

1993

THE PARLIAMENT OF AUSTRALIA

HOUSE OF REPRESENTATIVES

TAXATION (DEFICIT REDUCTION) BILL (NO. 3) 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. 3) 1993 will amend the *Income Tax Rates Act 1986* and the *Income Tax Assessment Act 1936* by making the following changes:

Personal tax cuts

Amends the *Income Tax Rates Act 1986* to declare the rates of tax payable by both residents and non residents for the 1993-94 and subsequent income years.

Date of effect: When Royal Assent has been received for the accompanying package of Sales Tax (Deficit Reduction) Bills and Taxation (Deficit Reduction) Bill (No.1) 1993.

Proposal announced: 17 August 1993 (1993-94 Budget), and
30 August 1993

| | | | | |
|------------------------|----------|----------|----------|----------|
| <i>Financial Cost:</i> | 93/94 | 94/95 | 95/96 | 96/97 |
| | \$1,550m | \$2,900m | \$3,120m | \$3,450m |

Rebate for low-income taxpayers

Provides for a rebate of up to \$150 to low-income taxpayers whose taxable income is less than \$24,450.

Date of effect: Assessments for 1993-94 and subsequent years of income

Proposal announced: 17 August (1993-94 Budget), and 30 August 1993

| | | | | |
|------------------------|-------|--------|--------|--------|
| <i>Financial Cost:</i> | 93/94 | 94/95 | 95/96 | 96/97 |
| | - | \$530m | \$515m | \$500m |

CHAPTER ONE *Personal Tax Rate Cuts*

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Summary of amendments

1.1 *Purpose of amendment:* To bring forward the 1994-95 tax cuts and to defer the tax cuts which were to apply from 1 January 1996.

1.2 *Date of Effect:* When Royal Assent has been received for the accompanying package of Sales Tax (Deficit Reduction) Bills and Taxation (Deficit Reduction) Bill (No.1) 1993 [*Subclauses 2(2) and 2(4)*].

Background to the legislation

1.3 In the 1993 Budget, it was announced that the rates of tax scheduled to commence on 1 July 1994 would be brought forward to 1 November 1993. On 30 August 1993, the Government announced that the payment of the tax cuts will be delayed from 1 November to 15 November 1993. Further, the tax rates scheduled to commence on 1 January 1996 would be deferred.

1.4 The current and proposed future personal income tax scales for residents will be as shown in the Table below -

1.5 Current and Future Income Tax Rate Scales for Residents

| Current | | Future | |
|--------------------------------|-------------------|--------------------------------|-------------------|
| Parts of Taxable Income (\$pa) | Marginal Rate (%) | Parts of Taxable Income (\$pa) | Marginal Rate (%) |
| 0- 5400 | 0 | 0- 5400 | 0 |
| 5400-20700 | 20 | 5400-20700 | 20 |
| 20700-36000 | 38 | 20700-38000 | 34 |
| 36000-50000 | 46 | 38000-50000 | 43 |
| Over 50000 | 47 | Over 50000 | 47 |

1.6 The rates of tax for non-residents will be as shown in the above table with the exception that a tax rate of 29% applies to taxable income in the range \$0 to \$20,700.

1.7 Because the 1994-95 tax cuts are being brought forward the Bill will also declare composite rates to apply, for both residents and non-residents, in respect of taxable income for the 1993-94 year of income. The composite rates for residents, based on the current and future rates shown in the above table and assuming a 15 November 1993 'changover', will be as follows -

1.8 **Composite Income Tax Rate Scales for 1993-94**

| Parts of Taxable Income (\$pa) | Marginal Rate (%) |
|--------------------------------|-------------------|
| 0- 5400 | 0 |
| 5400-20700 | 20 |
| 20700-36000 | 35.5 |
| 36000-38000 | 38.5 |
| 38000-50000 | 44.125 |
| Over 50000 | 47 |

1.9 The rates of tax for non-residents for the 1993-94 income year will be as shown in the above table with the exception that a tax rate of 29% will apply to taxable income in the range \$0 to \$20,700.

