

# CHAPTER 1

## PROVISIONS OF THE TAX LAWS AMENDMENT (2004 MEASURES NO. 7) BILL 2004

### Background

1.1 The Tax Laws Amendment (2004 Measures No. 7) Bill 2004 was introduced into the House of Representatives on 8 December 2004.<sup>1</sup> The House passed the bill on 10 February 2005.<sup>2</sup>

1.2 On 9 February 2005, on the recommendation of the Senate Standing Committee for the Selection of Bills (Selection of Bills Committee), the Senate referred the provisions of the bill to the Economics Legislation Committee for inquiry and report by 7 March 2005.<sup>3</sup>

### The bill's provisions

1.3 The bill contains 11 schedules which deal with a range of matters.

1.4 The hearing of the Economics Legislation Committee focussed on the bill's provisions in Schedules 1 and 5 which the Selection of Bills Committee cited as warranting further investigation,<sup>4</sup> and were the only Schedules on which the Committee received submissions.<sup>5</sup>

1.5 Schedule 1 of the bill provides for an entrepreneurs' tax offset of up to 25 per cent on income tax liabilities attributable to business income where the business has an annual turnover between \$50 000 and \$75 000. The proposed offset is intended to assist very small businesses in the simplified taxation system. Issues raised in the supporting documents attached to the Selection of Bills Committee's report were:

- (a) whether Schedule 1 measures pose a threat to the tax base by opening significant tax avoidance opportunities;
- (b) whether Schedule 1 measures create an incentive for a taxpayer to split income between different taxation entities (e.g. a company or partnership);

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1 The Hon. Mal Brough MP, *House Hansard*, 8 December 2004, p. 3.

2 The Hon. Mal Brough MP, *House Hansard*, 10 February 2005, p. 40.

3 Senator Julian McGauran, *Senate Hansard*, 9 February 2005, p. 62.

4 Selection of Bills Committee, *Report No. 1 of 2005*, 9 February 2005, p. 62.

5 With the exception of *Submission 1* (William Buck (SA) Pty Ltd) which queried the commencement date for Schedule 7.

- (c) whether the grouping rules for the simplified tax system are sufficient to prevent tax avoidance given that they are designed to operate from a much higher threshold; and
- (d) whether the measures in Schedule 1 are appropriately targeted to entrepreneurial activity.

1.6 Schedule 5 of the bill provides for a tax incentive for petroleum exploration in 'designated frontier areas'. Exploration expenditure, within certain limitations, will be uplifted to 150 per cent, with this amount being deductible for the purposes of petroleum resource rent tax. One issue identified by the Selection of Bills Committee was the cost and effectiveness of the proposed tax concessions in encouraging petroleum exploration in remote offshore areas.

### **Conduct of the inquiry**

1.7 The Committee advertised the inquiry nationally on 16 February 2005 and invited the Department of the Treasury, the Department of Industry, Tourism & Resources and several private organisations identified as having an interest in the matters raised by the bill to make submissions to the inquiry.

1.8 The Committee received four submissions. These are listed in Appendix 1.

1.9 The Committee held a public hearing at Parliament House in Adelaide on Tuesday, 1 March 2005. Witnesses who presented evidence at this hearing are listed in Appendix 2.

1.10 The Hansard of the Committee's hearing, copies of all submissions and information provided on request to the Committee are tabled with this report. These documents, plus the Committee's report, are also available on the Committee's web site at [http://www.aph.gov.au/senate/committee/economics\\_ctte/tlab\\_7/index.htm](http://www.aph.gov.au/senate/committee/economics_ctte/tlab_7/index.htm).

1.11 The Committee thanks those who participated in this inquiry.