LEGISLATIVE RESEARCH SERVICE
DEPARTMENT OF THE PARLIAMENTARY LIBRARY

INCOME TAX (RATES) AMENDMENT BILL 1986

Date introduced: 22 May 1986
House: House of Representatives
Presented by: Hon. Paul Keating, M.P., Treasurer

DIGEST OF BILL

Purpose

To declare the rate of taxation of capital gains.

Background

The Income Tax (Rates) Act 1982 (the Principal Act) contains a number of Schedules which set out the rate of taxation for various bodies.

Also refer to the Digest for the Income Tax Assessment (Capital Gains) Amendment Bill 1986 (No. 86/127).

Outline

Generally, one-fifth of the capital gain will be added to taxable income and the amount of tax payable on this amount will be multiplied by five. This is designed to minimise the movement to higher tax brackets which would occur more frequently if the entire capital gain was added to taxable income.

Main Provisions

Clause 3 will insert a number of new definitions in section 3 of the Principal Act. Capital gains component will refer to the amount payable under section 160ZO of the Income Tax Assessment Act 1936 (ITAA). Eligible part is defined as the as the proportion of capital gain that is eligible income for Division 6AA of the ITAA (i.e. the eligible income of certain minors).

Reduced taxable income refers to the taxable income other than any capital gains component.
Clause 4 will amend Schedule 19 of the Principal Act which deals with the taxation of most individuals for 1985-86 and later years. Where the taxpayers income includes a capital gain, the rate of tax is to be calculated in accordance with the formula $\frac{A + B}{C}$ where:

'A' represents the amount of tax payable on the reduced taxable income.

'B' represents five times the difference between the tax payable on the reduced taxable income plus 20% of the capital gain, and the amount represented by A; and

'C' represents the total taxable income.

Proposed new clause 3 of Schedule 19 will apply basically the same formula to incomes subject to primary producer averaging provisions.

Sub-clauses 4(c) and 4(d) of the Bill will apply the formula to non-resident individuals.

Schedule 21 of the Principal Act, which applies to recouped depreciation, leave premium and certain income of authors and inventors, will be amended by clause 5 to incorporate the formula, though the reduced notional income will be used rather than reduced taxable income in component B.

Where a minor earns income for the purposes of Division 6AA of the ITAA and that income exceeds $416 dollars and includes a capital gains component, the formula contained in clause 6 will be used. In this formula the following components are used:

the tax payable if there was no capital gains component;

the tax payable on capital gains other than eligible capital gains;
the tax payable on the reduced share (i.e. any entitlement as a beneficiary less any capital component) plus 20% of the non-eligible capital gains or 46% of the eligible capital gains, whichever is the greater; and

the total taxable income.

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