

## Part I: Revenue measures

**Table 1: Revenue measures since the 2001-02 MYEFO<sup>(a)</sup>**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>Communications, Information Technology and the Arts</b>				
Changes to the Regional Equalisation Plan rebates	1.3	1.3	1.3	1.3
<b>Portfolio total</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>
<b>Education, Science and Training</b>				
Extension of the Postgraduate Education Loans Scheme	-	0.1	0.2	0.3
<b>Portfolio total</b>	<b>-</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>
<b>Foreign Affairs and Trade</b>				
Increase in the price of the Australian passport	4.5	4.3	4.3	4.3
New senior Australian passport	-1.5	-1.5	-1.5	-1.5
<b>Portfolio total</b>	<b>3.0</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>
<b>Immigration and Multicultural and Indigenous Affairs</b>				
Align the onshore and offshore Visa Application Charge for skilled points tested migration	7.2	7.4	7.5	7.7
Align the Resident Return Visa application charge with the Australian citizenship application fee	2.7	2.7	2.8	2.8
Increase in the permanent migrant intake	-0.6	-0.6	-0.6	-0.6
Second instalment Visa Application Charge for the Adult Australian Migrant English Programme for onshore applicants for permanent residence	0.9	1.8	1.8	1.9
<b>Portfolio total</b>	<b>10.2</b>	<b>11.3</b>	<b>11.5</b>	<b>11.8</b>
<b>Transport and Regional Services</b>				
Aviation war risk insurance - indemnities for Australian carriers, airports and service providers	*	*	*	*
<b>Portfolio total</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>
<b>Treasury</b>				
<b>Income tax</b>				
12 month extension of the grouping rules	20.0	-50.0	-	-
<i>A Better Superannuation System</i> - allow temporary residents to access their superannuation after they have departed Australia	70.0	110.0	75.0	70.0
continuing superannuation contributions to age 75	..	..	..	..
higher fully deductible amount for superannuation contributions by self-employed persons	-	-10.0	-10.0	-10.0
quarterly Superannuation Guarantee contributions	-	35.0	5.0	6.0
reducing the Superannuation Surcharge rate	-	-50.0	-120.0	-200.0
reduction of the tax rate on excessive Eligible Termination Payments	-	-5.0	-5.0	-5.0
replacement of the rebate for personal superannuation contributions	-	10.0	10.0	10.0
splitting of superannuation contributions between couples	-	-3.0	-4.0	-4.0
superannuation for life: child accounts	-0.2	-0.6	-1.0	-1.5
superannuation from the Baby Bonus	-	-0.7	-1.9	-3.0

**Table 1: Revenue measures since the 2001-02 MYEFO<sup>(a)</sup> (continued)**

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
<b>Treasury (continued)</b>				
Amendment to the inter-corporate dividend rebate for unfranked dividends	-	-	-	-
ATO pricing review - additional revenue from enhanced ATO resources	330.0	345.0	405.0	420.0
Deductibility of certain gifts	*	*	*	*
Ensuring companies are able to access the same business test	*	*	*	*
Exemption from income tax for the language, literacy and numeracy supplement	-	-	-	-
Extended eligibility for the Senior Australians' Tax Offset	..	..	..	..
Implementing the next phase of business tax reform	-10.0	300.0	230.0	20.0
Increase in Medicare levy thresholds	-42.8	-21.4	-21.4	-21.4
Increase in the medical expenses offset threshold	-	17.0	18.0	19.0
Maintaining the benefit of the franked dividend rebate	-	-15.0	-40.0	-70.0
Remove taxation of financial instruments at point of conversion or exchange	-	-	-	-
Statutory effective life caps for certain classes of assets	*	*	*	*
Taxation of life insurance policyholders	-	-5.0	-5.0	-5.0
Taxation relief for demergers	*	*	*	*
<b>Indirect tax</b>				
Diesel/water emulsion relief from excise	..	..	..	..
Excise free treatment for non-recyclable oils and lubricants	-1.3	-1.3	-1.3	-1.3
Imposition of excise on higher of labelled or actual alcoholic strength	4.3	4.6	4.9	5.1
National Excise Scheme for Low Alcohol Beer	-68.0	-69.0	-69.0	-70.0
<b>Non-tax revenue</b>				
Additional reimbursements from the States and Territories	184.5	201.8	218.2	235.8
Australian Securities and Investments Commission increased fees	7.5	8.4	22.9	22.9
Authorised deposit-taking institutions and insurance cost recovery	3.0	3.0	3.0	3.0
<b>Portfolio total</b>	<b>497.0</b>	<b>803.8</b>	<b>713.4</b>	<b>420.6</b>
<b>Total impact of revenue measures(b)</b>	<b>511.4</b>	<b>819.3</b>	<b>729.2</b>	<b>436.8</b>

\* The nature of the measure is such that a reliable estimate cannot be provided

.. Not zero, but rounded to zero

- Nil

(a) A minus sign before an estimate indicates a reduction in revenue, no sign before an estimate indicates a gain to revenue

