1944.

THE COMMONWEALTH OF AUSTRALIA.

REPORT

OF THE

JOINT COMMITTEE

APPOINTED TO INQUIRE INTO THE ADVISABILITY OF BASING THE LIABILITY FOR INCOME TAX FOR EACH FINANCIAL YEAR ON THE INCOME OF THAT YEAR, OR OF ADOPTING ANY OTHER METHOD OF AVOIDING THE HARDSHIP WHICH MAY ARISE UNDER THE PRESENT SYSTEM OF BASING THE LIABILITY FOR INCOME TAX FOR EACH FINANCIAL YEAR ON THE INCOME OF THE PREVIOUS YEAR.

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MEMBERS OF THE COMMITTEE.

THE HON. JOSEPH BENEDICT CHIFLEY, TREASURER (CHAIRMAN).

Senate.

Senator the Hon. Richard Valentine Keane, Minister for Trade and Customs.
Senator John Armstrong Spicer.

House of Representatives.

The Hon. Hubert Lawrence Anthony, M.P.
Arthur William Coles, Esquire, M.P.
The Rt. Hon. James Henry Scullin, M.P.
The Hon. Percy Claude Spender, K.C., M.P.

REPORT OF THE JOINT COMMITTEE.

The Joint Committee appointed on 10th February, 1944, by resolution of both Houses of the Parliament of the Commonwealth to inquire into and report upon—

> the advisability of basing the liability for income tax for each financial year on the income of that year, or of adopting any other method of avoiding the hardship which may arise under the present system of basing the liability for income tax for each financial year on the income of the previous year—

has the honour to present the following report:—

2. As announced by the Prime Minister in Parliament on the 15th October, 1943, arrangements were made for the Committee to function during the recess, pending formal constitution by resolution of the House on the re-assembly of Parliament. In accordance with that arrangement, the Committee met on six occasions, namely, the 13th, 14th and 15th December, the 10th and 11th January, and the 9th February.

3. The Committee considered a number of reports prepared by taxation officials under the direction of the Commissioner of Taxation. A report by the Taxation Advisory Committee dealing with relief from income tax in cases of death or substantial reduction of income was also considered.

4. Under the present system of taxation, income tax is based on the income of the previous year, and not on the income of the current year, out of which it is, in most instances, paid. In the case of an employee, although deduction is made from each payment of salary or wages, the deductions are applied in payment of the tax on the salary or wages earned in the previous year. In the case of a non-employee, tax based on the income of the previous year is payable in one lump sum during the current year. In either case, if the taxpayer's income ceases or is reduced by death, retirement or other cause, payment of tax on the higher income of the previous year may become, under present high rates of taxation, a serious financial burden.

5. The manner in which this problem has been dealt with in the United States of America, Canada and the United Kingdom, and the methods proposed for dealing with it in Australia, are discussed in this report. Reference will also be made to plans considered and rejected by the Committee.

INTRODUCTION OF PAY-AS-YOU-EARN TAXATION IN OTHER COUNTRIES.

6. Outlines of the methods of pay-as-you-earn taxation adopted in the United States of America, Canada and the United Kingdom are set out in Appendices 1, 2 and 3. The essential features of the plans are as follows.

UNITED STATES OF AMERICA.

7. Prior to the introduction of pay-as-you-earn taxation, tax was paid in four equal quarterly instalments in the year following the year of income ended 31st December. The instalments were self-assessed by the taxpayer on his actual income of the previous year. Under the pay-as-you-earn plan, tax will continue to be paid by the non-employee in four equal quarterly instalments, but the instalments will now be based, not on the actual income of the previous year, but on the taxpayer's own estimate of what his income and tax for the current year will be.

8. After the year of income has ended and the taxpayer knows what his actual income was, he will calculate the tax payable on that income when lodging his return and adjust the instalments made with the tax finally payable. Only this adjusting payment will be made outside the year of income.

