Tax Laws Amendment (2008 Measures No. 2) Bill 2008

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Economics Section

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Tax Laws Amendment (2008 Measures No. 2) Bill 2008

Date introduced: 20 March 2008
House: House of Representatives
Portfolio: Treasury
Commencement: Royal Assent for most Schedules.

Links: The relevant links to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at http://www.aph.gov.au/bills/. When Bills have been passed they can be found at ComLaw, which is at http://www.comlaw.gov.au/.

Purpose

This Bill makes a number of changes to taxation legislation. As each Schedule contains a separate set of amendments they will be outlined in separate following sections.

Overall financial implications

The following table sets out the overall financial implications of the measures contained in this Bill.

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Source: Explanatory Memorandum

Schedule 1 – Amounts misappropriated by an employee or agent

Schedule 1 amends the Income Tax Assessment Act 1997 (ITAA97) so that losses due to misappropriation of funds by an agent or an employee, following the disposal of an asset, can be assessed as a deduction from income arising from that disposal.

Background

Capital gains arising from the sale of an asset are assessed for taxation purposes under either the capital gains tax (CGT) provisions or the uniform capital allowance provisions.

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What are the ‘uniform capital allowance provisions’?

Under the uniform capital allowance system (ITAA97 Div 40), deductions are available for the decline in value of a business’ deprecating assets. Furthermore, specified expenditure (e.g., software expenditure or low-cost deprecating assets) is pooled and deductions are allowed for the decline in value of that pool. In a number of cases, certain capital expenditure is deductible immediately (e.g., mining exploration or prospecting expenditure, land-care operations, environmental activities, mining site rehabilitation expenditure). In the remaining cases, the expenditure is deductible over the life of the asset (e.g., in the case of deprecating assets, including primary production assets) or over the life of the project to which the expenditure relates (e.g., mining and other infrastructure projects). Simplified arrangements apply for small business entities. The uniform capital allowance system applies to both deprecating and non-deprecating asset expenditure incurred on or after 1 July 2001.¹

Capital Gains Tax (CGT)

The uniform capital allowance provisions apply only to business operations and allow ongoing deductions for capital expenditure. However, the CGT provisions apply to situations where an asset is disposed of. They do not provide ongoing deductions to the taxpayer over the life of the asset.

Why is this change needed?

The current law does not recognise amounts that are misappropriated by an employee or agent following the disposal of an asset if the affected income is not included in the assessable income of the taxpayer under the capital gains tax provisions. It is appropriate that these amounts reduce the termination value of an asset whose disposal is assessed under the capital gains tax provisions. Further, under the uniform capital allowance provisions, the amount of income misappropriated is included in working out the tax consequences and it is appropriate that the amount misappropriated also is recognised as a loss when that malfeasance occurs.

Basis of policy commitment

This measure was announced on 8 May 2007 as part of the 2007–2008 Federal Budget.²


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Position of significant interest groups/press commentary

As at the date of writing there has been little comment on this proposed change by either the media or professional bodies.

Pros and cons

The proposed changes will recognise a loss arising from an employee’s or agent’s dishonesty. These are real losses and it is fitting that they are recognised for taxation purposes.

Coalition /Australian Democrat/Greens/Family First policy position/commitments

As at the date of writing there has been little comment on this proposed change. However, as this proposal was included in the previous government’s budget the Coalition can be expected to support it.

Financial implications

The Explanatory Memorandum notes that the financial impact of the proposed charges are unquantifiable, but are expected to be negligible.³

Main provisions

Item 3 of Schedule 1 inserts new section 25-47 into the ITAA97. This new section allows a deduction for an amount misappropriated when a ‘balancing adjustment event’ occurs for a depreciable asset under the uniform capital allowance rules.

What is a balancing adjustment event?

A balancing adjustment event occurs when the taxpayer disposes of a depreciable asset.⁴ If the asset is a low-value asset for which an immediate deduction was obtained, the taxable purpose proportion of the termination value (broadly, the disposal proceeds) is included in the taxpayer's assessable income. If it is a pooled asset, the taxable purpose proportion of the asset's termination value is subtracted from the pool.⁵

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4. See ITAA97 section 40-295.
5. CCH, Australian Master Tax Guide 2008, Topic 7-540 Simplified depreciation for small business,

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The ‘taxable purpose proportion’ of an asset is the extent to which the asset has been used for the purposes of generating tax assessable income. The deduction available under **new section 25-47** is reduced if the balancing adjustment amount is also reduced because the asset has also been used for purposes other than producing a tax assessable income.