(b) Measures may not add due to rounding

**Table 2: Revenue measures up to the 2001-02 MYEFO<sup>(a)</sup>**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>Agriculture, Fisheries and Forestry</b>				
Reduction in Australian Quarantine Inspection Service export programme fees and charges	-29.8	-29.8	-29.8	-29.8
<b>Portfolio total</b>	<b>-29.8</b>	<b>-29.8</b>	<b>-29.8</b>	<b>-29.8</b>
<b>Employment, Workplace Relations and Small Business</b>				
Air passenger ticket levy	-	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Industry, Science and Resources</b>				
Timor Sea arrangement	*	*	*	*
<b>Portfolio total</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>
<b>Transport and Regional Services</b>				
Air passenger ticket levy	98.4	98.4	98.4	98.4
<b>Portfolio total</b>	<b>98.4</b>	<b>98.4</b>	<b>98.4</b>	<b>98.4</b>
<b>Treasury</b>				
<b>Income Tax</b>				
Alienation of personal services income - the 'results test'	-	-	-	-
Alienation of personal services income - <i>de minimus</i> provisions for the 'results test'	-1.0	-1.0	-1.0	-1.0
Alienation of personal services income - treatment of commission agents	-35.0	-35.0	-35.0	-35.0
Amendment of income tax assessments to allow for repayments of assessable income	*	*	*	*
Amendment to non-commercial losses rules	-	-	-	-
Amendments to the double taxation convention between Australia and the United States	-10.0	-235.0	-190.0	-185.0
Amendments to the reform of the debt/equity borderline	*	*	*	*
Amendment to the taxation of expatriates resident in Australia	-	*	*	*
Amendments to the thin capitalisation regime	*	*	*	*
Broadening the exemption from Interest Withholding Tax (IWT)	-10.0	-10.0	-10.0	-10.0
Capital Gains Tax rollover relief for fixed trust to company restructures	*	*	*	*
Capital Gains Tax treatment of perpetual conservation covenants	-0.7	-0.7	-0.5	-
Deductibility of certain gifts	*	*	*	*
Deductibility of travel expenses	-	-	-	-

**Table 2: Revenue measures up to the 2001-02 MYEFO<sup>(a)</sup> (continued)**

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
<b>Treasury (continued)</b>				
Deductions for certain conservation covenants	*	*	*	*
Exclusion from the Superannuation Guarantee for payments made to non-residents employed for the 2001 Goodwill Games in Brisbane	..	..	..	..
Extension of German forced labour compensation Capital Gains Tax exemption	*	*	*	*
Film industry package - refundable tax offset for large scale film production	-5.0	-35.0	-32.0	-43.0
Foreign bank tax liability extension	-	-	-	-
Fringe benefits reporting - exclusion of benefits associated with police force removals	*	*	*	*
Fringe benefits reporting - exclusion of travel between home and work in unmarked police vehicles	*	*	*	*
General interest charge changes - 1 per cent reduction in the margin applied to the 90 day bank bill yield benchmark	-10.0	-10.0	-10.0	-10.0
General interest charge changes - replacing the 13 week Treasury Note yield benchmark	-1.0	-1.0	-1.0	-1.0
Giving co-operatives the option to frank dividend payments	-5.0	-10.0	-10.0	-10.0
HIH rescue package - Income Tax issues	-	-	-	-
Improving the integrity of dividend imputation for life insurance companies	nfp	nfp	nfp	nfp
Incentives to promote Australian venture capital investment by non-residents	-	-20.0	-20.0	-20.0
Income tax exemption of compensation for deployment allowance paid to Australian Defence Force (ADF) members	*	*	*	*
Income tax exemption of compensation for loss of pay and allowances paid to Australian Defence Force (ADF) Reserve personnel	*	*	*	*
Maintaining the existing definition of research and development and the existing treatment of trading stock and feedstock	*	*	*	*
Modification to the 175 per cent premium tax concession for research and development	-15.0	-15.0	-25.0	-25.0
Prepayment rule for forestry managed investments	-25.0	-5.0	-	-25.0
Streamlining of the crude oil excise regime	-19.0	-9.0	-7.0	-7.0
Tax exemption for structured settlement annuities	-1.4	-2.5	-3.6	-4.6
Timor Sea arrangements	*	*	*	*
Trading stock rules for oyster farmers	..	..	..	..

**Table 2: Revenue measures up to the 2001-02 MYEFO<sup>(a)</sup> (continued)**

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
<b>Treasury (continued)</b>				
<b>Indirect tax</b>				
Abolition of fees for licences to manufacture excisable goods	-	-	-	-
Abolition of oils and lubricants excise indexation	-1.1	-1.8	-2.5	-3.3
<b>Non-tax revenue</b>				
Increased levy to support enhanced prudential supervision of superannuation	3.8	3.8	3.8	3.1
Small Business Assistance Package - capping of fees paid by small business to the Australian Securities and Investments Commission	-	-	-	-
<b>Portfolio total</b>	<b>-135.4</b>	<b>-387.2</b>	<b>-343.8</b>	<b>-376.8</b>
<b>Total impact of revenue measures(b)</b>	<b>-66.8</b>	<b>-318.6</b>	<b>-275.2</b>	<b>-308.2</b>

\* The nature of the measure is such that a reliable estimate cannot be provided

.. Not zero, but rounded to zero

- Nil

(a) A minus sign before an estimate indicates a reduction in revenue, no sign before an estimate indicates a gain to revenue

(b) Measures may not add due to rounding

## COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

### *Changes to the Regional Equalisation Plan rebates*

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Broadcasting Authority	1.3	1.3	1.3	1.3

#### *Explanation*

Licence fee rebates under the Regional Equalisation Plan, which assist regional broadcasters with the cost of digital conversion, will be reduced for some remote broadcasters to reflect lower anticipated costs of digital conversion in some licence areas.

## EDUCATION, SCIENCE AND TRAINING

### *Extension of the Postgraduate Education Loans Scheme*

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Education, Science and Training	-	0.1	0.2	0.3

#### *Explanation*

From 1 January 2003, the Government will extend access to the Postgraduate Education Loans Scheme (PELS) to eligible students attending Bond University, Melbourne College of Divinity, the Christian Heritage College and Tabor College Adelaide.

