

1977

THE PARLIAMENT OF THE COMMONWEALTH
OF AUSTRALIA

HOUSE OF REPRESENTATIVES

INCOME TAX (RATES) AMENDMENT BILL 1977

EXPLANATORY MEMORANDUM

(Circulated by the authority of the Treasurer,
the Rt. Hon. Phillip Lynch, M.P.)

Introductory Note

The main purpose of this Bill is to enable the effect on the Consumer Price Index of last year's health insurance and exchange rate changes to be disregarded in the fixing of the personal tax indexation factor that is to apply for years after the current year, 1976-77.

The Bill will amend the Income Tax (Rates) Act 1976 (the Principal Act) which declares the rates of tax in respect of income derived by individuals and trustees and also makes provision for the indexation, by reference to increases in the Consumer Price Index, of the general rates of tax specified in that Act.

In broad terms, the technical scheme of indexation provided by the Principal Act requires an indexation factor to be ascertained for each income year subsequent to 1976-77, by dividing the sum of the quarterly Consumer Price Index numbers published by the Australian Statistician for the 12 months which ended on 31 March preceding the income year, by the sum of the index numbers for the corresponding period preceding the immediately preceding income year.

Each of the income steps in the schedule of general rates set out in the First Schedule is then increased on the basis of the factor so ascertained or, where a lesser factor is prescribed by regulation, on the basis of that lesser factor. In prescribing a lesser factor, regard is to be had to the effects of indirect taxes on the factor ascertained as indicated above.

The amendments being proposed by this Bill will enable regard also to be had, in the making of such regulations, to two further matters. The first of these relates to increases in the Consumer Price Index in the

December quarter of 1976 as a result of increases in the cost of health insurance during that quarter and the imposition of health insurance levy from 1 October 1976. The other relates to the estimated effects on the Consumer Price Index of the devaluation of the Australian dollar on 28 November 1976 and subsequent exchange rate changes made between that date and 31 December 1976.

The factor that applies for the purpose of indexation of the general rates scale for a financial year applies also for the purpose of indexing the amounts which are required by the Income Tax Assessment Act to be indexed for that financial year, e.g., the minimum general concessional rebate, the rebates for dependants and the sole parent rebate.

Notes on the individual clauses of the Bill are set out hereunder.

Clause 1 : Short Title

This clause formally provides for the short title and citation of the amending Act.

Clause 2 : Commencement

Section 5(1A) of the Acts Interpretation Act 1901 provides that every Act shall come into operation on the twenty-eighth day after the day on which the Act receives the Royal Assent, unless the contrary intention appears in the Act. By this clause, it is proposed that the amending Act, which will affect tax rates to apply from 1 July 1977, comes into operation on the day on which it receives the Royal Assent.

Clause 3 : Indexation

This clause amends section 9 of the Principal Act which provides for the income ranges in the general rates scale declared by that Act to be automatically indexed for income years subsequent to 1976-77.

Paragraphs (a) to (c) of clause 3 will make purely technical changes in the expression of the indexation provisions.

By paragraph (a) the definition of "index number" in the Principal Act will be replaced by a new definition. The new definition, like the existing definition, provides that the index number in relation to a quarter, i.e., any quarter that enters into the calculation of the indexation factor, is the All Groups Consumer Price Index number being the weighted average of the 6 State capital cities published by the Australian Statistician.

The new definition, however, omits the reference in the existing definition to an index number published in substitution for a previously published index number. New

sub-sections (3A) and (3B), to be inserted by paragraph (c), will deal with situations in which a substituted index number is published to correct a previously published index number (proposed sub-section (3A)) or as a result of a change in the reference base (proposed sub-section (3B)).

New sub-section (3A) provides that an index number published in substitution for a previously published index number is to be disregarded for the purposes of section 9, i.e., in the calculation of the indexation factor under sub-section 9(3). Sub-section (3B) requires that, once the Statistician has changed the reference base for the Consumer Price Index, the indexation factor be calculated by reference only to index numbers published in terms of the new base.

By virtue of the amendment of sub-section 9(3) by paragraph (b) of clause 3, the indexation factor for any year of income is to be ascertained as at the date on which the indexation number was first published for the March quarter preceding that year.

It follows that, when the index for the March quarter in any year is first published, the indexation factor for the ensuing year must be ascertained by reference to that index and to indexes published in respect of the preceding seven quarters in terms of the same reference base. Corrections to index numbers first published for any of those quarters in terms of that base are to be disregarded. If, for example, the index for the March quarter preceding an income year or any of the preceding 3 quarters has been reduced after its first publication, the indexation factor for that income year could be regarded as having been overstated. But for practical reasons the factor once established must be fixed and not subject to variation. This approach will ensure that any error in the calculation of the indexation factor for one year will not be compounded in the calculation of the indexation factor for the ensuing year. The approach will not, of course, correct for the overstatement in the first instance.