**Item 7** amends **section 104-240** of the ITAA97 so that the termination value, under the capital gains tax provisions, of a depreciating asset is reduced by the amount misappropriated.

What is a termination value?

The termination value for a depreciating asset is either the amount that the taxpayer has received, or is taken to have received, under the balancing adjustment event or, in certain circumstances, the amount attributed under the termination value table in section 40-300 ITAA97. The termination value does not include amounts of ordinary or statutory income. The termination value of an asset excludes any Goods and Services Tax component. From 1 July 2005, selling expenses do not reduce the termination value of an asset, but rather are included in the second element of cost of the asset.\(^6\)

If the taxpayer later receives an amount in lieu of the amount misappropriated, the termination value of the asset has to be increased. In these circumstances the taxpayer will have to submit an amended tax return.

**Item 19** applies these proposed amendments to amounts misappropriated in the 2007-2008 and later income years.

Comment

The second reading speech to this Bill noted that these proposed changes addressed a technical inconsistency.\(^7\) That is so, but as a matter of equity the proposed amendments in this schedule are worth serious consideration.

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Schedule 2 – Extending the superannuation guarantee late payment offset

Schedule 2 of the Bill amends the Superannuation Guarantee (Administration) Act 1992 (SGAA) to further extend the period within which an employer can make the required Superannuation Guarantee (SG) contributions after the formal due date, and still be eligible to use the SG late payment offset. Effectively, this means that employers who make a very late SG payment will not be required to pay twice the required amount.

Background

The superannuation guarantee (SG) scheme, administered by the Australian Taxation Office (ATO), requires employers to provide a prescribed minimum level of superannuation support in each quarter for their employees. From 1 July 2008 this prescribed minimum level is 9 per cent of an employee’s ordinary time earnings. If the employer fails to make these payments, the amount not paid is known as an SG shortfall.

Employer’s payments of their SG obligations are required to be made within a 28 day period after the end of the relevant quarter. This day is the ‘due date’.

Employers are required to self-assess their liability to the SG charge, and make payment of the charge, if any, to the ATO by the due date each quarter. An employer who has an SG shortfall for a quarter must also lodge an SG statement by the due date.

Employers who fail to provide the prescribed minimum level of SG payments by the due date are liable to pay to the ATO an SG charge, equivalent to the amount of the shortfall plus an interest and an administration component. The shortfall and interest component of the charge is distributed by the ATO for the benefit of those employees in respect of whom the charge was paid.

From 1 January 2006 employers who make contributions to a superannuation fund after the due date, that is after the 28th day following the end of the relevant quarter, can offset the late payment against the components of the SG charge liability that relate to the relevant employee's entitlements. To benefit from the offsetting rule, the employer's late contributions to employee’s superannuation funds must be made before the end of the 28th day of the second month after the end of the quarter. In their SG statement the employer must elect to have these provisions applied to the relevant SG contribution.

Double payment of SG amounts

An employer who fails to make the required SG payment after the due date potentially is liable to pay the required SG contributions twice. This occurs where the employer makes a late payment into the employee’s superannuation fund after the end of the second 28 day period, and then is liable to pay the ATO the relevant SG charge.

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Basis of policy commitment

This measure had been announced by the Hon. Peter Dutton, then Minister for Finance and Assistant Treasurer, on 2 October 2007. No legislation was introduced to implement the proposal prior to the calling of the 2007 election. The current Minister for Superannuation, the Hon Nick Sherry announced the measure on the day of the introduction of the Bill.

Position of significant interest groups/press commentary

The Australian Chamber of Commerce and Industry (ACCI) has welcomed this proposed change.

When the change was first announced it was subject to generally favourable press reporting.

Pros and cons

The ending of the possibility of employers having to make twice the required payment of an SG charge will reduce their potential superannuation costs. This will be especially helpful to businesses that are in financial difficulty and are still meeting their SG obligations, albeit after the end of the second 28 day period.

However, the removal of this formal requirement also lessens the incentive for business to make the required SG payments on time. Potentially the less time SG contributions are in an employee’s superannuation fund the less investment earnings those contributions can accumulate.

Theoretically, the interest component of the above mentioned SG charge will compensate an employee for this potential loss of investment earnings.