Under PELS, an eligible postgraduate student is loaned a sum at a zero real interest rate. The sum is indexed to the Consumer Price Index (CPI). As this sum is a loan and is repayable, it does not appear as an expense. The indexation amount is shown as a non-tax revenue.

See also the related capital measure titled *Extension of the Postgraduate Education Loans Scheme* in the Education, Science and Training portfolio.

## FOREIGN AFFAIRS AND TRADE

### *Increase in the price of the Australian passport*

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Foreign Affairs and Trade	4.5	4.3	4.3	4.3

#### *Explanation*

From 1 July 2002, the Government will increase the price of the Australian passport by \$5 in addition to the usual annual CPI increase. This will result in the price of an adult passport rising from \$136 to \$144 in 2002-03. The additional revenue will be directed to reducing costs for seniors with the introduction of a new senior passport, research into the feasibility of a biometric identifier for the Australian passport and other increases in passport production costs.

See also the related revenue measure titled *New senior Australian passport* and the related expense measure titled *Research and development of a biometric identifier for the Australian passport* in the Foreign Affairs and Trade portfolio.

### *New senior Australian passport*

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Foreign Affairs and Trade	-1.5	-1.5	-1.5	-1.5

#### *Explanation*

From 1 July 2002, the Government will offer a new senior passport to Australians aged 75 years and over, for half the adult passport fee. The new senior passport will be valid for 5 years and the price will be \$72 in 2002-03 instead of the full fee for a 10 year passport of \$144.

See also the related revenue measure titled *Increase in the price of the Australian passport* in the Foreign Affairs and Trade portfolio.

## **IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS**

### ***Align the onshore and offshore Visa Application Charge for skilled points tested migration***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Immigration and Multicultural and Indigenous Affairs	7.2	7.4	7.5	7.7

#### *Explanation*

From 1 July 2002, the Government will align the Visa Application Charge for skilled points tested migrants who apply offshore with those who apply onshore. At present those who apply offshore pay \$1,125 when those that apply onshore pay \$1,670.

All applications, inquiries and processing of general skilled migration categories have been centralised, with processing to be undertaken at the Adelaide Skilled Processing Centre. This will facilitate greater integrity in processing and more specialised customer service. This will also enable greater efficiency and uniformity in treatment of cases and will provide more accurate information on the employment market, through the development of contacts in industry.

### ***Align the Resident Return Visa application charge with the Australian citizenship application fee***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Immigration and Multicultural and Indigenous Affairs	2.7	2.7	2.8	2.8

#### *Explanation*

From 1 July 2002, the Government will encourage eligible permanent residents to apply for Australian citizenship by aligning the Resident Return Visa (RRV) application charge with the application fee for Australian citizenship.

RRVs are issued to permanent resident non-citizens to allow them to lawfully re-enter Australia following overseas travel. In the past, the RRV has been seen by some travellers as a cheaper alternative to applying for citizenship and travelling on an Australian passport. This measure is in line with the recommendations of the



Australian Citizenship Council to actively encourage permanent residents to become full members of Australian society, through citizenship.

***Increase in the permanent migrant intake***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Immigration and Multicultural and Indigenous Affairs	-0.6	-0.6	-0.6	-0.6

*Explanation*

The Government will increase the permanent migration (non-humanitarian) programme for 2002-03 to a base level of 105,000 places, with an additional reserve of 5,000 places to facilitate effective management of the programme to meet skill shortages, regional or other demand requirements. The programme provides for an increase in both Skill and Family Streams. In addition, the composition of the skilled migrant component will change resulting in a reduction in revenue due to the targeted skilled applicants attracting lower visa fee charges.

See also the related expense measure titled *Increase in the permanent migrant intake*, in the Immigration and Multicultural and Indigenous Affairs Portfolio.

***Second instalment Visa Application Charge for the Adult Australian Migrant English Programme for onshore applicants for permanent residence***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Immigration and Multicultural and Indigenous Affairs	0.9	1.8	1.8	1.9

*Explanation*

From 1 July 2002, the Government will introduce a second instalment Visa Application Charge relating to the Adult Migrant English Programme for onshore applicants applying for permanent residence. This measure will align the fee charged to onshore applicants with the fee for offshore applicants. Currently the offshore applicant fee for non-english speaking applicants is either \$2,380 or \$4,770 (depending on the category of the applicant).

Offshore applicants for permanent residence who are assessed as not having functional English are currently required to pay a second instalment to partially offset the cost of

language tuition. This measure will require onshore applicants to also pay the charge, primarily affecting business and skilled migrant classes, and some students. Family migration categories will continue to be exempt from this charge.

## **TRANSPORT AND REGIONAL SERVICES**

### ***Aviation war risk insurance – indemnities for Australian carriers, airports and service providers***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Department of Transport and Regional Services	*	*	*	*

#### *Explanation*

From July 2002, the Government will charge a fee for third party war indemnity cover to Australian airlines, airports and service providers, which will be provided on a rolling three monthly basis until December 2003. The details of the fee structure are yet to be determined.

Under the terms of the Government's indemnity cover, eligible operators are required to obtain and maintain commercial insurance cover for terrorism and war risk to the fullest extent available in the market.

Following terrorist attacks in the United States on 11 September 2001, insurance cover for claims arising out of war and terrorism was withdrawn or significantly limited for the aviation sector, placing global aviation operations at risk. As a result, the Government agreed to provide third party war indemnity cover to Australian airlines, airports and service providers as a short term intervention pending the recovery of the insurance market or the development of a longer term solution. This indemnity was previously provided free of charge, on a monthly basis, to eligible parties.

