
The Parliament of the Commonwealth of Australia

Advisory report on
Schedule 1 of the
Tax Laws Amendment
(2008 Measures No. 1)
Bill 2008

Joint Standing Committee on Electoral Matters

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Chair's Foreword

The committee supports the discontinuation of tax deductibility for political donations and recommends that Schedule 1 of the Tax Laws Amendment (2008 Measures No. 1) Bill 2008 be passed by the Senate without amendment.

The policy of discontinuing tax deductibility for political donations was taken to the 2007 federal election by the Australian Labor Party. The Tax Laws Amendment (2008 Measures No. 1) Bill 2008 will give effect to this pre-election commitment and deliver ongoing savings of over \$10 million per year. Delaying the passage of this legislation will lead to these savings disappearing from the budget bottomline.

The savings estimates prepared by Treasury represent the best available estimate given the lack of information from tax returns, donations to political parties and political party membership.

While some inquiry participants argue that tax deductibility should be considered as part of a broader inquiry, it is doubtful that the future political financing landscape will retain such an unbalanced and inequitable scheme.

Tax deductibility for political donations was introduced in an ad hoc way in 1991 following amendments to electoral legislation in the Senate by the Coalition parties and the Australian Democrats. While initially only applying to donations by individuals and their party membership fees to a cap of \$100 per year, in 2006 the government extended tax deductibility to businesses and lifted the threshold to \$1,500 per year.

Discontinuing tax deductibility for these payments, with an exception for individual taxpayers where the payments are related to earning taxable income, will remove the inherent inequity of the tax system which provides higher income earners a larger subsidy for contributions to political parties. Abolishing tax deductibility for business taxpayers will remove a loophole under which payments by businesses to political parties are subsidised by the taxpayer to the tune of 30 per cent.

There is no evidence to suggest that removing tax deductibility will necessarily lead to reduced participation in political activities – members of the community will still be free to join political parties and individuals and businesses will still be free to donate to political parties and candidates for public office. However, the inequity created by the tax system will be removed and provide a fairer basis for political participation.

I would like to thank the Members and Senators of the committee for their contribution to the report and those that participated in the inquiry by making submissions or appearing at the public hearing. I would also like to thank the committee secretariat for their work in preparing this report and the parliamentary library for their background research on tax deductibility.

Daryl Melham MP
Chair



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Membership of the Committee

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Members Mr Michael Danby MP

Mr Jon Sullivan MP

Hon Bruce Scott MP

Senator Simon Birmingham

Senator Bob Brown

Senator Carol Brown

Senator Steve Hutchins

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Terms of reference

On 19 March 2008, the Senate agreed to the following resolution:

That the provisions of Schedule 1 of the Tax Laws Amendment (2008 Measures No. 1) Bill 2008 be referred to the Joint Standing Committee on Electoral Matters for inquiry and report by June 2009.



Recommendation

The underlying inequity of tax deductibility for political contributions and gifts, which confers advantages and disadvantages to taxpayers on the basis of their taxable income, should be discontinued. The committee rejects the view expressed by some inquiry participants that forthcoming reviews of political party funding should examine tax deductibility for political contributions and gifts in a broader context.

Recommendation 1

The committee supports the removal of tax deductibility for contributions and gifts made to political parties, members and independent candidates and recommends that the proposed Bill be passed by the Senate without amendment.