

1993-94-95

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

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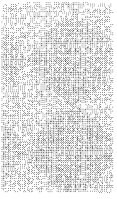
TAXATION LAWS AMENDMENT (BUDGET MEASURES) BILL  
1995

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SUPPLEMENTARY EXPLANATORY MEMORANDUM

(Circulated by authority of the Treasurer,  
the Hon Ralph Willis, MP)





## ***General outline and financial impact***

### **Provisional tax uplift factor**

Amends the definition of provisional tax uplift factor in the *Income Tax Assessment Act 1936* so that the factor is 8% for the 1995-96 year of income and 10% for later years of income unless the Parliament provides otherwise.

***Date of effect:*** The amendments apply to the calculation of provisional tax (including instalments) for the 1995-96 year of income and later years of income.

***Proposal announced:*** 1995-96 Budget, 9 May 1995

***Financial impact:*** None

***Compliance cost impact:*** None, as uplift factor is unchanged from the previous three years.



## **Provisional tax uplift factor**

### **Overview**

1.1 This amendment to the *Taxation Laws Amendment (Budget Measures) Bill 1995* is to provide for the existing definition of 'provisional tax uplift factor' contained in the *Income Tax Assessment Act 1936* (the Act) to be repealed and replaced so that the factor applicable for the 1995-96 year of income is 8% and 10% for later years of income unless the Parliament provides otherwise.

### **Summary of the amendments**

#### **Purpose of the amendments**

1.2 The amendments will amend the Act so that the provisional tax uplift factor is 8% for the 1995-96 year of income and 10% for later years of income.

#### **Date of effect**

1.3 The amendments will apply in relation to the calculation of provisional tax (including instalments) payable for the 1995-96 year of income and later years of income. *[Item 2 of Schedule 10]*

### **Background to the legislation**

1.4 Income subject to provisional tax for a year is obtained by uplifting the preceding year's taxable income by the provisional tax uplift factor. Provisional tax is then calculated by applying the tax rates and Medicare levy to the uplifted income and allowing for rebates and credit entitlements (such as tax instalments deducted) which are expected to be claimed or allowed in the provisional year of income (section 221YCAA).

1.5 The level of the uplift factor is intended to be a reasonable reflection of the growth in income of provisional taxpayers. The level

cannot be predicted with accuracy so it is preferable not to place undue emphasis on a specific forecast or estimate in setting the factor. Matters such as inflation effects are taken into account. The factor is intended, on average, over time and across taxpayers, to reflect the expected increase in provisional income.

1.6 The uplift factor for the calculation of 1995-96 provisional income currently stands at 10% (definition of 'provisional tax uplift factor' in subsection 221YA(1)). In the 1995-96 Budget statement the Treasurer announced that the uplift factor of 8% used to calculate 1994-95 provisional income would be retained for the purpose of calculating 1995-96 provisional tax.

## **Explanation of proposed amendments**

1.7 The amendment to the *Taxation Laws Amendment (Budget Measures) Bill 1995* proposes to amend subsection 221YA(1) of the Act so that a provisional tax uplift factor of 8% will be used in ascertaining provisional tax payable (including instalments) for the 1995-96 year of income and, unless the Parliament otherwise provides, 10% for later years of income. *[Item 1]*

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