INCOME TAX (RATES) AMENDMENT BILL (NO. 2) 1980

Date Introduced: 1 May 1980
House: House of Representatives
Presented by: The Hon. Eric Robinson, M.P., Acting Treasurer

Short Digest of Bill

Purpose

To provide for the indexation of the personal tax rate scale that is to apply for 1980-81.

Background

Indexation of the personal rate scale ('tax indexation') was first introduced for the income year 1976-77 and operated for three years until its suspension for the income year 1979-80.

Indexation involves an adjustment to the income brackets to which particular rates of tax apply; the rates themselves remain unchanged. The adjustment is made in accordance with the movement in the average Consumer Price Index (CPI) reading for the year to the March quarter, but is subject to discounting for the effects of government charges, indirect taxes and the increase in import prices consequent upon devaluation of the A$.

The following table records the history of tax indexation as it has applied in Australia:

<table>
<thead>
<tr>
<th>Year</th>
<th>CPI Movement %</th>
<th>Tax Indexation Factor %</th>
<th>Tax Indexation Adjustment %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976-77</td>
<td>14.0</td>
<td>13.0</td>
<td>13.0</td>
</tr>
<tr>
<td>1977-78</td>
<td>13.6</td>
<td>10.9</td>
<td>10.9</td>
</tr>
<tr>
<td>1978-79</td>
<td>10.9</td>
<td>7.7</td>
<td>3.8</td>
</tr>
<tr>
<td>1979-80</td>
<td>7.9</td>
<td>6.5</td>
<td>-</td>
</tr>
<tr>
<td>1980-81</td>
<td>9.7</td>
<td>*</td>
<td>**</td>
</tr>
</tbody>
</table>

* The indexation factor for 1980-81 will be available shortly. The Treasurer's estimate in his statement on 6 March 1980 was 7.2 per cent.

** The Treasurer announced on 6 March that half indexation will be applied for 1980-81.
The effect of indexation is to raise the tax threshold, i.e. that level of income below which no tax is payable, and consequently to raise the level of income which attracts tax at the standard rate of 32 per cent. Similarly, indexation raises the levels of income which attract tax at the rates of 46 per cent and 60 per cent. The intention, under full indexation, is to ensure that a taxpayer's average tax liability does not increase unless his real income (i.e. money income adjusted for inflation) also increases.

Dependents' rebates were also to have been indexed, but the Government has decided as a separate matter to increase these amounts above what would have applied under indexation. (See Bills Digest on Income Tax Assessment Amendment Bill No. 2). An explanatory memorandum on the Bill is available.

Main Provisions

Clause 3(a) amends section 9 of the Income Tax (Rates) Act 1976 (the Principal Act) to introduce matters which are to be taken into account in arriving at the indexation factor. These matters include:

- government decisions on import parity pricing of crude oil;
- increases in the cost of health insurance and in the net cost of health services resulting from a reduction in the Commonwealth medical benefit; and
- increases in public hospital in-patient charges and in the cost of health insurance resulting from such increases.

Clause 3(b) has the effect of reducing by half the indexation factor which would otherwise have been applied, but for the year 1980-81 only.

Clause 4 declares the year commencing 1 July 1980 to be a prescribed year of income and clause 5 requires the publication of the indexation factor for 1980-81 to be made as soon as practicable after 15 June unless a regulation is in force by that time.