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Tax Laws Amendment (Personal Tax Reduction and Improved Depreciation Arrangements) Bill 2006

Leslie Nielson
Economics, Commerce & Industrial Relations

Contents

Tax Laws Amendment (Personal Tax Reduction and Improved Depreciation Arrangements) Bill 2006

Date introduced: 11 May 2006

House: House of Representatives

Portfolio: Treasury

Commencement: The operative provisions of the Tax Laws Amendment (Personal Tax Reduction and Improved Depreciation Arrangements) Bill 2006 commence with Royal Assent. Schedule 1 and 3 commence on 1 July 2006.

Purpose

This Tax Laws Amendment (Personal Tax Reduction and Improved Depreciation Arrangements) Bill 2006 (the Bill) has several purposes:

- to reduce the personal income tax rates for 2006–07
- to increase the Low Income Tax Offset for 2006–07
- to decrease the amount of Medicare Levy paid by low income senior Australians in 2006–07
- to increase deductions of the decline in value of depreciating business assets under the diminishing value method from 10 May 2006, and
- to make other legislative changes related to the above proposals.-

To achieve these purposes, the Bill amends the following Acts:

- the *Income Tax Rates Act 1986*
- the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act* 1997
- the *Fringe Benefits Tax Act 1986*, and
- the *Medicare Levy Act 1986*.

Further changes, which follow on from the proposed changes to the above legislation, will be made to a number of other Acts.

Background

Budget Surpluses

Since the 2002–03 year, the government has enjoyed an uninterrupted run of underlying budget surpluses. The following table shows the past and projected surpluses between financial years 2002-03 and 2009–10.

Table 1: Past and projected underlying budget surpluses 2002–03 to 2009–10.

Year	02–03	03–04	04–05	05-06	06-07	07-08	08–08	09-10
Budget Surplus $m	7 486	8 093	13 616	14 805	10 828	10 628	11 225	12 019
Per cent of GDP	1.0	1.0	1.5	1.5	1.1	1.0	1.0	1.0

Source: Budget Paper No. 1 2006–07, Table 1: Australian Government general sector receipts, payments and underlying cash balance, p. 13-5.

The government's underlying cash surplus is the amount of achieved or expected surplus excluding abnormal items, such as the sale of government assets. It is the surplus on a 'business as usual' basis. As can be seen, Table 1 indicates that the government has enjoyed substantial surpluses from which to fund past and current reductions in personal income tax. Further, it expects to continue to enjoy such surpluses.

Personal Income Tax Rates and Thresholds

Personal income tax rates have been declining since 2002–03. The following table illustrates these changes, including the proposed changes incorporated in this Bill.

Table 2: Marginal Personal Income Tax Rates 2002–03 to 2006–07.

Marginal Tax Rate % p.a.	2002 – 03 $ p.a.	2003 – 04 $ p.a.	2004 – 05 $ p.a.	2005 – 06 $ p.a.	2006 – 07 $ p.a.
0	0 – 6 000	0 – 6 000	0 – 6 000	0 – 6 000	0 – 6 000
15				6 001 – 21 600	6 001 – 25000
17	6 000 – 20 000	6 001 – 21 600	6 001 – 21 600		
Marginal Tax Rate % p.a.	2002 – 03 $ p.a.	2003 – 04 $ p.a.	2004 – 05 $ p.a.	2005 – 06 $ p.a.	2006 – 07 $ p.a.
30	20 001 – 50 000	21 601 – 52 000	21 601 – 58 000	21 601 – 63 000	25 001 – 75 000
40					75 001 – 150 000
42	50 001 – 60 000	52 001 – 62 500	58 001- 70 000	63 001 – 95 000	
45					150 000+
47	60 001+	62 501+	70 001+	95 001+	

Source: Budget Paper No. 1, 2006–07, Table C1: Personal income tax rates, p. 5-29.

The threshold at which the top marginal tax rate cuts in has steadily increased, however, the threshold at which the lowest marginal tax rate begins to apply have been increased twice during this period.

The following table shows the amount of tax paid, at various income levels, including the estimated impact of the altered shade-in rates for the Medicare Levy at various income levels, compared to the net tax paid in earlier years.

