PART II — REVENUE

Table: Revenue Measures

Page		Estimated Change in Revenue(a) 1998-99 $m	1999-00 $m	2000-01 $m	2001-02 $m
	Measures introduced in the 1998-99 Budget				
	Income Tax				
4	High Wealth Individuals Taskforce	100	100	-	-
4	Year 2000 compliance expenditure and taxation of software	-30	-205	-295	-520
7	Development of a generic tax framework for the demutualisation of non-insurance organisations	*	*	*	*
9	New tax penalty arrangements	*	*	*	*
10	Provisional tax uplift factor	-75	-	-	-
10	Medicare levy low income thresholds — 1998-99	-	-	-	-
11	Dependant rebates — 1998-99	..	..	..	..
11	Access to the beneficiary tax rebate for CDEP participants	-7	-7	-7	-7
12	Extension of Prescribed Payments System	-	-	-	-
	Superannuation and Savings				
12	Supervision and funding arrangements for self-managed superannuation funds	-	-19	-19	-19
13	Changes to superannuation regulation	-	-	-	-
15	Access to superannuation for housing	-	-	-	-
	Wholesale Sales Tax				
15	CPI adjustment of WST quarterly remitter threshold	..	..	..	..
	Capital Gains Tax				
16	Capital gains tax — Section 160ZZS	..	..	..	5
	Fringe Benefits Tax				
17	Fringe benefits tax — car parking benefits threshold	..	..	..	..
	Customs and Excise Duty				
18	Automotive Competitiveness and Investment Scheme	-	-	-200	-400
18	Tariff reductions on information industry inputs	-52	-28	-5	-5
	Other Measures				
18	1998-99 Migration Programme — visa application charges	2	9	13	13
19	Changes to visa application charges for non-Electronic Travel Authority visitor visas	40	38	42	47
19	Increase in the Passenger Movement Charge	10	21	23	24
20	Increased charges to carriage service providers for the purchase of certain telecommunications numbers	30	30	30	30
21	Stevedoring levy	25	25	25	25
21	Reduced warehouse licence fees administered by the Australian Customs Service under the Customs Act 1901	-2	-2	-2	-2
21	Industry contribution for Australia's contributions to international telecommunications organisations	..	..	..	..
22	Industry contribution for consumer representations in areas of telecommunications regulations	1	1	1	1
23	Industry contribution for the Australian Communications Authority's (ACA) contract management of the National Relay Service	-	..	..	..
23	Industry contribution for the ACA's administration of electromagnetic compatibility standards	-	..	..	..
24	Industry contribution for the ACA's monitoring of a regulatory framework for electromagnetic radiation exposure	-	1	1	1
24	Industry contribution for the ACA for functions related to telecommunications interceptibility	-	..	..	..

Table: Revenue Measures (continued)

Page		Estimated Change in Revenue(a) 1998-99 $m	1999-00 $m	2000-01 $m	2001-02 $m
25	Compensation for Societe Internationale Telecommunications Aeronautique (SITA)	1	1	1	1
25	Increased cost recovery at Phase 2 airports	3	3	3	3
26	Cost recovery of motor vehicle compliance plates	2	2	2	2
26	Corporate law reform — managed investments	3	3	1	-
		51	-26	-386	-801
	Measures introduced up to the 1998-99 Budget				
	Income Tax				
27	Deductibility of donations to political parties and independents	-	-18	-12	-15
28	Medicare levy — extension of Gold Card	-	-9	-7	-7
28	Taxation treatment of spectrum licences	-8	-8	-8	-8
29	Deductibility of gifts	*	*	*	*
30	Company Law Review Bill – taxation response	†	†	†	†
31	Provisional tax exemption for pensioners	-1	-	-	-
	Superannuation and Savings				
32	Reforms to early release of superannuation benefits	2	2	2	2
32	Choice of superannuation fund	-	-	-	-
	Wholesale Sales Tax				
33	Amendment to Item 192 of the Sales Tax (Exemptions and Classifications) Act 1992	50	50	50	50
	Other Measures				
34	Establishment of the Australian Prudential Regulation Authority	4	39	29	30
35	Establishment of the Australian Securities and Investments Commission	8	14	14	14
35	Reducing fees for coasting trade permits	..	..	..	..
		55	70	68	66
	Measures included in the Mid-Year Economic and Fiscal Outlook 1997-98(b)				
	Income Tax				
	Exemption of income derived by bona fide prospectors	-2	-	-	-
	Trust distributions to superannuation funds	15	15	15	15
	Extension of Offshore Banking Unit concession	-9	-16	-16	-16
	Foreign bank subsidiaries — thin capitalisation 'loan back' rules	..	..	..	..
	Foreign Investment Fund (FIF) rules — exemption for United States FIFs	-2	-3	-3	-3
	Film Licensed Investment Companies	*	*	-	-
	Withholding Tax				
	Extension of Interest Withholding Tax exemption	-3	-3	-3	-3
	Capital Gains Tax				
	Capital Gains Tax (extension of rollover relief through shares)	*	*	*	*
	Capital Gains Tax (cost base provisions: transitional measure)	-60	-70	-	-
	Capital Gains Tax — non-residents' foreign source gains	..	..	..	..
	Customs and Excise Duty				
	TRADEX	-15	-30	-30	-30
	Manufacturing In Bond	*	*	*	*

Table: Revenue Measures (continued)

Page	Estimated Change in Revenue(a) 1998-99 $m	1999-00 $m	2000-01 $m	2001-02 $m
Other Measures				
Commonwealth safety net arrangements for Business Franchise Fees	-	-	-	-
Changes to the Migration Programme — increased focus on skills	-7	-7	-7	-8
Resolution of residence status for certain persons in Australia	10	1	..	..
Changes to fees for the review of immigration decisions	..	..	..	..
Abolition of non-callable deposits	-	-	-200	-200
	-73	-113	-244	-244
TOTAL IMPACT OF ALL REVENUE MEASURES(c)	34	-69	-562	-979

.. Not zero, but rounded to zero.

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

† The measure will protect the revenue base used for the forward estimates by removing opportunities for significant future expansion of tax minimisation practices. In the absence of the measure, to the extent that the revenue base would not be protected, there would be significant revenue loss compared to the forward estimates.

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

(b) Descriptions of these measures are provided in the *Mid-Year Economic and Fiscal Outlook 1997-98* and are not repeated in this document.

(c) Measures may not sum due to rounding.

MEASURES INTRODUCED IN THE 1998-99 BUDGET

INCOME TAX

High Wealth Individuals Taskforce

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
100	100	-	-

Explanation

The Government has decided to extend the additional funding provided to the Australian Taxation Office (ATO) in the 1996-97 Budget for the establishment of the high wealth individuals taskforce. Additional funds will be provided to the ATO in 1998-99 and 1999-2000 to enable ongoing investigations into high wealth individuals' compliance with the tax laws.

Investigations to date by the taskforce have revealed that some high wealth individuals arrange their affairs in complex ways which enable both themselves and entities which they control to pay relatively little tax. The ATO taskforce will continue to investigate tax planning practices in order to improve compliance with the tax laws through enforcement and, where appropriate, clarification of the law by way of rulings and litigation of issues in the courts. Legislative change will be developed where undue tax minimisation needs to be addressed in that way.

It is expected that the taskforce's ongoing investigations will generate revenue in the order of $100 million in 1998-99 and 1999-2000.

Further information on this measure can be found in the outlays measure entitled *High wealth individuals taskforce* described in Part I of this Budget Paper under the Treasury portfolio.

