Date Introduced: 19 May 1983
House: House of Representatives
Presented by: Hon. J.S. Dawkins, M.P., Minister for Finance

Short Digest of Bill

Purpose

To implement measures announced by the Treasurer, Hon. P.J. Keating, on 19 May 1983 affecting income taxation, including termination of rebates for basic hospital and medical benefits insurance and home loan interest in excess of 10 per cent, from 30 June 1983.

Background

The economic statement of the Treasurer, Hon. P.J. Keating, on 19 May 1983 included announcements of economic initiatives requiring implementation by amendments to the Income Tax Assessment Act 1936. Some of the amendments are contained in this Bill.

The statement is notable in that expenditure plans, including encouragement of building activity, are offset by increases on the revenue side, chiefly by removal of tax concessions. The net effect is therefore unlikely to put pressure on interest rates. Proposals for taxing superannuation benefits as they accrue, and removing the rebate on dividend income, are not implemented by this Bill.

Increased interest rates in recent years have made home mortgages more expensive, with a corresponding depressive effect on first home purchases and new home construction. During 1982, two alternative rebates for home loan interest payments were introduced. The first scheme gave a rebate for the first five years of owner-occupation, the second scheme gave a rebate in respect of interest in excess of 10 per cent on a home loan of up to $60,000.

The house construction industry has been depressed for the past 18 months and welcomed Government proposals for encouraging its recovery which are expected to increase new housing starts from 116 thousand in 1982/83 to 130 thousand in 1983/84. (Australian Business, 2 June 1983, p.13.)
Certain tax concessions for primary producers announced during 1982 would be terminated by this Bill. Other concessions to be discontinued after 19 May 1983 comprise depreciation provisions for fuel storage facilities introduced in 1980, and the conversion allowance for replacing oil-fired plant, introduced in 1979.

Other provisions of the Bill deal with withholding tax and terminate the rebate for basic health insurance premiums.

Main Provisions

Clause 2 provides for commencement on the date of Royal Assent. In general, the Income Tax Assessment Act 1936 is a complete statement of Australian income tax law in that the provisions explicitly state the period of their application or date of their commencement, with less reliance on the effect of date of commencement of amending legislation. Assessment of late returns lodged in any given income year is thereby made easier.

Restriction of the special deduction for converting oil-fuel plant to contracts entered and conversions commenced before 20 May 1983 is accomplished by amendments to section 53H in clause 3. Clause 7 provides that a deduction under subdivision 8B of Division 3 of Part III in respect of non-oil fired plant is only allowable where expenditure was incurred prior to 20 May 1983. The existing section requires installation prior to 1 July 1984.

The special depreciation for petroleum storage facilities in section 57AJ is amended by clause 6 to apply only where the contract was entered as construction commenced before 20 May 1983, provided also that installation of the equipment is completed before 1 July 1984.

Section 57AH, as amended by the Income Tax Assessment Amendment Act 1983, provides for accelerated depreciation over three years of property used in primary production, applicable from 20 July 1982. Clause 5 would limit the period to end on 19 May 1983. Analogous provision is made by clause 4 in respect of expenditure on property used for storage of grain, hay or fodder, deductible under section 57AE.

Division 11A (sections 128A-128R) of Part III provides for withholding tax on income paid to non-residents. New section 128GA added by clause 13 exempts from such tax interest paid on overseas loans by a State, or a Commonwealth or State authority and the Treasurer.
certifies that this exemption does not assist direct competition with a non-Government enterprise.

This provision for exemption replaces existing exemptions for "Australian entities" and the Australian Industry Development Corporation, terminated by clauses 12 and 11 respectively.

The terms of the interest withholding tax were considered by the Campbell Committee, which reported that some features of the tax were non-neutral and inequitable. The Committee recommended that the existing "Australian entity" test for borrowings be withdrawn. (Final Report of the Committee of Inquiry into the Australian Financial System, September 1981, pp.264-271.)

A transitional provision in clause 16 permits the existing exemption to be claimed in respect of interest paid during and actually attributable to the period prior to enactment of the amendments.

Rebates for basic health insurance and home loan interest are terminated with effect from 1 July 1983 by amendments to sections 159A and 1592NA set out in clauses 14 and 15 respectively.

For further information, if required, contact:

30 May 1983
Economics and Commerce Group
LEGISLATIVE RESEARCH SERVICE