Table 3: Net tax paid at various income levels 2002–03 to 2006–07

Gross Income p.a.	2002-03	2003-04	2004-05	2005-06	2006-07	% Change 03–04 to 06–07[1)]	% Change 05–06 to 06–07[2)]
$10,000	$530	$530	$445	$365	$0	100%	100%
$20,000	$2,530	$2,530	$2,445	$2,165	$1,800	29%	17%
$30,000	$5,830	$5,622	$5,622	$5,310	$4,400	25%	17%
$40,000	$8,980	$8,772	$8,772	$8,460	$7,950	11%	6%
$50,000	$12,130	$11,922	$11,922	$11,610	$11,100	8%	4%
$60,000	$17,080	$16,632	$15,913	$15,360	$14,850	13%	3%
$70,000	$22,030	$21,457	$20,363	$19,450	$18,100	18%	7%
$80,000	$26,980	$26,407	$25,312	$23,900	$21,849	19%	9%
$90,000	$31,930	$31,357	$30,262	$28,350	$26,099	18%	8%
$100,000	$36,880	$36,307	$35,212	$33,050	$30,349	18%	8%
$110,000	$41,830	$41,257	$40,162	$38,000	$34,559	17%	9%
$120,000	$46,780	$46,207	$45,112	$42,950	$38,849	17%	10%
$130,000	$51,730	$51,157	$50,062	$47,900	$43,099	17%	10%
$140,000	$56,680	$56,107	$55,012	$52,850	$47,349	16%	10%
$150,000	$61,630	$61,057	$59,962	$57,800	$51,599	16%	11%

Source: Parliamentary Library

1) This column shows by how much, in percentage terms, the tax burden for a person at these income levels has fallen since the 2002–03 financial year.

2) This column shows the change in income tax burden for taxpayers at these income levels between 2005–06 and 2006–07.

These columns suggest that both lower and most middle income earners have gained the greatest cumulative benefit of the cuts in personal income tax since 2002-03. However, when the changes in tax paid in 2005–06 and in 2006–07 are compared it is clear that the very lowest and highest income earners have received the greatest reductions in net tax paid in percentage terms.

Low Income Tax Offset

The Low Income Tax Offset is increased at irregular intervals. It was last increased for the 2003–04 year, from $150 to its current level of $235. The income thresholds at which it cuts out also increase at the same, irregular intervals. For example, for the 2002–03 tax year the upper threshold was $24 450. For the 2003–04 tax year this threshold increased to $27 475.

The Bill increases the Low Income Tax Offset (or tax rebate) from $235 to $600 per year and the threshold below which the full rebate is paid is increased from $21 600 to $25 000 p.a. The threshold above which this tax offset no longer applies has been increased from $27 475 to $40 000. These changes apply to the 2006–07 financial year.

As a result of this change, those eligible for the full low income tax offset will not pay tax until their annual income exceeds $10 000 p.a. In 2005–06 those whose income was $7 567 or below did not pay any tax due solely to this tax offset.[1]

Medicare Levy Thresholds

In contrast to changes in the Low Income Tax Offset, the thresholds at which the Medicare Levy commences to be applied increase annually in line with inflation. However, the rate at which the Medicare Levy shades-in, to the full rate, has always been $0.20 for every extra dollar over these particular thresholds. The Bill decreases this shade-in rate from $0.20 above the lower threshold in 2005–06 to $0.10 in 2006–07.

The government has announced that the lower thresholds will be increased in 2005–06 to $16 284 for singles and $27 478 for families.[2] However, a separate piece of legislation implements these particular changes for families and singles.

This Bill will implement changes to the Medicare thresholds for those qualified to also receive the Senior Australians Tax Offset. This Bill increases the personal income threshold for senior Australians from $21 968 in 2005–06 to $24 867 in 2006–07 for Medicare Levy purposes. A senior Australian will not pay the Levy if their personal taxable income is below this figure in 2006–07. The Bill also raises the personal income threshold below which senior Australians pay less than the full rate of Medicare Levy to $29 255 in the same financial year.[3]

Certain low income aged persons, both pensioners and ‘self-funded retirees’, are entitled to a special additional tax offset.[4] This offset, officially described in the legislation as the low income aged persons rebate, is generally referred to as the Senior Australians Tax Offset (SATO). The classes of person eligible to claim the offset are as follows:

- a taxpayer who, at some point during the income year: (a) is eligible for a pension, allowance or benefit under the *Veterans' Entitlements Act 1986* (for 2005/06, 65 years for men and above certain qualifying ages between 60.5 and 65 years for women); (b) has reached veteran pension age under that Act (for 2005/06, 57.5 years for women and 60 years for men); and (c) is not in gaol, or
- a taxpayer who, at some point during the income year: (a) is qualified for an age pension under the *Social Security Act 1991*; and (b) is not in gaol.

