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Tax Bonus for Working Australians Bill 2009 and Tax Bonus for Working Australians (Consequential Amendments) Bill 2009

Leslie Nielson
Economics Section

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Date introduced: 4 February 2009

House: House of Representatives

Portfolio: Treasury

Commencement: Royal Assent and the date on which the Tax Bonus for Working Australians Act 2009 commences, respectively.

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

The purpose of the Tax Bonus for Working Australians Bill 2009 (Bonus Bill) is to enable the payment of one-off amounts to those who lodge a tax return for the 2007–08 financial year prior to 30 June 2009, and, for that financial year, have an adjusted tax liability greater than nil and a taxable income of $100 000 or less.

The purpose of the Tax Bonus for Working Australians (Consequential Amendments) Bill 2009 (Consequential Bill) is to amend the:

- *Income Tax Assessment Act 1936* (ITAA 1936)
- *Income Tax Assessment Act 1997* (ITAA 1997)
- *Taxation Administration Act 1953* (TAA 1953)
- *Social Security Act 1991*(SSA 1991), and
- *Veteran's Entitlement Act 1986* (VEA 1986).

These amendments will ensure that the proposed tax bonus payments are not treated as 'taxable income' for the financial year in which they are received or 'income' for calculating social security or veteran's affairs entitlements.

Background

The general background to these Bills is contained in the Parliamentary Library's recent Bills Digest on the Appropriation (Nation Building and Jobs) Bill (No. 1) 2008–2009.[1]

Basis of policy commitment

These measures were announced in Government's updated Economic and Fiscal Outlook for 2008–2009 released on 3 February 2009.[2] These measures were also announced in a joint media release from the Prime Minister and Treasurer on 3 February 2009.[3]

Committee consideration

All the Bills implementing the proposed stimulus package have been referred to the Senate Standing Committee on Finance and Public Accounts for report by 10 February 2009.

Position of significant interest groups/press commentary

Concern has been expressed that if a person did not submit a tax return for the 2007–2008 financial year, or they did not have a net tax liability for that income year (such as some long term unemployed) then they would not be receiving this payment.[4]

However, much of the press commentary has been favourable. The various state Premiers and Territory Chief Ministers are reported as supporting the overall package of measures.[5]

The Business Council of Australia noted that 'the government's responsible approach in keeping stimulus measures timely, well targeted at those who'll spend it, and temporary,

1. Information about this Bill is available at the Bill Homepage at: http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Fbillhome%2Fr4044%22, accessed on 5 February 2009.

2. The Hon. Wayne Swan MP, Treasurer and the Hon. Lindsay Tanner MP, Minister for Finance and Deregulation, *Updated Economic and Fiscal Outlook 2008–2009*, Canberra, 3 February 2009.

3. The Hon. Kevin Rudd MP, Prime Minister and the Hon. Wayne Swan MP, Treasurer, '$42 billion nation building and jobs plan', *Joint Media Release*, Canberra, 3 February 2009.

4. Fleur Anderson, 'Cash bonus for most – spend, don't save it', *Australian Financial Review*, 4 February 2009, p. 13; Ross Gittins, 'Time to fire the fiscal cannon', *Sydney Morning Herald*, 4 February 2009; Phillip Coorey, 'Saving the nation', *Sydney Morning Herald*, 4 February 2009, p. 1.

5. Imre Salusinszky and Matt Denholm, 'Thumbs up from all the premiers', *The Australian*, 4 February 2009.

will ensure the spending will not be a dead weight on our ability to achieve future growth and surpluses'.[6]

While supporting the overall stimulus package the Australian Chamber of Commerce and Industry considered that the government should also have included personal income tax cuts.[7]

The Australian Council of Social Services commended the overall economic stimulus package. However, it was concerned that, in its view, those on unemployment benefits would not be receiving these payments.[8]

Anglicare Australia supported the one-off benefits to those people who are under Age Pension age[9] and believes that such payments are well targeted.[10]

Pros and cons

Pros

The great advantage of this Bill is that it quickly directs the majority of the proposed tax bonus payments to low and middle income earners who may have a greater propensity to spend these amounts, rather than save them. This may well support economic activity at a higher level than it would otherwise have been. Presumably, details of any Treasury modelling on the impacts of the tax bonus (as distinct from other elements of the stimulus package introduced into Parliament on 4 February) will be examined in the course of the Senate Committee inquiry.

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6. Business Council of Australia, 'Latest jobs and growth package a boost to confidence', *media release*, 3 February 2009.

7. Australian Chamber of Commerce and Industry, 'Policy levers working to avoid recession', *media release*, 3 February 2009.

8. Australian Council of Social Services, 'National building plan welcomed but more assistance for the unemployed needed', *media release*, 3 February 2009.