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Coalition/Australian Democrat/Greens/Family First policy position/commitments

As at the date of writing there has been little comment on this proposed change. However, as this proposal was first announced by the previous government the Coalition can be expected to support it.

Financial implications

The Explanatory Memorandum states that this proposal will have a minimal financial impact.12

Main provisions

Item 1 of Schedule 2 amends paragraph 23A (1) (a) SGAA so that an employer may benefit from the late SG contributions offset if they make a late contribution after the end of the first 28 day period (that is, after the due date).

Under current law, to make use of the SG contributions offset the employer had to make the contributions to the employee’s superannuation fund before the end of the second 28 day period. This requirement will be removed by the above proposed amendment.

Item 8 applies the proposed amendments in this schedule to any unpaid SG amounts as at the date of commencement. As noted earlier, this will be the date of Royal Assent.

Schedule 3 Capital gains tax market value substitution rule for interests in certain companies and trusts

Schedule 3 amends the ITAA97 so that the market value substitution rule in section 116-30 ITAA97 does not apply when CGT event C2 occurs to interests in certain widely held companies and trusts.

Background

What is CGT event C2?

A CGT event C2 happens if a taxpayer's ownership of an intangible CGT asset ends because it is redeemed, cancelled, released, discharged, satisfied, abandoned, surrendered, surrendered,


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forfeited or expired. For example, the expiry of a lease or the expiry of an option contract gives rise to a CGT event C2.  

Other examples of a CGT event C2 are if there is a redemption of units in a unit trust, but there is no acquisition of the units by the trustee (because the units are extinguished). Similarly, a CGT event C2 happens when a company is liquidated or wound up.

What is the market value substitution rule?

If a taxpayer does not receive any capital proceeds from a CGT event, the market value of the relevant CGT asset is taken to be the amount of the capital proceeds under section 116-30 ITAA97. This market value is worked out as at the time of the CGT event.  

The Explanatory Memorandum notes that this rule is designed to prevent taxpayers reducing capital gains or increasing capital losses by manipulating the capital proceeds arising from a CGT event. Generally, this would occur where the parities in the transaction were not dealing with each other at arms length.

Why is this change needed?

Currently there is only a limited exemption from the market substitution rule where a CGT event C2 occurs. However, most other CGT events are exempt from the market substitution rule where the parties to the transaction are dealing with each other on an arms length basis.

Where a CGT event C2 occurs as a result of a transaction on an arms length basis, and the limited exceptions noted above do not apply, the outcome can be the unwarranted payment of CGT, or the unwarranted denial of a capital loss.

**Basis of policy commitment**

The proposed change was announced at the time of the legislation on 20 March 2008 by the Treasurer.

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It also was announced by the previous Government by the then Minister for Revenue and Assistant Treasurer on 16 October 2007.\textsuperscript{18} No legislation was introduced before the prorogation of Parliament.

\textbf{Pros and cons}

The proposed measure allows CGT to be levied on actual gains in situations where an arms length transaction results in a CGT C2 event occurring. Further, it allows the recognition of capital losses in the same circumstances.

\textbf{Coalition/Australian Democrat/Greens/Family First policy position/commitments}

Again, as at the date of writing there has been little comment on this proposed change. However, as this proposal was first announced by the previous government the Coalition can be expected to support it.

\textbf{Financial implications}

The Explanatory Memorandum states that the financial impact of this measure will be unquantifiable, but insignificant.\textsuperscript{19}

\textbf{Main provisions}

\textbf{Item 1} of Schedule 3 adds \textbf{new subsection 116-30(2B)} to the ITAA97. The effect of this amendment is that the market substitution rule does not apply where:

- CGT event C2 occurs, and
- the asset in question is either a share in a company with at least 300 members or a unit in a unit trust with at least 300 unit holders, and
- the entity undertaking the transaction is not a company or trust covered by \textbf{new section 116-35}

\textbf{Item 2} defines what the term ‘concentrated ownership’ means in relation to the application of the ‘market substitution’ rule outlined above.\textsuperscript{20} It achieves this by adding \textbf{new section}

\textsuperscript{18} The Hon. Peter Dutton MP, Minister for Revenue and Assistant Treasurer, ‘Changes to market value substitution rule for widely held entities’, \textit{media release}, No 128, Parliament House, Canberra, 16 October 2007.