Year 2000 compliance expenditure and taxation of software

Financial Implications

1998-99	1999-00	2000-01	2001-02
-30	-205	-295	-520

Explanation

Year 2000 Compliance Expenditure

Draft Taxation Ruling TR 98/D5

Simultaneously to the delivery of the Budget the Commissioner of Taxation is releasing draft taxation Ruling TR 98/D5 on the deductibility of Year 2000 (Millennium Bug) expenses.

The effect of the ruling is as follows:

- Expenditure incurred in initial diagnosis work on computer software to determine the extent to which it is not Y2K compliant will be on revenue account, even if no further work is necessary.

- Expenditure incurred in modifying (and subsequently testing) computer software to make it Y2K compliant will be on revenue account, even if it also provides minor improvements to the software.

  — Where expenditure incurred in modifying (and subsequently testing) computer software also involves substantial improvements not related to making the software Y2K compliant it will be necessary to apportion the expenditure between the expenditure related to Y2K compliance which will be immediately deductible and the improvement expenditure which will be deductible over time.

- Expenditure incurred in modifying or completely replacing a computer chip or firmware to make computer hardware or computer operated equipment Y2K compliant is on revenue account. This includes the modification or complete replacement of software embedded in firmware.

  — However, Y2K compliance expenditure that involves replacement of the whole or substantially the whole of the unit of hardware or equipment containing the computer chip or firmware is of a capital nature.

Government Response to TR 98/D5 and Announcement

The Government accepts the effect of the Commissioner's ruling but will legislate (with effect from the withdrawal of Taxation Ruling IT26 — see below) to extend the class of expenditures immediately deductible to also include:

- expenditure on acquiring new software (including upgrades) or substantially rebuilding current software which has the predominant nature of ensuring Y2K compliance, provided that such expenditure is incurred up to 31 December 1999.

The Government believes this announcement will address uncertainty concerning the treatment of Millennium bug expenses and ensure that the taxation arrangements are consistent with the Government's desire to encourage businesses to achieve Y2K compliance.

Software in General

Withdrawal of Taxation Ruling IT26

On 11 May 1998 the Commissioner of Taxation withdrew Taxation Ruling IT26 which deals with the taxation treatment of software expenditure.

The Commissioner concluded that IT26 no longer reflects the correct application of the existing law in relation to software.

The Commissioner has advised that without a legislative response the withdrawal of IT26 would mean that systems and application software would generally not be subject to amortisation, or, at best, would be amortised over 25 years.

Government Response to the Withdrawal of IT26 and Announcement

The Government will legislate with effect from 10 am AEST, 11 May 1998 (the time of withdrawal of IT26) to provide for systems and application software to be amortised at 40 per cent per year (that is, over 2½ years).

The new arrangements apply to expenditure incurred in relation to contracts entered into to acquire software after the withdrawal of IT26. It will also apply to expenditures on specifically commissioned and in-house development of software commenced after that time. Expenditures on in-house development, or commissioned software commenced or contracts entered into up to that time will continue to receive the previous treatment until 30 June 1999. Thereafter any such expenditure will be treated under the new provisions that are described below:

- all software purchases will be eligible for taxation amortisation over 2½ years at 40 per cent per year. However, the following exemptions will apply:
  - — if the (non-renewable) license period is shorter than 2½ years then taxpayers will be allowed to amortise their expenditure over this shorter period;
  - — taxpayers who stop using software within 2½ years of acquisition will be allowed an immediate deduction of the unrecouped expenditure at that time;
  - — software purchases up to $300 will be immediately expensed. Bulk purchases of software packages summing to more than $300, but individually valued at up to $300, will be covered by the new amortisation provisions;
- the cost of commissioning software or developing it in-house for own use will be capitalised until the project is completed. At that point, it may be amortised in line with the new provisions. This will ensure neutrality with purchased software. Should the commissioned or developed software be disbanded, capitalised costs will be deductible at that time; and
- the treatment of upgrades and maintenance will be in line with the existing application of the law for determining capital and revenue expenses. Broadly, expenditure on enhancing or upgrading the functional capacity of computer software should be treated on capital account. Expenditure that does not enhance functionality, such as maintenance, testing, code reviews, minor alterations/modifications and remedying defects should continue to be treated on revenue account.

Moreover, systems software that had previously been written off as part of the computer hardware (over 3.7 years under accelerated depreciation) will now be amortised over 2½ years.

The taxation treatment of software that attracts concessions under other parts of the law will remain unchanged.

The write-off rate of 2½ years strikes an appropriate balance between considerations that software is a capital asset — expenditure on which should be amortised for taxation purposes — and the relatively short expected effective life of software arising from rapid developments in the information technology industry.

The proposed arrangements for software are broadly more generous than those applying in comparable overseas taxation jurisdictions. For example, New Zealand allows software purchases to be depreciated at 30 per cent straight line or 40 per cent diminishing value (equivalent to 3.3 years), the United Kingdom provides depreciation of 25 per cent diminishing value (equivalent to a 6-year write off). In Canada systems software receives either a 5 or 8 write off period (depending on the industry it is used in) while application software is depreciated at 100 per cent (which effectively results in a 2-year write off period due to Canada's 'half year rule'). The United States provides a 3-year write off for newly purchased software unless the taxpayer can show a shorter write off is appropriate.

A further description of these amendments, including examples of how they will be applied, is set out in a separate Treasurer's Press Release.

Development of a generic tax framework for the demutualisation of non-insurance organisations

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
*	*	*	*

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

Explanation

The application of existing tax law to demutualisations of non-insurance organisations can give rise to capital gains tax (CGT) anomalies. In particular, the disposal of membership interests in exchange for an allotment of shares and the subsequent disposal of those shares could result in double taxation (or, in other circumstances, effective exemption). The measure will remove these anomalies by introducing a generic framework for determining the taxation consequences of transactions associated with the demutualisation of non-insurance organisations that are tax mutuals.

The generic framework will apply only where broad continuity of beneficial interest in any accumulated 'mutual' surplus is maintained. This requirement would be taken to be satisfied if:

- shares in the demutualising entity are offered to all existing members of the tax mutual;
- at least 90 per cent of the shares are issued to these members; and

- any accumulated mutual surplus in the form of shares, or cash from the sale of shares which is distributed to members upon demutualisation, is distributed in proportions broadly consistent with their mutual participation.

Other key features of the measure follow.

- Any CGT liability will be deferred until disposal of the shares acquired as a result of demutualisation.

- Pre-CGT members will lose their pre-CGT status on demutualisation but will be given a cost base equal to their share of the market value of the entity immediately before demutualisation, reduced by the value of their share of any franking account surplus upon demutualisation.

- Post-CGT members will be given a cost base equal to the non-deductible costs (indexed) of acquiring and maintaining membership.

- Where there has been a merger (or a takeover) after 19 September 1985 but prior to demutualisation, the cost base of demutualisation shares issued to members will depend on whether they were pre- or post-CGT members at the time of the merger.

  — Shares issued to members that were pre-CGT members at the time of the merger will be given a cost base equal to their share of the market value of the tax mutual in which their membership interest was disposed of immediately before the merger, reduced by the value of their share of any franking account surplus at that time, plus any subsequent non-deductible costs of maintaining membership, indexed.

  — Shares issued to members that were post-CGT members at the time of the merger will be given a cost base equal to the non-deductible costs of acquiring and maintaining their membership rights in the tax mutual in which their membership interest was disposed of and any subsequent non-deductible costs of maintaining membership, indexed. However, if members treated the merger as a taxing event, the cost base of the demutualisation shares will be adjusted to include any realised capital gain or loss.

