



INFORMATION, ANALYSIS  
AND ADVICE FOR THE PARLIAMENT

INFORMATION AND RESEARCH SERVICES

Bills Digest  
No. 163 2002–03

## Taxation Laws Amendment (Personal Income Tax Reduction) Bill 2003

ISSN 1328-8091

© Copyright Commonwealth of Australia 2003

Except to the extent of the uses permitted under the *Copyright Act 1968*, no part of this publication may be reproduced or transmitted in any form or by any means including information storage and retrieval systems, without the prior written consent of the Department of the Parliamentary Library, other than by Senators and Members of the Australian Parliament in the course of their official duties.

This paper has been prepared for general distribution to Senators and Members of the Australian Parliament. While great care is taken to ensure that the paper is accurate and balanced, the paper is written using information publicly available at the time of production. The views expressed are those of the author and should not be attributed to the Information and Research Services (IRS). Advice on legislation or legal policy issues contained in this paper is provided for use in parliamentary debate and for related parliamentary purposes. This paper is not professional legal opinion. Readers are reminded that the paper is not an official parliamentary or Australian government document. IRS staff are available to discuss the paper's contents with Senators and Members and their staff but not with members of the public.

## **Inquiries**

Members, Senators and Parliamentary staff can obtain further information from the Information and Research Services on (02) 6277 2646.

Information and Research Services publications are available on the ParlInfo database. On the Internet the Department of the Parliamentary Library can be found at:  
<http://www.aph.gov.au/library/>

Published by the Department of the Parliamentary Library, 2003

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

Bills Digest  
No. 163 2002-03

Taxation Laws Amendment (Personal Income Tax  
Reduction) Bill 2003

Peter Prince  
Law and Bills Digest Group  
2 June 2003

# Contents

Purpose . . . . .	1
Background . . . . .	1
Media Reaction . . . . .	2
Political Reaction . . . . .	3
Main Provisions . . . . .	4
Increase in the low income tax offset . . . . .	4
Increase in personal income tax thresholds . . . . .	4
Increase in the Medicare levy threshold for senior Australians . . . . .	4
Endnotes . . . . .	5

# Taxation Laws Amendment (Personal Income Tax Reduction) Bill 2003

**Date Introduced:** 29 May 2003

**House:** House of Representatives

**Portfolio:** Treasury

**Commencement:** Commences on Royal Assent, applies to tax assessments from 2003-2004 onwards

## Purpose

To amend:

- the *Income Tax Assessment Act 1936* to increase the low income tax offset and the threshold at which this offset begins to phase out;
- the *Income Tax Rates Act 1986* to increase personal income tax thresholds, and
- the *Medicare Levy Act 1986* to increase the income threshold for taxpayers eligible for the senior Australians tax offset.

## Background

The amendments in the Bill give effect to the personal income tax cuts announced by the Government on 13 May 2003 in the 2003-2004 Federal Budget.

In his Second Reading Speech, the Treasurer, Mr Peter Costello MP, said that the Bill will cut personal income tax for 9 million Australians, with tax reductions amounting to \$2.4 billion in 2003-04 and a total of \$10.7 billion over the next four years. According to the Treasurer, by increasing thresholds for the various levels of income tax and providing a more generous low income tax offset, low income earners will receive the largest proportional reductions in income tax.

Recipients of the senior Australians tax offset will be able to earn up to an additional \$500 annual income before they have an income tax liability. The Medicare levy thresholds for

### **Warning:**

*This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.*

*This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.*

senior Australians will also be increased to ensure that they do not pay the Medicare levy until they begin to incur an income tax liability.<sup>1</sup>

## Media Reaction

The *Australian Financial Review* noted that:

the cuts are small – about \$4 a week for the average income earner.... Although small in weekly terms, the move will remove some of the pressure arising from the Labor Party's recent calls for the government to do something about bracket creep.<sup>2</sup>

Similarly, an editorial in *The Age* commented that:

In themselves, the cuts are modest: PAYG taxpayers earning \$35,000 a year can expect to find an extra \$4 a week in their pay packets and those on \$55,000 can expect \$8.60. But the cuts, like the Medicare changes, are tightly targeted and intended to give the most benefit to low and middle-income earners. This is commendable, and may well garner the Government increased support as it embarks on the formidable task of selling its reforms of Medicare and tertiary education to a hostile Senate and to the nation.<sup>3</sup>

According to *The Australian*, 'the lowering of income tax, alongside the projected reform of international tax on companies, are strong features of this budget.' *The Australian* noted, however, that:

Now what we need is for the Government to have the courage to make inflation-indexed adjustments to the tax scales every year, which will automatically eliminate any bracket creep. And, of course, we need some relief in tax rates as well as thresholds - not just for the "battlers" who have dutifully switched their allegiance to John Howard, but for those paying an extortionate 47 cents in the dollar.<sup>4</sup>

One commentator stated that:

While critics are making fun of the federal government's mini-tax cut, there are some people to whom it could make quite a difference. For self-funded retirees in a position to utilise a superannuation income stream like an allocated pension, Budget 2003 has boosted their capacity to earn tax-free income by between 3 and 4 per cent.<sup>5</sup>

### **Warning:**

*This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.*

*This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.*

## Political Reaction

In his Budget Reply speech, the Leader of the Opposition, Mr Simon Crean MP, stated that:

The highest taxing government in our history has given you the smallest tax cut in our history. The Prime Minister and the Treasurer think that Australians earning between \$30,000 and \$50,000 a year are affluent and that they only need another \$4 a week. But while they give with one hand they slug you with the other: up to \$50 to go to the doctor, \$32 per week extra in HECS debt and \$125 per week to pay off your new student loan.

