

CHAPTER 5

Tax Bonus for Working Australians Bill 2009 and Tax Bonus for Working Australians (Consequential Amendments) Bill 2009

Purpose of Tax Bonus for Working Australians Bill 2009

5.1 The Tax Bonus for Working Australians Bill (the bill) is intended to implement the Government's Tax Bonus for Working Australians announced by the Prime Minister and Treasurer on 3 February 2009.¹ It is part of the Government's Nation Building and Jobs Plan. The tax bonus consists of a one-off cash bonus to taxpayers who had a taxable income of up to \$100,000, after taking account of tax offsets and credits, during the 2007-08 financial year. The Bill authorises the Commissioner of Taxation to pay the tax bonus to eligible taxpayers.

5.2 The cost of the measure is \$8.2 billion and it is anticipated to provide support to approximately 8.7 million taxpayers.²

5.3 The second reading speech states that the cash payments are being provided by the Government in order to 'immediately support jobs and strengthen the Australian economy during a severe global recession'.³

Summary of the bill

5.4 The Commissioner of Taxation will pay the bonus to eligible taxpayers, if the taxpayer is an Australian resident who has an adjusted tax liability.⁴ The amount of the payment will be based upon the eligible taxpayer's income for the 2007-08 financial year as shown in the table below:

2007-08 income	Tax bonus payable
Up to and including \$80,000	\$950
\$80,000 - \$90,000	\$650
\$90,000 - \$100,000	\$300

1 The Hon Kevin Rudd, MP, Prime Minister of Australia, ' \$950 One-off Cash Bonus to Support Jobs', 3 February 2009, http://www.pm.gov.au/media/release/2009/media_release_0778.cfm, accessed 6 February 2009.

2 Explanatory Memorandum, p. 5.

3 Second reading speech.

4 An adjusted tax liability occurs where the taxpayer's basic income tax liability plus their Medicare levy for the year and their Medicare levy surcharge for the year (if any), less any tax offsets and franking credits for the year (if any), is greater than zero.

5.5 In order to be eligible for the payment, taxpayers must lodge their 2007–08 tax return by 30 June 2009. Taxpayers who already have an approved arrangement to lodge a late tax return before the provisions contained in the bill commence, will be eligible for the tax bonus.

5.6 Special rules will apply to limit the entitlement of children to the bonus. Only minors who are an excepted person or who have excepted assessable income will be eligible for the payment. These rules are consistent with the tax treatment of the income of minors found in the *Income Tax Assessment Act 1936* (ITAA 1936).

Provisions of the bill

5.7 Item 3 provides for the Commissioner of Taxation to administer the tax bonus. Item 4 provides for definitions used in the Bill. Most of these are references to definitions that appear in other Acts administered by the Commissioner of Taxation. Item 4 also establishes the method for determining a taxpayer's adjusted tax liability. 'Adjusted tax liability' is defined at footnote 4. Item 4 is required in order to determine whether a taxpayer will be eligible for the payment.

5.8 Item 5 sets out criteria to be used by the Commissioner of Taxation for determining eligibility for the payment. To receive this payment, taxpayers must be Australian residents with a taxable income for the 2007-08 year not exceeding \$100,000. An individual must lodge their income tax return before 30 June 2009 or have an approval to lodge later before the provisions in the bill commence.

5.9 A person who is less than 18 years of age, meets the payment criteria and who has 'excepted assessable income' or who is an 'excepted person' will be eligible for the payment.

5.10 Item 6 sets out the amount of the bonus that will be paid to eligible taxpayers depending on their income. Eligibility based on income is set out in the table at paragraph 5.4 above.

5.11 Item 7 sets out that the Commissioner of Taxation must pay the bonus as soon as practicable after such time as the Commissioner is satisfied that a person is eligible for the bonus. This can be done by cheque or electronic funds transfer.

