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No. 13 2001–02

Taxation Laws Amendment (Changes for Senior
Australians) Bill 2001

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I N F O R M A T I O N A N D R E S E A R C H S E R V I C E S

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No. 13 2001-02

Taxation Laws Amendment (Changes for Senior
Australians) Bill 2001

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1 August 2001

Contents

Purpose	1
Background	1
A Rebate not a Tax Threshold	2
Who is a ‘senior Australian’?	2
Main Provisions	3
Amendments to the <i>Income Tax Assessment Act 1936</i>	3
Amendments to the <i>Medicare Levy Act 1986</i>	4
Amendments to the <i>Income Tax Assessment Act 1997</i>	4
Endnotes	5

Taxation Laws Amendment (Changes for Senior Australians) Bill 2001

Date Introduced: 22 May 2001

House: House of Representatives

Portfolio: Treasury

Commencement: Royal Assent

Purpose

To give effect to measures announced in the 2001-2002 Budget by:

- amending the *Income Tax Assessment Act 1936* to enable an increase in the tax rebate available to senior Australians to be implemented by regulation
- amending the *Medicare Levy Act 1986* to ensure that senior Australians who are entitled to the increased rebates as a result of this Bill do not pay the Medicare levy if their taxable income is less than \$20 000, and
- amending the *Income Tax Assessment Act 1997* to exempt the one-off \$300 payment made to senior Australians.

Background

The 2001-2002 Budget provided a number of benefits to Australians of aged pension age (senior Australians). These included:

- an increase in the low income aged persons rebate and the pensioner rebate, which effectively lifts the income that an eligible single person of aged pension age can earn before paying tax to \$20 000
- a one-off \$300 payment to aged pension recipients and single people of pension age earning less than \$20 000,¹ and
- easier access to the Commonwealth Seniors Health Card, which gives holders cheap pharmaceuticals and a \$17.20 quarterly telephone allowance.

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The Treasurer, Hon Peter Costello, said in his budget speech that the measures were both affordable and good for the economy, and ‘most of all, our older Australians deserve it’.² However, in the days following the speech, the measures generated some confusion and debate in the media about who would benefit and who misses out.³

A Rebate not a Tax Threshold

The Treasurer said in his budget speech that:

The increase I am announcing tonight will mean that in the current financial year qualifying single self-funded retirees and age pensioners will have an effective tax free threshold of \$20,000. They will pay no income tax unless their income (including the pension) exceeds that amount.

The effective tax free threshold for a couple on equal income will be lifted to \$32,612. Qualifying couples will pay no income tax until their combined income exceeds that amount.⁴

A number of commentators appear to have taken this to mean that the individuals in question would be able to earn their first \$20 000 of income tax-free.⁵ This is not the case because the taxation measure to be facilitated by this Bill is structured as a tax offset or rebate, rather than as a rise in the tax-free threshold. What the Treasurer announced was an increase in the low-income aged person’s rebate. Individuals of aged pension age who are classified as low-income earners will receive a tax offset, or rebate, of \$2,230. (They will also receive the \$150 low-income rebate that all low-income earners, regardless of age, are entitled to, so their total rebate will be \$2,380.) However, other self-funded retirees who are not low-income earners may not benefit. The low-income aged person’s rebate is reduced by 12.5 cents for every dollar of income a retiree earns above \$20 000. By the time a retiree earns \$37 840 of taxable income, the rebate is reduced to nil, and a retiree in this situation will not receive the first \$20 000 tax-free.

Who is a ‘senior Australian’?

The terms ‘senior Australian’ and ‘self-funded retiree’ are generally used in a fairly loose way and are not defined in legislation. Pension age in Australia is 65 for men and between 60 and 65 for women, depending on when they were born. The *Social Security Act 1991* does not set the age of a self-funded retiree, although the Government has, on occasions, defined retirees for other forms of compensation payments as those over 55. One recent example is the self-funded retirees supplementary bonus which was extended to people over the age of 55 years on 1 July 2000, provided that they met certain qualifying conditions.⁶

Initial commentary on the Government’s budget measures suggested that the tax benefits might go to all self-funded retirees. The Opposition accused the Government of

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misleading retirees by implying they would all receive the benefits, when on the Government's own definition, only about 35 per cent of retirees would gain the rebate.⁷ The Prime Minister, Hon John Howard, was reported as dismissing the objections and saying that the 'normal understanding' of the expression 'self-funded retiree' is of a person 'who is self-supporting and who is of pension age or beyond'.⁸

Main Provisions

Amendments to the *Income Tax Assessment Act 1936*

Item 1 of Schedule 1 defines who is eligible to receive a low income rebate. To be eligible

- a man must be aged 65 years or more, and a woman aged 61.5 years or more, OR
- a veteran receiving a service pension or a war widow or widower receiving an income support supplement from the Department of Veterans' Affairs, and aged 60 years or more if a man, or 56.5 years or more if a woman.