EXAMPLE: AVERAGE OF QUARTERLY INDEX NUMBERS FOR 4 QUARTERS
ENDING -

	<u>March 1976</u>	<u>March 1977</u>	<u>March 1978</u>
Originally published ϕ	100	111	120
Corrected ϕ	100	110	120

ϕ Hypothetical - for purposes of illustration only

On the basis of originally published indexes the factor for the 1977-78 income year would be 1.11 and for 1978-79 it would be 1.081. Having regard to the corrected series the factor for the 1977-78 year could be said to be overstated by .01 and to be understated by a like amount for 1978-79. The indexation factors for 1977-78 and 1978-79 taken in conjunction would,

however, be 1.20 which, of course, produces the correct result for 1978-79. If the 1978-79 factor were to be taken as 1.091 by reference to the corrected series after the 1977-78 factor had been fixed by reference to the original series the error would be compounded. The two factors taken in conjunction would be 1.211 which would not produce the correct result for 1978-79.

Paragraph (c) of clause 3 proposes the insertion of a further new sub-section - sub-section (3C) - in section 9 of the Principal Act. Sub-section (3C) is being inserted as a consequence of the amendment of sub-section 9(3) that is being effected by paragraph (b) of clause 3 and will require the indexation factor to be calculated to the nearest third decimal place.

Paragraphs (d) and (e) cover the matters to which the Bill is principally directed and will further amend section 9 of the Principal Act by inserting a new paragraph - paragraph (c) - at the end of sub-section 9(5).

Under sub-section 9(4) of the Principal Act the Governor-General may, having regard to matters specified in sub-section 9(5), make regulations prescribing a factor less than that ascertained under sub-section 9(3). Under existing paragraphs (a) and (b) of sub-section 9(5) the Governor-General, in prescribing a factor, has regard to downward movements in the relevant Consumer Price Index in a preceding year and to the effects of indirect taxes on the factor ascertained in accordance with sub-section 9(3).

New paragraph (c) will require that, in addition to those matters, regard is also to be had to the effects on the factor ascertained under sub-section 9(3) of -

- . the increase in the Consumer Price Index for the December quarter of 1976 as a result of the imposition of the health insurance levy from 1 October 1976 and the increase in that quarter in the cost of health insurance (sub-paragraph (i)); and
- . the increase in the Consumer Price Index as a result of the devaluation of the Australian dollar on 28 November 1976 and subsequent exchange rate changes made up to 31 December 1976 (sub-paragraph (ii)).

The effect of new paragraph (c) in 1977-78 may be seen in the following way. If the factor resulting simply from the Consumer Price Index figures published by the Australian Statistician were to be used to index personal tax rates and rebates for 1977-78, the relevant amounts would be increased by 13.6 per cent.

Of that percentage, 0.7 per cent represents the effect of increases in indirect taxes in the 1975-76 Budget. The existing law permits regulations that would allow the factor to be discounted by that element and when, in addition, the health insurance and exchange rate changes are (under new paragraph (c)) also taken into account, the prescribed factor for 1977-78 will be calculated on the basis of an increase in the relevant amounts of 10.9 per cent.

When the relevant amounts have been indexed by 10.9 per cent the rates of personal tax for 1977-78, and the 1977-78 rebates of tax, will be:

Rates of tax

<u>Rate of tax</u> per cent	<u>Range of taxable income</u> 1977-78	<u>Range of taxable income</u> 1976-77
20	The part of the taxable income that does not exceed \$2,506	The part of the taxable income that does not exceed \$2,260
27	exceeds \$2,506 but does not exceed \$6,266	exceeds \$2,260 but does not exceed \$5,650
35	exceeds \$6,266 but does not exceed \$12,532	exceeds \$5,650 but does not exceed \$11,300
45	exceeds \$12,532 but does not exceed \$18,798	exceeds \$11,300 but does not exceed \$16,950
55	exceeds \$18,798 but does not exceed \$25,063	exceeds \$16,950 but does not exceed \$22,600
60	exceeds \$25,063 but does not exceed \$31,329	exceeds \$22,600 but does not exceed \$28,250
65	exceeds \$31,329	exceeds \$28,250

Rebates

	<u>1977-78</u>	<u>1976-77</u>
General rebate (Matching level of concessional expenditure which, at the rate of 40 per cent, provides a rebate entitlement equal in amount to the general rebate.)	\$ 676	\$ 610
Spouse, daughter-housekeeper (a)	\$ 555	\$ 500
Housekeeper	\$ 555	\$ 500
Parent of taxpayer or of spouse (a)	\$ 501	\$ 452
Invalid relative (a)	\$ 251	\$ 226
Sole parent rebate	\$ 388	\$ 350

(a) These rebates will be reduced by \$1 for each \$4 by which the dependant's separate net income exceeds \$189 in

respect of the 1977-78 year of income. For the 1976-77 year of income the separate net income level was \$170.

- (b) Although the entitlement to taxation rebates for children and students has been withdrawn it is necessary for the purposes of the zone and equivalent rebates to ascertain what amount of rebate would have been allowed in respect of children or students had the rebates still been available. For this purpose the notional rebates for children and students will be indexed to \$251 and \$189 for the 1977-78 year of income from the levels of \$226 and \$170 applicable in 1976-77.