Further details may be found in the Minister for Transport and Regional Services' Press Release No. A52 of 10 May 2002.

## TREASURY

### Income tax

#### ***12 month extension of the grouping rules***

##### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	20.0	-50.0	-	-

##### *Explanation*

The grouping rules were scheduled to be repealed on 1 July 2002 in conjunction with the commencement of the consolidation regime.

In order to allow companies further time to adjust to the new consolidation regime, grouping rules will be retained until 1 July 2003, or until the start of the group's first income year commencing after 1 July 2003 where the group's head company has a Substituted Accounting Period and elects to consolidate from that date.

The grouping rules comprise:

- Section 46 and 46A of the *Income Tax Assessment Act 1936* (ITAA36) (Inter-corporate dividend rebate);
- subdivisions 170-A, 170-B and 170-C of the *Income Tax Assessment Act 1997* (ITAA97) (company loss transfer provisions applying to wholly-owned groups);
- subdivision 126-B of the ITAA97 (CGT rollover relief for asset transfers within the same wholly owned group);
- section 160AFE of the ITAA36 (transfer of excess foreign tax credits within the same wholly-owned group); and
- subdivision 820-F of the ITAA97 (grouping provisions under the thin capitalisation regime).

#### ***A Better Superannuation System — allow temporary residents to access their superannuation after they have departed Australia***

##### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	70.0	110.0	75.0	70.0

*Explanation*

From 1 July 2002, temporary residents will be allowed to access their superannuation upon permanent departure from Australia subject to withholding of tax concessions provided to the benefits.

The measure will not apply to Australian citizens, permanent residents or other individuals who retain the option of retiring in Australia and accessing the age pension.

Under this measure, benefits paid from a taxed source will be taxed at 30 per cent and benefits paid from an untaxed source will be taxed at 40 per cent. Any personal (undeducted) contributions will be returned to the temporary resident untaxed. Amendments to the *Income Tax Assessment Act 1936* to give effect to these tax rates were passed by Parliament on 21 March 2002.

Further details may be found in the Minister for Revenue and Assistant Treasurer's Media Release No. C14/02 of 8 March 2002.

See also the related expense measure titled *A Better Superannuation System — allow temporary residents to access their superannuation after they have departed Australia* in the Treasury portfolio.

***A Better Superannuation System — continuing superannuation contributions to age 75***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	..	..	..	..

*Explanation*

From 1 July 2002, working people aged over 70 but less than 75 will be able to make personal contributions to superannuation.

Currently, people aged over 70 cannot make personal contributions to superannuation, although funds can accept mandated employer contributions (generally only those made under an industrial award). This measure will allow these people to contribute to superannuation if they are working at least 10 hours per week. This is consistent with the current treatment of people aged over 65 but less than 70.

This measure does not extend Superannuation Guarantee arrangements to people working past age 70.

Individuals aged over 70 but less than 75, who are making personal superannuation contributions, will not be eligible for an income tax deduction or the co-contribution.

Furthermore, employers will only be able to claim a tax deduction for employer contributions made for individuals aged over 70 if they are mandated employer contributions under an industrial award obligation.

The Government will also amend the compulsory cashing standards so that individuals aged over 70 but less than 75 will only be required to cash their superannuation benefits if they are no longer working 10 hours per week.

***A Better Superannuation System — higher fully deductible amount for superannuation contributions by self-employed persons***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-10.0	-10.0	-10.0

*Explanation*

From 1 July 2002, the fully deductible amount for superannuation contributions by self-employed and other eligible persons will be increased from \$3,000 to \$5,000.

Contributions above the fully deductible amount will continue to be 75 per cent tax deductible with a maximum deduction equal to the taxpayer's age based limit.

***A Better Superannuation System — quarterly Superannuation Guarantee contributions***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	35.0	5.0	6.0

*Explanation*

From 1 July 2003, employers will be required to make Superannuation Guarantee (SG) contributions to a complying superannuation fund or retirement savings account on behalf of their eligible employees on at least a quarterly basis. Currently, employers are only required to make SG contributions on an annual basis, although most employers make contributions more frequently than this.

As part of a quarterly SG regime, the following will also apply:

- for defaulting employers, the Superannuation Guarantee Charge (SGC) will be imposed quarterly with a lower administration component and the nominal interest component calculated from the beginning of the relevant quarter;

- the earnings threshold that determines whether an employee is entitled to SG will change from \$450 per month to \$1,350 per quarter;
- employers will be required to report to their employees the amount and destination of SG contributions when contributions are made; and
- in order to assist employers make the transition to quarterly payments, no administration or nominal interest components of the SGC will apply to shortfalls arising within the first two quarters from 1 July 2003.

See also the related expense and capital measures titled *A Better Superannuation System — quarterly Superannuation Guarantee contributions* in the Treasury portfolio.

***A Better Superannuation System — reducing the Superannuation Surcharge rate***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-50.0	-120.0	-200.0

*Explanation*

From 1 July 2002, the superannuation and termination payments surcharge rates will be reduced by one tenth of their current levels for each of the next three income years. As a consequence, the maximum surcharge rates will be reduced to 13½ per cent in 2002-03, 12 per cent in 2003-04 and 10½ per cent in 2004-05 and succeeding years.

Further, in keeping with its election commitment, the Government will review the surcharge arrangements after three years to determine whether any further changes are required.

***A Better Superannuation System — reduction of the tax rate on excessive Eligible Termination Payments***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-5.0	-5.0	-5.0

*Explanation*

From 1 July 2002, the tax treatment of an Eligible Termination Payment (ETP) from a superannuation fund that exceeds a taxpayer's Reasonable Benefits Limit will be modified to limit the effective tax rate on the payment. This will provide consistent and fair treatment of superannuation fund and employer ETPs. This measure

implements the Government's commitment to reduce the effective tax rate on excessive ETPs.