This therefore includes: (a) persons who were eligible for a veterans pension, allowance or benefit but did not receive it, eg because of the assets or income tests; and (b) persons who did not satisfy the residency criteria for an age pension but were eligible for that pension on alternative grounds.[5]

Depreciating Business Assets – Introduction

Under the uniform capital allowance system,[6] deductions from business income are available for the decline in value of depreciating assets. Furthermore, specified expenditure (eg software expenditure or low-cost depreciating assets) is pooled and deductions are allowed for the decline in value of the pool. In a number of cases, certain capital expenditure is deductible immediately (eg mining exploration or prospecting expenditure, landcare operations, environmental activities, mining site rehabilitation expenditure). In the remaining cases, the expenditure is deductible over the life of the asset (eg in the case of depreciating assets, including primary production assets) or over the life of the project to which the expenditure relates (eg mining and other infrastructure projects).[7]

Depreciating Business Assets

When reducing the value of business assets for tax purposes business can use one of two methods:

- the prime cost method, or
- the diminishing value method.

Briefly, the 'prime cost method' (sometimes known as the straight line method) allows a business to reduce the value of its business assets by a fixed amount each year. The diminishing value method allows a business to reduce the value of its assets by a variable amount each year. The following example illustrates the difference between the two methods.

A depreciating asset costing $10 000 acquired on the first day of Year 1 has an effective life of four years. The following table shows the annual decline in value and adjustable values under the prime cost (PC), diminishing value (DV) and proposed DV, methods for comparison.

Table 4: Example of the decline in the value of business assets using the prime cost and diminishing value methods

	PC $	DV $	Proposed DV $
Cost	10,000	10,000	10,000
Year 1 decline in value	2,500	3,750	5,000
Opening adjustable value	7,500	6,250	5,000
Year 2 decline in value	2,500	2,344	2,500
Opening adjustable value	5,000	3,906	2,500
Year 3 decline in value	2,500	1,465	1,250
Opening adjustable value	2,500	2,441	1,250
Year 4 decline in value	2,500	915	625
Adjustable value	nil	$1,526	625

Source: CCH 2006 Master Tax Guide and Parliamentary Library

Under the diminishing value method there is a balance (the adjustable value at the end of Year 4) which has not been written off. This amount can be further depreciated. If the asset is scrapped, the adjustable value can be claimed as a business tax deduction.[8]

The major change to business taxation was the increase in the diminishing value rate, from 150 to 200 per cent, for the calculation of the depreciation deduction for tax purposes. The higher rate increases the amount of depreciation deduction available in the first years of a business asset's effective life. The effect of this change is illustrated in the 'Proposed DV' column in the above table. However, the amount of tax deductions due to depreciation under the new rate is lower, than under the old rate, or the PC method, in later years.[9]

The proposed new depreciation method will apply to assets a taxpayer starts to hold under a contract concluded on or after 10 May 2006.

Basis of policy commitment

These personal income tax measures were first announced by the Treasurer in his Budget speech on 9 May 2006.[10] The business depreciation measures were announced in the Treasurer's Press Release No. 41 on 9 May 2006.

Position of significant interest groups/press commentary

Significant Interest Groups

The overall reaction from significant groups was to welcome the changes to the personal income tax rates, but suggested that the Government could do better.

The Australian Council of Social Services noted that low income Australians had gained through adjustments to income tax and family payment changes. However, they were hoping for greater investment to provide more accessible and affordable services.[11]

The Australian Council of Trade Unions (ACTU) noted that the changes to the personal income tax system will mean very little to the majority of low and middle income Australians. They note that the recent reductions in personal income tax would be more than used up paying for the recent increase in fuel prices and rises in interest rates. The Council noted that the highest income earners ($200 000 a year plus) had gained the majority of the benefits from cuts in personal income tax since 1996.[12]

The Australian Chamber of Commerce and Industry noted that the changes to the personal income tax system were a good start on further tax reform. But the Chamber was disappointed that there was not further reform of the Capital Gains Tax and indexing the personal income tax thresholds to increases in the Consumer Price Index.[13]

The Business Council of Australia welcomed specific changes to the personal tax system, considering that they should provide additional incentives to work and save. However, it was disappointed that the Budget did not provide a strategic approach to further changes in the tax system.[14]

The same broad concerns were also expressed by the Business Coalition for Tax Reform (the Coalition). The Coalition noted that the proposed reforms (including the improvement in depreciation allowance) would only return $4.2 billion to the corporate sector over 4 years, when it was this sector that had provided a substantial increase in the government's tax revenue. However, the Coalition specifically welcomed the changes to the depreciation rules for business assets.[15]

Press Commentary - Personal Income Tax

In general, the press commented favourably on the Bill's proposed reductions in personal income tax. However, there are several themes in the press response to the proposed changes included in the Bill.