- Capital losses will not arise on disposal of shares or rights to shares prior to listing day of the demutualised entity (or the date of issue of the shares for entities that do not intend to list).

- Franking account surpluses of the demutualising organisation will not be extinguished upon demutualisation.

These new arrangements will benefit members of demutualising non-insurance organisations and will provide greater certainty for these organisations about the taxation consequences of demutualisation.

The new arrangements will apply to all demutualisations completed on or after today. The Government will introduce amendments into Parliament to give effect to these new arrangements as soon as practicable.

New tax penalty arrangements

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
*	*	*	*

* The nature of the measure is such that a reliable estimate cannot be provided. However, it is expected that the overall effect will be revenue neutral.

Explanation

The Government will be amending various taxation laws to replace the current disparate late payment penalty arrangements with a simpler arrangement which better reflects movements in market interest rates. The current disparate late penalty arrangements will be replaced with an 'Interest on Outstanding Balance' (IOB) charge. The charge will apply to any amount owing under a law for which the Commissioner of Taxation has general administration responsibility. The charge will be calculated on a compounding basis with the interest rate being set at the weighted average yield of the 13 Week Treasury Note plus an uplift factor of 8 percentage points. The IOB rate will be adjusted quarterly to reflect movements in the 13 week Treasury Note rate.

The uplift factor reflects the need for the IOB charge to be set at a rate that is above commercial interest rates in order to discourage the use of taxation debts as a form of business finance. Based on the relevant 13 week Treasury Note yield, the current IOB charge would be in the order of 13 per cent (calculated on a daily compounding basis). Most of the existing penalties have simple interest rates between 16 and 20 per cent, depending on the type of tax.

The Government will also amend the *Income Tax Assessment Act 1936* and the *Sales Tax Assessment Act 1992* to introduce a 'Failure to Notify' penalty which would apply to source deduction withholders and sales tax payers who fail to correctly notify the Commissioner when an amount is due. This penalty will be calculated at a rate of 8 per cent per annum and will replace the current flat rate culpability penalties (ranging from 20 per cent to 200 per cent) for failure to remit deductions by the due date.

The current prosecution provisions for failure to remit source deduction remittances by the due date will be removed. The Commissioner will rely on existing offence provisions in the *Taxation Administration Act 1953* to prosecute withholders for failure to notify the correct liability by the due date.

Another new penalty will be introduced to the *Income Tax Assessment Act 1936* for withholders of source deductions who fail to lodge annual source deduction reconciliations. The penalty will be calculated at the rate of $10 per week for each week that reconciliation documents are not lodged. The maximum penalty will be $200 and will apply where documents are 20 weeks or more late.

To allow time for the substantial changes required to ATO business systems to implement the IOB charge, including a facility to automatically generate taxpayer account statements, the new interest charge will apply from 1 January 1999. As a transitional measure, the Commissioner of Taxation will use his discretion under the various taxation acts to reduce existing late payment penalty rates across all taxes to a simple effective rate of 13.5 per cent from 1 July 1998. Over a 12 month period, this rate achieves close parity with the compounding rate of the proposed IOB charge.

The above changes follow a review by the Australian Taxation Office of late payment and notification penalties. The review was undertaken in consultation with professional and representative bodies and flowed from the Government's response to the recommendations of the Small Business Deregulation Taskforce.

Provisional tax uplift factor

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-75.0	-	-	-

Explanation

The provisional tax uplift factor is 5 per cent for 1998-99, down from 6 per cent in 1997-98. The uplift factor was determined, as set down in the *Income Tax Assessment Act 1936*, by reference to the nominal increase in Gross Domestic Product for the calendar year before the year of income, as published by the Australian Statistician. In particular, the provisional tax uplift factor for 1998-99 reflects the increase in GDP(I) in 1997 over 1996.

Medicare levy low income thresholds — 1998-99

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	-	-	-

Explanation

When the Medicare levy was introduced in 1984, an exemption was provided for low income individuals and families who were eligible for free medical treatment prior to the introduction of Medicare. For couples and single parents, the exemption thresholds increase by a set amount per child.

The individual, couple and sole parent thresholds have previously been increased in line with movements in the Consumer Price Index (CPI). However, the average level of the CPI for the four quarters to March 1998 was 0.1 per cent lower than the average for the preceding four quarters. Rather than reducing the thresholds to reflect this decline, the Government has decided to hold the thresholds for 1998-99 at the same levels as those that applied for 1997-98.

Accordingly, the Medicare levy low income thresholds for 1998-99 will remain at $13,389 for individuals and $22,594 for couples and sole parents. The additional threshold for each additional child is $2100.

Dependant rebates — 1998-99

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
..	..	..	..

Explanation

The Government will be amending the tax law to ensure that a number of rebates which are indexed by the CPI will remain unchanged rather than be reduced if the CPI falls. As the average level of the CPI for the four quarters to the March Quarter 1998 was lower than that for the corresponding four quarters to the March Quarter 1997, this measure will prevent a reduction in the dollar value of these rebates.

The rebates affected are: the dependent spouse rebate (without child); the child-housekeeper rebate; the invalid relative rebate; the parent of the taxpayer or of the taxpayer's spouse rebate; the sole parent rebate; and the housekeeper rebate.

Access to the beneficiary tax rebate for Community Development Employment Projects participants

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-7	-7	-7	-7

Explanation

The Government will be amending the *Income Tax Assessment Act 1936* so that from 1 July 1998 Community Development Employment Projects (CDEP) participants can claim the beneficiary tax rebate. This will mean that those CDEP participants who are currently required to pay income tax will no longer incur a tax liability on the income support component of their CDEP wages. At present, the nature and calculation of the funding of the CDEP scheme causes payments to CDEP participants technically to fall outside the scope of those payments that are rebatable.

The CDEP scheme is designed to provide meaningful employment opportunities for Aboriginal and Torres Strait Islander people. CDEP participants forego their entitlements to unemployment benefits and work in community based activities for wages. Eligibility for the beneficiary tax rebate will bring the tax treatment of CDEP participants into line with that of Newstart allowees (who may be on Work for the Dole) and with the beneficiaries of labour market programmes such as Green Corps. This measure will remove the current disincentive to people joining and remaining on the CDEP scheme compared with equivalent labour market programs.

This measure follows recommendations released in December 1997 by the Government initiated *Independent Review of the Community Development Employment Projects Scheme* (Spicer Review).

Extension of Prescribed Payments System

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	-	-	-

Explanation

Where a payer and payee agree, certain payments for work are to be brought within the Prescribed Payments System (PPS). The PPS is a withholding system for income tax collection, similar in purpose to the PAYE system, which applies to certain payments to independent contractors under contracts for the performance of work.

At the moment, the PPS only applies in nine industries, which are listed in the Income Tax Regulations. However, following representations from members of other industries, the Income Tax Regulations are to be amended to allow payers in non-PPS industries to apply to the Commissioner of Taxation to be included in the PPS in cases where the payer and the payee have agreed that the payments will be covered by the PPS.

The other requirements for the operation of the PPS will remain unchanged. Specifically, the payments must be under a contract for the performance of work, and the relationship between payer and payee must not be one of common law employment (in which case the PAYE system will continue to operate).

This measure is expected to be revenue neutral, and will commence from the date the relevant regulations are made.

SUPERANNUATION AND SAVINGS

Supervision and funding arrangements for self-managed superannuation funds

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	-18.9	-19.2	-19.5

Explanation

Consistent with the recommendation of the Financial System Inquiry that regulatory agencies' charges should reflect their costs, the Superannuation Supervisory Levy will be restructured to more accurately reflect cost recovery principles.