***A Better Superannuation System — replacement of the rebate for personal superannuation contributions***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	10.0	10.0	10.0

*Explanation*

From 1 July 2002, the existing rebate for personal undeducted superannuation contributions will be replaced with a more generous Government co-contribution. The Government co-contribution will match personal undeducted superannuation contributions made by eligible low income earners up to a maximum of \$1,000 a year depending on the individual's level of income and contributions.

Low income earners are currently entitled to a maximum rebate of \$100 in respect of personal undeducted superannuation contributions. Eligible persons will still be able to claim the rebate in respect of contributions made up to 30 June 2002.

See also the related expense measures titled *A Better Superannuation System — Government superannuation co-contribution for low income earners* and *A Better Superannuation System — Government superannuation co-contribution for low income earners — implementation and administration* in the Treasury portfolio.

***A Better Superannuation System — splitting of superannuation contributions between couples***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-3.0	-4.0	-4.0

*Explanation*

From 1 July 2003, members of accumulation funds will be allowed to split future personal and employer contributions with their spouse, with the split contributions to be made by one spouse into a separate account in the other spouse's name. The receiving spouse will have access to their own eligible termination payment tax-free threshold and reasonable benefit limit. Existing superannuation benefits will not be eligible for splitting.

The Government will release a discussion paper on the implementation of this measure for public consultation.

***A Better Superannuation System — superannuation for life: child accounts***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-0.2	-0.6	-1.0	-1.5

*Explanation*

From 1 July 2002, parents, grandparents, other relations and friends will be able to contribute to superannuation on behalf of children. Under this measure, contributions of up to \$3,000 per child per 3 year period can be made on behalf of a child.

The proposal in *A Better Superannuation System* limited contributions on behalf of a child to \$1,000 per annum. The changed contribution limit of \$3,000 per child per 3 year period will provide greater flexibility for persons making contributions on behalf of a child and increases the range of superannuation funds that will accept these contributions.

Contributions on behalf of a child will not form part of the taxable income of a superannuation fund or retirement savings account provider, and will not be eligible for the Government co-contribution or attract a tax deduction.

***A Better Superannuation System — superannuation from the Baby Bonus***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-0.7	-1.9	-3.0

*Explanation*

From 1 July 2002, recipients of the Baby Bonus who would not otherwise be able to contribute to superannuation will be eligible to contribute to a superannuation fund or retirement savings account. This will ensure that all recipients of the Baby Bonus will be able to contribute the Baby Bonus, as well as any other amount, to superannuation.

See also the related expense measure titled *Baby Bonus* and the expense and capital measures titled *Baby Bonus — implementation and administration* in the Treasury portfolio.



***Amendment to the inter-corporate dividend rebate for unfranked dividends***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-	-	-

*Explanation*

The Government will amend section 46F of the *Income Tax Assessment Act 1936* to allow a company within a wholly owned group to access the inter-corporate dividend rebate where the member company paying the unfranked dividend has been a group member for at least twelve months prior to the payment of the dividend. This requirement will operate as an alternative to the current whole of income year rule and will be available in respect of dividends paid on or after 1 July 2000.

Further details may be found in the Minister for Revenue and Assistant Treasurer's Press Release No. C11/02 of 1 March 2002.

***ATO pricing review — additional revenue from enhanced ATO resources***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Enhanced tax administration	230.0	95.0	100.0	105.0
Large business compliance	60.0	180.0	210.0	220.0
Small business (income tax and fringe benefits tax) field services	40.0	70.0	95.0	95.0
Australian Taxation Office — Total	330.0	345.0	405.0	420.0

*Explanation*

The expense measures adopted as a result of an independent pricing review of the Australian Taxation Office (ATO) will enhance the integrity of tax administration.

Increased funding for base tax administration will maintain the integrity of the PAYG withholding system by protecting revenue already included in the forward estimates and result in additional taxation revenue through enhanced debt collection and compliance activity.

Additional revenue will also result from increased funding for the large business compliance activities and for small business (income tax and fringe benefits tax) field services directed at improving advisory services and identifying emerging risks. This will enhance revenue collections over the forward estimates period and beyond.

See also the related expense measure titled *ATO pricing review — enhanced ATO resources* in the Treasury portfolio.

***Deductibility of certain gifts***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	*	*	*	*

*Explanation*

Since the 2001-02 Budget, the Government has made a number of announcements that donations and gifts of \$2 or more to the following organisations have been made tax deductible:

- The Aboriginal Education Council (NSW) Incorporated;
- The St Paul’s Cathedral Restoration Fund (for donations to 22 April 2004);
- The Manly Warringah War Memorial Regional Park Remembrance Trust (for donations to 7 April 2004);
- The St Patrick’s Cathedral Parramatta Rebuilding Fund (extending gift deductibility status to 24 February 2004);
- The Tea Gardens/Hawks Nest War Memorial Committee (for donations to 30 January 2004);
- The Albert Coates Memorial Trust (for donations to 30 January 2004);
- The Royal Australian Airforce Memorial Trust Fund (extending gift deductibility status to 17 November 2002);
- The Warringah, Australia Remembers Trust (for donations to 8 November 2003);
- The Australian Ex-Prisoners of War Memorial Fund (extending gift deductibility status to 19 October 2003);
- The Bionic Ear Institute;
- The Australian Primary Principals Association Education Foundation;
- The Australian Red Cross Society American Disaster Fund (for donations to 10 September 2003);
- The Australian Human Rights Education Fund;

- The National Breast Cancer Centre;
- The Young Endeavour Youth Scheme;
- The Bowral Vietnam Memorial Walk Trust Incorporated (for donations to 15 August 2003);
- The Sir Hughie Edwards VC Foundation Incorporated (for donations to 22 August 2003);
- Australia for UNHCR (for donations to 27 June 2002);
- Research Australia Limited;
- The Bradman Memorial Fund;
- The Visy Cares Charitable Trust; and
- The Breast Cancer Network Australia.

