

Chapter 1

Introduction

Referral of the Bill

1.1 On 15 May 2014, pursuant to the Selection of Bills Committee report, the Senate referred the provisions of the following package of 15 bills (the bills) to the Senate Economics Legislation Committee for inquiry and report by the 16 June 2014:¹

- Tax Laws Amendment (Temporary Budget Repair Levy) Bill 2014;
- Income Tax Rates Amendment (Temporary Budget Repair Levy) Bill 2014;
- Family Trust Distribution Tax (Primary Liability) Amendment (Temporary Budget Repair Levy) Bill 2014;
- Fringe Benefits Tax Amendment (Temporary Budget Repair Levy) Bill 2014;
- Income Tax (Bearer Debentures) Amendment (Temporary Budget Repair Levy) Bill 2014;
- Income Tax (First Home Saver Accounts Misuse Tax) Amendment (Temporary Budget Repair Levy) Bill 2014;
- Income Tax (TFN Withholding Tax (ESS)) Amendment (Temporary Budget Repair Levy) Bill 2014;
- Superannuation (Departing Australia Superannuation Payments Tax) Amendment (Temporary Budget Repair Levy) Bill 2014;
- Superannuation (Excess Non-concessional Contributions Tax) Amendment (Temporary Budget Repair Levy) Bill 2014;
- Superannuation (Excess Untaxed Roll-over Amounts Tax) Amendment (Temporary Budget Repair Levy) Bill 2014;
- Taxation (Trustee Beneficiary Non-disclosure Tax) (No.1) Amendment (Temporary Budget Repair Levy) Bill 2014;
- Taxation (Trustee Beneficiary Non-disclosure Tax) (No. 2) Amendment (Temporary Budget Repair Levy) Bill 2014;
- Tax Laws Amendment (Interest on Non-Resident Trust Distributions) (Temporary Budget Repair Levy) Bill 2014;
- Tax Laws Amendment (Untainting Tax) (Temporary Budget Repair Levy) Bill 2014; and
- Trust Recoupment Tax Amendment (Temporary Budget Repair Levy) Bill 2014.

1 *Journals of the Senate*, No. 29—15 May 2014, p. 819.

1.2 The Selection of Bills Committee stated the bills were referred to the Economics Legislation Committee for 'Scrutiny of tax design and integrity issues'.²

1.3 The bills were introduced to the House of Representatives on 13 May 2014 and passed on 28 May 2014.³

Conduct of the inquiry

1.4 The committee advertised the inquiry on its website and invited a number of stakeholders to make submissions by 30 May 2014. The committee received seven submissions, all of which are available on the committee's website.⁴ A list of the submissions received can be found at Appendix 1.

1.5 The committee decided that the submissions were straightforward, provided sufficient information on the proposed legislation and did not require further examination. Thus, the committee resolved not to hold a public hearing. Nonetheless, the submissions raised some important matters that required additional information from the Treasury. The committee wrote to the Treasury seeking its response to a number of particular matters of concern detailed in the written submissions to which the Treasury has provided answers. Some of this material has been incorporated into the body of the report but for the sake of completeness the committee has attached the full response at Appendix 2. Treasury's answers to the committee's questions on notice can also be found on the committee's website.

Overview of the bills

The 2014–15 Budget context

1.6 In the 2014–15 Budget, the government committed to 'repairing the Budget' and stated it was taking steps to 'ensure the Government is living within its means, and to rein in the age of entitlement'.⁵

1.7 The Temporary Budget Repair Levy (the Levy) is one of a range of measures announced in the 2014–15 Budget aimed at achieving these goals. It is designed particularly to ensure high income earners make a contribution to 'repairing the Budget'.⁶

2 Selection of Bills Committee, *Report No. 5 of 2014, 15 May 2014*, Appendix 9.

3 *House of Representatives Hansard*, 28 May 2014, p. 27. See also *House of Representatives Votes and Proceedings*, No. 35, 13 May 2014, p. 457 and *House of Representatives Votes and Proceedings*, No. 40, 28 May 2014, p. 505.

4 See www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics

5 Hon Joe Hockey MP, Treasurer, and Senator the Hon. Mathias Cormann, Minister for Finance, *2014-15 Budget Joint Media Release*, 13 May 2014, at <http://jbh.ministers.treasury.gov.au/media-release/021-2014/> (accessed 22 May 2014).

6 The Hon. Steven Ciobo MP, Parliamentary Secretary to the Treasurer, *Second Reading Speech, House of Representatives Hansard*, 13 May 2014, pp 69–70.

The main provisions

1.8 This package of bills amends Australian tax laws to introduce a three-year progressive levy on high income earners. This Levy will apply at a rate of two per cent on the part of their taxable income that is in excess of \$180,000 per annum. The Levy will be active for the financial years 2014–15 to 2016–17, so will commence on 1 July 2014 and end on 31 June 2017.⁷

1.9 The bills adjust other tax rates based on the top personal marginal tax rate (currently set at 45 per cent), as well as tax rates based on the top personal rate when it is combined with the Medicare Levy (currently 1.5 per cent, but increasing to 2 per cent on 1 July 2014).⁸

The Temporary Budget Repair Levy bills package

1.10 The principal bill in this package is the Tax Laws Amendment (Temporary Budget Repair Levy) Bill 2014, which introduces the Levy, including its rate, threshold and the period it will be active.

1.11 The other 14 bills support the Levy by amending other tax provisions 'to maintain the integrity and ensure the fairness in the tax system, and minimise opportunities for avoiding the levy'.⁹ This includes increasing a number of tax rates based on the top personal marginal tax rate threshold, to ensure they are consistent with the Levy.¹⁰

1.12 All the bills are covered by a single Explanatory Memorandum introducing the provisions of the new legislation, as well as outlining its implementation and effects.¹¹

Human rights implications and compliance cost impacts

1.13 The bills do not raise any human rights issues.¹² Similarly, they do not alter existing compliance obligations for individuals, and only have a minor transitional impact for entities that withhold tax with respect to individuals.¹³

Structure of this report

1.14 Including this chapter, the report has three chapters:

- Chapter 2 looks at the provisions of the bills and its implementation; and

7 2014–15 Budget, *Budget Measures, Budget Paper No. 2, 2014–15*, p. 15.

8 Explanatory Memorandum, p. 6.

9 Explanatory Memorandum, p. 4.

10 Explanatory Memorandum, p. 6. See also *2014–15 Budget, Budget Measures, Budget Paper No. 2*, p. 15.

11 The Explanatory Memorandum is available at http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r5239_ems_35baadaf-7f19-4b2b-9501-27e99f46a530/upload_pdf/394131.pdf;fileType=application%2Fpdf

12 Explanatory Memorandum, p. 4.

13 Explanatory Memorandum, p. 4.

- Chapter 3 discusses the issues and concerns about the bills that were raised in public submissions received by the committee.

Acknowledgements

1.15 The committee thanks all those who participated in, and assisted the committee with, the inquiry.