A number of commentators are concerned that the reductions in personal income tax will contribute to an increase in inflation. In turn, it is argued, this could contribute to upward pressure on interest rates.[16] Other commentators have noted that the overall effect of the Budget is to add only slightly to the overall level of demand and that the current Governor of the Reserve Bank of Australia, Ian Macfarlane, has stated that small changes in the overall size of a budget surplus do not have an impact on interest rate considerations.[17] The resolution to this difference of opinion depends on how precisely the tax cuts in this Bill are used, that is whether the money available after the tax cuts is spent or saved by taxpayers. Economists are uncertain about the possible effects in the current economic circumstances.[18]

Another major theme in the press is that of lost opportunity. Several commentators echoed the position of various business groups outlined in the previous section, arguing that the proposed changes did not amount to an overhaul of the tax system.[19] Other commentators are concerned that the focus on tax cuts comes at the expense of investment in human infrastructure, for example through training to increase the supply of skilled workers or investing in physical infrastructure and research.[20]

Press reaction to the tax cuts was also concerned with their size, especially in relation to recent increases in mortgage interest rates and petrol prices. Some commentators noted that for most taxpayers, the size of the weekly tax cut arising from changes in this Bill would be eroded by increased fuel cost, mortgage rates or by ongoing 'bracket creep', that is the movement of wages into the next highest tax bracket.[21]

Some commentators note that the greatest benefits went to either low or high income earners (though press commentary was far from unanimous on this point).[22] This has led to speculation of a further round of personal income tax cuts in the 2007–08 Budget.[23] It appears that further cuts in the proposed highest marginal tax rate are affordable.[24]

Press Commentary – Depreciation of Business Assets

Initial press reaction to these proposed changes was positive, especially for small to medium sized business. The changes were considered to encourage new investment in plant and equipment.[25] However, one commentator noted that the proposed changes to the depreciation arrangements for business assets will not have a decisive impact on business spending decisions for largely bigger companies.[26]

Pros and cons

Advantages

Points in favour of the Bill's proposed reductions in personal income tax rates may be:

- the redistribution of the proceeds of the increased tax revenues
- increased disposable income of taxpayers
- increased incentives to undertake additional work or start new business, thereby increasing productivity and employment opportunities

- slightly decreased tax advantages from the negative gearing of property, thereby putting less upward pressure on residential property prices, and
- reduced reliance on personal income tax as a source of tax revenue.

Increased rates of depreciation for business assets may lead to increased rates of capital investment. As Australia is not a 'low wage' economy, increased capital investment is necessary to remain competitive in world export markets.

The reduction in the shade-in rate for the Medicare Levy for low income earners reduces the impact of this Levy on the most vulnerable sector of the community.

Disadvantages

The proposed changes in the personal income tax rates may:

- reduce the amount of revenue that the government could use in other areas (see next point)
- reduce revenue flows at a time when the Budget is forecast to slip into deficit due to the structural ageing of the population (Table 5 below quantifies the size of the expected reductions in revenue from all proposed measures in this Bill), and
- not be as preferable as increased investment in skills formation, general education, health and/or infrastructure.

Some have argued that the distribution of the proposed reductions in personal income tax flows disproportionately to high income earners.[27] This approach is based on the point that higher income earners generally receive a larger reduction in their income tax paid, in dollar terms, than low income earners, under the Bills proposed changes to personal income tax.

The Bill's proposed measures relating to accelerated depreciation rates have been criticised for being insufficient to allow manufactures and software firms to update their equipment.[28]

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

In his address in reply the leader of the Opposition, the Hon Kim Beazley MP stated:

> I support the modest, overdue tax relief that middle Australian families received in the budget. They will need every cent of it, especially when they are facing the triple-whammy of higher interest rates, higher petrol prices and extreme industrial relations changes. So of course I welcome this tax break for the families of middle Australia. But I make this point: no tax cut can make up for your losing your penalty rates. No tax cut can make up for your being unfairly dismissed. No tax cut can find you extra time to spend with your family. And no tax cut will give back the jobs that the Ballarat apprentice welders lost to Chinese workers.

