1993

THE PARLIAMENT OF AUSTRALIA

SENATE

SALES TAX (CUSTOMS) (DEFICIT REDUCTION) BILL 1993

SALES TAX (EXCISE) (DEFICIT REDUCTION) BILL 1993

SALES TAX (IN SITU POOLS) (DEFICIT REDUCTION) BILL 1993

SALES TAX (GENERAL) (DEFICIT REDUCTION) BILL 1993

SALES TAX ASSESSMENT AMENDMENT (DEFICIT REDUCTION) BILL 1993

REPLACEMENT EXPLANATORY MEMORANDUM

(Circulated by the authority of the Treasurer

the Hon John Dawkins, M.P.)

THIS EXPLANATORY MEMORANDUM REPLACES THE PREVIOUS EXPLANATORY MEMORANDUM TO CORRECT PRINTING ERRORS.

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Overview of the Government's deficit reduction package of legislation

The deficit reduction package comprises 8 Bills, which will give effect to changes to the tax law announced in the 1993-4 Budget.

Taxation (Deficit Reduction) Bill (No. 1) 1993

This Bill will make the amendments necessary to give effect to the following measures:

- increase the Medicare low income thresholds;
- remove the concessional treatment that applies to the taxation of unused annual and long service leave;
- changes to the taxation treatment of excess domestic travel allowances and expenses, and of certain non-deductible expenses;
- denial of income tax deductions for car parking expenses for self-employed persons;
- changes to the taxation treatment of credit unions.

This Bill will commence on the date on which it receives the Royal Assent.

Taxation (Deficit Reduction) Bill (No. 2) 1993

This Bill contains amendments to give effect to the following 2 measures:

- increase the rate of fringe benefits tax;
- change the taxation treatment of friendly societies, including bringing the rate of tax on their life insurance business into line with the rate of tax on similar business undertaken by life companies.

This Bill will commence on the date on which it receives the Royal Assent.

Taxation (Deficit Reduction) Bill (No. 3) 1993

This Bill will contain the amendments necessary to:

- bring forward the first round of personal tax cuts, and to defer the second round; and

- introduce the $150 low income rebate.

This Bill will not commence until all of the other Bills in this package, except for the Taxation (Deficit Reduction) Bill (No. 2) 1993, receive the Royal Assent.

Sales Tax (Customs) (Deficit Reduction) Bill 1993

Sales Tax (Excise) (Deficit Reduction) Bill 1993

Sales Tax (In Situ Pools) (Deficit Reduction) Bill 1993

Sales Tax (General) (Deficit Reduction) Bill 1993

- Each of these Bills will modify the *Sales Tax (Exemptions and Classifications) Act 1992* to the extent necessary to give effect to the following changes to the sales tax laws:

  - the general percentage increases in sales tax rates;

  - the change of rates on wine;

  - the changes to the tax treatment of luxury motor vehicles.

- These Bills will be taken to have come into operation on 18 August 1993, for those measures announced to take effect from that date.

Sales Tax Assessment Amendment (Deficit Reduction) Bill 1993

- This Bill will make the consequential changes to the *Sales Tax Assessment Act 1992* that are necessary to give effect to the changes to the taxation treatment of luxury motor vehicles.

- This Bill will be taken to have come into operation on 18 August 1993.

General Outline and Financial Impact

The following Bills will amend the *Sales Tax Assessment Act 1992* and the *Sales Tax (Exemptions and Classifications) Act 1992* to effect the changes detailed:

Sales Tax Assessment Amendment (Deficit Reduction) Bill 1993 **(STAAM)**;

Sales Tax (Excise) (Deficit Reduction) Bill 1993	**(STEA)**;
Sales Tax (General) (Deficit Reduction) Bill 1993	**(STGA)**;
Sales Tax (Customs) (Deficit Reduction) Bill 1993	**(STCA)**;
Sales Tax (In Situ Pools) (Deficit Reduction) Bill 1993	**(STPA)**.

Sales Tax: General Rate Increases

- Increase existing sales tax rates by one percentage point from 10% to 11%, 15% to 16%, 20% to 21% and 30% to 31%.