In addition, since the 2001-02 Budget there have been:

- 67 admissions to the Register of Cultural Organisations and 26 deletions; and
- 21 admissions to the Register of Environmental Organisations and 5 deletions.

***Ensuring companies are able to access the same business test***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	*	*	*	*

*Explanation*

The Government will amend Divisions 165 and 166 of the *Income Tax Assessment Act 1997* to allow companies to assume a date on which the continuity of ownership test (COT) was failed.

Where a company does not satisfy the COT, it may nevertheless be entitled to deduct its losses if it satisfies the same business test (SBT). The amendment, which will be effective from the 1997-98 income year, will ensure that companies are not prevented from accessing the SBT because they are unable to determine a precise date on which the COT was failed.

***Exemption from income tax for the language, literacy and numeracy supplement***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-	-	-

*Explanation*

The Government will provide an income tax exemption for the language, literacy and numeracy supplement available to people on income support. The supplement was announced in the 2001-02 Budget as part of *Australians Working Together*. The exemption will apply to all payments of the supplement, which is available to certain individuals on income support payments from September 2002.

Providing an income tax exemption for this supplement is consistent with the tax treatment of other add-on payments, such as pharmaceutical allowance and rent assistance.

As no specific provision has been made in the forward estimates for anticipated tax revenue from the supplement, exempting the payment from income tax will not create a cost to revenue.

***Extended eligibility for the Senior Australians' Tax Offset***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	..	..	..	..

*Explanation*

From the 2000-01 income year, eligibility for the Senior Australians' Tax Offset (SATO) will be extended to senior Australians of veterans' pension age who are eligible for a veterans' pension, allowance or benefit, whether or not they receive a payment. This would include those veterans who do not receive a payment either because they choose not to, or because of the application of an income or assets test. This will ensure that eligibility for veterans is consistent with that for other senior Australians.

In addition, eligibility for the SATO will be extended to senior Australians who are eligible for an age pension without meeting the residency requirement. These senior Australians include age pensioners who transferred from a Widow B Pension, a widow allowance, a mature age allowance or a partner allowance, or who qualify for the age pension under an international agreement.

As a consequence of this measure, all senior Australians who are eligible for the SATO under the extended eligibility criteria will also be eligible for the Medicare levy threshold of \$20,000.

As part of the 2001-02 Budget, the Government increased the maximum low income aged persons rebate (now known as the Senior Australians' Tax Offset) and pensioner rebate for age and service (age) pensioners to provide that single senior Australians who have taxable incomes up to \$20,000 pay no income tax, effective from the 2000-01 income year.

Amendments to give effect to these changes were introduced into Parliament on 14 March 2002 as part of the *Taxation Laws Amendment Bill (No. 2) 2002*.

### ***Implementing the next phase of business tax reform***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-10.0	300.0	230.0	20.0

#### *Explanation*

The Government is announcing a revised timetable for the next phase of business tax reform. This timetable will see a number of business tax reforms implemented progressively over the next few years.

The remaining reforms to the taxation of financial arrangements (TOFA) will be implemented in stages over the next 2 years (debt/equity reforms came into effect on 1 July 2001). These reforms were recommended by the Review of Business Taxation and have previously received in-principle support from the Government. The TOFA reforms are designed to remove anomalies, distortions and gaps in existing laws, facilitate desirable financial innovation, improve risk management and enhance the efficient operation and competitiveness of Australia's business sector.

The next stage of the TOFA reforms will cover taxation treatment of foreign currency gains and losses. This includes correcting deficiencies in the current taxation law and introducing an election to bring foreign currency gains and losses to account on a retranslation basis. Legislation will be introduced in the Spring Sittings 2002.

This will be followed by reform of the taxation of commodity (for example, gold and cotton) hedging directed at removing tax uncertainties and allowing more efficient hedging arrangements. The commencement date will be 1 July 2003.

The final stage of TOFA includes implementing new tax-timing arrangements including mark-to-market election, an accruals/realisation framework, and internal hedging rules, together with rules dealing with disposals and synthetic arrangements. The commencement date will be 1 July 2004.

Whilst the Government has accepted, in-principle, the Review of Business Taxation's recommendation that new buildings and structures should be included in the uniform capital allowance system, a number of significant practical issues remain to be resolved. Reflecting this, these changes will be deferred until 1 July 2005 at the earliest.

The Board of Taxation is currently receiving public comments on its prototype legislation for the Tax Value Method (TVM). The Board expects to be able to provide its recommendation to the Government by mid year as to whether, and when, the TVM should be introduced.

Without prejudicing the Board's or the Government's views on whether TVM should proceed, it is clear that any implementation could not occur before July 2005. In the meantime, consideration of reforms to the taxation of rights and any blackhole expenditures will continue to be undertaken on a case-by-case basis.

Given the significant overlap with issues to be considered by the review of international tax arrangements, announced in the Treasurer's Press Release No. 021 of 2 May 2002, the Government has also decided to defer implementation of measures to provide franking credits for foreign dividend withholding tax and to establish foreign income accounts pending the outcomes of the review.