9. For employees, deductions from wages will take the place of quarterly instalments, and when the employee lodges his return at the end of the year of income, the only additional payment necessary will be the amount (if any) by which the deductions made are less than the tax on the income as finally determined. If the deductions exceed the tax finally determined, refunds will be made.

10. The changeover to the new system was made in 1943. Under the old system, tax on 1942 income was payable in 1943, while, under the new system, tax on 1943 income is payable in 1943. In general, 75 per cent. of the tax on the lower of the two years was cancelled. The uncancelled 25 per cent. was made payable in two equal parts on 15th March, 1944, and 15th March, 1945.

CANADA.

11. In Canada, prior to 1942, the major part of tax was paid in one lump sum three months after the close of the year of income ended the 31st December. As in the United States of America, the tax was self-assessed by the taxpayer on his actual income of the previous year. Rates of tax were substantially increased in the middle of 1942, and taxpayers were required to make advance payments, either by instalments or deductions from wages, on the new rates in the latter half of 1942. As a result, by the end of 1942, Canadian taxpayers had paid the whole of their liability in respect of 1941 income and approximately one-half their liability in respect of 1942 income.

12. Pay-as-you-earn taxation was introduced early in 1943 by making payments in 1943 relate to tax on the income of that year. The outstanding balance of tax on 1942 income of approximately 50 per cent., was cancelled except in the case of investment income in excess of 3,000 dollars, where no cancellation was made but payment of the remaining one-half was deferred until the death of the taxpayer.

13. Under the new system of pay-as-you-earn taxation, non-employees will pay four quarterly instalments a year based on the taxpayer's own estimate of what his income and tax will be for that year. Employees will not be required to make instalment payments, but will have deductions made throughout the year from their wages. After the end of the year of income, all taxpayers will lodge a return, and either pay, or receive a refund of, the difference between the instalments paid or deductions made in the year of income and the tax actually payable on that income. This adjusting payment will be the only part of the tax in respect of any year's income which will be paid outside that year.

UNITED KINGDOM.

14. In the United Kingdom, pay-as-you-earn taxation is at present to be applied only to weekly wage-earners, and deductions made during the year of income ended the 5th April will be adjusted against the tax actually assessed on that income. Recent advice has been received that the scheme will be extended to cover all Schedule "E" taxpayers, i.e., taxpayers deriving income in the form of salaries, fees, wages, pensions, &c. In introducing pay-as-you-earn taxation, account was taken of the fact that deductions for manual weekly wage-earners commenced two months in advance of the close of the year of income, and deductions for non-manual weekly wage-earners commenced five months in advance of the close of the year of income.

These advance payments will be accepted in full satisfaction of the tax on the income of the transition year, and the balance will be cancelled.

PLANS CONSIDERED AND REJECTED BY THE COMMITTEE.

15. Comment will now be made on those plans which were considered but rejected by the Committee. Outlines of these plans are set out in Appendices 4, 5 and 6 of this report. Broad features of each of these plans will be separately discussed.

REDUCED INCOME RELIEF PLAN.

16. This plan was submitted in a report of the Taxation Advisory Committee prepared at the request of the Treasurer, to deal specifically with the following matters raised in Parliament:—

(a) the exemption from tax of income derived by a deceased person within twelve months prior to his death; and

(b) the relief or exemption from tax of taxpayers whose incomes suffer a sudden serious decline on account of retirement from employment or any other cause.

17. The Advisory Committee recommended that income derived within twelve months prior to death should be exempt from taxation where the net value of the estate did not exceed £1,000, and that the exemption should diminish as the estate exceeds £1,000, and vanish when the estate has a value of £11,000 or over.

18. In regard to declining incomes, the Advisory Committee recommended that, where a taxpayer established that, owing to his retirement from his occupation or any other cause, his taxable income had been permanently reduced to less than two-thirds of the taxable income of the previous year, a deduction should be allowed from the taxable income of the previous year to reduce it to an amount equal to the reduced taxable income. This relief would be given in full only where the reduced taxable income was less than £1,000, and the relief would diminish progressively as the reduced taxable income exceeded £1,000, and vanish at £5,000.