Date of effect: 18 August 1993

- Increase sales tax rates by a further one percentage point from 11% to 12%, 16% to 17%, 21% to 22% and 31% to 32%.

Date of effect: 1 July 1995

Proposals announced: 1993-94 Budget, 17 August 1993.

Financial gain:	93-94	94-95	95-96	96-97
	$435m	$585m	$1207m	$1345m

Sales Tax on Wine, Cider and other Similar Beverages

- Increase the rate of sales tax on alcoholic wines from 20% to 31%. The rate of tax on those low alcohol wines that are taxable at 10% will increase to 21%.

Date of effect: 18 August 1993

Proposal announced: 1993-94 Budget, 17 August 1993.

Financial Gain:	93-94	94-95	95-96	96-97
	$70m	$95m	$105m	$110m

Sales Tax on Luxury Motor Vehicles

- Change the effective rate of sales tax on luxury motor vehicles, so that:

  (a) the portion of the wholesale value that does not exceed the luxury threshold will be taxed at the rate of sales tax applicable to that kind of motor vehicle (ie. either 16% or 21%, depending on the classification of the vehicle); and

  (b) a new rate of 45% will apply to the excess.

Date of effect: 18 August 1993

Proposal announced: 1993-94 Budget, 17 August 1993.

Financial gain:	93-94	94-95	95-96	96-97
	$5m	$10m	$10m	$10m

How do all the Bills affect the Current Sales Tax Law?

The following tables explain how the various Bills relate to the current Sales Tax legislation and what changes are designed to be achieved by the proposed new legislation.

BILL	HOW THE BILL RELATES TO CURRENT LAW	CHANGES CREATED BY THE BILL
Sales Tax Assessment Amendment (Deficit Reduction) Bill 1993	Amends the Sales Tax Assessment Act 1992	• taxable value reduction for luxury motor vehicles; % set from 18.8.93 and from 1.7.1995; • sets an exempt part of the taxable value for luxury motor vehicles for disabled persons; • amends the examples
Sales Tax (Excise) (Deficit Reduction) Bill 1993	Modifies the Sales Tax (Exemptions and Classifications) Act in so far as it deals with tax imposed by the Sales Tax Imposition (Excise) Act 1992	• sets a one percentage point increase for schedules 2 to 5 to apply from 18.8.93 and a further one percentage point increase to apply from 1.7.1995; • changes the rates of tax applicable to wine, cider etc.; • new schedule 6 for luxury motor vehicles with rate of 45%.

BILL	HOW THE BILL RELATES TO CURRENT LAW	CHANGES CREATED BY THE BILL
Sales Tax (General) (Deficit Reduction) Bill 1993	Modifies the Sales Tax (Exemptions and Classifications) Act in so far as it deals with tax imposed by the Sales Tax Imposition (General) Act 1992	• sets a one percentage point increase for schedules 2 to 5 to apply from 18.8.93 and a further one percentage point increase to apply from 1.7.1995; • changes the rates of tax applicable to wine, cider etc.; • new schedule 6 for luxury motor vehicles with rate of 45%.
Sales Tax (Customs) (Deficit Reduction) Bill 1993	Modifies the Sales Tax (Exemptions and Classifications) Act in so far as it deals with tax imposed by the Sales Tax Imposition (Customs) Act 1992	• sets a one percentage point increase for schedules 2 to 5 to apply from 18.8.93 and a further one percentage point increase to apply from 1.7.1995; • changes the rates of tax applicable to wine, cider etc.; • new schedule 6 for luxury motor vehicles with rate of 45%.
Sales Tax (In Situ Pools) (Deficit Reduction) Bill 1993	Modifies the Sales Tax (Exemptions and Classifications) Act in so far as it deals with tax imposed by the Sales Tax Imposition (In Situ Pools) Act 1992	• sets a one percentage point increase for schedules 2 to 5 to apply from 18.8.93 and a further one percentage point increase to apply from 1.7.1995;

