

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Additional Estimates 20-21 February 2008

**Question: aet 68**

**Topic: Taxation Laws Amendment Bill 2008 – Tax Deductible Donations**

**Hansard Page: E33-E34 &E35-E36**

**Senator COONAN asked:**

**Senator COONAN**—I wanted to ask some questions about the tax deductibility of donations to political parties. The precursor to my question is of course that there is a binding public tax ruling that relates to the payment of special levies or contributions by persons to a trade, business or professional association which is an allowable deduction under section 8(1) of the act where the purpose for which it is made is linked to the activities—clearly linked—by which the assessable income of the person is derived. You would be familiar with that? That includes fees or levies paid to trade unions, does it not; they are deductible?

**Mr Konza**—Yes.

**Senator COONAN**—I am not quite sure whether it has been introduced, but the Taxation Laws Amendment Bill 2008 proposes, on the contrary, that donations to political parties should not be tax deductible. What is the policy rationale behind the differentiation between political parties and trade unions?

**Senator Conroy**—That would be a question of policy.

**Senator COONAN**—I am asking for it.

**Senator Conroy**—It is a policy that I think at the moment is being articulated by Senator Faulkner. I am not sure that is a relevant question to this portfolio. I am happy to take it on notice and pass it on to Senator Faulkner, but I am not sure that it is relevant to this particular portfolio. I will happily take it on notice.

**Mr Ray**—I am not sure that I am following your question. The general provision that says that where there is a sufficient connection between the earning of the income and the expense then it is an allowable deduction under section 8(1), as I understand it, is not being changed by this measure.

**Senator COONAN**—No, it is not.

**Mr Ray**—For example, politicians may well be able to claim deductions.

**Senator COONAN**—Yes, but political parties cannot. I do not think this is a controversial statement that I am about to make. With unions now acting more like political parties in running their own campaigns and endorsing candidates and

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contributing millions of dollars to registered political parties, has any thought been given to Treasury as to the policy differentiation between a political campaign whether it is run by a union or run by a political party? It seems to be the same outcome with different inputs, if you look at deductibility as a criterion.

**Mr Ray**—I think that is going into policy.

**Senator COONAN**—You do not want to bite off this one?

**Mr Ray**—No.

**Senator COONAN**—I am not surprised.

**Senator JOYCE**—There is a point there. Obviously, you talk about the nexus between the capacity to make an expenditure that increases your income. Surely it is just as justifiable to someone who says, ‘I am donating to this political party because I believe it will increase my income’ as it is to a person who donates to a union and believes that that will increase their income? What is the differentiation between the two?

**Senator Conroy**—That would be a matter of policy. As I think the officials have indicated, it is in their view a matter of policy. It is a matter to do with Senator Faulkner. While I appreciate your avid interest in this issue, I am happy to take it on notice and refer it to Senator Faulkner.

...

**Senator COONAN**—Can I be clear about what Senator Conroy is going to take on notice for Senator Faulkner’s attention?

**Senator Conroy**—We will get the transcript of your question and pass it on to Senator Faulkner. As I said, it does not actually apply to these estimates. If he chooses to respond, he will do so, but we will pass on to him the question. We will get it out of Hansard. It is not relevant to these estimates. I cannot take something on notice. I can ask him to respond; it is not like it is a question to the Treasurer.

**Senator BERNARDI**—But you would use all of your powers of persuasion to encourage him; is that right?

**Senator Conroy**—I will use all of my influence.

**CHAIR**—Senator Bernadi, we are getting very close to our lunchbreak. Are there any more questions?

**Senator COONAN**—I do think this is a matter quite frankly for Treasury. We are looking at good tax policy and the efficient administration of the tax system.

**Senator Conroy**—But it is not a tax policy matter.

**Senator COONAN**—The policy area is obviously a matter for Treasury. It is a matter that I intend to return to. I do think it is appropriate that we get to the bottom of why it

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is that amounts paid to unions are deductible and amounts paid to political parties are not under this proposed legislation. So far as I am concerned, it is a clear double standard. We all know what is behind it. It is important that the matter be further looked at.

#### **Answer:**

The Government's policy is to abolish the tax deduction for donations or contributions (including membership fees) to political parties, candidates and members. This policy was an election commitment, announced on 2 March 2007 as part of 'Labor's \$3 Billion Savings Plan'.

The Government is not changing the general deduction principle in Section 8-1 of the *Income Tax Assessment Act 1997*, which allows deductions for losses or outgoings to the extent that they are incurred in gaining or producing assessable income.

Periodic subscriptions paid by a person for membership of a trade, business or professional association (including trade unions and associations of employees) will remain deductible under section 8-1 of the Act where the principal activities of the trade, business or professional association are relevant to the gaining or producing of assessable income.