> My point is this: sure, the government is offering tax cuts, and I support them, but I will also deliver job security, education and training, child care and nation building. That is my pact with middle Australia because, like me, middle Australia is asking: what else? Where is the down payment on the future? Where is the investment in skills, in kids and in families? Where is the vision that Australia needs—the vision we need to build prosperity?
>
> This budget fails middle Australia and mortgages our future. It has no plan to take pressure off interest rates. If interest rates go up again, middle Australia knows who to blame—the Prime Minister. Prime Minister, if your failure to fix the skills crisis forces interest rates up again, the buck stops with you. If your failure to show national leadership on infrastructure forces up interest rates up again, the buck stops with you. And if your failure to turn around Australia's current account deficit forces interest rates up again, the buck stops with you.[29]

In a statement on the Budget Documents the Leader of the Democrats in the Senate, Senator Lyn Allison, stated:

> The Treasurer told the parliament on Tuesday night that tax breaks would carry Australia into the next decade. The Democrats are not convinced, and that is what I want to talk about tonight. In our view, the Treasurer's budget comes from a vision of Australia seen through the eyes of political strategists who cannot and do not see beyond the next election. This budget is about votes and not about nation building. In fact, there is very little by way of planning in this budget for those who are not couples with one or two high incomes, with 2.5 children at school or those not 60 and over with a generous nest egg on which to retire. This budget has been prepared with little interest in fact in the social, economic and environmental mess that is being left behind for the next generation of Australians…..
>
> I now turn to a core value of the coalition—income tax cuts. I understand that Australians will be grateful for tax relief in the budget but they will surely be disappointed that there is no strategic income tax reform plan. The Democrats and economics commentators say that structural tax reform is essential to a simpler, fairer and more transparent system. But Mr Costello is the 'no plan tax man'. He has only adjusted rates and thresholds within the existing system—something a well-programmed computer could do with ease. The GST and the New Tax System took several years of hard work to develop, and so it is with income tax reform.
>
> We say—and we have been saying this for many years—that a structural tax reform plan must include raising the tax free threshold so, at the very least, people with income below the poverty line do not pay tax. Indexing the rates to account for bracket creep is necessary as are broadening the tax base by eliminating inequitable, inefficient and out-dated tax concessions, and reforming the tax welfare intersects to encourage people to move from welfare to work. If concessions were rationalised we could perhaps eliminate the need for tax returns—it is just an idea. Why do we need to do this? It is because effective marginal tax rates of up to 70 per cent apply to low-income earners right now when they move from welfare to work, and this is just unfair. No Australian should have to accept an effective marginal tax rate greater—

> much greater—than the new top rate of 45 per cent. The 'no plan tax man', in his largesse has just fiddled at the edges, rewarding those on the highest incomes the most.[30]

Senator Christian Milne set the Australian Green Party's position on the overall Budget in her speech of 11 May 2006. Though not commenting specifically on the proposals in this Bill she noted that reductions in revenue that would otherwise be received restricts the Government's ability to deal with environmental and social problems.[31]

The Leader of the Family First Party, Senator Fielding stated:

> Ordinary Australian families will be grateful for whatever help they can get from this budget. At a time when they are battling with high petrol prices and an increase in interest rates, everything helps. But the fact is that ordinary Australian families have not got as much help out of this budget as they could have. For example, politicians have fared much better from the tax cuts than the average Australian. I will get a tax cut of about $66 a week. But somebody earning $50,000 or $60,000 will get a tax cut of just $10 a week. The government has also expanded access to the large family supplement. Parents with three children—and that includes my wife, Sue, and I—will now receive an extra $5 a week. But that does not do much to fill the car or pay the mortgage. And the Treasurer has to be kidding if he thinks $5 extra a week will encourage families to have more children.
>
> The government claims this is a budget for families, but the big winners are the high-income earners. Can you believe that a single person earning $100,000 a year with no children gets twice as much as a two-income family on $100,000 with two children? I quote from an article in the *Financial Review* yesterday entitled 'At last, it's a win for the high income earners'. It said:
>
> The changes mean the 2 per cent of taxpayers earning more than $150,000 next financial year and paying the top tax rate will save $6200 a year, or more than 12 times the $510 saving pocketed by average workers.
>
> Another article in the *Financial Review* reveals:
>
> Even a single person on $70,000 a year will receive $190 a year more in tax cuts than a dual-income family with two children on the same income which starts to lose family tax benefits once income reaches a certain level.
>
> So much for putting families first.
>
> Family First thinks there is a better way. For example, consider a two-income, two-child family. One wage earner is on $60,000 and the other is on $20,000. They have two cars—a Commodore and a Corolla—and they fill up the tanks with petrol once a week. If the government had adopted Family First's plan to cut the petrol tax by 10c a litre, this family would have saved about $13 a week in its petrol bill alone. This petrol tax cut would have cost the government $3.8 billion. Instead, under the government's plan, that family will get $16 a week in tax cuts. Yes, that is just $3 more out of the government's package, but that will cost about $9 billion a year for

