

CHAPTER 8

MATURE AGE WORKER TAX OFFSET

Introduction

8.1 Tax offsets are amounts that can be subtracted from a person's tax liability, thus reducing the total tax payable. They differ from tax deductions by being applied after the amount of the tax liability is calculated.

8.2 Schedule 4 of the bill introduces a tax offset for workers aged 55 years and over. It amends the *Income Tax Assessment Act 1997* to provide a maximum offset of \$500, subject to 'net income from working' requirements.

8.3 The Government announced the initiative in its 2004 election policy statement *Mature Age Worker Tax Offset* released on 9 September 2004. The offset is designed to 'reward and encourage mature aged workers to stay in the workforce'¹ as a part of preparing and planning for the ageing of Australia's population.

Conduct of the inquiry into schedule 4

8.4 The Committee did not receive any submissions in relation to schedule 4 of the bill, and the schedule was not considered at the public hearing in Brisbane. A series of questions were placed on notice by committee members, and a written response to these was received from Mr Philip Gallagher, PSM, Manager, Retirement and Income Modelling unit, Department of the Treasury. The Committee thanks Mr Gallagher for his assistance.

Features of the mature age worker tax offset

8.5 Eligibility for the offset is based on age (over 55 years) and, what is termed in the bill, 'net income from working'. That is, the income must be derived mainly as a reward for the taxpayer's personal effort or skills or must be income from a business that the taxpayer carries on, less any relevant deductions. It will not be available to those whose net income from working is greater than \$58,000 for the 2004-05 income year (or \$63,000 for the following income year).

8.6 The offset will phase in at five per cent from the first dollar of net income from working, so that the full \$500 offset is achieved when net income from working reaches \$10,000. In 2004-05, the offset will phase out at five per cent from \$48,000, so that no offset is available when net income from working exceeds \$58,000.

1 Press Release, Prime Minister, *Mature Aged Worker Tax Offset*, 9 September 2005.

8.7 Although the offset is calculated on the basis of net income from working, it will act to reduce the taxpayer's tax liability on their total taxable income. It will apply to assessments for the 2004–05 income year and later income years.

Net income from working

8.8 In brief, 'net income from working' is the total amount of assessable income derived as a reward for personal effort or skills, less any relevant deductions. It will be defined in the *Income Tax Assessment Act 1997 Act* (section 61-570) as assessable income for the year consisting of the following:²

- a) personal services income;³
- b) income from a business that the taxpayer carries on—this includes a business that a taxpayer carries on as a sole trader or in partnership;
- c) farm management withdrawal amounts; and
- d) reportable fringe benefits total,

less the sum of any expenses that the taxpayer can deduct for the income year, to the extent that they are related to their assessable personal services income or assessable income from a business that the taxpayer carries on.

8.9 Any income which is exempt from taxation or non-assessable is not included.

8.10 Note that personal services income includes the following:

- salary or wages;
- income of a professional person practising on his or her own account without professional assistance;
- income payable under a contract which is wholly or principally for the labour or services of a person;
- income derived by consultants;
- income derived by a professional sports person or entertainer from the exercise of his or her own skills (not including income from product endorsements); and
- other income from working such as commissions, bonuses and fees paid to directors or office holders.

8.11 Certain amounts of income are specifically excluded from the definition of 'net income from working'. These amounts relate to eligible termination payments;

2 Explanatory Memorandum, p. 25.

3 Personal services income is income that is mainly a reward for an individual's personal efforts or skills. It does not include income such as social security payments, veterans' affairs payments or superannuation pensions and annuities.

payments received on retirement or termination of employment in lieu of long service leave and annual leave; and amounts of passive income.⁴

8.12 The offset will operate in combination with the existing \$6,000 tax-free threshold and the Low Income Tax Offset. Taken together, this means that eligible workers aged 55 or more will pay no tax on their earned income up to \$10,323.⁵

8.13 The offset cannot reduce a taxpayer's basic income tax liability below zero. It will add to the value of other offsets, but does not affect their value or income testing. It is not transferable between members of a couple.

Beneficiaries

8.14 Treasury estimates that 1.08 million persons will be eligible to receive the offset in 2004-05, and 1.13 million persons in the three subsequent years.⁶

Cost to revenue

8.15 When the measure was announced in September 2004, the cost to revenue was estimated to be \$1.039 billion over the forward estimates period (ie 2004-05 to 2007-08). This amount was revised to \$1.440 billion in the Explanatory Memorandum to the bill.⁷

8.16 The Minister for Revenue and Assistant Treasurer, the Hon. Mal Brough MP, explained the cost revisions as resulting from the development of the definition of 'net income from working' as follows:⁸

... the government's decision is to allow taxpayers who are earning income from working in a partnership to be eligible for the offset and to allow wage and salary earners to deduct relevant deductions in order to calculate net income from working. This treatment is consistent with that of personal services income and business income ...

8.17 At the Additional Estimates hearings in February 2005, the Treasury said revisions in costings were necessary to accommodate clarifications of policy intent in

4 Passive income includes: dividends, annuities, interest income, rental income, royalties, amounts received from the assignment of intellectual property, capital gains and passive commodity gains, certain attributable income relating to trust estates, and certain amounts relating to controlled foreign companies and foreign investment funds.

5 Press Release, Prime Minister, *Mature Aged Worker Tax Offset*, 9 September 2004.

6 Written response provided by Mr Philip Gallagher of Treasury to written questions on notice, 6 June 2005.

7 Explanatory Memorandum, p. 5.

8 House of Representatives, *Hansard*, 16 February 2005, p. 111. [Brough]

the definition of 'net income from working' and to better reflect the changing age structure in the Australian population.⁹

8.18 The Treasury has estimated that the Australian Taxation Office's implementation costs will be \$0.3 million in 2004–05 and \$1.8 million in 2005–06.¹⁰

Committee comment

8.19 The Committee notes OECD research that suggests that it may be more difficult to reverse retirement decisions, once taken, than it is to encourage people still in employment to delay retirement.¹¹ Those most weakly 'attached' to the labour force tend to be more likely to initiate early retirement before age 65.

8.20 The demographic challenges facing Australia over the next few years as the population ages are considerable. Encouraging mature age workers to remain in the labour force for longer will help meet these challenges. Measures such as the mature age offset which aim to strengthen mature age workers' 'attachment' to the labour force and thus encourage them to delay their retirement, are clearly required.

Recommendation

The Committee recommends that the Senate pass the Tax Laws Amendment (2005 Measures No. 1) Bill 2005.

**Senator George Brandis
Chair**

9 Economics Legislation Committee, *Proof Committee Hansard*, Additional Estimates, 17 February 2005, p. 91. [Gallagher]

10 The Treasury, *Costing of Election Commitments – Mature-Aged Worker Tax Offset*, 17 September 2004, viewed on 6 April 2005, at:
http://www.treasury.gov.au/documents/888/HTML/docshell.asp?URL=007_Mature_Age_Tax_Offset.htm

11 OECD, *Employment Outlook 2003*, Paris, Chapter 2, *The Labour Mobilisation Challenge: Combating Inactivity Traps and Barriers to Moving Up Job Ladders*, referred to in *Budget Strategy and Outlook 2003-04*, Budget Paper No. 1, Statement 4: *Sustaining Growth in Australia's Living Standards*, p. 4-10.