Explanation of the Amendments

1.10 The Bill will amend the *Income Tax Rates Act 1986* to bring forward the 1994-95 personal tax cuts. The amendments will also defer the tax cuts which were to commence on 1 January 1996. The reductions in personal income tax rates affect the marginal rates of personal income tax that now apply in the income range of \$20,700 to \$50,000.

1.11 The Bill will declare the rates of personal income tax which will apply, to both residents and non-residents, for assessments in respect of:

- the 1993-94 year of income [*Clause 5*];
- the 1994-95 and subsequent years of income [*Clause 6*].

1.12 In addition, the Bill will declare the rates of tax to apply to a future prescribed year of income (after 1994-95) and years of income after that prescribed year [*Subclause 2(3) and Clause 7*].

1.13 The amendments will also repeal the *Tax Legislation Amendment Act 1992* which was enacted last year to declare the rates of tax to apply for the 1994-95 and subsequent years of income [*Clauses 8 and 9*].

CHAPTER TWO

Low-Income Rebate

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Summary of amendments

2.1 *Purpose of the amendments:* To amend the *Income Tax Assessment Act 1936* to provide a rebate of up to \$150 to taxpayers whose taxable income is below \$24,450 [*Clause 11*]. The full rebate entitlement will be available to taxpayers whose taxable income does not exceed \$20,700. The rebate reduces at the rate of 4 cents for each \$1 of taxable income above \$20,700.

2.2 *Date of Effect:* Assessments for the 1993-94 and later years of income.

Background to the legislation

2.3 In the 1993-94 Budget, it was announced that there would be a rebate on assessment, in the 1993-94 and later years of income, for taxpayers whose taxable income is below \$23,200. On 30 August 1993, the Government announced that the rebate would be increased to \$150. The \$50 increase in the rebate will result in the upper taxable income threshold being increased from \$23,200 to \$24,450.

Taxpayers with a taxable income of up to \$20,700 will be entitled to a \$150 rebate. Taxpayers with taxable incomes between \$20,700 and \$24,450 will have the \$150 rebate reduced at the rate of 4 cents for each \$1 of taxable income in excess of \$20,700. There will be no entitlement to the rebate where taxable income is \$24,450 or greater.

Explanation of the amendments

2.4 The Bill will introduce *new section 159N* into the *Income Tax Assessment Act 1936* to give effect to the rebate for low-income taxpayers which was announced in the 1993 Budget. Taxpayers whose taxable income on assessment is below \$24,450 will be entitled to the rebate on assessment in the 1993-94 and later income years [*Clauses 12 and 13*].

2.5 Taxpayers with a taxable incomes of up to \$20,700 will be entitled to a rebate of \$150 on assessment. The rebate will be reduced at the rate of 4 cents for each dollar of taxable income in excess of \$20,700 [New subsection 159N(2)].

Example

2.6 A taxpayer with taxable income of \$22,000 for the 1993-94 year of income will be entitled to a low-income rebate, calculated on assessment as follows:

- | | |
|---|-------|
| (a) Rebate before reduction: | \$150 |
| (b) Reduction in rebate [(22,000-20,700) x .04]: | \$ 52 |
| (c) Rebate entitlement on assessment for 1993-94 [(a)-(b)]: | \$ 98 |

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

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| Part 1 - Preliminary | | |
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| <i>Division 1 - Preliminary</i> | | |
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| <i>Division 2 - Tax cuts for 1993-94</i> | | |
| 5 | Schedule 7 | 1.11 |
| <i>Division 3 - Tax cuts starting in 1994-95</i> | | |
| 6 | Schedule 7 | 1.11 |
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| 9 | Repeal of the <i>Tax Legislation Amendment Act 1992</i> | 1.13 |
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| <i>Division 2 - Amendment to provide for a rebate for low-income taxpayers</i> | | |
| 11 | Object of Division | 2.1 |
| 12 | Insertion of new section 159N | 2.4 |
| 13 | Application of amendment | 2.4 |

* References to Principal Act or minor technical consequential amendments only; not specifically mentioned in the Explanatory Memorandum.







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