**

#### **Income Tax Rates Act 1986**

- The rate of tax paid by friendly societies and other registered organisations on their life insurance and other similarly taxed business is to be brought into line, on an incremental basis, with the rate of tax applicable to the same business undertaken by life companies.

*Date of effect:* increase to 33% for the 1994-95 income year;  
increase to 36% for the 1995-96 income year;  
increase to 39% from the 1996-97 income years and subsequent years.

*Proposal announced:* Budget 1993-94, 17 August 1993

<i>Financial Gain:</i>	93-94	94-95	95-96	96-97
	-	-	\$30m	\$75m

### **Income Tax Assessment Act 1936**

- Allows deductions to friendly societies and other registered organisations for expenses they incur in gaining the investment component of life insurance premiums.

***Date of effect:*** 1 July 1994.

***Proposal announced:*** Budget 1993-94, 17 August 1993

<b><i>Financial Cost:</i></b>	93-94	94-95	95-96	96-97
	-	-	\$5m	\$5m

- Increases the rebate currently applying to assessable bonuses on life policies issued by friendly societies to reflect the change in tax rates paid by friendly societies.

***Date of effect:*** The rebate is to be increased to 33% from 1 July 1995, to 36% from 1 July 1996, and to 39% from 1 July 1997.

***Proposal announced:*** Budget 1993-94, 17 August 1993

<b><i>Financial Cost:</i></b>	93-94	94-95	95-96	96-97
	-	-	-	\$1m

**CHAPTER ONE**      ***Fringe Benefits Tax***

---

**RATES OF FBT TAX**

*Summary of amendments* ..... 3

*Explanation of amendment* ..... 3

**Summary of the amendments**

**1.1 Purpose of the amendments:** To amend the *Fringe Benefits Tax Act 1986* (FBTA) to increase the rate of fringe benefits tax from 48.25% to 48.4% [Clause 3].

**1.2 Date of effect:**      1 April 1994 [Clause 6]

**Explanation of the amendments**

**1.3**      The Bill will increase the rate of fringe benefits tax in section 6 of the FBTA from the existing 48.25% to 48.4%. This brings the fringe benefits tax rate in line with the top marginal tax rate (including medicare levy) for individuals. [Clause 5]

## **CHAPTER TWO     *Taxation of Friendly Societies and Other Registered Organisations***

---

*Summary of amendments* ..... 4  
*Background to the legislation*5  
*Explanation of amendment* ..... 6

### **Summary of amendments**

**2.1 Purpose of the amendments:** The proposals in this Bill concerning friendly societies and other registered organisations will basically put the life insurance and similarly taxed business of those organisations on the same taxation footing as that applying to similar business conducted by life companies [*Clauses 8 and 12*].

#### **Increase in rate of tax paid by registered organisations**

2.2        At present, the rate of tax applicable to the eligible insurance business of registered organisations is 30%. The rate of tax paid by life companies on the same business is 39%]. The rates are to be brought into line on an incremental basis over 3 years so that both will be paying the same rate from the 1996-97 year of income. The rate of tax applicable is provided for in paragraph 23(4)(b) of the *Income Tax Rates Act 1986* [*Clauses 17-20*].

#### **Deductions for expenses incurred in gaining certain premiums**

2.3        With the alignment of registered organisation and life company tax rates, registered organisations are to be allowed deductions, in the same way as life companies, for the expenses they incur in gaining the investment component of ordinary life insurance premiums [*Clause 8*]. **New section 116HAA** is to be inserted to permit this deduction from 1 July 1994.

#### **Increase in rebate for assessable friendly societies bonuses**

2.4        The rebate provided for by section 160AAB in respect of friendly society life insurance bonuses included in a policy holder's assessable income is to be increased on a commensurate basis with the increased tax rates for friendly societies [*Clause 12*]. However, the increased amount of rebate will apply only from 1 July after the year of income in which an increased rate of tax applies to friendly societies.



## **Background to the legislation**

2.5 Two amendments which are contained in the Bill relate to friendly societies and other registered organisations. These measures are intended to bring the taxation of the life insurance business, and other similarly taxed business, of those bodies into line with that applying to the same business conducted by life insurance companies. Another amendment will increase the rebate available to friendly society life insurance policy holders who are assessed on relevant bonuses.

2.6 The first of the two amendments applicable to registered organisations will incrementally increase the rate of tax presently applying to their eligible insurance business so that it will eventually equal the tax rate paid by life companies on similar business. The increase is to be introduced over 3 years at the rate of 3 percentage points per year commencing with the 1994-95 income year, so that both bodies will pay the same rate from the 1996-97 income year. The amendment involves changes to paragraph 23(4)(b) of the *Income Tax Rates Act 1986*.

2.7 Deductions are available to life companies for the expenses they incur in getting in certain ordinary life insurance premiums. These deductions have not been available to registered organisations because of their lower tax rate. With the alignment of rates, an amendment is necessary to allow registered organisations to deduct their expenses of getting in similar insurance premiums in the same way as life companies are allowed such deductions. Basically, the premiums involved are those that, when invested, produce income which is subject to Australian income tax in the hands of the policy issuer. The provision, **new section 116HAA**, which is in the same terms as sections 111A, 111AA and 116HA of the *Income Tax Assessment Act 1936*, will allow the same sort of deductions. It will apply to costs of getting in premiums such as commissions and costs of promoting the particular kind of insurance.

