

Chapter 1

Introduction

1.1 On 6 December 2018, the Senate referred the Lower Tax Bill 2018 (the bill) to the Senate Economics Legislation Committee (the committee) for inquiry and report by 2 April 2019.

1.2 On 29 November 2018, the bill was introduced in the Senate by former Senator David Leyonhjelm.¹ The bill seeks to reduce annual Commonwealth Government taxation by almost half by abolishing various taxes and reducing the rates of other taxes. The bill seeks to significantly reduce personal income tax and fringe benefits tax and abolish the Medicare levy. It also seeks to significantly reduce corporate income tax and abolish import duties, tobacco duties, alcohol duties and wine equalisation tax, fuel duties and luxury car tax, the passenger movement charge and the major bank levy.

Overview of the bill

1.3 The Explanatory Memorandum (EM) outlines the overarching rationale for the measures in the bill, which are intended to reduce Commonwealth Government taxation by nearly 50 per cent, as follows:

Tax should be kept to a minimum as it involves using coercion to take someone's property. Accordingly, government spending funded by taxation should be limited to the provision of 'non-excludable' services like national defence and the regulation of air quality. Access to the benefits of 'non-excludable' services cannot be confined to those who would pay for such services voluntarily. As such, the private sector is not well suited to provide 'non-excludable' services.²

1.4 The EM includes a Parliamentary Budget Office (PBO) costing of the proposed tax changes proposed in the bill.³ The PBO costing notes:

The proposal would decrease the fiscal balance and the underlying cash balance by \$622,760 million over the 2018–19 Budget forward estimates period. The fiscal balance impact reflects a decrease in revenue of \$661,000 million and a decrease in expenses of \$38,240 million over this period.⁴

1.5 In his second reading speech, former Senator Leyonhjelm expressed the view that:

1 Former Senator David Leyonhjelm resigned from the Senate on 1 March 2019.

2 *Explanatory Memorandum*, p. 1.

3 *Explanatory Memorandum*, attachment pp. 1–7.

4 *Explanatory Memorandum*, attachment, p. 1.

Such a large tax reduction is also responsible, provided it is coupled with an even greater reduction in Commonwealth Government spending, so that the Commonwealth Government's budget and balance sheet are repaired.⁵

1.6 The bill contains one schedule comprising three parts.

Schedule 1, part 1

1.7 Schedule 1, part 1 seeks to abolish a range of duties and taxes—including: import duties; tobacco duties; alcohol duties and wine equalisation tax; fuel duties and luxury car tax; the passenger movement charge; and the major bank levy—by repealing the following Acts:

- *A New Tax System (Luxury Car Tax) Act 1999*
- *A New Tax System (Luxury Car Tax Imposition—Customs) 6 Act 1999*
- *A New Tax System (Luxury Car Tax Imposition—Excise) Act 10 1999*
- *A New Tax System (Luxury Car Tax Imposition—General) 14 Act 1999*
- *A New Tax System (Wine Equalisation Tax) Act 1999*
- *A New Tax System (Wine Equalisation Tax Imposition—1 Customs) Act 1999*
- *A New Tax System (Wine Equalisation Tax Imposition—5 Excise) Act 1999*
- *A New Tax System (Wine Equalisation Tax Imposition—9 General) Act 1999*
- *Customs Tariff Act 1995*
- *Customs Tariff (Anti-Dumping) Act 1975*
- *Excise Act 1901*
- *Excise Tariff Act 1921*
- *Fuel Tax Act 2006*
- *Major Bank Levy Act 2017*
- *Passenger Movement Charge Act 1978*
- *Petroleum Excise (Prices) Act 1987*
- *Product Stewardship (Oil) Act 2000*
- *Tradex Duty Imposition (Customs) Act 1999*
- *Tradex Duty Imposition (Excise) Act 1999*
- *Tradex Duty Imposition (General) Act 1999*
- *Tradex Scheme Act 1999*
- *Treasury Laws Amendment (Personal Income Tax Plan) Act 2018*

5 Senator David Leyonhjelm, Second reading speech, *Senate Hansard*, 29 November 2018, p. 35.

Schedule 1, part 2

1.8 Schedule 1, part 2 seeks to amend the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997* to abolish the low income tax offset and low and middle income tax offset.⁶

1.9 Part 2 also seeks to amend the *Income Tax Rates Act 1986* to reduce the company tax rate to 20 per cent for companies of all sizes and raise the tax free threshold for personal income tax, for both residents and working holiday makers, from \$18,200 to \$40,000.⁷

1.10 Finally, part 2 seeks to amend the *Medicare Levy Act 1986* to effectively abolish the Medicare Levy by reducing the amount payable to 0 per cent, regardless of income.⁸

Schedule 1, part 3

1.11 The schedule 1, part 3 seeks to amend the *Fringe Benefits Tax Act 1986* to reduce the fringe benefits tax rate from 47 per cent to 20 per cent.

Legislative scrutiny

1.12 The Senate Standing Committee for the Scrutiny of Bills made no comment in relation to the bill.⁹ The Parliamentary Joint Committee on Human Rights deferred consideration of the bill.¹⁰

Conduct of the inquiry

1.13 The committee advertised the inquiry on its website and wrote to relevant stakeholders and other interested parties inviting submissions. The committee received five submissions which are listed at Appendix 1.

1.14 The committee appreciates the efforts of all stakeholders who contributed to the inquiry.

6 *Explanatory Memorandum*, p. 9.

7 *Explanatory Memorandum*, pp. 9–13.

8 *Explanatory Memorandum*, p. 13.

9 Senate Standing Committee for the Scrutiny of Bills, *Scrutiny Digest 15 of 2018*, p. 48.

10 Parliamentary Joint Committee on Human Rights, *Report 1 of 2019*, p. 125.