In addition, to be eligible

- an individual must have been an Australian resident for 10 years or have a residence exemption for age pension purposes (an example might be a refugee who has been an Australian resident for less than 10 years), AND
- have a level of taxable income specified in regulations (**item 2**).
- People who are in gaol are not eligible.

The effect of the amendment included in **item 2** of **Schedule 1** is that all low income aged persons, whether they are pensioners or self-funded retirees, will be covered by the one rebate.

Item 4 of **Schedule 1** amends subsection 160AAAB(2). The amendment has the effect of providing that trustees of beneficiaries who receive a service pension, allowance or benefit from the Department of Veterans' Affairs and who have reached pension age, are entitled to the same rebate as trustees of a beneficiary who is a low income aged person under the *Social Security Act 1991*. **Item 5** provides that the levels of taxable income where a trustee qualifies for a rebate under section 160AAAB will be specified in regulations.

Item 11 provides that the amendments made by **Schedule 1** will apply to the 2000-2001 year of income and to all subsequent years of income.

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Amendments to the *Medicare Levy Act 1986*

Schedule 2 amends the *Medicare Levy Act 1986* to raise the Medicare levy low income thresholds for senior Australians and certain pensioners who receive the Commonwealth pension and are under aged pension age. The effect of the measure is to align the Medicare low income threshold with the low income aged person's rebate of \$20 000.

The Bill introduces two new definitions into subsection 3(1) of the *Medicare Levy Act 1986*. The first is introduced by **item 1**. The '*phase-in limit*' sets the limit above which the Medicare levy is payable at the full rate. It is:

- \$21 621 for a person entitled to a low income aged person's rebate or a pension rebate, where the person has reached aged pension age
- \$17 264 for a person below aged pension age and entitled to a pension rebate, or
- \$14 926 for all other people.

Item 2 defines a '*threshold amount*' which set the limit above which the Medicare levy first becomes payable at the reduced rate. This is:

- \$20 000 for a person entitled to a low income aged person's rebate or a pension rebate, where the person has reached aged pension age
- \$15 970 for a person below aged pension age and entitled to a pension rebate, or
- \$13 807 for all other people.

Item 8 provides that the amendments made by **Schedule 2** will apply to assessments for the 2000-2001 income year and later income years.

Amendments to the *Income Tax Assessment Act 1997*

Schedule 3 amends the *Income Tax Assessment Act 1997* to exempt from income tax the one-off payment of \$300 made to all senior Australians and announced in the 2001-2002 Budget (**item 1**). **Item 2** provides that the amendment made by **Schedule 3** will apply to the 2000-2001 year of income and to later years of income.

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Endnotes

- 1 For more information on this measure see the Bills Digest prepared on the Family and Community Services Legislation Amendment (One-off Payment to the Aged) Bill 2001 by Ian Ireland, [Bills Digest](#), no. 134, 2000–01.
- 2 Costello, Hon Peter, Second Reading Speech, Appropriation Bill (No. 1) 2001-2001, House of Representatives, *Debates*, 22 May 2001, p. 25755.
- 3 See for example: Annette Sampson, ‘Budget 2001: Retirees: Self-funded become the big winners’, *Sydney Morning Herald*, 23 May 2001; Tom Allard, ‘Budget 2001: Older Australia: Tax break just the medicine’, *Sydney Morning Herald*, 23 May 2001; Sid Marris, ‘PM defends restrictions on retiree rebate’, *Australian*, 25 May 2001; Simon Hoyle, ‘Tax-free ‘threshold’ not such a great ride for retirees’, *Australian Financial Review*, 26 May 2001.
- 4 Costello, Hon Peter, op cit., p. 25755.
- 5 For example: “The Budget was loaded with handouts for self-funded retirees, who can now earn up to \$20,000 a year tax-free – or up to \$32,612 for couples”, ‘Nothing in it for me: a worker’s lament’, *Sydney Morning Herald*, 25 May 2001.
- 6 *A New Tax System (Bonuses for Older Australians) Act 1999*.
- 7 Marris, Sid, ‘PM defends restrictions on retiree rebate’, *Australian*, 25 May 2001
- 8 *ibid.*

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