

1978-79

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA
HOUSE OF REPRESENTATIVES

INCOME TAX (RATES AND ASSESSMENT) AMENDMENT BILL 1979

EXPLANATORY MEMORANDUM

(Circulated by authority of the Treasurer,
the Hon. John Howard, M.P.)

Introductory note

The purpose of this memorandum is to explain the provisions of the above Bill, which deals with three matters.

One is the proposed withdrawal of the trading stock valuation adjustment deduction, with effect for 1979-80 and later years of income (clause 4).

A further provision will specifically authorize the continued application of existing rates of income tax instalment (PAYE) deductions from salaries and wages until 30 November 1979, pending the making and implementation of 1979-80 Budget decisions about rates of personal income tax for 1979-80 (clause 5).

The third feature of the Bill will require that the effects on the Consumer Price Index resulting from the first two steps towards import parity pricing of locally produced crude oil be considered in arriving at the tax indexation factor used to adjust the steps in the personal income tax rate scale and the concessional rebates (clause 3).

More detailed explanations are provided below on each of the clauses of the Bill.

Clause 1 : Short title

This clause provides formally for the citation of the amending Act.

Clause 2 : Commencement

By sub-section 5(1A) of the Acts Interpretation Act 1901 every Act is to come into operation on the 28th day after the day on which the Act receives the Royal Assent, unless the contrary intention appears. By this clause, it is proposed that the amending Act shall come into operation on the day on which it receives the Royal Assent.

Clause 3 : Indexation

This clause will amend section 9 of the Income Tax (Rates) Act 1976, which provides for indexation of the income ranges in the general personal income tax rate scale, as set out in Schedule 13 of that Act. By reason of section 159Z of the Income Tax Assessment Act 1936, the indexation factor determined for the purposes of section 9 is used to index the concessional rebates, e.g., for maintenance of a spouse.

The increase in the average level of the Consumer Price Index for the 12 months to the end of March preceding the relevant year of income over its average level in the preceding 12 months, establishes the basis for the factor to be used for tax indexation purposes. By sub-sections (2) and (4) of section 9 of the Income Tax (Rates) Act, regulations may be made to fix a factor lower than the basic factor. In the fixing of that factor, regard is, by sub-section (5) of section 9, to be had to a number of matters, e.g., the extent to which the movement in the CPI was contributed to by indirect taxes.

Clause 3 proposes the addition of a further matter to which regard is to be had in the making of regulations under sub-section (4) of section 9. For this purpose a new sub-paragraph (c)(iii) is to be inserted in sub-section (5). The new sub-paragraph will require that in making the relevant regulations, regard is to be had to the effects on the consumer price index

of the first two steps towards import parity pricing of locally produced crude oil that were taken on 17 August 1977 and 1 July 1978.

Clause 4 : Trading stock valuation adjustment

This clause, which will amend the Income Tax Assessment Act 1936, will withdraw the trading stock valuation adjustment deduction.

Subdivision BA of Division 3 of Part III of that Act authorises a special income tax deduction, measured by reference to the annual increase in the index for the goods component of the Consumer Price Index. The deduction is one-half of the percentage increase in the index and is applied, in the ordinary course of events, to the value of eligible trading stock held at the commencement of the year of income. This deduction is known as the trading stock valuation adjustment deduction.

By clause 4 it is proposed to insert a new sub-section (2) in section 82C of the subdivision, which will withdraw the deduction in relation to the 1979-80 and later years of income. The result will be that the deduction is limited to the income years 1976-77 to 1978-79 inclusive.

Clause 5 : Operation of certain
Income Tax Regulations

This clause will enable the present rates of PAYE deductions from salaries and wages to continue beyond 30 June 1979 until 1979-80 Budget decisions about 1979-80 personal income tax rates can be made and implemented.

The Income Tax Assessment Act provides authority, in section 221C, for the making of regulations to prescribe the rates of PAYE deductions to be made by employers from salary or wages paid to employees. These deductions enable the payment by employees, in the year in which the salary or wages are derived, of tax at the rates set out in the Income Tax (Rates) Act 1976, as formally imposed in the Income Tax (Individuals) Act applicable for the financial year.

The rates of PAYE deductions now in force are fixed by Subdivision A of Division 2 of Part VI of the Income Tax Regulations, and by the Third Schedule to those regulations. These rates came into effect on 1 November 1978 and reflect a standard rate of income tax of 33.5 per cent, adjusted to allow the collection in the balance of 1978-79 of the difference between tax at that rate and tax at the standard rate of 32 per cent which was reflected in PAYE deductions prior to 1 November 1978. By reason of sections 6G and 6H of the Income Tax (Rates) Act 1976, the standard rate of income tax becomes 32 per cent from the end of the 1978-79 financial year.

Tax indexation provides, as the law is now expressed, a further variation between the levels of tax and rebates applicable for 1978-79 - and on which existing rates of PAYE deductions are based - and the tax and rebate levels to operate for 1979-80. As noted earlier in this memorandum, section 9 of the Income Tax (Rates) Act 1976 and section 159Z of the Income Tax Assessment Act 1936 authorise tax indexation and it has been practice to adjust PAYE deductions from 1 July in a financial year to reflect the tax indexation applicable for that year.

Against this background, sub-clause (1) of clause 5 of the Bill is to the effect that existing rates of PAYE deductions are to continue to have effect until 30 November 1979. To allow for possible earlier implementation of decisions made in the 1979-80 Budget as to rates of personal income tax for that year the sub-clause also enables a Proclamation to be made fixing a date earlier than 30 November 1979 as the date until which the present PAYE deduction regulations have effect.

Sub-clause (2) of clause 5 will ensure that for the purpose of keeping the present rates of PAYE deductions in operation on this interim basis, the amounts of concessional rebates for dependants, for sole parents and for a housekeeper that are reflected in PAYE deductions will be the amounts applicable for 1978-79 and not amounts indexed, by section 159Z of the Income Tax Assessment Act, to 1979-80 values.