From 1 July 1999, self-managed and non-self-managed superannuation funds will be under the supervision of different regulators. The existing cross-subsidisation of non-self-managed funds by excluded funds will be removed. In addition, a projected surplus of revenue over costs will be eliminated by reducing future levy collections. The levy for self-managed superannuation funds will be reduced from $200 to below $50 per fund. The amount to be paid by non-self-managed superannuation funds will be examined in the context of determining cost recovery arrangements for the Australian Prudential Regulation Authority.

Further information on this measure can be found in the outlays measure entitled *Supervision and funding arrangements for self-managed superannuation funds* and in the revenue measure entitled *Establishment of the Australian Prudential Regulation Authority* described in Part I of this Budget Paper under the Treasury portfolio.

Changes to superannuation regulation

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	-	-	-

Explanation

New definition of self-managed superannuation funds

The Government has decided to alter the definition of what constitutes a self-managed superannuation fund (currently known as excluded superannuation funds) to ensure that all such funds are in fact self-managed.

From 1 July 1999, self-managed superannuation funds will be regulated by the Australian Taxation Office (ATO) who will have responsibility for ensuring such funds comply with the non-prudential requirements of superannuation law.

Self-managed superannuation funds will be defined as superannuation funds with less than five members, where all members are trustees and there are no other trustees. Where there are two or more members they must be either partners, directors or trustees of the employer-sponsor or family relatives.

- These arrangements are consistent with the recommendations of the Financial System Inquiry. They reflect the need to ensure that all members of self-managed superannuation funds are able to protect their own interests, and as a result will allow these funds to be subject to minimal prudential regulation.

Some existing excluded superannuation funds may not meet the proposed new definition. In these circumstances they will either need to restructure to meet the definition or use an ‘approved trustee’ and be regulated by the Australian Prudential Regulation Authority (APRA). Importantly, where such funds employ an approved trustee they will continue to be able to take advantage of member-directed investment.

Fairer penalty regime

The Government will introduce a new penalty structure for all superannuation funds (including self-managed superannuation funds) as the existing penalty structure is too narrow and limiting.

Currently the only taxation penalty option for breaches of the superannuation law is to make a fund ‘non-complying’. This is a severe penalty as it results in fund assets and income being taxed at 47 per cent. However, this penalty often cannot be imposed as it would either impact unfairly on innocent members of the fund (not responsible for the breach) or be too harsh a penalty where the breach is less significant.

The new structure of superannuation penalties should ameliorate such concerns as penalties will be calculated in accordance with the severity of any breach of the rules.

New Investment rules

The Government has also decided to tighten investment restrictions on all superannuation funds (including self-managed superannuation funds). This will act to ensure that superannuation savings are invested with retirement income generation as the primary purpose rather than with the aim of providing current day support to members, the employer-sponsor or their associates.

From the date of introduction of the legislation all superannuation funds (including self-managed funds) will be permitted to hold no more than 5 per cent of the funds’ assets (calculated on market value) in certain assets. These include:

- investments in associated parties, including trusts;

- investments involving associated parties eg leasing assets to members or employer-sponsors (exceptions will apply to ensure consistency with the rules relating to the acquisition of property used in the business — the 40 per cent rule); and

- investments in certain ‘non-associated parties’ which invest directly or indirectly in the employer-sponsor or its associates (these restrictions would not apply to certain specified investments such as widely held unit trusts).

Additionally, the current restriction on acquisitions of assets from members and relatives will be extended to all associates.

In respect to existing investments, funds will have until 30 June 2001 to comply with the new investment rules.

Further information on this measure can be found in the outlays measure entitled *Superannuation and funding arrangements for self-managed superannuation funds* described in Part I of this Budget Paper under the Treasury portfolio and in the Treasurer’s Statement *Reform of the Australian Financial System* of 2 September 1997.

Access to superannuation for housing

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	-	-	-

Explanation

The Government made a pre-election commitment to examine the full implications of implementing a scheme that allowed access to superannuation savings to assist in purchasing a home (including the implications for national savings). A discussion paper on issues relating to the accessing of superannuation for the purpose of home ownership was released in conjunction with the 1997-98 Budget.

Following consideration of all of the issues and responses to the discussion paper, the Government has decided not to introduce a superannuation for housing scheme. Housing affordability has increased significantly in recent years and is currently at a historically high level. The favourable level of housing affordability reflects ongoing growth in household income, moderate growth in home prices and low interest rates. Mortgage interest rates have fallen to their lowest level since 1970, reflecting low inflation, reductions in official cash rates and increased competition in the home lending market. The savings rebate initiative announced by the Government in the 1997-98 Budget will also be of assistance to low income earners in achieving home ownership.

A superannuation for housing scheme could not be targeted efficiently to those individuals who would not otherwise achieve home ownership before retirement. It would also reduce retirement incomes and national savings.

WHOLESALE SALES TAX

CPI adjustment of wholesale sales tax quarterly remitter threshold

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
..	..	..	..

Explanation

The Government will be amending the tax law to ensure that the CPI-indexed threshold amount for quarterly remittances of wholesale sales tax will remain unchanged if the relevant movement in the CPI is negative. Under existing law, the threshold would be lowered in 1998-99 because the CPI fell over the year to the four quarters ending 31 March 1998. This would result in more taxpayers being forced to pay sales tax monthly rather than quarterly. The Government will change the law so that the threshold will not fall in 1998-99, thereby keeping the quarterly remitter threshold at the 1997-98 level of $57,570.

CAPITAL GAINS TAX

Capital gains tax — majority underlying interests in assets held by public entities

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
..	..	..	5

Explanation

The capital gains tax (CGT) provisions of the *Income Tax Assessment Act 1936* (the Act) generally do not apply to assets acquired by taxpayers before 20 September 1985.

Division 20 of Part IIIA of the Act, however, requires public entities (listed public companies, publicly traded unit trusts and mutual insurance organisations) to test on 20 January 1997 and every five years thereafter, or where there is abnormal trading, for continuity of the majority underlying interests in their assets. If continuity is lost, any pre-CGT assets are treated as post-CGT assets acquired at test time at their market value.

Division 20 provides a range of streamlined tracing measures intended to help public entities carry out the test. A ‘notional holder’ rule allows small holdings of less than 1 per cent to be treated as if they were always held by a single notional holder. This rule must be disregarded by the Commissioner if it produces continuity of underlying ownership which would otherwise not exist.

Amendments

The proposed amendments will ensure that all public entities will be taken to have had a change in majority underlying interests at 30 June 1999, unless they satisfy the Commissioner that they have maintained continuity of majority underlying interests.

Public entities will be required to seek approval of continuity of underlying ownership from the Commissioner within 6 months of the test date (30 June 1999) or such further time as the Commissioner allows. Public entities, in seeking the Commissioner’s approval, must then give the Commissioner the evidence on which the Commissioner is to be satisfied or to reasonably assume that the public entity has maintained continuity of majority underlying interests in its assets.

A public entity which can satisfy the Commissioner that it maintained the necessary continuity in majority underlying interests in its assets at 30 June 1999 will nonetheless be taken to have had a change in majority underlying interests after every five years thereafter, or whenever there is abnormal trading, unless it satisfies the Commissioner that it has actually maintained continuity in majority underlying interests in its assets.

For the purposes of the 30 June 1999 test and later tests, the concessional tracing rules with the exception of certain rules dealing with demutualising insurance entities will be removed.

Before 30 June 1999, the ungrandfathering of assets will be determined by the application of the currently enacted law, with the benefit of the notional holder rule but without the Commissioner having to override that rule if it would produce continuity of majority underling interests that would not otherwise exist.

