Date Introduced: 24 May 1979
House: House of Representatives
Presented by: Minister Assisting the Treasurer, Hon. M.J.R. MacKellar, M.P.

Short Digest of Bill

Purpose

To permit the adjustment of the income tax indexation factor for the effects of the first two steps towards import parity pricing for oil, to terminate the trading stock valuation adjustment (TSVA), and to continue the current rates of PAYE deductions from wages and salaries.

Background

These amendments form part of a package of revenue raising measures announced in the Treasurer's statement of 24 May 1979.

Personal Tax Indexation and Surcharge

Under existing tax legislation full indexation would be restored automatically and the 1.5% surcharge would expire from 1 July 1979, since half indexation and the surcharge were only introduced as temporary measures for 1978-79. This would reduce personal tax collections by more than $1100m in 1979-80. However, the Government has decided to maintain the present rate of PAYE deductions for the first 5 months of 1979-80.

Because the 1.5% surcharge applied to the whole year's income but was only collected over the last 7 months of 1978-79 (with a month's lag before receipt by the Taxation Office), the rate of extra PAYE deductions after 1 November 1978 was set at 2.57% of income (12/7 times 1.5%). It is this higher rate of tax that is to be continued into 1979-80.

The rates to apply for 1979-80 as a whole will be announced in the 1979-80 Budget, but Mr. Howard has already indicated that the removal of the surcharge in full and the implementation of full indexation will not both be included.
Indexation Factor

At present the indexation factor is based on the increase in the average level of the CPI for the 12 months ended the previous 31 March over its average level in the preceding year. It may then be adjusted to exclude the effects of certain factors (mainly indirect taxes) on the CPI.

The Government has now decided to allow for a further adjustment to take account of the two steps taken to phase in import parity pricing for locally produced "old" oil. Since it was intended that consumers bear the increases in the price of oil resulting from import parity pricing, the adjustment of the indexation factor is necessary to ensure that consumers are not partly compensated for the price increases through the tax indexation mechanism.

This adjustment will reduce the factor by 0.2 percentage points.

TSVA

The withdrawal of the half TSVA implemented in the Fraser Government's first Budget is expected to add about $300m to revenue in 1980-81. It will not affect Budget receipts in 1979-80 since firms will not pay tax on 1979-80 income until 1980-81.

Main Provisions

Section 9 of the Income Tax (Rates) Act 1976, which provided for indexation, will be amended so that, in fixing the indexation factor, regard is to be had to the effects on the CPI of the first two steps towards import parity pricing of oil that took effect on 17 August 1977 and 1 July 1978 (clause 3).

Clause 4 will amend section 82c of the Income Tax Assessment Act 1936 by withdrawing the TSVA deduction for income in 1979-80 and future years.

Clause 5 will enable present rates of PAYE deductions from wages and salaries to continue until 30 November 1979 or any earlier date fixed by Parliament.