CHAPTER ONE Sales Tax: General Rate Increases

Summary of proposed amendment

Existing sales tax rates will increase by one percentage point from 18 August 1993 and will be increased by a further one percentage point from 1 July 1995 ***[clause 2, STAAM, STEA, STGA, STCA, STPA].***

Background to the legislation

Sales tax rates are set in Schedules to the *Sales Tax (Exemptions and Classifications) Act 1992* (E&C Act). Schedule 1 covers goods which are exempt from sales tax. Schedules 2 to 5 cover goods on which sales tax is payable. Each Schedule sets a different rate of sales tax for taxable dealings with the goods covered by that Schedule. The rates applicable under those Schedules are 10%, 15%, 20%, and 30% respectively.

Explanation of the amendments

The following table shows the Schedules to the E&C Act, the current rates of sales tax set by those schedules, the rates which will apply from 18 August 1993 and the rates which will apply from 1 July 1995.

SCHEDULE	EXISTING RATE	RATE FROM 18 AUGUST 1993	RATE FROM 1 JULY 1995
Schedule 1	Exempt	Exempt	Exempt
Schedule 2	10%	11%	12%
Schedule 3	15%	16%	17%
Schedule 4	20%	21%	22%
Schedule 5	30%	31%	32%
Schedule 6	Not applicable	45%	45%

Each rating Schedule will be amended to increase the rate set by that Schedule by one percentage point for taxable dealings occurring on or after 18 August 1993 ***[items 4,5,6,7 in schedule 1 to clause 5; STEA, STGA, STCA and STPA].***

The Bill will also insert a new Schedule (Schedule 6) which will apply to luxury motor vehicles. Schedule 6 will apply a 45% rate to those vehicles. However, for each taxable dealing covered by Schedule 6, the *Sales Tax Assessment Act 1992* (The Assessment Act) will substitute a special taxable value (proposed Section 42A). That special value will ensure that the 45% rate is only applied to that proportion of the taxable value that exceeds the Income Tax depreciation limit for motor vehicles ***[clause 4, STAAM and item 8 in schedule 1 to clause 5, STEA, STGA and STCA].***

The increased rates will be further increased by another percentage point from 1 July 1995. The rate, however, for luxury motor vehicles, will remain at 45% ***[items 1,2,3,4 in schedule 2 to clause 6, STEA, STGA, STCA, and STPA].***

Appendix A to the Assessment Act contains examples of the operation of the sales tax laws, including calculations of tax payable. The Bill will amend those examples so that they reflect the increased rates proposed to apply from 18 August 1993. A further set of amendments proposed to commence on 1 July 1995 will adjust those examples to reflect further rate increases proposed to apply from that later date ***[clause 6 and appendix A of the schedule to clause 8, STAAM].***

CHAPTER TWO Sales Tax: Wine, Cider and Other Similar Beverages

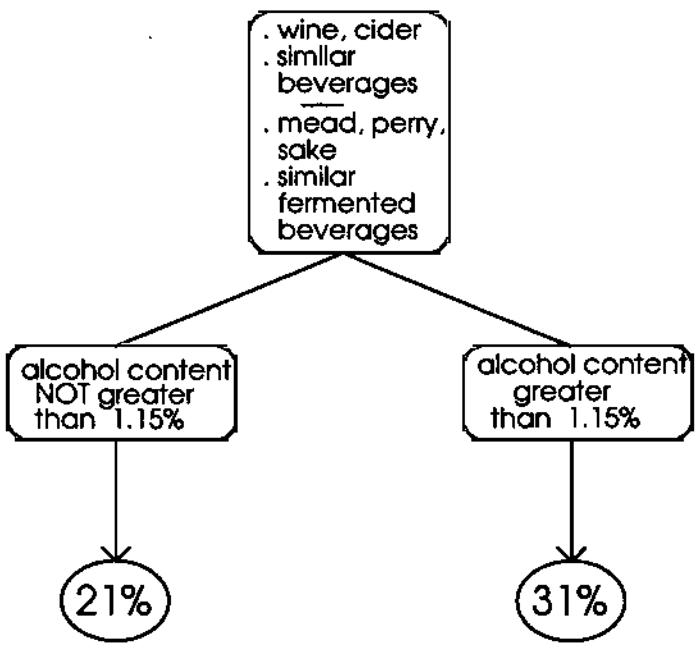
Summary of proposed amendments

- ***Purpose of amendments:*** To increase the rates of tax on wine, cider and similar beverages:

  (a) from 10% to 21%, if the beverages have a low alcohol content (not more than 1.15% by volume); and

  (b) from 20% to 31%, if the beverages do not have a low alcohol content (more than 1.15% by volume).

