INCOME TAX RATES BILL 1986

Date introduced: 19 August 1986
House: House of Representatives
Presented by: Hon. Chris Hurford, M.P., Minister Assisting the Treasurer

DIGEST OF BILL

Purpose

To declare the rate of tax for individuals and trustees for 1986-87 and subsequent years, to allow for proportioning of the threshold level and to declare the rate of tax for superannuation funds and certain other groups for 1986-87.

Background

The measures to be introduced by this Bill form part of the tax package announced by the Treasurer in September 1985. Certain measures announced by the Treasurer in that statement have already been introduced, including the introduction of fringe benefits and capital gains taxes and the tightening of documentation for business related expense deductions.

In relation to individuals income tax, it was announced in the September statement that tax reductions would apply from 1 September 1986 and that further reductions in the top rates would occur from 1 July 1987. However, in the Budget Speech the Treasurer announced that the 1 September 1986 tax reductions would be delayed by three months and would apply from 1 December 1986. In that speech the Treasurer confirmed that the further reduction in the higher tax brackets would still apply from 1 July 1987.

At present the tax free threshold of $4595 ($5101 from 1 December 1986) applies no matter how long the person has been in the workforce after ceasing studies or a resident of Australia. It is proposed that the threshold will only be available on a pro rata basis based on the
period in the workforce after ceasing studies or residence in Australia.

The revenue effect of the September statement measures, as modified by the Budget, is summarised in Budget Statement No. 4. The reduction in tax rates will cost an estimated $1435 million in 1986-87 (the deferral to 1 December 1986 saved an estimated $650 million) and $4500 million in a full year. The restriction of the threshold will raise an estimated $85 million in a full year and less than $500 000 in 1986-87.

The changes to individual tax rates to be effected by this Bill are set out in the following table.

<table>
<thead>
<tr>
<th>Income range (per annum)</th>
<th>Marginal tax rate (cents per dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From 1 December 1986</td>
</tr>
<tr>
<td>$</td>
<td>Present</td>
</tr>
<tr>
<td>0-4 595</td>
<td>0</td>
</tr>
<tr>
<td>4 596-5 100</td>
<td>25</td>
</tr>
<tr>
<td>5 101-12 500</td>
<td>25</td>
</tr>
<tr>
<td>12 501-12 600</td>
<td>30</td>
</tr>
<tr>
<td>12 601-19 500</td>
<td>30</td>
</tr>
<tr>
<td>19 501-28 000</td>
<td>46</td>
</tr>
<tr>
<td>28 001-35 000</td>
<td>48</td>
</tr>
<tr>
<td>35 001 and over</td>
<td>60</td>
</tr>
</tbody>
</table>

Outline

Division 2 of Part II of the Bill (clauses 6 to 10) deals with the taxation of individuals and resident trusts in 1986-87. Division 3 (clauses 11 to 15) deals with such tax in 1987-88 and subsequent years while Division 4
(clauses 16 to 20) deals with the pro-rating of the threshold. Part III of the Bill (clauses 21 to 27) deals with the taxation of superannuation funds and certain other bodies during 1986-87. The Schedules to the Bill detail how the amount of taxation is to be calculated for both residents and non-residents.

Main Provisions

Part II of the Bill deals with the taxation of individuals (other than in their capacity as a superannuation, prescribed unit trust or ineligible approved deposit fund trustee or where the person is acting as trustee of a trust which is taxed under the separate trust provisions) and companies acting as trustees (other than the same exemptions as apply for individuals) (clause 5).

Division 2 of Part II will apply to the 1986-87 financial year (clause 6).

Sub-clause 7(1) provided that the rate of tax will generally be as set out in Schedule 1. (Schedule 1 provides separate tables for the calculation of tax by resident and non-resident taxpayers and provides the formula for calculating tax where income includes a capital gains component).

Sub-clause 7(2) will incorporate the national rates of tax contained in Schedule 2 that will apply to income subject to the averaging provisions of the Income Tax Assessment Act 1936.

The formula for calculating the rate of tax payable by a partner who does not have control of the share of partnership income is contained in sub-clause 7(7). The additional tax imposed by this sub-clause will be based on 50% of the taxable income less any rebates divided by the taxable income. Sub-clause 7(8) will apply the same additional tax to certain trustees.