9. The Age Pension Age is 65 for men. For women there is currently a staggered arrangement which will change over time:

If you were born	You qualify for Age Pension at
before 30 June 1944	63 years
between 1 July 1944 and 31 December 1945	63.5 years
between 1 January 1946 and 30 June 1947	64 years
between 1 July 1947 and 31 December 1948	64.5 years
after 1 January 1949	65 years

10. Ms Kasy Chambers, Australian Executive Director Anglicare Australia, cited in Fleur Anderson, op. cit.

An additional advantage is that the payments are single, 'one time only' payments intended as a temporary measure. The Government does not intend for the proposed tax bonus payments to be a continuing this measure, as would be the case with a personal income tax cut. The maintenance of a set level of personal income tax enables the government to more easily deal with any budget deficits that may arise as a result of any temporary spending measures.

Cons

However, these advantages rely on the recipient's inclination to spend, rather than save the proposed payment. It may be the case that many recipients will use these amounts to pay down debt, or simply save them, rather than spend. If this is the outcome then the stimulus effect to the economy will be less than it might otherwise have been.

Clearly, the proposed tax bonuses represent a temporary boost in household income. It can be argued that a temporary boost in household income will not be spent where the recipients are uncertain whether they will continue to be employed in the future. In these circumstances a rational decision in dealing with such a temporary boost in income would be to reduce any outstanding debt or to increase capital reserves.

Further, there is a view that it is only permanent increases in household income that enable an increase in spending. The reasoning behind this view is that households will increase their spending on a sustainable basis only where they have reasonable expectations of a long term permanent boost in income. A cut in personal income tax rates represents such a permanent increase in household income. This, of course, assumes that the same households are confident of remaining employed, or that their income from self employment will remain at least steady for a reasonable future period.

Comment

As readers would be aware, further reductions in personal income tax rates are due to take effect on 1 July of both 2009 and 2010.[11] It could also be argued that the already legislated cuts in personal income tax are a sufficient increase in household income in conjunction with the proposed tax bonus payments.

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11. See Bernard Pulle, Adrian Makeham-Kirchner and Paige Darby, 'Tax Laws Amendment (Personal income Tax Reduction) Bill 2008', *Bills Digest*, no. 60, Parliamentary Library, Canberra, 2007–08, for further details of the forthcoming cuts in personal income tax and associated changes.

Coalition/Greens/Family First/Independents/ policy position/commitments

The Coalition has decided to oppose the entire economic stimulus package, including the payments authorised by the Bonus Bill, believing the entire package's measures to be poorly targeted, ineffective in supporting employment and unaffordable.[12]

Senator Brown has indicated that the Greens would support many aspects of the overall stimulus package. However, he also noted that

> when times are tough, it is ordinary Australians who need to be supported - not the big end of town. The package should also include a permanent $30 a week increase to people on income support, including aged pensioners and the unemployed.[13]

The Green's precise position on the payments authorised by the Bonus Bill is, at the time of writing, unclear. However, the above comments indicate that the Greens would support these payments being made to a wider group of recipients.

Generally, the Greens support increased scrutiny of the overall stimulus package by the Senate and wish to extend that Chamber's sitting days into the week commencing 9 February 2009. The Greens have also indicated that they are seeking to work with the Government to improve the stimulus package. In addition they support the referral of the overall package to the above mentioned Senate Committees.[14]

As at the time of writing, a spokesman for the Family First Party has indicated that party would support an inquiry into the overall package of proposed measures.[15] Senator Xenophon also supports a referral of the overall stimulus package, including the Bonus Bill and the Consequential Bill, to the above mentioned Senate Committees.

Financial implications

The following table gives the expected financial impact of the payments authorised by both Bills upon the Commonwealth budget.

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12. The Hon. Malcolm Turnbull MP, Leader of the Opposition, 'Coalition opposes $42 billion expenditure package', *Media Release*, 4 February 2009.

13. Senator Bob Brown, 'Greens welcome money for insulation and schools', *Media Release*, 3 February 2009.

14. Senator Bob Brown, 'Greens will take a constructive approach to stimulus', *Media Release*, 4 February, 2009.

15. Comments made to the author by a spokesman from Senator Fielding's Office.

Year	2008-2009	2009-2010	2010-2011	2011-2012
Impact $m	-8 150	-1	0	0
Source: Explanatory Memorandum[16]				

Key issues

The key issue in relation to the payments authorised by the Bonus Bill is their effectiveness in stimulating economic activity. As noted above, this depends on whether they are saved or used to paydown debt, or spent.

A further issue is whether personal income tax cuts would be more effective in stimulating the economy rather than the tax bonus payments.

Main provisions

Bonus Bill

Clause 5 sets out the provisions governing a person's entitlement to a tax bonus payment, being:

- a person was an ***'Australian resident'*** for the 2007–2008 income year
- a person's ***'adjusted tax liability'*** for the 2007–2008 income year is greater than nil
- the person's taxable income does not exceed $100 000 in that financial year, and
- a person has lodged the relevant tax return no later than 30 June 2009.

Adjusted tax liability

A person's ***'adjusted tax liability'*** is defined in **subclause 4(2)** as the sum of:

- the basic income tax liability plus their Medicare Levy amount plus the Medicare Levy Surcharge amount for the 2007–2008 income year, less
- any tax offsets (plus any dividend imputation franking credits).[17]

Residence

Subclause 4(1) provides that 'Australian resident' has the meaning given by the ITAA 1997. **Paragraph 5(1)(b)** requires that a person was living in Australia for the 2007–2008 income year. An individual is an Australian resident for taxation purposes if he/she resides

16. The Hon. Wayne Swan MP, Treasurer, *Explanatory Memorandum to the Tax Bonus for Working Australians Bill 2009 and Tax Bonus for Working Australians (Consequential Amendments) Bill 2009* (hereafter Explanatory Memorandum), 4 February 2009, p. 3.

