Date Introduced: 27 May 1981
House: House of Representatives
Presented by: Hon. J.W. Howard, Treasurer

Short Digest of Bill

Purpose

1. Reduction in tax concessions affecting
   - Costs of converting oil or LPG fired plant
   - Depreciation rates on plant
   - Investment Allowance
   - Capital expenditure on development of a mine or oil field.
   - Petroleum shareholder rebate

2. Rates of personal income tax and dependant rebates for
   the year ending 30 June 1982.

3. Introduction of an income tax rebate for contributions
   to basic health insurance.

Background

1. The reduction in the level of tax concessions
   follows the ministerial Review of Commonwealth Functions
   (the Razor Gang). No significant changes other than rates,
   are proposed to the basis upon which the concessions
   operate.

2. In accordance with the Government's stated policy,
   half (1/2) indexation has been applied to rates of personal
   income tax and dependant rebates to take account of
   increased tax on inflated levels of personal income. The
   new rates and rebates apply to income derived during the
   year ending 30 June 1982. Marginal rates of tax remain
   unadjusted. The Government has announced the discontinuance
   of indexation in favour of discretionary, rather than
   automatic, tax concessions after 30 June 1982.

3. The resulting increase in revenue from the
   abolition of indexation is seen by the Government as
   contributing to the cost to the revenue of the introduction
   of an income tax rebate on basic medical and basic hospital
   insurance, as announced on 29 April 1981 as part of the
   Government's rearrangement of health funding.
Main Provisions

1. Reduction in Tax Concessions

Conversion of Oil Fired Plant

The outright deduction in the year of expenditure of the cost of conversion of certain oil fired and LPG fired equipment is to be amended by clause 7 which amends section 53H of the Principal Act and provides for fifty per cent (50%) of the cost of conversion to be deducted in the year in which the expenditure was incurred and the balance in the succeeding year.

The amendment will apply to expenditure incurred after 30 April 1981 other than in respect of a contract entered into before 30 April 1981 or upon which conversion commenced prior to 30 April 1981. The concession will continue to apply until 1 July 1984.

Special Depreciation on Plant

Clause 8 amends section 57AG of the Principal Act which was introduced following the 1980 Budget and applied a 20% loading on existing depreciation rates of new and secondhand plant ordered after 19 August 1980. The amendment reduces the loading on plant ordered after 30 April 1981 from twenty per cent (20%) to eighteen per cent (18%).

The twenty per cent (20%) loading will continue to apply only to plant acquired between 20 August 1980 and 30 April 1981 (inclusive).

Investment Allowance

Clause 9 amends the rates of the investment allowance deduction prescribed in section 82AB of the Principal Act from twenty per cent (20%) to eighteen per cent (18%) of the cost of plant in excess of $976 in respect of expenditure incurred on plant after 30 April 1981. Investment Allowance on items with a cost of less than $976 will be 90 per cent of existing rates.

Capital Expenditure on Development of a Mining or Oil Field

Eligible capital expenditure on development of mining property or an oil or natural gas field or in carrying on general or petroleum mining operations may be written off over the life of a mine. Clauses 10 to 23 amend the Principal Act to increase the maximum statutory life of a mine from 5 years to 6 years. The amendment results in a
timing difference only, with the full cost of the development of a mine with a life above the statutory maximum now being written off over each of six years rather than over five years.

The amendments will apply to expenditure incurred after 30 April 1981 except for expenditure in respect of contracts entered into prior to that date or where construction commenced on or before that date.

Clause 4 to 6 contain consequential amendments to the current year loss provisions of the Principal Act as a result of the amendments to the writing off of mining and oil-field development expenditure.

Rebate for money paid on shares for the purpose of petroleum exploration, prospecting and mining.

Clause 30 amends section 160ACA of the Principal Act and reduces the rebate of income tax allowed in respect of capital subscribed to the above mentioned shares from thirty (30) cents in each dollar subscribed to twenty-seven (27) cents in each dollar subscribed after 30 April 1981, not being money subscribed in respect of calls made prior to that date on shares then held by the taxpayer.

2. Personal Income Tax Rates and Rebates

Clauses 31 to 48 provide for the indexing of personal tax rates and the discontinuance of indexation from 30 June 1982 by amending the Income Tax (Rates) Act 1976.

Application of the half (1/2) indexation factor of 1.038 increases the level of income below which no tax is payable in respect of the year ending 30 June 1982 and subsequent financial years from $4,041 to $4,195.

Income in the range $4,195 to $17,894 will be taxed at 32 per cent (previously $4,041 - $17,239); the range $17,895 - $35,788 will be taxed at 46 per cent (previously $17,240 - $34,478), and income in excess of $35,788 will be taxed at 60 per cent (previously $34,478).

Dependant Rebates

Maximum rebates of income tax to apply in respect of the year ending 30 June 1982 and subsequent financial years for spouse, daughter - housekeeper, invalid relative, parent of taxpayer or taxpayer's spouse, sole parent and housekeeper rebates have been increased as detailed in clauses 24 to 26 of the Bill by the application of the 1980-1981 half (1/2) indexation factor of 1.038.
Indexation of dependant rebates is terminated after 30 June 1982 by virtue of clause 28.

3. Health Insurance Rebates

Clause 27 introduces the new section 159XA which authorises a rebate of tax of 32 cents of each dollar contributed to basic medical and basic hospital cover. Levels of basic health coverage are as defined in the National Health Act.

That part of contributions representing health benefits in excess of basic coverage is not eligible for the rebate.

The rebate applies to contributions made in respect of any period after 1 July 1981.

For further information, if required, contact:

Finance, Industries, Trade & Development Group

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LEGISLATIVE RESEARCH SERVICE