19. The Advisory Committee reported that, in the event of the adoption of a pay-as-you-earn system of taxation, the special treatment recommended would not be neccessary.

20. We considered that the requirements that the income had to be reduced by two-thirds, and that the reduction had to be permanent, would prevent the granting of relief in many cases of declining incomes where relief was desirable.

21. Possible variations of the plan which might overcome these disadvantages were examined, but we came to the conclusion that, although the plan reasonably met many of the cases it was designed to meet, it could not be made to cover all cases of hardship arising from fluctuating income.

OPTIONAL WAGES TAX PLAN.

22. Consideration was given by the Committee to a plan which was intended to obviate the lodgment of returns and issue of assessments in respect of the majority of employees. Under a pay-as-you-earn method of taxation, deductions in the case of employees would be made at current rates on current earnings. The total amount of deductions made during the year of income should, in the majority of cases, closely approximate the amount of tax payable.

23. Under the optional wages tax plan, returns would be required only from those classes of employees whose deductions would not approximate to the tax actually payable on their income, namely, employees with non-wage income in excess of £10, employees in receipt of salary and wages from more than one employer, and employees from whom, for any other reason, tax was not deducted at the source. It was also not proposed to apply the plan to any wage-earner receiving £10 a week or over.

24. Although the tax payable on the year's income would closely approximate to the deductions made from those employees not required to lodge returns, there would be cases where the differences would be substantial because of casual employment, seasonal occupation or heavy medical expenses. Provision was, therefore, made under the plan for a taxpayer not otherwise required to lodge a return, to do so voluntarily and obtain any refund (not less than £1), which might be due to him.

25. The Committee considered that the precision which would be necessary at the present high rates of taxation, in fixing a deduction scale which would permit of final deduction at the source, would make the scale unduly complex and create difficulties for employers. Further, the Committee considered that considerable confusion would result in the minds of employees as to whether they were liable to furnish a return or not, and it was felt that, if certain classes of taxpayers were granted exemption from lodging returns, other taxpayers (particularly employees with property income) might be encouraged to avoid their liability to lodge returns.

INSTALMENT PLAN FOR NON-EMPLOYEES.

26. An instalment plan for non-employees was considered which followed the principle of the plans adopted in the United States of America and Canada in respect of this class of taxpayer. The plan provided for payment by periodical instalments during the year of income, of tax based on the taxpayer's own estimate of what his income would be. The taxpayer would also be required to calculate the approximate tax payable on his estimated income. For this purpose, the department would supply rate schedules from which the calculation could be made.

27. A return of the actual income derived would be lodged after the end of the year of income, and an assessment issued as at present. Instalments of tax made during the year would be applied in payment of the tax as finally assessed, any deficiency being met in cash, and any excess refunded.

28. The Australian taxation system contains features designed to provide smooth graduation in rates, differentiation between personal exertion and property income, recoupment of losses of prior years, application of averaging to primary producers, and allowances for many items of a concessional nature, such as medical expenses, life assurance and rates and taxes on the taxpayer's residence. There are also special provisions relating to the taxation of interest on Commonwealth loans. The taxpayer does not make a self-assessment of the tax payable by him as in the United States of America and Canada, but awaits the issue of an assessment by the Taxation Department.

29. The Australian system does not readily lend itself to self-assessment, and considerable confusion for taxpayers might result if it were adopted, particularly as Australian taxpayers have not had prior experience of self-assessment.

30. In any event, whether or not the instalment plan for non-employees is considered desirable, the extra staff, accommodation and machines required for the receipt and accounting of instalment payments from non-employees are, on the information before the Committee, unobtainable at the present time.

PLAN RECOMMENDED BY THE COMMITTEE.