Finally, the Government has decided to proceed with a modified approach to the implementation of the non-resident withholding tax regime, with obligations to withhold to be developed and supported by the existing Pay As You Go withholding system. Following further public consultations, any new obligations to withhold for non-residents will now be progressively introduced from 1 July 2003.

### ***Increase in Medicare levy thresholds***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-42.8	-21.4	-21.4	-21.4

#### *Explanation*

From the 2001-02 income year, the Medicare levy low income thresholds will increase to \$14,539 for individuals and \$24,534 for families. The additional amount of threshold for each dependent child or student will also be increased to \$2,253. The increase in thresholds takes into account movements in the CPI and ensures that low income families and individuals are exempt from paying the levy.

The Medicare levy threshold for pensioners below age pension age is also to be increased. From the 2001-02 income year, the threshold will be \$16,570. This will ensure that pensioners below age pension age do not pay the Medicare levy while they do not have an income tax liability.

***Increase in the medical expenses offset threshold***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	17.0	18.0	19.0

*Explanation*

From the 2002-03 income year, the threshold above which the medical expenses offset becomes payable will be increased from \$1,250 to \$1,500. The medical expenses offset will be available at a rate of 20 per cent of any net medical expenses above \$1,500 in an income year.

***Maintaining the benefit of the franked dividend rebate***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-15.0	-40.0	-70.0

*Explanation*

From 1 July 2002, companies will no longer be required to waste current year losses against franked dividends.

Currently, the tax benefit of a company's losses is 'wasted' when offset against franked dividends in calculating a company's taxable income. The wastage arises because the dividends are already freed from further tax in the hands of the company as a result of the franked dividend rebate, and excess imputation credits are not refunded to companies.

Preventing the wastage of current year losses against franked dividends will ensure that corporate groups are not disadvantaged by the impact of the consolidation regime in removing their ability to quarantine losses from franked dividends.

The Government will consult with business and relevant tax professionals in developing the details of this measure.

***Remove taxation of financial instruments at point of conversion or exchange***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-	-	-

### *Explanation*

The Government will remove the taxing point at conversion or exchange of traditional securities issued from 7:30pm AEST 14 May 2002. This means that an investor who holds the instrument through conversion or exchange will not be subject to tax until it is ultimately sold.

Further, the gain or loss on disposal will be eligible for capital gains treatment for the period before, as well as after, conversion or exchange. This contrasts with the current taxation law under which income tax applies to the gain or loss at the point of conversion or exchange, and that only the gain or loss after this point is eligible for capital gains treatment.

The rationale for this measure is that taxing these financial instruments on conversion or exchange can create cashflow difficulties arising from having to pay tax on a gain on conversion or exchange that is settled in the form of shares rather than cash. This limits the ability of issuers to raise an initially cheaper form of capital through the issue of such instruments.

### ***Statutory effective life caps for certain classes of assets***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	*	*	*	*

### *Explanation*

The Government will introduce statutory effective life caps for depreciation purposes in relation to the taxation treatment of a number of asset classes.

As part of its business tax reforms, the Government decided to move to a depreciation system based on effective life. The Commissioner of Taxation is progressively updating the current safe harbour effective lives that taxpayers may use to depreciate assets.

In a small number of cases, the Commissioner of Taxation's technical studies indicated that a substantial increase in effective life was in prospect. In these cases the Government has decided to place statutory caps on the effective lives of the assets, in recognition of broader policy considerations. The capped effective lives apply to aeroplanes and helicopters, gas transmission and distribution assets, oil and gas production assets, and assets used to manufacture condensate, crude oil, domestic gas, liquid natural gas (LNG) and liquid petroleum gas (LPG).

The effect of this measure is to limit the revenue gain arising from the Commissioner of Taxation's determinations in excess of the statutory caps to around \$150 million over the forward estimates period.



### ***Taxation of life insurance policyholders***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-	-5.0	-5.0	-5.0

#### *Explanation*

The Government has decided not to proceed with the Review of Business Taxation (RBT) recommendations relating to the taxation of ordinary life insurance investment policyholders because of concerns with compliance costs.

However, the RBT's recommendations affecting special investment products offered by friendly societies will be implemented, with some modification.

From 1 January 2003, friendly societies will include investment income attributable to income bonds, funeral policies and scholarship plans taken up after 30 November 1999 in assessable income and be entitled to a deduction for such amounts credited to policyholders. Legislation to introduce these reforms will be developed in consultation with industry.

### ***Taxation relief for demergers***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	*	*	*	*

#### *Explanation*

From 1 July 2002, tax relief for demergers will be provided in circumstances where underlying ownership is maintained and where the original entity divests at least 80 per cent of its ownership interest in the demerged entity. This measure applies to both widely held and non-widely held companies and trusts. Capital gains tax relief will be provided at the member and entity level, together with an exemption from the existing dividend rules, subject to an integrity rule.

The Government considers that providing tax relief for demergers will increase efficiency by allowing greater flexibility in structuring businesses, providing an overall benefit to the economy. Further, this reform to business taxation will enhance the competitiveness of Australia's business sector.

Further details may be found in the Minister for Revenue and Assistant Treasurer's Press Release No. C40/02 of 6 May 2002.

## Indirect tax

### ***Diesel/water emulsion relief from excise***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	..	..	..	..

#### *Explanation*

From 25 October 2001, the excise on the water component of emulsified diesel/water fuel blends was removed.

Previously, diesel/water blends were subject to excise duty on the totality of the blended fuel. This measure will allow diesel/water emulsion technology to be trialled without payment of duty on the water component.