The prescribed period in which taxpayers must make their first determination under the current law (currently extended to 30 June 1998, by the Commissioner) will be extended to one month following Royal Assent to the Bill introducing these amendments.

Additional amendments will be undertaken to clarify the scope of the Division 20 (with effect for any tests made after the date of introduction of these amendments) to make it very clear that public entities include all 100 per cent subsidiaries of public entities, including those that are jointly owned by one or more public entities.

FRINGE BENEFITS TAX

Fringe benefits tax — car parking benefits (calculation of daily car parking threshold amount)

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
..	..	..	..

Explanation

Fringe benefits tax (FBT) is payable if car parking facilities are provided by an employer within one kilometre of a commercial parking station which ordinarily charges more than the CPI-indexed threshold amount for all-day parking at the start of the FBT year. Under existing law the threshold is indexed by movements in the CPI and would be reduced should the CPI fall in the twelve months preceding the start of the FBT year.

The Government will be amending the tax law to ensure that the CPI-indexed threshold amount for all-day parking at the start of the FBT year will remain unchanged if the movement in the CPI in the 12 months preceding the start of the FBT year is negative.

Therefore, although the CPI fell by 0.2 per cent in the 12 months to the March Quarter 1998, the threshold amount for the FBT year-ending 31 March 1999 will remain at $5.25 per day, the same threshold as for the year-ended 31 March 1998.

CUSTOMS AND EXCISE DUTY

Automotive Competitiveness and Investment Scheme (ACIS)

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	-	-200	-400

Explanation

This scheme will replace the Export Facilitation Scheme (EFS) which is due to be terminated in 2000. It will provide benefits both to passenger motor vehicle (PMV) manufacturers, through an investment incentive and an expansion of the existing Duty Free Allowance, and to component manufacturers and eligible service providers through incentives for investment in new capital assets and research and development expenditures. The scheme will be capped at $2 billion over its five-year duration.

Tariff reductions on inputs to information industries equipment manufacture

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-52	-28	-5	-5

Explanation

As part of the *Investing for Growth* statement of 8 December 1997, the Government announced it would remove tariffs on inputs to the manufacture of information industries equipment after a short consultation process with local component suppliers.

Tariffs on inputs covered by the Information Technology Agreement will be reduced from 1 July 1998. In addition, the tariff on information technology inputs subject to a tariff concession order will also be removed.

OTHER MEASURES

1998-99 Migration Programme — visa application charges

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
2.1	8.9	12.8	13.3

Explanation

A new visa category for parents is to be introduced on 1 November 1998. The second instalment of the visa application charge for this new category will be $5,000. This compares with the second instalment charge of $940 for the existing parent category.

Net changes to application rates in other categories will lead to a minor increase in revenue.

Further information on this measure can be found in the outlays measure entitled *Modification to selection procedures for the 1998-99 Migration Programme* described in Part I of this Budget Paper under the Immigration and Multicultural Affairs portfolio.

Changes to visa application charges for non-Electronic Travel Authority visitor visas

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
39.9	38.1	42.2	46.7

Explanation

This measure levies a charge of $50 on all overseas visitor visa applications not made through the Electronic Travel Authority (ETA) system. The ETA system is generally available to nationals of those countries which Australia considers require minimal visa processing. For other nationals, traditional paper visa processes are employed and more resource intensive visa processing is undertaken to ensure that a genuine visit is intended. The $50 charge will apply predominantly to nationals for whom this higher level of visa processing is undertaken. In return these nationals will receive a quick and efficient visa processing service which will facilitate the fast processing of bona fide travellers.

The measure also increases the business visitor visa application charge for all nationals from $45 to $50, except in the case of business ETA applications which will remain at $45.

The measure will take effect from 1 July 1998.

Further information on this measure can be found in the outlays measure entitled *Enhancement of Visa Processing and Border Monitoring* described in Part I of this Budget Paper under the Immigration and Multicultural Affairs portfolio.

Increase in the Passenger Movement Charge

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
9.9	21.1	22.7	23.6

Explanation

The Government has decided to increase the Passenger Movement Charge (PMC) from $27 to $30 from 1 January 1999. The level of the PMC has remained unchanged since it was first introduced on 1 January 1995. The level of the PMC has previously been set to recover the costs of customs, immigration and quarantine border processing of international travellers and the costs of issuing short-term visas. The $3 increase will raise an estimated $77.3 million in additional revenue over the four years to 2001-02. This will help meet the additional costs arising from the movement of people and games-related equipment across Australia's borders at the time of the Sydney 2000 Games.

See also the outlays measure entitled *Tourism package — Increased funding for tourism promotion and development* described in Part 1 of this Budget Paper under the Industry, Science and Tourism portfolio.

Increased charges to carriage service providers for the purchase of certain telecommunications numbers

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
30	30	30	30

Explanation

This measure will increase by $30 million a year the revenue currently received from charges paid by telecommunications carriage service providers for special telephone numbers (eg mobile, local rate '13' and free call '180' numbers). Charges will be restructured to better reflect the market value of numbers that are charged to end users by the carriage service providers. This restructuring will be undertaken by the Australian Communications Authority in the context of determining the increase in charges to apply for 1998-99. The increased revenue is based on an estimate of the net 'windfall' gain which carriage service providers receive under the current regime of Government charges for special telephone numbers.

Charges for special telephone numbers were introduced as a 1996-97 Budget initiative and are currently levied under the *Telecommunications (Numbering Charges) Act 1997.* In the 1996–97 Budget the Government set a revenue target of $30 million for numbering charges based on the estimated market value of special service numbers. The Australian Communications Authority administers the current charging regime under a Numbering Plan with annual charges being set to recover the target revenue of $30 million. Carriage service providers are able to on-sell special service numbers at prices determined by their commercial assessment and market demand.

As at present, no charges will be applied to telephone numbers allocated for the purpose of providing the standard service (ie most geographic numbers), emergency service or community service numbers.

A new determination will be required under the *Telecommunications (Number Charges) Act 1997* to vary the charges for numbers under the Numbering Plan.

Stevedoring levy

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
25	25	25	25

Explanation

Levies are to be imposed in the stevedoring sector with the passage of the Stevedoring Levy (Imposition) Bill 1998 and the Stevedoring Levy (Collection) Bill 1998. The levy is to be imposed on the loading and unloading of containers and vehicles in Australia. Rates of levy will be $12 per container and $6 per vehicle. It is intended that the levy be applied to meet the costs of funding redundancies consequent upon restructuring and reform in the stevedoring sector.

Further information on this measure can be found in the outlays measure entitled *Payments in connection with redundancies relating to the Maritime Restructuring Facilitation Scheme* described in Part I of this Budget Paper under the Workplace Relations and Small Business portfolio.

Reduced warehouse licence fees administered by the Australian Customs Service under the Customs Act 1901

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-2	-2	-2	-2

Explanation

A review of the licence fee structure for bonded warehouses found that there has been a significant over recovery of the costs incurred. Accordingly, the Government has agreed to reduce the initial licence application fee from $10,000 to $3,000 and the fee for licence renewal from $8,000 to $4,000 per annum.

Bonded warehouses exist to allow importers to defer payment of customs duty and sales tax on goods until entry for home consumption.

Industry contribution for Australia’s contributions to international telecommunications organisations

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
0.3	0.4	0.4	0.4

Explanation

This measure provides for the additional costs incurred by the Commonwealth for contributions made to the International Telecommunications Union to meet Australia's international commitments to be recovered from the telecommunications industry, consistent with existing cost recovery arrangements.