5.12 A person who has received a payment which they are not entitled to will have to pay the amount of overpayment back (Item 8). Item 9 provides that any debts arising in this way will be subject to a general interest charge. This is consistent with other taxation administration legislation and arrangements.

Purpose of Tax Bonus for Working Australians (Consequential Amendments) Bill 2009

5.13 The Tax Bonus for Working Australians (Consequential Amendments) Bill 2009 (Consequential Bill) makes consequential amendments to a number of Acts. These amendments are to be made as a consequence of the Tax Bonus for Working

Australians Bill's provisions to ensure that the proposed tax bonus payments are not themselves taxable income and are not income for either social security or veteran's affairs purposes.

Provisions of the consequential bill

5.14 Item 1 amends the *Income Tax Assessment Act 1936* to ensure the bonus is not included for the purpose of calculating separate net income. Separate net income includes income and other specified amounts that an individual's dependant earned or received while being maintained by the individual.⁵

5.15 Item 2 amends a list of non-assessable, non-exempt income provisions of the *Income Tax Assessment Act 1997* to include the bonus. Item 3 amends this Act to ensure that the bonus is not assessable and not exempt income.

5.16 Items 4 and 8 amend the *Social Security Act 1991* and the *Veterans' Entitlement Act 1986* to exempt the payment of the bonus from being included in the income of a person who is in receipt of payments under these Acts.

5.17 Item 5 amends the *Taxation Administration Act 1953* to provide that the payment is subject to the general interest charge. This Act is also amended to provide that the payment is not considered a credit that can be used to offset other tax debts or liabilities (Item 6). Item 7 amends the index of tax-related liability under other Acts administered by the Commissioner of Taxation.

Issues

Effectiveness of the tax bonus

5.18 Through the provision of the tax bonus, the Government aims to provide a means for an immediate stimulus to spending and therefore support jobs and strengthen the economy.

5.19 Throughout the inquiry, there was considerable discussion of the benefits of the proposed tax bonus versus the benefits of tax cuts and whether the bonus will be saved, used to paydown debt or spent.

5.20 The Australia Institute, for example, commented that while the package 'is a timely and appropriate plank in the strategy to minimise the impact of the slowing world economy on Australia', it saw the tax bonus as a weakness.⁶ The Australia Institute stated that:

5 Australian Taxation Office website:
<http://www.ato.gov.au/individuals/content.asp?doc=/content/19187.htm&page=3&H3> accessed 6 February 2009.

6 The Australia Institute, *Submission 6*, p.1.

The heavy reliance on the provision of one-off payments of \$950 to a wide range of groups is likely to stimulate increased retail expenditure but it is important to note that jobs created by such an approach do not flow strongly beyond the retail sector, given Australia's high propensity to import. Such an expansion will provide limited opportunities to the 300,000 people expected to join the dole queues in the next 16 months.⁷

5.21 The Australian Chamber of Commerce and Industry (ACCI) commented that it would have liked to have seen the personal income tax cuts that are to apply from July 2009 and July 2010 brought forward as these could 'substantially boost household income and also deliver benefits to small business'. However, the ACCI also stated 'nevertheless, the \$12.7 billion cash bonuses will provide support to consumer spending and domestic demand'.⁸

5.22 Dr Henry commented on proposals to cut the GST:

...we have not considered changing the GST arrangements in order to provide a macroeconomic stimulus. As you know and as you mentioned in your question the GST revenue goes to the states. In the time that the GST has been legislated in this country it has been the position of the Commonwealth government that the GST arrangements are a matter of agreement between the Commonwealth and the states.