Regulations to give effect to these changes were gazetted on 25 October 2001.

### ***Excise free treatment for non-recyclable oils and lubricants***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-1.3	-1.3	-1.3	-1.3

#### *Explanation*

From 15 April 2002, the excise was removed from non-recyclable oils and lubricants used in the production of non-oil products.

The Product Stewardship (Oil) Scheme was introduced as part of the *Measures for a Better Environment* package and is designed to encourage environmentally sustainable reuse of waste oils by imposing excise on these products. The excise raised under the scheme is then used to fund payments to recyclers. However, where an oil is used in the production of a non-oil product and the oil has clearly distinguishable characteristics from all other oil based products, it is not appropriate for it to be subject to the scheme.

The changes also apply to the customs duty on imported oils and lubricants.

The oils and lubricants that have been made excise-free by this measure are food grade white oil, aromatic process oils and polyglycol brake fluid. These oils are used in the manufacture of cosmetics, pharmaceuticals, foods, plastics, polystyrene, and tyres and in the braking systems of passenger and light commercial vehicles.

Regulations to give effect to these changes were gazetted on 12 April 2002.

### ***Imposition of excise on higher of labelled or actual alcoholic strength***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	4.3	4.6	4.9	5.1

#### *Explanation*

From 7.30pm AEST 14 May 2002, excise duty will be imposed on the higher of the actual alcoholic strength or the labelled strength of beverages subject to excise.

Under current excise legislation excise is imposed on the actual alcohol strength, not the labelled strength, of alcoholic beverages. This measure brings the calculation of excise duty into line with the method used to calculate customs duty on imported alcoholic beverages.

### ***National Excise Scheme for Low Alcohol Beer***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Taxation Office	-68.0	-69.0	-69.0	-70.0

#### *Explanation*

From 1 July 2002, a National Excise Scheme for Low Alcohol Beer will be implemented. The scheme was agreed to by the Commonwealth and the State and Territory Governments (the States) at the meeting of the Ministerial Council for Commonwealth-State Financial Relations on 22 March 2002. The scheme will replace a range of existing State subsidies with a nationally uniform and administratively efficient concession in the rate of excise on low alcohol beer.

The national scheme will eliminate the requirement for wholesalers to lodge a claim for a rebate of excise that they have paid. It will also reduce compliance costs for industry and eliminate administration costs for the States.

The excise rates per litre of alcohol on beer products that will apply from 1 July 2002 are:

	Not exceeding 48 litres*	Greater than 48 litres*
Low strength ( $\leq$ 3 per cent alc/vol)	\$28.49	\$5.69
Mid strength ( $\leq$ 3.5 per cent alc/vol)	\$33.22	\$17.87
Full strength ( $>$ 3.5 per cent alc/vol)	\$33.22	\$23.39

\*Excise on beer products is calculated on the volume of alcohol exceeding 1.15 per cent.

The States will make financial contributions to the national scheme, which are commensurate with their current subsidies, and the Commonwealth will fund the shortfall. Hence, in 2002-03, the States will contribute \$62.9 million, while the Commonwealth will contribute an estimated \$5.1 million.

The Commonwealth will deduct from each State's Budget Balancing Assistance (BBA) an amount commensurate with its current subsidies, indexed for inflation, for as long as each State continues to receive BBA. When all States no longer require BBA, the Commonwealth will be fully funding the scheme.

Further details may be found in the Treasurer's Press Release No. 012 of 22 March 2002.

See also the related expense measure titled *Reduction in Budget Balancing Assistance resulting from the National Excise Scheme for Low Alcohol Beer* in the Treasury portfolio.

## Non-tax revenue

### ***Additional reimbursements from the States and Territories***

#### *Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Base GST administration	139.5	154.8	170.2	185.8
Small business (GST) field services	45.0	47.0	48.0	50.0
Department of the Treasury – Total	184.5	201.8	218.2	235.8

#### *Explanation*

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Arrangements*, all GST revenue is provided to the States and Territories (the States) and collected on their behalf by the Australian Taxation Office (ATO). The States are required to reimburse the Commonwealth for the agreed costs incurred by the ATO in administering the GST.

The States have agreed to make additional payments to enhance base administration of the GST and in relation to small business (goods and services tax) field services. The additional payments are matched by an expense which represents the payment to the ATO.

See the related expense measure titled *Intergovernmental Agreement — enhanced resources for GST administration* in the Treasury portfolio.

Further details may also be found in *Budget Paper No. 3*, and the Treasurer's Press Release No. 012 of 22 March 2002.

***Australian Securities and Investments Commission increased fees***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Securities and Investments Commission	7.5	8.4	22.9	22.9

*Explanation*

The Government will increase certain fees charged by the Australian Securities and Investments Commission (ASIC), including annual fees for corporations, fees relating to fundraising, mergers and acquisitions, and late fees. An annual fee will also be introduced from 1 July 2004 for licensing of participants under the *Financial Services Reform Act 2001*.

The new fee structure will more accurately reflect the costs incurred by ASIC in providing particular services to corporations.

The annual fee for proprietary companies will remain capped at \$200 until 30 June 2004.

***Authorised deposit-taking institutions and insurance cost recovery***

*Revenue (\$m)*

	2002-03	2003-04	2004-05	2005-06
Australian Prudential Regulation Authority	3.0	3.0	3.0	3.0

*Explanation*

The financial sector levy on authorised deposit-taking institutions and general insurance companies will be increased to provide additional resources to maintain and

improve the prudential regulation of authorised deposit-taking institutions and general insurers.

See also the related expense measure titled *Authorised deposit-taking institutions and insurance cost recovery* in the Treasury portfolio.