Telecommunications carriers, industry and consumers benefit from Australia's membership of these organisations through the ability to influence the direction of international telecommunications development, telecommunication and radio communication standards and radio frequency allocations.

Australian industry benefits from international standards and agreements as a basis for trade and development and from being able to influence outcomes from the International Telecommunication Union.

The International Telecommunications Union (ITU) is a global body concerned with international cooperation in telecommunication services and the use of radio frequency spectrum. Australia's contribution to the ITU is fixed every four years in Swiss Francs and is fully cost recoverable from the industry.

Further information on this measure can be found in the outlays measure entitled *Additional funding for Australia’s contribution to international telecommunications organisations* described in Part I of this Budget Paper under the Communications and the Arts portfolio.

Industry contribution for consumer representations in areas of telecommunications regulations

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
0.8	0.8	0.8	0.8

Explanation

The costs to the Government for the provision of funding to consumer bodies, to facilitate the representation of consumer interests in relevant areas of telecommunications regulation, policy review and development, will be recovered from the telecommunications industry through the adjustment of annual carrier licence fees.

Further information on this measure can be found in the outlays measure entitled *Funding for consumer representations in areas of telecommunications regulation* described in Part I of this Budget Paper under the Communications and the Arts portfolio.

Industry contribution for the Australian Communications Authority's contract management of the National Relay Service

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	0.1	..	..

Explanation

Costs incurred by the Australian Communications Authority (ACA) for managing the contract of the National Relay Service (NRS) will be recovered from telecommunications carriers.

Due to the cost recovery being based on audited actual costs, there is a one year lag between the ACA incurring the related costs and cost recovery from industry.

The responsibility for the contract management will pass from the Department of Communications and the Arts to the Australian Communications Authority on 1 July 1998, as set out in the *Telecommunications Amendment Bill (No. 2) 1997* and the *NRS Levy Imposition Bill 1997*.

Further information on this measure can be found in the outlays measure entitled *Funding for Australian Communications Authority's contract management of the National Relay Service* described in Part I of this Budget Paper under the Communications and the Arts portfolio.

Industry contribution for the Australian Communications Authority's administration of electromagnetic compatibility standards

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	0.4	0.4	0.3

Explanation

Costs incurred by the Australian Communications Authority (ACA) for the administration of extended coverage of radiocommunications and electromagnetic compatibility standards will be recovered through the Spectrum Maintenance Component of Radiocommunications Licence Fees charged to industry.

Due to the cost recovery being based on audited actual costs, there is a one year lag between the ACA incurring the related costs and cost recovery from industry.

Further information on this measure can be found in the outlays measure entitled *Funding for the Australian Communications Authority for the administration of electromagnetic compatibility standards* described in Part I of this Budget Paper under the Communications and the Arts portfolio.

Industry contribution for the Australian Communications Authority's monitoring of a regulatory framework for electromagnetic radiation exposure

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	1.0	0.9	0.8

Explanation

Costs incurred by the Australian Communications Authority (ACA) for the establishment of mandatory standards and compliance requirements to limit human exposure to electromagnetic radiation in radiofrequencies and to monitor the effectiveness of the regulations will be recovered through the Spectrum Maintenance Component of Radiocommunications Licence Fees charged to industry.

Due to the cost recovery being based on audited actual costs, there is a lag between the ACA incurring the related costs and cost recovery from industry. Over time, this measure and the related outlays measure will be budget neutral.

Further information on this measure can be found in the outlays measure entitled *Funding for the Australian Communications Authority for a regulatory framework for electromagnetic radiation exposure* described in Part I of this Budget Paper under the Communications and the Arts portfolio.

Industry contribution for the Australian Communications Authority for functions related to telecommunications interceptibility

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	0.1	0.1	0.1

Explanation

Under existing legislation, law enforcement and national security agencies are, under certain circumstances, able to intercept and gather information via telecommunications services. Recently amended legislation has set up a new framework to ensure that permitted interception is technically possible and that in introducing new technology, carriers and carriage service providers consider the interception implications.

The costs incurred by the Australian Communications Authority (ACA) to implement the new administrative arrangements will be recovered through annual Telecommunications Carrier Licence Fees. The enhanced arrangements will facilitate more cost effective access by the national security agencies and the achievement of legislative objectives of telecommunications interception as a tool for enforcing the criminal law and safeguarding national security.

Due to the cost recovery being based on audited actual costs, there is a one year lag between the ACA incurring the related costs and cost recovery from industry.

Further information on this measure can be found in the outlays measure entitled *Funding for the Australian Communications Authority for functions related to telecommunications interceptibility* described in Part I of this Budget Paper under the Communications and the Arts portfolio.

Compensation for Societe Internationale Telecommunications Aeronautique (SITA)

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
1.2	1.3	1.2	1.2

Explanation

The regulations currently exempting the Societe Internationale de Telecommunications Aeronautique (SITA) from paying various taxes will be replaced by an outlays programme from 1 July 1998. The outlays programme will honour a longstanding commitment by the Commonwealth, currently reflected in the regulations, to exempt SITA from paying various taxes and customs duties in return for SITA having established its regional headquarters in Australia.

Further information on this measure can be found in the outlays measure entitled *Compensation to the Societe Internationale de Telecommunications Aeronautique* described in Part I of this Budget Paper under the Industry, Science and Tourism portfolio.

Increased cost recovery at Phase 2 airports

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
2.7	2.7	2.8	2.8

Explanation

This measure will allow the Department of Transport and Regional Development to recover fully the costs of contractors performing the statutory functions of Airport Environment Officer and Airport Building Controller at airports subject to long-term lease as part of Phase 2 of the sale of Federal airports.

These arrangements will apply to the Phase 2 airports (Adelaide, Canberra, Coolangatta, Parafield, Hobart, Archerfield, Townsville, Launceston, Moorabbin, Jandakot, Alice Springs and Darwin) after they are leased.

Further information on this measure can be found in the outlays measure entitled *Funding of Airport Environment Officers and Airport Building Controllers at Phase 2 Federal airports subject to sale* described in Part I of this Budget Paper under the Transport and Regional Development portfolio.

Increased recovery of motor vehicle compliance plate costs

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
2	2	2.1	2.1

Explanation

This measure will increase the level of cost recovery of the administration of the motor vehicle compliance plate system.

The additional motor vehicle compliance plate revenue will be raised through:

- increasing the level of cost recovery from 50 per cent to 100 per cent for standards development work to support the administration of the *Motor Vehicles Standards Act 1989*; and

- full recovery of the costs of research associated with the administration of the *Motor Vehicles Standards Act 1989*.

Motor vehicle compliance plate revenue is raised from the imposition of fees on the motor vehicle industry in respect of the placing of compliance plates on Australian manufactured and imported vehicles, application fees for new model approvals, and vehicle import fees.

Corporate law reform — managed investments

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
3	3	1.1	-

Explanation

The transitional costs of preparing for and administering a new regulatory framework for managed investments will be funded from corporations fees and charges in 1998-99 to 2000-01 ensuring that the revenue will be budget neutral over time. This is consistent with the recommendation of the Financial System Inquiry that regulatory agencies' charges should reflect their costs.

Further information on this measure can be found in the outlays measure entitled *Corporate Law Reform — Managed Investments* described in Part I of this Budget Paper under the Treasury portfolio and the Treasurer’s Statement *Regulatory Revamp for Managed Funds* of 24 August 1997.