Date of effect: The amendments will apply to dealings with goods on or after 18 August 1993.



Background to the legislation

Low alcohol wine, cider etc.

Under the existing law, the following low alcohol beverages:

- Australian-made wine and cider, and beverages similar to wine and cider (such as wine coolers); and
- mead, perry, sake and other similar fermented beverages;

are taxed at the concessional rate of 10%. Goods are taken to be low alcohol if they contain no more than 1.15% by volume of alcohol.

Note: The expression "other similar fermented beverages" includes fruit wines and beverages fermented from plants such as vegetables, flowers and herbs marketed as vegetable wine etc.

Imported low alcohol wine and cider, however, is taxed at the general rate of 20%.

The 10% concessional rate does not apply to:

- beer, spirits, liqueurs or spirituous liquors; or
- beverages that contain beer, spirits (other than spirits for fortifying wine or other beverages), liqueurs or spirituous liquors.

Other wine, cider etc.

Under the existing law, the following alcoholic beverages:

- wine, cider and beverages similar to wine and cider (such as wine coolers); and
- mead, perry, sake and other similar fermented beverages;

are taxed at the general rate of 20%. Goods are taken to be alcoholic if they contain more than 1.15% by volume of alcohol.

Explanation of proposed amendments

The following table shows the range of alcoholic and low alcohol beverages whose rates of tax are proposed to be changed by the Bills, together with the existing rates and proposed increased rates.

Beverage	Alcoholic or low alcohol	Australian or imported	Existing rate	Proposed rate (at 18/8/93)
Wine, cider & similar beverages	Alcoholic	Australian & imported	20%	31%
Wine & cider	Low alcohol	Australian	10%	21%
Wine & cider	Low alcohol	Imported	20%	21%
Beverages similar to wine & cider	Low alcohol	Australian & imported	10%	21%
Mead, perry, sake & other similar fermented beverages	Alcoholic	Australian & imported	20%	31%
Mead, perry, sake & other similar fermented beverages	Low alcohol	Australian & imported	10%	21%

The Bills, STEA, STGA and STCA will amend Schedule 2 to the *Sales Tax (Exemptions and Classifications) Act 1992* by deleting Item 15, which covers the following low alcohol beverages :

- wine and cider manufactured in Australia;
- beverages similar to wine or cider; and
- mead, perry, sake, and other similar fermented beverages.

Low alcohol beverages consist of no more than 1.15% by volume of alcohol.

This will have the effect of increasing the tax on those beverages from 10% to the general rate (proposed by this Bill to be 21% from 18 August 1993) ***[item 4 in schedule 1 to clause 5, STEA, STGA and STCA].***

The Bills, STEA, STGA and STCA will also amend Schedule 5 to the E&C Act by adding Item 15, which covers the following alcoholic beverages:

- wine, cider and beverages similar to wine or cider; and
- mead, perry, sake, and other similar fermented beverages.

Alcoholic beverages contain more than 1.15% by volume of alcohol.

This will have the effect of increasing the tax on those beverages from 20% to the second highest rate (proposed by this Bill to be 31% from 18 August 1993) ***[item 7 in schedule 1 to clause 5, STEA, STGA and STCA]***.

