INCOME TAX ASSESSMENT AMENDMENT BILL (NO.4) 1983

Date Introduced: 3 November 1983
House: House of Representatives
Presented by: Hon. P.J. Keating, M.P., Treasurer

Short Digest of Bill

Purpose

To implement some income tax measures announced in the May 1983 Economic Statement and the Budget. Modifications to the prescribed payments system have also been included.

Background

Collection of tax at source

A new Division 3A in Part VI of the Income Tax Assessment Act ('Principal Act') was created to provide for a new collection system involving the deduction of tax at source in respect of certain payments for work or services, that are not subject to the existing PAYE system. A system of information reporting in respect of certain payments for contract work was included and both commenced on 1 September 1983.

The new arrangements, referred to as the prescribed payments system (PPS), provide for monthly deduction and payment to the Taxation Office of a specified proportion of payments made in certain industries. Notification of industries within the PPS is a matter for subordinate legislation. Administration deals with documentation of payments, and the identification of those payees within each industry who are exempt from the deduction (deduction exemption certificates), or subject to a lower rate than the usual 10 per cent (deduction variation certificates). Deduction exemption certificates are normally given for a history of good tax compliance.

Relevant provisions in the 'Principal Act' and Regulations were examined by the Senate Standing Committee on Finance and Government Operations. The Committee reported to the Government on 4 October 1983 and made a number of recommendations to reduce the volume of paper and
simplify administration under the scheme. The changes incorporated into the current Bill include:

(i) not requiring those payees exempt because of good compliance to report prescribed payments;

(ii) allowing payees to lodge a deduction form at any time during the month preceding the month of payment;

(iii) not requiring payees to lodge a fresh deduction form if a payment is deferred; and

(iv) not obliging payees to prepare more than one (annual) deduction form if payer prepares forms on payee's behalf.

Exemptions for certain social security benefits and bonus

The Handicapped Persons Assistance Act 1974 provides an open employment incentive bonus of $500 for persons who, after receiving sheltered employment allowance for 6 months or more enter full-time paid employment or self-employment for a period of at least 12 months. The Bill will ensure exemption from tax for this bonus.

The spouse carer's pension, introduced as from 1 December 1983, is payable to men with age or invalid pensioner wives suffering a severe physical or mental disability. The Bill accords this pension the same treatment accorded wife's pension payable to the wife of an age or invalid pensioner. The pension will be taxable only if the man or his wife is of pensionable age (65 years for men, 60 years for women).

The Bill also ensures exemption from tax for service pensions paid under the Repatriation Act to a man caring for a wife suffering from a disability, where neither spouse is of pensionable age, and the wife is in receipt of a service pension equivalent to a social security invalid pension.

Other amendments exempt generally from tax certain social security benefits which are presently exempt only when received by a pensioner. The new exemptions comprise children's additional assistance, mother's/guardian's allowance when paid to unemployment, sickness or special beneficiaries, and rent assistance paid to sickness beneficiaries.
Termination of exemption for pay of armed services reserve members

Phasing-out of tax exemption for the pay and allowances of part-time members of the Reserve and Emergency Reserve Defence Forces, and for gratuities paid to members of the Emergency Reserve Defence Force on being called out for continuous service, was announced in the Budget[1]. Exemption as to 50 per cent is provided for from 1 December 1983 up to 1 December 1984, after which there will be no exemption.

Provisional tax arrangements

The provisional tax system makes payment of tax on non-wage income broadly coincident with the gaining of the income, similarly to the P.A.Y.E. system for wage earners. The Income Tax Assessment Amendment Act, No.14 of 1983 made the trustee primarily liable to tax on income of non-resident beneficiaries. Other provisions require trustees generally to retain a proportion of income for tax purposes rather than pay the whole to the non-resident beneficiary. The Bill would exempt the income from additional provisional tax, but require this retained amount to be remitted immediately to the Commissioner for Taxation.

Other changes to provisional tax legislation ensure more accurate approximation to final assessment by accommodating changes in rates of tax, rebates and primary producer averaging. An 11% per cent increase in income from 1982-83 to 1983-84 will be assumed. Information requirements for taxpayers who self-assess and are affected by the prescribed payments system are modified.

Allowable Deductions

The Bill terminates two types of deductions from assessable income, those under section 75A for expenditure in land-clearing, and under section 77 for losses incurred in carrying on businesses from which income would be exempt (e.g. goldmining).

Rebates - General

A resident taxpayer is entitled to a rebate calculated at the standard rate of tax on the excess of qualifying concessional expenditures above $1590. The Bill increases this threshold to $2,000.

Rebates, which are more equitable than deductions in that the size of benefit they confer is not affected by the individual taxpayer's marginal tax rate, presently
include a rebate for expenses in thermal insulation for the first home, and a rebate against up to $1,000 in dividends paid on certain shares. The Bill ends these rebates with effect from payments after 23 August 1983 and in income years commencing from 1 July 1983 respectively.

Rebates allowed to taxpayers residing in isolated areas are to be reduced to the extent of any social security or repatriation zone allowances paid to such taxpayers. This amendment is associated with the exemption from tax granted elsewhere in the Bill in respect of remote area allowances.

Enactment of the Domicile Act 1982 had the effect of denying Australian-resident taxpayers rebates in respect of spouses or dependants who had not yet come to Australia. "Deemed domicile" provisions would restore the former position and permit a migrant to claim rebates for up to 5 years after his arrival in Australia.

Primary Producers - Rebates and Averaging

The primary producer averaging provisions are implemented through rebates in below-average years and complementary tax in above-average years. Presently, the averaging provisions apply automatically in any year where that would be to the taxpayer's advantage. Amendments would apply averaging only to primary production income, and since averaging could in any year increase or decrease tax paid, an irrevocable election to permanently opt out of the averaging system is provided for.

Main Provisions

Exemption of the open employment incentive bonus is provided for in clause 4, which also implements the withdrawal of exemption for pay etc. of reserve defence forces. Clause 5 exempts spouse carer's pensions from tax.

Subsequent clauses end rebates and deductions for share dividends (cl.6), land clearing (cl.7), home insulation (cl.10), losses incurred in industries from which income is exempt (cl.8) and remote area allowances where social security zone allowance is paid (cl.9).

Clause 14 provides for deemed domicile in Australia for rebate purposes where the spouse and dependents of a migrant have not yet arrived in Australia, while clause 15 increases the threshold for the concessional expenditure rebate from $1,590 to $2,000.
Clause 16 exempts from provisional tax the income of non-resident beneficiaries where trustees have recently been required to deduct, and remit to the Commissioner, a proportion of the income. Clause 25 sets 1983-84 provisional tax rates.

Alterations to the prescribed payments system are implemented by clauses 18 to 24, and modifications to primary producer averaging by clauses 11 to 13.

For further information, if required, contact:

Economics and Commerce Group
LEGISLATIVE RESEARCH SERVICE

26 March 1984

Reference

1. Budget Speech 1983-84, p.27.