MEASURES INTRODUCED UP TO THE 1998-99 BUDGET

INCOME TAX

Deductibility of donations to political parties and independents

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	-18.3	-12.1	-15.2

Explanation

As part of the recently announced response to the Joint Standing Committee on Electoral Matters Report entitled *'The 1996 Federal Election'* the Government will be amending the *Income Tax Assessment Act 1997* so that, effective from 1 July 1998, deductions up to a maximum level of $1,500 annually will be allowable for:

- contributions (including membership subscriptions) of $2 or more by a taxpayer to registered political parties; and

- gifts of $2 or more by a taxpayer to independent candidates and members.

Currently, income tax deductions are allowed for contributions of $2 or more by non-corporate taxpayers to registered political parties, with the total deductions allowable to a taxpayer subject to a maximum level of $100 in an income year.

This measure will expand the existing provisions by: raising the total tax deductibility ceiling from $100 to $1,500 in an income year; allowing deductibility for donations made by companies; and allowing deductibility for gifts to independents.

Under the measure, donations to independent candidates and members will be allowed to be tax deductible, only if the donations are made during the period commencing from when a person's nomination as a candidate at an election is declared in accordance with the requirements under the relevant Commonwealth or State/Territory electoral legislation, and ending:

- in the case of a person who is elected to the relevant State or Federal Parliament or Territory Legislative Assembly, when he or she ceases to be a member of that Parliament or Legislative Assembly; or

- in the case of a person who is an unsuccessful candidate, at the declaration of the poll of the relevant election (when the outcome of the relevant seat is officially declared under the relevant Commonwealth or State/Territory electoral legislation).

Medicare levy — extension of Gold Card

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-	-8.6	-7.3	-6.5

Explanation

The Government will be extending, with effect from 1 January 1999, full repatriation health care entitlement (the Gold Card) to all Australian World War II veterans aged 70 years and over with qualifying service. Existing Gold Card holders are exempt from the Medicare levy. Similarly, those who will become entitled to the Gold Card from 1 January 1999 will be exempt from the Medicare levy.

Further information on this measure can be found in the outlays measure entitled *The Extension of Gold Card to Veterans of World War II with qualifying service* described in Part I of this Budget Paper under the Veterans' Affairs portfolio.

Taxation treatment of spectrum licences

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-8	-8	-8	-8

Explanation

On 11 March 1998, the Government announced its intention to amend the treatment of spectrum licences under the *Income Tax Assessment Act 1997* and to make consequential amendments to the *Radiocommunications Act 1992*. These changes were announced in view of the (then) forthcoming auction of radio frequency spectrum in the 800 MHz and 1.8 GHz bands.

The Government decided to legislate to allow for the amortisation of the acquisition cost of domestic spectrum licences over the 15 year effective life of the licence. Allowing amortisation of the acquisition cost of domestic spectrum licences is appropriate as it is consistent with the underlying wasting nature of spectrum licences, which contribute to the income earning capacity of the holder over their life. Amortisation is consistent with matching the cost of the licence to the income it generates.

The Government also announced three measures to ensure that Australia is able to assert its taxing rights over income from the use of spectrum where a spectrum licence is owned by a non-resident.

(i) First, the domestic law definition of a royalty will be amended to specifically include spectrum licence payments. This will allow royalty withholding tax (RWT) to be collected from payments made in relation to spectrum licences (including rights to use such licences).

(ii) Secondly, Australia's Double Taxation Agreements (DTAs) will be renegotiated with a view to including such payments in the DTA definition of royalties. This will, as the treaties are renegotiated, allow Australia to impose RWT on payments to DTA countries.

(iii) Thirdly, the Government intends to amend the *Radiocommunications Act 1992* so that all payments made in relation to spectrum licences (including rights to use such licences) to persons who are residents of countries with which Australia has DTAs will be subject to tax in Australia. This will be achieved by imposing a condition on spectrum licences.

Amortisation and the licence condition regarding tax arrangements for payments made in relation to spectrum licences will apply to all spectrum licences issued from 11 March 1998 pursuant to the *Radiocommunications Act 1992.*

Deductibility of gifts

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
*	*	*	*

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

Explanation

The Government announced that gifts of $2 or more to the following bodies would qualify as deductible donations, under the gift provisions of the *Income Tax Assessment Act 1997*:

- from 4 September 1997 to 3 September 1999, the National Nurses' Memorial Trust;
- from 27 January 1998, the Australian American Education Leadership Foundation;
- from 30 January 1998, the Sydney Talmudical College Association Refugees Overseas Aid Fund and the United Israel Appeal Refugee Relief Fund Limited (note that donations to these organisations were previously deductible under the Overseas Aid Gift Deduction Scheme);
- from 9 February 1998 to 8 February 1999, the Mount Macedon Memorial Cross Restoration, Development and Maintenance Fund;
- from 25 February 1998 to 24 February 2000, the St Patrick's Cathedral Parramatta Rebuilding Fund; and
- from 3 April 1998, the Menzies Research Centre Public Fund.

The Government has also announced in principle approval for tax deductibility of donations to the Business Against Domestic Violence Reserve and the Katherine District Business Re-Establishment Fund, subject to those bodies satisfying the public fund requirements.

In addition, since the 1997-98 Budget, there have been:

- 101 admissions to the Register for Cultural Organisations and 39 deletions (a further 13 additions and 13 deletions were made in response to changes in the names of organisations);
- seven admissions to the Register for Environmental Organisations; and
- five admissions to the Overseas Aid Gift Deductibility Scheme and two deletions (a further four additions and four deletions were made in response to changes in the names of organisations).

Company Law Review Bill — taxation response

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
†	†	†	†

† The measure will protect the revenue base used for the forward estimates by removing opportunities for significant future expansion of tax minimisation practices. In the absence of the measure, to the extent that the revenue base would not be protected, there would be significant revenue loss compared to the forward estimates.

Explanation

On 13 November 1997, the Government announced its decision to amend the *Income Tax Assessment Act 1936* (ITAA) in response to changes being made to the Corporations Law.

The Company Law Review Bill 1997 (the Review Bill) will abolish both court confirmation for capital reductions and par value for shares. The changes in the Review Bill, together with the changes in relation to share buy-backs made by the *First Corporate Law Simplification Act 1995*, will make it easier for companies to make distributions of capital to shareholders. Without an appropriate taxation response, these changes could result in very significant revenue loss or deferral because of the greater ease with which companies may stream capital returns to shareholders in circumstances where this will minimise tax. To address this, the Government has introduced amendments into the Parliament that are designed to prevent companies distributing profits to shareholders as preferentially-taxed capital rather than as dividends.

Provisions in the taxation legislation dependent on the concept of par value (and associated concepts such as share premium, share premium accounts and paid up capital) will be amended to ensure their operation remains consistent with the policy underlying their operation under the current Corporations Law. The nature of the Corporations Law changes also requires definitional changes to certain provisions of the ITAA effecting a substantive change to their operation.

The commencement of the Corporations Law changes in relation to court confirmation for reductions of capital and par value for shares is linked to the commencement of the taxation amendments. On this basis, the definitional tax changes will apply in relation to distributions made, and bonus shares issued, from the time the tax legislation commences. The general anti-avoidance rule will apply to distributions made, and bonus shares issued, after that time, unless made or issued pursuant to a binding commitment entered into before 13 November 1997.

Provisional tax exemption for pensioners

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-1	-	-	-

Explanation

Each year the new levels of provisional tax exemption thresholds are set for single-rate, partnered-rate and partnered-illness-separated-rate pensioners. Generally, the thresholds for a year of income are the cut-out thresholds for the pensioner rebate (ie the level of taxable income at which the rebate reduces to nil) for the previous year.