\textsuperscript{19} Explanatory Memorandum, p. 4.

\textsuperscript{20} Explanatory Memorandum, pp. 29–30.
116-35 to the ITAA97. A company or trust meeting the criteria in this section cannot take advantage of the exemption from market substitution rule in item 1 above.

Item 3 applies these amendments to CGT events that occur after the start of the 2006–2007 income year.

Schedule 4 Endeavour Research Fellowships and Executive Awards

This Schedule exempts Endeavour Executive Awards and Endeavour Research Fellowships from income tax for all recipients in respect of amounts received on or after 1 July 2007.

Background

What is an Endeavour Research Fellowship?

These research fellowships enable leading researchers and students, from Australia and a range of countries, to study and research in Australia. Australian students are also funded to study overseas. This study can contribute to either a degree from an Australian institution or from a recognised overseas institution. The length of the scholarship ranges from 4 months to 3 years, depending on the particular award. They are worth between a maximum of $25,000 (for a short term scholarship) to a maximum of $160,000 (for a long term scholarship) depending on the specific award. The Department of Education, Employment and Workplace Relations administers the program and it is funded by the Commonwealth Government.

What is an Endeavour Executive Award?

The Endeavour Executive Awards provide professional development opportunities (e.g. intensive management training, peer-to-peer learning, short-term training, leadership and/or executive management training) for high achievers in business, industry, education or government. The awards focus on building skills and knowledge through a host work environment rather than through formal enrolment in a study programme at a host institution and are not intended to fund direct academic research. They are awarded to applicants with a bachelor’s degree or higher, run from 1 to 4 months and are worth up to


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$25 000. Again, the Department of Education, Employment and Workplace Relations administers this federally funded program.\(^{22}\)

**Current taxation treatment of scholarships**

Under **section 51-10** ITAA97 there is a general exemption for scholarships, bursaries or other educational allowances derived by a student (of any age) receiving full-time education at a school, college or university. The recipients must be engaged in full-time study to receive this tax exemption.

Scholarships, bursaries or other educational allowances that are provided by the Commonwealth to foreign students and trainees who are in Australia solely for study or training are also income tax exempt under **section 842-105** ITAA97.

**Tax treatment of Endeavour Award Program Scholarships**

While some Endeavour Award program scholarships are exempt from tax because their recipients are studying full time, others are not fully tax exempt because the recipients are classed as only studying part time.

**Basis of policy commitment**

This measure was announced by the previous government in the Mid-Year Economic and Fiscal Outlook for 2007–2008.\(^{23}\) This proposed change was also announced at the time of the legislation on 20 March 2008 by the Treasurer.\(^{24}\)

**Pros and cons**

The proposed exemption of all Endeavour Program Award scholarships from income tax is consistent with the general treatment of such payments in Australia.

**Coalition/Australian Democrat/Greens/Family First policy position/commitments**

Again, as at the date of writing there has been little comment on this proposed change. However, as this proposal was first announced by the previous government the Coalition can be expected to support it.

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Financial implications

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</table>

Source: Explanatory Memorandum

Main provisions

**Item 4** of Schedule 4 amends the table in section 51-10 ITAA97 so that recipients of either a research fellowship under the Endeavour Awards or an Endeavour Executive Fellowship receive tax exempt income from these sources.

**Item 5** applies these changes to amounts received on or after the commencement of the 2007–2008 income year.

Schedule 5 Early completion bonuses for apprentices

**Schedule 5** amends the ITAA97 so that the first $1000 of an early completion bonus paid to apprentices by State and Territory governments are not subject to income tax. This exemption will only be available for specified apprenticeships completed within specified timeframes.

Background

What is an ‘early completion bonus’?

The Queensland government pays a bonus to apprentices who have completed their training contract in an identified skills shortage occupation on or after 1 January 2007 - at least six months early if they are a full-time apprentice or 12 months early if they are a part-time apprentice.  

How are they taxed?

When received these payments are included in a person’s tax assessable income.

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Basis of policy commitment

The Explanatory Memoranda notes that this proposed measure was announced in the ‘Pre-Election Economic and Fiscal Outlook’.

However, that document mentions only the cost of a tax exemption for the bonuses paid under the Queensland scheme mentioned above in a table. No separate announcement of this proposed measure appears to be made in this particular document.

Further, the announcement (such as it is) refers only to the Queensland early completion bonus scheme. The proposed measure applies the same tax treatment of the bonuses across all state and territory early completion bonus schemes.