Sub-division C of Part II deals with minors who earn taxable income. The rate of tax for dependant children who earn over $416 per annum will be as set out in Schedule 5 of the Bill (clause 8). Where the income does not include a capital gains component, the rate will be 46% where income does not exceed $28 000. Income over $28 000 will be taxed at ordinary rates, i.e., 48% for income of $28 001 to $35 000 and 57.0% for incomes of $35 001 or above. The
Schedule also contains the formula for calculating the tax payable where the income includes a capital gains component.

Sub-clause 8(2) provides for the phasing in of tax for minors with incomes between $416 and $1372.

The taxation of trustees where the beneficiary is presently entitled but a minor is dealt with in sub-clause 8(3). The rate of tax will be as set out in Schedule 6 and generally will be the same as contained in Schedule 5. Sub-clauses 8(5) and 8(6) provide for phasing in for such incomes between $416 and $1372.

Sub-division D will apply to non-resident taxpayers, minors, beneficiaries and trusts. The rate of tax for non-resident dependant minors who earn eligible taxable income will be as set out in Part II of Schedule 5 (i.e., generally the same as for residents) (sub-clause 10(1)). Where such income does not exceed $416 tax will be either 29.42% or, where other income is earned, the normal rate of tax on that income, whichever is the greater. Phasing in arrangements will apply for income between $416 and $760 (sub-clause 10(2)). Sub-clauses 10(3) to 10(7) will apply similar rules in respect of certain trustees and beneficiaries.

Division 3 of Part II (clauses 11 to 15) deals with tax rates for individuals in 1987-88 and subsequent years. The principal effect of this Division will be to lower the top marginal tax rates.

The general rates of tax will be as set out in Schedule 7 (sub-clause 12(1)). The major differences between this Schedule and Schedule 1 (which is to apply for 1986-87) are that Schedule 7 reflects the full year effects of the tax reductions, reduces the number of marginal brackets from six to four by amalgamating brackets and the rate of tax for incomes above $19 500 will be further reduced. Also refer to the table contained in the Outline section of this Digest.

Sub-clause 12(2) will incorporate Schedule 8 which contains the proposed notional rates for income averaging for 1986-87 and later years.

Sub-clauses 12(3) to 12(9) correspond with sub-clauses 7(3) to 7(9) and reflect the reduction in rate to occur from 1 July 1986.
Clause 13 relates to income earned by dependant minors, incorporates Schedule 11 and corresponds with clause 8. The major differences are that the upper limit for the phasing in provisions is increased from $1372 to $1615 and the rate of tax for non-capital gain income will be a flat 49% compared with the 1986-87 rates which will vary from 46% to 57.08%.

Clause 15 deals with non-residents and corresponds with clause 10. The major changes are a reduction in the rate of tax from 29.42% to 29% (which reflects the full year effect of the tax reductions) and an increase in the upper level for the phasing in provisions from $760 to $905.

Division 4 of the Bill (clauses 16 to 20) deal with the introduction of a pro rata basis for the threshold.

Clause 17 deals with people who cease full-time education during a tax year. Where a person has completed such education, they will be taken to have been in the workforce from the start of the month in which they ceased full-time education. By sub-clause 17(2), these provisions will only apply once to each taxpayer.

Part-year residency is dealt with in clause 18 and will be calculated from the end of the month for people departing and the start of the month for people commencing residence.

Clause 19 contains the formula for calculating pre-workforce income from such sources as sole businesses and partnerships.

The mechanism for calculating the level of pro rata threshold is contained in clause 20. It will depend on the monthly threshold level (i.e., the annual level divided by 12), the number of months in the workforce or resident and pre-workforce income. The latter component is not to exceed the months out of the workforce or not resident multiplied by the monthly threshold level. The threshold level for certain trusts will be limited (sub-clause 20(2)).

Part III of the Bill (clauses 21 to 27) deal with the taxation of companies, superannuation funds and certain trusts for the 1986-87 financial year. The tax situation for companies will remain unchanged (clause 23). The major changes in this area reflect the reductions in individual's rates. They are:
the rate of tax for superannuation funds that meet certain investment guidelines will be reduced to 24.42% (sub-clause 26(2));

superannuation funds subject to the concessional rate of tax of 46% will be taxed at the rate of 44.25% (sub-clause 26(4));

the rate of tax for non-exempt funds will be reduced from 60% to 57.08% (sub-clause 26(3)); and

the rate of tax for ineligible approved deposit funds will be reduced to 44.25% (clause 27).

For further information, if required, contact the Economics and Commerce Group.