Income Tax Assessment Amendment Bill 1989

Date Introduced: 6 September 1989
House: House of Representatives
Portfolio: Treasurer

Digest of Bill

Purpose
To require large employers to remit PAYE tax deductions on a twice monthly basis, provide for a nominal increase of 10% over the previous years income for provisional tax payers and to increase the threshold below which provisional tax is payable annually.

Background

The measures contained in this Bill were announced in the 1989–90 Budget. PAYE tax is remitted from employers to the government every month and comprises the largest source of revenue. In 1989–90, it is estimated that revenue from the PAYE system will be $38 240 million, while total taxation revenue is estimated to be $91 325 million. Following the recent cut in marginal tax rates (which cost approximately $4 900 million), the real return from PAYE is estimated to fall in 1989–90. However, the fall is estimated to be only 1.6%, indicating that factors that have led to previous real increases in PAYE revenue, such as increased employment, bracket creep and increases in wages, are still relevant.

Currently, employers calculate the amount that has to be deducted from each employees pay in accordance with a table and remit the amounts to the tax office each month. This gives the employer the use of the money during the period between the deduction and the remittance. While this may be small when there are only a few employees, the amounts are very large when thousands of employees are involved. This advantage to employers is reflected in a potential loss to the tax office which, if it could gain access to the deductions earlier, would have the opportunity to earn interest on those funds. In the 1989–90 Budget, the Treasurer announced that group employers who have a PAYE liability exceeding $5 million per year will be required to make twice monthly remittances and estimated the number of such employers at approximately 800. Apart from a one off gain of $550 million this financial year, which will be brought forward from next year, this measure is estimated to result in an annual saving of $70 million in public debt interest due to the earlier receipt of the funds. As the measure will commence from 1 December 1989, the saving in this financial year will be $20 million.
Provisional tax is payable by individuals who receive non-wage or salary income during the year. The amount of provisional tax payable during a year is based on the previous year's income, increased by a certain amount (this was 12% in 1988-89 and will be 10% for this financial year). Taxpayers also have the option of self-assessment where there has been a substantial change in their position. The relevant tax rate is applied to the notional income for the year to calculate the provisional tax deductions. Provisional tax is generally paid in four installments, with the final installment adjusting the actual tax payable (based on actual income) with the amount calculated based on the notional income. Tax is payable in a lump sum at the end of the year where the provisional tax payable in the previous year did not exceed $5,000. One of the measures contained in this Bill will increase the limit to $8,000. This will mean that 130,000 out of 320,000 people who currently pay by installment will now be able to pay by yearly lump sums. This will result in a deferment of some payments, and this is estimated to increase costs for public interest debt by $20 million in 1989-90 and $18 million in the next financial year.

Main Provisions

Proposed section 221EC, which will be inserted into the Income Tax Assessment Act 1936 (the Principal Act) by clause 4, deals with early remitters (i.e. those who will be required to make twice monthly remittances of PAYE deductions). An employer will be an early remitter if they are a group employer (i.e. an employer registered as a group employer for purposes of PAYE deductions), or a group employer that forms part of an eligible employer group (see below), remitted more than $5 million in a financial year ending on or after 30 June 1989 and is subject to a notice. After having regard to a number of matters, including the employers remittances and any arrangements to avoid this provision, the Commissioner may determine that an employer is an early remitter for the period specified. The Commissioner is not to make such a declaration in relation to a month before December 1989.

Eligible employer group is defined in proposed section 221ED. A company will be a member of an eligible employer group in relation to another company if the company is a subsidiary of that company or if both companies are a subsidiary of the same company. A company will be taken to be a subsidiary if all the shares in the company are beneficially owned by a holding company or two or more holding companies that are subsidiaries of another holding company.

Clause 5 will substitute a new paragraph 5(a) into section 221F of the Principal Act. The new provision will require early remitters to forward the deductions in relation to the first 14 days of a month to the Commissioner by the 21st of that month. Other remittances must be made by the seventh day of the next month. As well, if the employer is an early remitter in respect of September, but not August, in a year, the employer is to give the Commissioner a notice in accordance with the regulations. A failure to do so will result in a maximum fine of $50 for each day that the employer fails to comply.
Clause 6 deals with provisional tax in 1989–90. The tax payable will be calculated by taking the qualifying reductions from the adjusted income. Basically, adjusted income will be the previous years income increased by 10%. Qualifying reductions relate to a number of rebates.

Section 221YDAA will be amended to increase the threshold above which provisional tax must be paid by instalments from $5 000 to $8 000 (clause 7). This will commence from 1 July 1989 (clause 10).

For further information, if required, contact the Economics and Commerce Group.

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Bills Digest Service
Legislative Research Service

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

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