CHAPTER THREE Sales Tax: Luxury Motor Vehicles

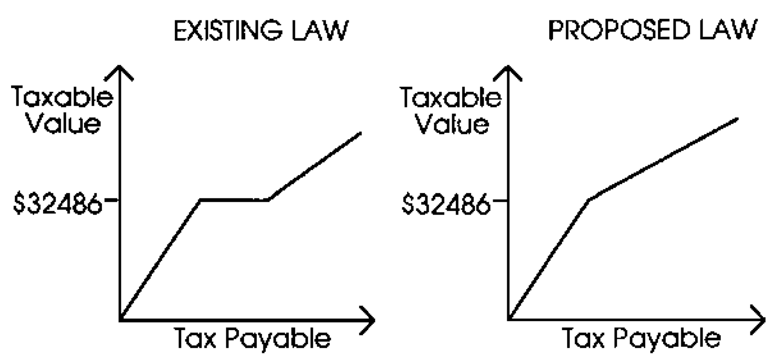
Summary of proposed amendments

Purpose of amendment: To change the effective rate of sales tax on luxury motor vehicles, so that:

(a) the portion of the wholesale value that does not exceed the luxury threshold will be taxed at the general rate of sales tax applicable to that kind of motor vehicle (ie. either 16% or 21%, depending on the classification of the vehicle); and

(b) a new rate of 45% will apply to the excess.

Date of effect: The change will apply to taxable dealings that occur with luxury motor vehicles on or after 18 August 1993.



Background to the legislation:

Under the existing law arrangements, luxury motor vehicles are subject to sales tax at a rate of 30% on their full wholesale value. A luxury motor vehicle is a passenger motor car or station wagon which has a wholesale value in excess of the luxury motor vehicle threshold. That threshold is calculated according to a formula that converts the motor vehicle depreciation limit (under the Income Tax law) to an equivalent wholesale value. For the 1993-94 financial year, the luxury motor vehicle threshold is $32,486.46.

Passenger motor cars or station wagons which have a wholesale value below the luxury motor vehicle threshold are taxable at either 15% or 20% (depending on the classification of the motor vehicle).

However, once the wholesale value of the motor vehicle exceeds the luxury threshold, the 30% rate is applied to the full wholesale value of the vehicle. This has the effect of imposing an additional 15% or 10% rate of tax (as the case may be), on the sub-luxury component of the wholesale value of the luxury motor vehicle. For example, the sales tax payable on a passenger vehicle with a wholesale value of $32,486 is $4,873, but if the wholesale value is increased by $1 to $32,487, the sales tax increases to $9,746.

Explanation of proposed amendments

The purpose of introducing the split rates is to remove the sudden increase in tax that is payable on the sub-luxury component of the wholesale value of a motor vehicle when it exceeds the luxury threshold. The split rate will mean that all passenger vehicles will be taxable at either 16% or 21% up to the current luxury threshold of $32,486.46. After the threshold has been reached, each additional dollar of wholesale value will be subject to tax at the rate of 45%. This means that where the luxury threshold is exceeded eg. by $1, the additional tax payable will be 45 cents rather than $4,873 for 15% vehicles or $3,249 for 20% vehicles.

The amendments will insert a new Schedule (Schedule 6) in the *Sales Tax (Exemptions and Classifications) Act*, which will apply sales tax at the rate of 45% on luxury motor vehicles. These are the same motor vehicles that are taxed under the existing law at 30% ***[item 8 in schedule 1 to clause 5; STEA, STGA and STCA].***

However, for all taxable dealings with luxury motor vehicles, the new law will substitute a special taxable value. The effect of that special value will be to apply a split rate to luxury motor vehicles ***[clause 4, STAAM]***:

- the portion of the wholesale value of the motor vehicle that does not exceed the luxury threshold will be taxed at the general rate of sales tax applicable to that kind of motor vehicle (ie. 16% or 21%, depending upon the classification of the vehicle);
- the portion of the wholesale value of the motor vehicle that does exceed the luxury threshold will be taxed at the new rate of 45%.

Example:

From the following information we can carry out a comparison between the reduced taxable value method used to calculate the taxable value proposed in the Bill, and the effective split value method, for a motor vehicle with a pre-luxury threshold classification which will be at a rate of 16%.