So we have not considered an option such as that. I would note that, depending upon how large the cut in the GST rate was and the time period for which the cut in the GST rate applied, it could be quite an expensive option given how much revenue the GST raises—and I am not at all sure, in terms of its budget impact, that that would be a cheaper way of stimulating household consumption activity.⁹

5.23 There has been a range of support for one-off payments rather than tax cuts. The IMF's chief economist, Mr Olivier Blanchard, recently commented on tax cuts and packages which include a stimulus for spending and stated:

The key here is to design packages which provide maximum boost to demand very soon. That tends to argue in the current context for measures focused on spending rather than taxes. Measures focused on taxes tend to have less effect in the short run than measures which increase spending.¹⁰

5.24 Mr Graham White, Faculty of Economics and Business, University of Sydney, also commented that:

7 The Australia Institute, *Submission 6*, p.1.

8 ACCI, *Media Release*, 'Policy Levers Working to Avoid Recession', 3.2.09.

9 *Committee Hansard*, 9.2.09, p.47.

10 Mr O Blanchard, Interview with Mr Michael Rowland, ABC Radio, AM – *IMF warns world economy is slowing*, 29.1.09.

...not all of the tax cut – in contrast to the government expenditure increase – will be spent, and hence not all of the extra dollar's income will go to extra demand for goods and services.

It is true that cash handouts, which form part of the package, have a similar effect to a tax cut, in that they stimulate spending indirectly via increased household income. But their impact is greater if they are targeted at households at the lower end, who have a higher propensity to spend out of income. Tax cuts could also be beneficial, if they were similarly targeted at those on lower incomes, but direct payments can reach those who pay little or no tax.¹¹

5.25 Mr Richard Evans of the Australian Retailers' Association stated:

Cash is king. Cash in the hand makes a difference, and that is why it takes four to six months for an interest rate reduction, for instance, to take effect. It is because it takes that long for someone to psychologically realise that they have increased spending capacity. In our view what is needed is for some money to be given to someone who is told, 'Look you have to spend this money before the end of the year.' It needs that cash spike to flow through the system. In the longer-term, with the economy, tax cuts will add more cash into the system.¹²

5.26 Treasury and the Department of the Prime Minister and Cabinet officials provided the Committee with evidence to explain the choice of the tax bonus to achieve the Government's aim of a quick, direct stimulus to the economy. Dr Ken Henry, Treasury Secretary, commented that:

If you want to have a speedier, timely impact on aggregate demand it is quicker to provide additional purchasing power to households.¹³

And:

...a permanent income tax cut has implications for the budget both in the short-term and, obviously enough, in the medium to longer term, and this particular package has been designed to have a temporary fiscal stimulus and not to build into the budget long-term reductions in the fiscal balance. The purpose of the package is that the stimulus be temporary and, as the economy enters a growth phase, the budget return to surplus as quickly as is prudent.¹⁴

5.27 Dr Henry also commented on the multiplier effects of tax cuts and one-off payments:

11 Mr G White, Faculty of Economics and Business, University of Sydney, SMH, 'Cash in hand worth more than Coalition's tax cut push', 6 February 2009.

12 Mr G Evans, ARA, *Committee Hansard*, 9.2.09, p. 10.

13 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.06, p.12.

14 Dr K Henry, The Treasury, *Committee Hansard*, 9.2.06, p.53.

...that is, I am not sure that it is the case that the multiplier effect associated with a permanent cut in income taxes is larger than the multiplier associated with a one-off cash payment, for example, or a short-term fiscal stimulus. I know there has been a lot of commentary in the press both in Australia and internationally that indicates that that might be the case, but I do not believe that the evidence supports that conclusion at all.¹⁵

5.28 Mr David Tune, Department of the Prime Minister and Cabinet, also noted that one-off payments 'have some quite strong stimulatory impacts' and that:

Tax cuts might have their place over a longish period of time. It depends a bit on the way you see the course of the economy going. But, in terms of short-term stimulus, my view would be that one-off payments are probably going to give you the biggest bang for your buck.¹⁶

5.29 Comments were made concerning the tax bonus and whether it will stimulate the economy or go into savings. It was stated that retailers had not seen spending of the full amount of the Economic Security Strategy (ESS). Dr Henry stated that over some quarters the ESS will contribute about half to one percentage point to gross domestic product.¹⁷ Dr Henry also commented on the data currently available:

I guess the first thing to say is that, for retail spending, thus far we have data for one month: December. It has certainly never been our expectation that all of the fiscal stimulus provided as a consequence of the October package would occur in the month of December. That was certainly never our expectation; it is not what we were saying at the time. But the first point to make is that retail sales is the minor proportion of household consumption. If you think of the national accounts aggregates of household consumption, investment, the government, of course, and net exports, household consumption is, I think, about 60 or 70 per cent of the demand components of gross domestic product—gross domestic product (E), as the statistician refers to it. Of household consumption expenditure, I think retail sales make up about 40 per cent, or something like that, of consumption. So the retail spending figures relate to about 28 per cent of GDP, I suppose—something like that—which is to say that one should expect the fiscal impact of the October package to come through not only in retail sales. That is the first point.

The second point is that some of the stimulatory impact of the October package would be expected to come through in the present quarter and, indeed, subsequent quarters. Why might this be the case? Well, what is saving? Saving is merely deferred consumption.¹⁸

15 Dr K Henry, Treasury, *Committee Hansard*, 9.2.09, p.52.

16 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.06, p.30.

17 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.06, pp19-20.

18 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, pp8-9; see also Dr K Henry, The Treasury, *Committee Hansard*, 5.2.06, p.19.

5.30 Dr Henry went on to comment that additional government spending on items such as maintenance of school buildings or the acquisition of new items of capital equipment, contributes to aggregate demand equal to the increase in government spending. In relation to government programs to increase household disposable income, Dr Henry noted:

...if governments provide additional disposable income to households through whatever means then...for some period of time some proportion of those increases in disposable income per household will be saved so that something less than a full dollar of the addition to household disposable income will show up in aggregate demand in that year. Of course, it will show up in aggregate demand in some subsequent year because...saving is nothing more than deferred consumption, so by definition it is going to show up at some point. But less than a dollar will show up in the year in which the budget balance is impacted.¹⁹

5.31 In regard to concerns that the tax bonus would be saved or used to pay down debt, it was acknowledged that, while household expenditure surveys give an idea of household consumption patterns, there is no exact way of knowing what people will do with the money. However, the package is directed at those who have higher capacity to consume, that is mainly low- to middle-income groups, and there is evidence to suggest that one-off payments are more likely to be spent.

5.32 Dr Gruen of the Treasury commented:

Qualitatively, I think it is reasonably well established that people on lower incomes tend to spend a higher share of these transfers to them. There is quite a lot of evidence of that. So to the extent that the package gave a higher proportion of the transfers to low-income people, you will get a larger effect on aggregate demand than if you gave a higher proportion of it to high-income people.²⁰

5.33 Ms Lin Hatfield Dodds of the Australian Council of Social Service (ACOSS) also noted of the payments:

In terms of this package, we welcome those payments because we recognise that we need to get cash flowing quickly. They are largely well targeted. It is largely, as I said before, to low- and middle-income earners.²¹

5.34 In relation to one-off payments, Dr Gruen commented:

On one-off payments to people, there is evidence where they actually followed people who got one-off payments and other people who did not so that they have actually got detailed evidence on individuals rather than the

19 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.06, p.12; see also Dr KHenry, The Treasury, *Committee Hansard*, 5.2.06, p.24.