17. ibid., p. 6.

in Australia for generally at least more than half the income year on either a continuous or intermittent basis (183 or more days in total). There are exceptions, for example merchant seamen are still resident of Australia if they maintain a family home in Australia, despite possibly not being in country for half the year or more. A decision in individual cases will be based on the facts of each case.

This means that a taxpayer, who was resident in Australia for the 2007–2008 income year, but is currently living outside Australia, would be eligible to receive this payment, all other eligibility conditions also being met.

Taxable income

Subclause 4(1) provides that 'taxable income' has the meaning given by the ITAA 1997. Briefly, a person's taxable income is their gross income after all relevant deductions have been made. Such deductions could include general deductions made up of expenses incurred in gaining or producing a person's income; or specific deduction allowed for in the tax legislation, such as travel expenses between unrelated workplaces while engaged in income producing activities.

Tax offsets

The term '***tax offset'*** has the same meaning in this Bill as the meaning in the ITAA 1997: **subclause 4(1)**. A tax offset is an allowance that reduces a person's tax liability. The more common tax offsets are:

- the Low Income Tax Offset (maximum of $750 in 2007–2008 for those with incomes of less than $30 000 per annum.)
- Senior Australians Tax Offset (maximum of $2 230 for a single person with an income of less than $25 867 in 2007–2008
- Mature Age Worker Tax Offset (maximum of $500 for those age over 55 with income from employment and incomes between $10 000 and $63 000 per annum)
- Pensioner Tax Offset (maximum of $2 018 in 2006–2007 for those receiving a social security Age Pension and whose total income is below $35 598 in that year), or
- Beneficiary Tax Offset (amount determined by a formula that ensures that those who receive only social security benefits and allowances at the full rate, and no income, pay no income tax).[18]

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18. Briefly, other tax offsets applying to individual tax payers include, dependent spouse tax offset, superannuation pension tax offsets (applying to pension income from either a taxed or untaxed source, depending on age), Remote area tax offset, Private health insurance tax offset, Net medical expenses tax offset and 30% Child Care tax offset.

Comment

These eligibility requirements do not formally exclude Age Pensioners or the unemployed from receiving these payments. However, members of these groups will be ineligible to receive these payments if they did not have an adjusted tax liability for the 2007–2008 income year. It is likely that the majority of Age Pensioners and those who were on unemployment benefits for a significant proportion of the 2007–2008 income year did not have such a liability.

A further group who will not be eligible to receive the proposed payments are those whose taxable income was above $100 000 in 2007–2008, but are now unemployed.

Clause 6 specifies the amount of the proposed bonus payments. These payments are to vary according to the person's level of taxable income in the 2007–2008 income year, as follows:

- if the person's taxable income was $80 000 or below the proposed bonus payment will be $950
- if the person's taxable income was between $80 000 but does not exceed $90 000 the proposed bonus payment will be $650, and
- if the person's taxable income exceeded $90 000 but was not above $100 000 then the proposed bonus payment will be $300.

Clause 7 specifies that the Commissioner for taxation must pay the bonus as soon as he is satisfied that the person is entitled to it. Further, these payments will generally be made to the same account with a financial institution into which the person's tax refund for the 2007–2008 income year was paid.

Clause 8 of the Bill provides that where a person receives a bonus payment to which they were not entitled or for an amount greater than the amount to which they were entitled, the person is liable to repay the overpayment to the Commonwealth.

Consequential Bill

Schedule 1

Item 1 amends section 159J(6) of the ITAA 1936 so that the tax bonus payments are not included for the purposes of calculating a dependent's 'separate net income' when assessing a tax payer's eligibility for the dependent's income tax offset.

Item 3 amends the ITAA 1997 adding **proposed section 59-45**. The effect of this new section would be to make the proposed bonus payment 'tax free' to the recipient.

Technically this amendment classifies the proposed tax bonus payments as 'non-assessable non-exempt income'. Non-assessable non-exempt income is ordinary or statutory income that is expressly made neither assessable income, nor exempt income. Income falling into this category is both excluded from taxable income and ignored when working out a taxpayer's available losses.

Item 4 amends the SSA 1991 so that the proposed tax bonus payments are not classed as income for social security purposes.

That is, the receipt of these payments will not affect a person's social security entitlements.

Items 5, **6** and **7** amend the TAA 1953 so that overpaid amounts of the proposed tax bonus payments are subject to the general interest charge for taxation purposes and cannot be considered to be a tax credit to offset any other tax liabilities.

Item 8 amends the VEA 1986 so that the proposed tax bonus payments are not classed as income for purposes of calculating a person's entitlements under that Act.

Members, Senators and Parliamentary staff can obtain further information from the Parliamentary Library on (02) 6277 2495.