1993/4 Luxury motor vehicle depreciation limit:	$48,415.00
Taxable value threshold:	$32,486.46
Retail price of motor vehicle:	$61,710.70
Equivalent wholesale value:	$40,872.79

Split Rate 16%/45%		Reduced Taxable Value	
16% of $32,486.46	$5197.83	Taxable Value	$40,872.79
45% of $8,368.33	$3773.85	Reduction	$20,935.61
Tax payable	$8,971.68	Reduced Taxable Value	$19,937.18
		Tax payable	$8,971.73

Note: There is a minor variation which arises because the percentage figures specified in the law are rounded to the nearest third decimal point.

The amount of the reduction in the taxable value of a luxury vehicle will be calculated according to a formulas:

- In the case of motor vehicles of a kind ordinarily taxed at 16%, the formula will be ***[clause 4, STAAM]***:

    43.242% X **Motor vehicle depreciation limit for the financial year in which the taxable dealing happens.**

- In the case of motor vehicles of a kind ordinarily taxed at 21% (these are mainly off-road, four-wheel drive vehicles), the formula will be ***[clause 4, STAAM]***:

    35.787% X **Motor vehicle depreciation limit for the financial year in which the taxable dealing happens.**

While the more expensive luxury vehicles will not benefit from the change,vehicles which are presently priced just above the luxury wholesale value threshold of $32,486 will receive a significant sales tax benefit. For example, under the amendments the sales tax payable on a passenger vehicle taxable at the split rate of 16/45% which has a wholesale value of $32,500 will fall from $9,750 to $5,204. This saving will gradually decrease as the vehicle price increases because of the greater impact of the higher 45% rate. The tax benefit for a vehicle with a split rate of 16/45% and a wholesale value of $45,000 will only be $2,671, the sales tax being reduced from $13,500 to $10,829. The tax benefit will phase out when a vehicle has a retail price of just under $100,000. Vehicles sold at prices greater than $100,000 will incur more sales tax.

The percentages used to calculate the taxable value reduction fo: 'uxury motor vehicles will change on 1 July 1995 due to the general increase in all rates at that time. The new percentages will be 41.751% for vehicles to be taxed at the split rate of 17/45% and 34.296% for vehicles to be taxed at the split rate of 22/45% ***[schedule to clause 8, STAAM.***

Luxury motor vehicles for disabled persons

There are two sales tax exemptions (Items 96 and 97, E&C Act) that allow certain disabled persons to purchase motor vehicles free of sales tax. The exemption is, however, only available for vehicles with a taxable value at or below the luxury motor vehicle threshold. If a person otherwise covered by Item 96 or 97 purchases a luxury motor vehicle, tax is payable on the vehicle. However, the taxable value of the vehicle is reduced.

Under the existing law, the effect of the reduction is to exclude, from the amount of the tax payable on the vehicle, the amount of tax that would be payable if the value of the vehicle did not exceed the luxury threshold. In calculating that amount, the law assumes in all cases that the vehicle would be taxed at the rate of 20%. However, in most cases, the vehicle would only be taxed at 15%. Consequently, a person can receive a reduction greater than the amount of tax that would have been payable if the vehicle had not exceeded the luxury limit.

Under the changes proposed by this Bill, the effect of the reduction is to exclude, from the amount of tax payable, the actual amount of tax that would have been payable if the value of the vehicle did not exceed the luxury threshold. Effectively, the vehicle is exempted from that part of the taxable value to which the rates of 16% and 21% apply. Tax is only payable on that part of the taxable value that exceeds the luxury motor vehicle threshold. The tax rate for the taxable part will be 45% ***[clause 5, STAAM].***

Example: An eligible person purchases a vehicle with a wholesale value of $40,000. The wholesale taxable value for the application of the luxury motor vehicle tax is $32,486.46 and this part of the taxable value will be exempt. Tax will be payable at the rate of 45% on the difference between $40,000 and the luxury tax threshold of $32,486.46. Tax payable will be $3,381.09 (45% of $7,513.54).

With a split rate approach it is now possible to provide the same benefit to all eligible persons, whether the rate is 16/45% or 21/45%. Irrespective of the kind of passenger motor vehicle purchased, the first $32,486.46 of taxable value will be treated as exempt. After that each dollar of taxable value will be taxable at 45%.