Position of significant interest groups/press commentary

As of the date of writing little comment has been made on this particular proposal.

Pros and cons

The proposal will encourage appetencies to quickly complete their formal training. However it will have some cost implications.

The proposed measure does not appear to apply to bonuses paid upon the quick completion of traineeships.

Coalition/Australian Democrat/Greens/Family First policy position/commitments

As mentioned above in relation to other measures, as at the date of writing there has been little comment on this proposed change. However, as this proposal was first announced by the previous government the Coalition can be expected to support it.

Financial implications

The following table illustrates the expected financial implications of this particular proposal.

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Source: Explanatory Memorandum


27. Secretary to the Treasury and the Secretary to the Department of Finance and Administration, *Pre-Election Economic and Fiscal Outlook 2007*, 23 October 2007, p. 4.

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Key Point

Currently, Queensland appears to be the only state to pay an early completion bonus directly to apprentices and trainees. The availability of this tax deduction may encourage other states and territories to also provide these payments to apprentices and trainees.

Main provisions

Item 2 of Schedule 5 amends section 51-10 ITAA97 so that the first $1000 of an early completion bonus specified in regulations is exempt from income tax.

Item 3 inserts new section 51-42 into the ITAA97 so that only early completion bonus paid in respect of:

- a state or territory scheme specified in regulations
- for an occupation specified in regulations
- an apprenticeship for specified occupation completed within a timeframe also specified in regulations.

Item 4 applies this tax exemption to the relevant bonuses received on or after the start of the 2007–2008 income year.

Schedule 6 Deductible gift recipients

Schedule 6 amends the ITAA97 to update the list of Deductible Gift Recipients (DGRs) in the ITAA97. Among the list of organisations added to the list of DGRs by this Schedule are:

- World Youth Day 2008 Trust
- The Council for Jewish Community Security
- Wheelchairs for Kids Incorporated
- Memorials Development Committee Ltd
- AE2 Commemorative Foundation Ltd
- Ian Thorpe’s Foundation for Youth Limited, and
- the Amy Gillett Foundation.

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Background

What is a DGR?

A deductible gift recipient (DGR) is a fund or organisation that can receive tax deductible gifts.

To be a DGR an organisation has to be one of the following:

- included in the list of such organisations in Division 30 of the ITAA97
- fall within a category of organisations listed in Division 30 ITAA97
- be a prescribed private fund listed by name in the Income Tax Assessment Regulations 1997, or
- endorsed as a DGR by the Commissioner for Taxation.

To be entitled to DGR endorsement by the Commissioner, an organisation must:

- fall within a general DGR category in its own right, or operate a fund, authority or institution that falls into a general DGR category
- have an Australian business number
- maintain a gift fund, and
- be in Australia (with some exceptions). 28

The general categories of DGRs are:

- environmental organisations
- harm prevention charities
- disaster relief organisations
- overseas aid funds
- cultural organisations
- scholarship funds
- school building funds
- research organisations
- sports and recreation organisations

28. ATO, Gift fund requirements for deductible gift recipients, Fact Sheet, at  

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• industry, trade and design organisations
• defence organisations
• philanthropic trusts, and
• fire and emergency services organisations.\(^{29}\)

The above list is not exhaustive.

**Basis of policy commitment**

The addition of all the organisations listed in **Schedule 6** to the list of DGR’s has been previous announced on a number of occasions. The Explanatory Memorandum contains a list of these dates.\(^{30}\) Additions to the ITAA97 list of DGRs were collectively announced jointly by the Treasurer and the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs on 6 March 2008.\(^{31}\)

**Pros and cons**

These amendments to the list of DGRs facilitate the support of various causes. However, there is some cost to revenue flowing from these amendments.

**Coalition/Australian Democrat/Greens/Family First policy position/commitments**

As many of this Schedule’s additions to the list of DGRs were first announced by the previous government the Coalition can be expected to support these proposed additions.

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Financial implications

The following table illustrates the expected financial implications of this Schedule’s changes to the list of DGR’s in the ITAA97.

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Source: Explanatory Memorandum

Main provisions

**Items 1, 2, 4 to 10 and 12 to 20** add various organisations to the list of DGRs.

**Items 3, 7 and 11** extend the time period during which donations to various organisations to organisations already on the list qualify for a tax deduction.
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