> the next four years. However, under Family First's proposal, the family could have had the $13 extra a week, plus there would have been more than $5 billion left over for income tax cuts. Clearly, the average Australian family would have been better off under Family First's plan.[32]

Financial implications

The following tables, drawn from the Explanatory Memorandum to the Bill, illustrate the projected financial impact of the proposed changes.

Table 5: Combined Financial Cost of proposed measures in the Bill

Year	2006–07	2007–08	2008–09	200910
Cost to Budget $ bn	- 6.9	-10.3	-11.1	-11.8

Source: Explanatory Memorandum to Tax Laws Amendment (Personal Tax Reduction and Improved Depreciation Arrangements) Bill 2006, pp. 3, 4.

The projected surpluses amounts noted in Table 1 above take these figures into account. The overwhelming bulk of the expected reductions in revenue come from reductions in personal income tax.

Main provisions

Schedule 1 – Part 1

Item 1 amends **Schedule 1** of the *Income Tax Rates Act 1986* to implement the new tax rates, and annual income thresholds for resident tax payers.

Resident tax payers receive the advantage of the tax free threshold of $6 000 per annum and a lower marginal tax rate up to $25 000 in annual income, compared with non-resident tax payers.

- **Item 2** makes the corresponding changes to the *Income Tax Rates Act 1986* for non-resident tax payers.

For tax purposes only, a person is treated as a resident if:

- the person was a resident (generally spending more than half the year in Australia, other definition also apply), or
- at any time during the income year or was in receipt of a taxable Australian social security, military rehabilitation or veterans' entitlement pension, benefit or compensation.

In any other case, the person is classed as a prescribed non-resident.[33]

While non-resident individuals are generally exempt from the Medicare levy, they generally cannot claim personal tax offsets.[34]

Schedule 1 – Part 2

This **Part** makes changes to a number of other tax related Acts that flow from either changing the top marginal tax rate from 47 to 45 per cent or altering the personal income tax thresholds.

Schedule 2

Schedule 2 amends the *Fringe Benefits Tax Act 1986*.

Schedule 2 reduces the fringe benefits tax rate from 48.5 to 46.5 per cent. This reduction is in line with the reduction in the highest personal income tax rate from 47 to 45 per cent and includes the Medicare Levy rate of 1.5 per cent.

Item 2 of this Schedule provides for this change to commence on 1 April 2006. This is because the tax year, for fringe benefits tax purposes, commences on 1 April each year.[35]

Schedule 3

Schedule 3 increases the Low Income Tax Offset from $235 to $600 and increases the personal income thresholds below which the full tax offset applies and above which no levy applies, respectively.

Item 4 ensures that these changes apply to the 2006–07 and later tax years.

Schedule 4

This schedule amends the *Medicare Levy Act 1986*.

Items 1 and **2** alter the personal income thresholds for those entitled to Senior Australians Tax Offset (SATO).

Items 3, **4** and **5** reduce the Medicare Levy shade in rage from $0.20 for every dollar over specified personal income thresholds to $0.10. These measures apply to all taxpayers.

Item 7 increases the upper Medicare Levy shade in threshold (the threshold above which a reduced rate of Medicare Levy is no longer payable) for those entitled to a SATO, from $31 729 to $33 500.

Item 8 provides for these changes to apply for the 2006–07 and later years of income.

Schedule 5

Schedule 5 amends the *Income Tax Assessment Act 1997*.

Item 1 implements the new rate of depreciation, under the diminishing value method, for business assets purchased on or after 10 May 2006.

Item 2 implements the new rate of depreciation (200 per cent) for pools of business assets relating to a specific project commencing after 9 May 2006 projects.

Endnotes

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9. See also, the Hon. Peter Costello MP, Treasurer, 'Improving Australia's Depreciation Arrangements' 'Attachment A Examples of how increased diminishing value rate will affect tax depreciation deductions', *Press Release*, 9 May 2006.
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