Pensioners will not be liable for 1998-99 provisional tax where:

- the 1997-98 taxable income of a single pensioner is less than $21,780;

- the combined taxable income for 1997-98 is less than $34,096 for a pensioner couple receiving the partnered-rate pension; and

- the combined taxable income for 1997-98 is less than $41,922 for a pensioner couple receiving the separated rate pension (where the pensioners live apart as a result of illness or infirmity).

Pensioners who qualify for a full or partial pensioner rebate in 1997-98 will therefore be exempt from 1998-99 provisional tax.

For the purpose of determining whether a pensioner is eligible for a provisional tax exemption, bonuses received from friendly societies or insurance companies are excluded from taxable income.

SUPERANNUATION AND SAVINGS

Reforms to early release of superannuation benefits

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
2.4	2.4	2.3	2.3

Explanation

The Government modified some aspects of its 1997-98 Budget proposals regarding the early release of superannuation benefits following extensive negotiations with the Opposition and the minor parties. These modifications include:

- a reduction of the preservation threshold for superannuation accounts from $500 to $200 (rather than the proposed total abolition) to address concerns about potential increases in the number of accounts with small balances;

- a reduction of the period from 12 to 6 months for which an applicant must be in continuous receipt of Commonwealth support payments to gain access to superannuation benefits in the case of 'severe financial hardship'. The test of 'severe financial hardship' has also been tightened by requiring applicants to satisfy their fund's trustee that they are unable to meet reasonable and immediate family living expenses;

- more flexibility in the criteria for early release on compassionate grounds, with the Insurance and Superannuation Commissioner given flexibility in approving an application where it strictly satisfies the spirit of the compassionate grounds criteria; and

- an extension to the transition provisions for the access of preserved superannuation benefits upon permanent departure from Australia which will allow individuals who lodge a written request with their fund trustees and leave Australia on or before 30 June 1998 to have their benefits released.

Release of benefits to members who meet these modified tests will still be subject to the governing rules of their trust funds.

Choice of superannuation fund

Financial Implications

1998-99	1999-00	2000-01	2001-02
-	-	-	-

Explanation

Following extensive consultations with superannuation funds, industry associations, employer associations, small business and those representing employee interests, the

Government has modified some aspects of its 1997-98 Budget proposal to provide employees with greater choice as to which fund or retirement savings account receives compulsory employer superannuation contributions made on their behalf.

These modifications include:

- ensuring that an employer cannot be held legally liable for acting in accordance with the choice of fund legislation;

- reducing the minimum number of funds/RSAs that an employer must offer from five to four;

- allowing employers to satisfy their choice obligations by providing 'unlimited employee choice', with employees responsible for collecting information in relation to their chosen fund or RSA; and

- allowing employers to meet their choice obligations through the use of workplace agreements that are broadly defined to include formal agreements (Australian Workplace Agreements and Certified Agreements) and specified types of informal agreements.

These modifications will improve the choice arrangements by significantly reducing the administrative burden on employers while ensuring the key objective of providing choice of fund to employees is achieved.

The Government has also indicated that the start date for superannuation choice for new employees would be deferred, as it had become evident that the Government would be unable to secure the passage of the legislation in time for the 1 July 1998 start date for superannuation choice for new employees to be viable, given the lead time required for the release of regulations on disclosure, education of employees and employers and the necessary preparation by employers and superannuation funds.

WHOLESALE SALES TAX

Amendment to Item 192 of the Sales Tax (Exemptions and Classifications) Act 1992

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
50	50	50	50

Explanation

The sales tax law exempts certain bodies from sales tax on goods they purchase for their own use. These 'always exempt persons' (AEPs) include governments, public benevolent institutions and schools. *Item 192* of *Schedule* 1 of the *Sales Tax (Exemptions and Classifications) Act* 1992 allows the private sector to buy goods tax free as long as the goods are to become part of a property owned or leased by an AEP or the government of a foreign country. The idea behind this is that the goods are to be used by the AEP, and should therefore be exempt. *Item 192* was increasingly being used to obtain sales tax exemptions on goods **for private sector use** — including, for example, hotels, apartment blocks, shopping centres and casinos. This was providing beneficiary firms with windfall gains and unfair competitive benefits.

The amendments restrict *Item 192* benefits to goods for properties principally occupied by AEPs, and to properties used principally by bodies which are undertaking functions contracted out by an AEP. These tests are backed by a list which sets out which uses of property will not qualify for *Item 192* sales tax exemptions. (The list includes casinos, shopping centres, apartments and hotels.) Legislation to implement these changes was introduced into Parliament on 2 April 1998. The measure was announced and applies to dealings after 2 April 1998.

OTHER MEASURES

Establishment of the Australian Prudential Regulation Authority

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
3.8	39	29.3	29.7

Explanation

Consistent with the recommendation of the Financial System Inquiry that regulatory agencies' charges should reflect their costs, the Australian Prudential Regulation Authority (APRA) will recover its establishment and ongoing costs from the financial sector. Details of the cost recovery arrangements have yet to be finalised. APRA will, however, be collecting fees on behalf of the Australian Securities and Investments Commission in relation to regulation of market integrity and consumer protection. This will enable a single fee to be charged.

Although there may be some increase and decrease in the levies collected from particular institutions, it is anticipated that, in comparison to the existing levy regimes, the overall net effect will be minimal.

New legislation and amendments to existing legislation have been introduced into the Parliament to enable the reorganisation of prudential regulatory levies, fees and charges in Australia. They will take effect at different times from July 1998 through to 1999.

Further information on this measure can be found in the outlays measures entitled *Establishment of the Australian Prudential Regulation Authority* and *Establishment of the Australian Securities and Investments Commission* described in Part I of this Budget Paper under the Treasury portfolio.

See also the Treasurer's Statement *Reform of the Australian Financial System* of 2 September 1997 and the Treasurer's Statement *Financial System Reforms — Implementation* of 17 March 1998.

Establishment of the Australian Securities and Investments Commission

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
8.3	14	14.2	14.3

Explanation

Consistent with the recommendation of the Financial System Inquiry that regulatory agencies' charges should reflect their costs, the Australian Securities and Investments Commission (ASIC) will recover its establishment and ongoing costs from corporations and the financial sector. Details of the cost recovery arrangements have yet to be finalised. However, corporations fees and charges will be collected by the ASIC. Financial sector levies will be collected by the Australian Prudential Regulation Authority alone and channelled to ASIC for the purposes of funding the regulation of market integrity and consumer protections. This will enable a single financial sector levy to be charged rather than having separate levies for each regulator.

The fees, charges and levies currently payable will provide for the bulk of the resource needs for the new arrangements.

New legislation and amendments to existing legislation have been introduced into the Parliament to enable the reorganisation of levies, fees and charges in Australia.

Further information on this measure can be found in the outlays measures entitled *Establishment of the Australian Securities and Investments Commission* and *Establishment of the Australian Prudential Regulation Authority* described in Part I of this Budget Paper under the Treasury portfolio.

See also the Treasurer's Statement *Reform of the Australian Financial System* of 2 September 1997 and the Treasurer's Statement *Financial System Reforms — Implementation* of 17 March 1998.

Reducing fees for coasting trade permits

Financial Implications ($m)

1998-99	1999-00	2000-01	2001-02
-0.2	-0.2	-0.2	-0.2

Explanation

The cost of Single Voyage Permits has been reduced by half and the cost of Continuing Voyage Permits has been decreased from $2,000 to $400 effective from 24 December 1997. These decreases in fees will promote the ease with which ship operators can have access to coastal shipping routes. These decreases were a component of the shipping reform programme announced by the Minister for Workplace Relations and Small Business in December 1997.