20 Dr D Gruen, The Treasury, *Committee Hansard*, 5.2.09, p.33.

21 Ms L Hatfield Dodds, ACOSS, *Committee Hansard*, 9.2.09, p.24.

total effect on the economy. The evidence is quite strong that something like two-thirds of a one-off payment gets spent within the first six months.²²

5.35 Mr Tune also commented:

...if you provide a large lump sum in one hit that can have strong consumption effects. That very much depends, of course, on where you direct it to. You would try to direct it if you could to people who have a high propensity to consume—that is, they are going to spend most of it rather than save it—so you would want to target it in some way. Obviously if you give a tax cut, that is spread over a period of time. Let us say it was a \$1,000 lump sum, just for the sake of argument, and \$1,000 of tax cuts spread over 52 weeks. I would have thought you would get a better stimulus impact from the \$1,000 lump sum than from the \$1,000 spread over 52 weeks.²³

5.36 Mr Tune concluded:

The view taken on this package was that an immediate lump sum is going to boost consumption more in the short term than something that is done over a period of time. That is the judgement that has been made.²⁴

5.37 Dr Gruen also commented that some stimulus packages being discussed around the world have some tax measures or some measures that are payments to individuals, 'but it is also the case that plenty of them are not tax cuts'. Dr Gruen stated that:

For instance, the US package does not include income tax cuts; it includes tax credits in 2009-10 and access to per child tax credits. It has a series of temporary payments to individuals which are by their nature rather similar to the payments in the package under consideration.²⁵

5.38 Additional information was provided to the Committee on those countries who have provided tax cuts including Canada and those who have not such as Spain and is available at Appendix 3.

Eligibility

5.39 Comments were received concerning the eligibility requirements which require a person to have an adjusted tax liability for the 2007-08 income year in order to receive the bonus. It was argued that the majority of age pensioners and persons on unemployment benefits for a significant proportion of the 2007-08 income year did not have such a liability.

22 Dr D Gruen, The Treasury, *Committee Hansard*, 5.2.09, p.43.

23 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.09, p.30.

24 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.09, p.40.

25 Dr D Gruen, The Treasury, *Committee Hansard*, 9.2.09, p.47.

5.40 Mr Tune noted that some unemployed people will receive a payment through the training and learning bonus.²⁶ (The training and learning bonus is discussed in Chapter 3.) In addition, those people who are newly unemployed will receive the tax bonus as they will have an adjusted tax liability for 2007-08.

Impact of delay and amendments

5.41 The Committee heard evidence from the Australian Taxation Office and Centrelink that any delays to the package would make it difficult to implement in a timely fashion. Mr Michael D'Ascenzo, Commissioner of Taxation, made the statement that:

The period between now and April is a relatively short one when you are thinking of the size of the payments that we have to roll out to taxpayers. I think 75 per cent of our individuals market is affected, so that involves redeveloping our systems, working with Australia Post, working with the Reserve Bank, working with the tax profession. All that can be done prior to tax time, but once we get into June-July, I do not think I could do both at the same time. So one would have to be deferred. So any sort of further delay moves the feasibility of being able to do that into a critical period where I do not think both can occur.²⁷

5.42 Mr Finn Pratt of Centrelink commented that systems are in place to fast-track payments:

Our advice was that we could do it from the week of the 11th because we had a major systems release on at that time, and it enabled us to engage all of the infrastructure which is in place to do a major release. We have many, many testers in place, so that was one of the reasons why we could fast-track it.²⁸

5.43 When asked about the impact of changes to the package, Mr D'Ascenzo, Commissioner of Taxation replied:

Basically I need to redevelop part of my system to allow for this. So if there is any change you are really back to square one in terms of that redevelopment of the system.²⁹

5.44 In response to the same question, Mr Pratt noted:

If the parliament passes this legislation next week, as currently presented, we will be able to implement it for 11 March. If there are changes made

26 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.09, p.38.

27 Mr Michael D'Ascenzo, Australian Tax Office, *Committee Hansard*, 6.2.09, p.37.

28 Mr F Pratt, Centrelink, *Committee Hansard*, 6.2.09, p.7.

29 Mr Michael D'Ascenzo, Australian Tax Office, *Committee Hansard*, 6.2.09, p.37.

next week, it is quite likely that this will result in a deferral of our implementation date.³⁰

30 Mr F Pratt, Centrelink, *Committee Hansard*, 6.2.09, p.8.