2.8 The final amendment connected with these measures will increase the rebate provided by section 160AAB to policy holders who include in their assessable income, amounts in respect of bonuses received on life policies issued by friendly societies. Section 26AH deals with certain life policy bonuses received within 10 years and sets out which bonuses are to be included in assessable income.

2.9 Section 26AH may apply to most bonuses paid on any life assurance policy, regardless of what type of body issued the policy. However, the body which issued the policy would have paid tax on the income out of which the bonus was paid. To compensate policy holders for that tax when a bonus is included in assessable income, section 160AAB provides a rebate at the rate of tax paid by the body which issued the policy.

The rebate is allowed to ensure tax is not paid twice on the income which gave rise to the bonus; once in the hands of the friendly society and a second time when the amount of the bonus is included in the policy holder's assessable income. The increased rebate is to be commensurate with the increased rate of tax paid by friendly societies, but an increased rebate is to be available only from 1 July after the year of income in which an increased tax rate applies to friendly societies.

## **Explanation of the amendments**

### **Increase in rate of tax paid by registered organisations**

2.10 Division 2 of Part 4 of the Bill deals with changes in the tax rates applicable to registered organisations [*Clause 17*]. Subdivisions B, C and D propose amendments to paragraph 23(4)(b) of the Principal Act (that is the *Income Tax Rates Act 1986*) to increase the rate of tax in respect of the eligible insurance business component ('EIB component') of the taxable income of a registered organisation. That component basically comprises the taxable life insurance and accident and disability business of registered organisations, the similar business of which is taxed at 39% in the hands of life companies.

2.11 Subdivision B provides for the rate of tax for the EIB component to be increased to 33% for the 1994-95 year of income [*Clause 18*]. Subdivision C provides for the rate of tax for the EIB component to be increased to 36% for the 1995-96 year of income [*Clause 19*]. Subdivision E provides for the rate of tax for the EIB component to be increased to 39% for the 1996-97 and subsequent years of income [*Clause 20*].

### **Deductions for expenses incurred in gaining certain premiums**

2.12 Division 2 of Part 3 of the Bill proposes the insertion of a section, **new section 116HAA**, into the Principal Act (the *Income Tax Assessment Act 1936*) to allow registered organisations a deduction for their expenses of getting in certain life insurance premiums, in the same way as life companies are allowed those deductions [*Clause 10*]. The Division also proposes the insertion of a number of definitions necessary for the operation of the new section [*Clause 9*]. The proposed new section is to apply to expenditure incurred by a registered organisation on or after 1 July 1994 [*Clause 11*].

2.13 Proposed **new section 116HAA** is in similar terms to sections 111A, 111AA and 116HA. **New section 116HAA** will allow the same sort of deductions; it will apply to costs of getting in premiums such as commissions and costs of promoting the particular kind of insurance.

2.14 **New subsection 116HAA(1)** limits the type of premiums which are intended to come within **new section 116HAA**. Only premiums received by registered organisations which, when invested, produce income which is liable to Australian tax are intended to come within the section, provided they are not dealt with elsewhere. Consequently, **new subsection 116HAA(1)** excludes:

- superannuation premiums (at paragraph (a)) as they are dealt with under section 116HA;
  - premiums received in respect of eligible policies (at paragraph (b)) as they do not produce assessable income;
  - specified roll-over amounts (at paragraph (c)); and
- premiums that are exempt from tax under section 23AH (at paragraph (d)) as they do not produce income which is assessable in Australia.

2.15 **New subsection 116HAA(2)** deems the premiums to which the section applies to be assessable income solely for the purpose of determining the deductions allowable to registered organisations. As indicated above, expenses of getting in premiums intended to be deductible under the section are limited to costs such as commissions and costs of promoting the particular kind of insurance.

2.16 **New subsection 116HAA(3)** provides that the section does not apply to premiums derived by a registered organisation unless the organisation obtains a certificate from an authorised actuary. The certificate will need to be obtained before the date of lodgment of the organisation's relevant return of income, or within such further time as the Commissioner allows, and to certify the amount of the investment component of premiums to which proposed **new subsection 116HAA(1)** will apply. The certificate will need to be retained for 5 years as required by section 262A.

2.17 An 'authorised actuary' is defined in **new subsection 116HAA(4)** to mean a Fellow or an Accredited Member of the Institute of Actuaries of Australia.

### **Increase in rebate for assessable friendly society bonuses**

2.18 Division 3 of Part 3 of the Bill proposes to increase the current level of rebate provided by section 160AAB in respect of friendly society bonuses included in assessable income under section 26AH [*Clause 12*]. The increase is to be commensurate with the proposals in the Bill for increased tax rates for friendly societies. However, an increased rate will not be available until 1 July after the year of income after the year of increase for friendly societies.







9 780644 264303