Mr Speaker, Australians have earned the tax cut in the budget. Labor will pass it on. But Australians deserve more from their government. Four dollars on its own, set against the massive cost increases for health and education outlined in this budget, is miserly and it is a sleight of hand. A Crean Labor government will return bracket creep through both tax cuts and better services.<sup>6</sup>

The leader of the Australian Democrats, Senator Bartlett, said that:

the Democrats would prefer the tax cuts – which produce a miserly \$4 a week for many Australian workers – to be more fair. Under the Democrats' proposal – a plan that involves increasing the tax-free threshold from \$6000 to \$7500 – all Australians would receive a \$255 tax saving. There's a big difference to someone on \$20,000 a year receiving \$85 a year in tax cuts under the Government's tax-cut plan, and \$255 under ours.<sup>7</sup>

According to the Greens member for Cunningham, Michael Organ MP:

The best one can say is that the government is giving back some of the money it has taken from taxpayers over the last seven Budgets. This is not tax reform in any meaningful way for ordinary Australians, it is simply throwing away two and a quarter billion dollars which would be better invested in welfare, aged care, Medicare, job creation, or higher education.<sup>8</sup>

A media release from Peter Andren, the independent member for Calare, said that 'low and middle-income families should save the extra money they get from tax breaks in this years budget to pay the increasing gap fees opened up by changes to Medicare'. Mr Andren remarked that:

Families earning between thirty and fifty thousand dollars stand to gain \$208 a year with the increases in the tax thresholds, but I wonder how much of this could be eaten away by upward pressure in doctors 'gap' fees under the proposed Medicare changes.<sup>9</sup>

### **Warning:**

*This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.*

*This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.*

## Main Provisions

### Increase in the low income tax offset

**Items 1-3 in Schedule 1** amend **section 159N of the *Income Tax Assessment Act 1936***. **Item 1** provides that if a taxpayer's taxable income is 'less than \$27 475' (rather than the current \$24 450) the taxpayer will be entitled to a rebate. **Item 2** increases the maximum amount of this rebate from \$150 to \$235. **Item 3** increases the level at which the maximum rebate is payable from \$20 700 to \$21 600. The amount of the rebate is reduced by 4 cents for every \$1 of income above \$21 600.

### Increase in personal income tax thresholds

**Items 4 and 5 of Schedule 1** amend **Schedule 7 (Part 1 Clause 1) of the *Income Tax Rates Act 1986*** by increasing the income thresholds for the various rates of income tax.

**Item 4** amends the tax thresholds for resident taxpayers applicable for the 2003-2004 income year onwards as follows:

<i>Current tax thresholds</i>	<i>New tax thresholds</i>	<i>Tax rate</i>
<i>Income range (\$)</i>	<i>Income range (\$)</i>	<i>(%)</i>
0 – 6,000	0 – 6,000	0
6,001 – 20,000	6,001 – 21,600	17
20,001 – 50,000	21,601 – 52,000	30
50,001 – 60,000	52,001 – 62,500	42
60,001 +	62,501 +	47

**Item 5** makes corresponding changes to the tax thresholds for non-resident taxpayers.

### Increase in the Medicare levy threshold for senior Australians

**Items 8 and 9 of Schedule 1** amend the ***Medicare Levy Act 1986*** to ensure that senior Australians do not pay the Medicare levy until they are liable for income tax under the new provisions proposed in this Bill.

Under section 160AAAA of the *Income Tax Assessment Act 1936* senior Australians receive a 'tax rebate for low income aged persons'. Together with the change in the \$20 000 tax threshold to \$21 600 and the increase in the low income tax offset, this rebate means single seniors pay no tax up to \$20 500 for singles and \$33 612 for couples.

#### **Warning:**

*This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.*

*This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.*



**Item 9** amends **subsection 3(1) of the Medicare Levy Act** by increasing the threshold at which senior singles begin paying the Medicare Levy to \$20 500. There is no change to the 'senior family threshold' of \$31 729 which 'is already sufficient to ensure that senior couples do not incur a Medicare levy until they incur an income tax liability'.<sup>10</sup>

## Endnotes

---

- 1 Second Reading Speech, House Hansard, 29 May 2003, p. 14922.
- 2 *The Australian Financial Review* 14 May 2003, Budget Supplement p. 13.
- 3 *The Age*, 14 May 2003.
- 4 *The Australian*, 14 May 2003, p. 24.
- 5 John Wasiliev, 'Tax cuts no joke for self-funded retirees', *Australian Financial Review*, 17 May 2003, p. 28.
- 6 House Hansard, 15 May 2003, p. 14497.
- 7 Senator Andrew Bartlett, 'Budget Response', Media Release 03/326, 15 May 2003.
- 8 The Greens, Media Release, 13 May 2003.
- 9 Media Release, 13 May 2003.
- 10 Explanatory Memorandum, p. 6.

**Warning:**

*This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.*

*This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.*