31. After reviewing the plans submitted to it, the Committee decided to recommend that the following plan should be adopted.

32. Under the plan, tax for any financial year will finally be based on the income of that year. The Committee is impressed with the difficulties which result under the present system for taxpayers whose incomes fall. Such taxpayers are required to meet, out of their reduced income, tax on the higher earnings of the previous year. This fall in income might arise through illness or unemployment or from fluctuations in seasonal and trading conditions.

33. The difficulties referred to may arise in an acute form at the end of the war, and for this reason, the Committee recommends that the proposed plan be adopted without delay and applied to income derived from the 1st July, 1944.

34. Special provisions will be necessary to cover the period of transition from the basis of the previous year to the basis of the current year. The provisions recommended are set out after the operation of the plan has been described.

35. The application of the proposed plan to employees and to non-employees will be discussed separately, as different methods are proposed in respect of each class of taxpayer.

EMPLOYEES.

36. The plan recommended for employees is as follows:—

(*a*) Tax will be collected at current rates on income of the current year by deductions at the source from salary and wages.

(*b*) Every employer employing ten or more persons will be required to form a group and make deductions from salary and wages in cash instead of stamps. Other employers will be permitted to form groups if they so desire.

(*c*) The use of stamps will be restricted to employees of employers not registered under groups.

(*d*) Returns will be lodged and assessments issued after the close of the income year, in order that the amount of tax payable can be finally determined.

(*e*) Group certificates or stamps representing deductions made to the end of the year of income will be applied in payment of the tax as assessed, any deficiency being met in cash, and any excess refunded.

(*f*) Any stamps presented in respect of the period from the end of the year of income to the date of their presentation with the assessment, will be exchanged for an interim stamps receipt, pending application in payment of tax on receipt of the assessment to be issued in the following year.

Present Deduction System.

37. At the present time, deductions are made from employees either by cash under a group scheme or by stamps. The total deductions made from an employee up to any date may be represented either by a group certificate issued by the employer or by stamps accumulated by the employee from each pay.

38. Deductions are made from employees over the period extending from the 1st April of one year to the 31st March of the next year. This will be referred to in this report as the deduction year. Deductions up to the 31st March, i.e., the end of the deduction year, are applied to meet the tax assessed on the income of the year ending the previous 30th June.

39. If the assessment in respect of that income year is received prior to the 31st March following, the employee may use all deductions up to the end of the deduction year to meet the assessment. If the deductions are inadequate, the balance must be paid in cash. If the deductions are more than sufficient to meet the assessment, any balance is refundable, and an exemption from further deductions is given until the end of the deduction year.

40. If the assessment is received after the 31st March, only deductions made up to the 31st March may be applied to meet it. If these deductions are deficient, the balance must be made up in cash, whilst, if the deductions up to the 31st March are greater than the tax assessed, the excess is refundable. Even if, at the time the employee receives the assessment, he has to his credit deductions made after the end of the deduction year, these deductions cannot, in general, be applied towards meeting that tax. The deductions for the period from the 31st March to the date of payment of the assessment, i.e., in the new deduction year, are retained by the department and are held to meet the following year's tax. Meanwhile, the employee is issued with a certificate of credit for deductions held in this way, on which interest at 2 per cent. is allowed.

Adaptation to Proposed Plan.

41. The Committee considered whether the deduction year ending on the 31st March could be continued under the proposed plan. If this were done, the deductions made during the deduction year commencing on the 1st April would be applied to meet the tax assessed on the income of the year commencing on the following 1st July. Thus the deductions made from the 1st April, 1944, to the 31st March, 1945, would be applied to meet the tax assessed on the income of the year, 1st July, 1944, to 30th June, 1945.

42. The Committee felt that the deduction year should conform exactly with the income year under any plan whereby current tax would be assessed on the current year's income. If the deduction year commenced on the 1st April, a wage-earner who entered employment on the 1st July would only have available nine months' deductions from which to meet the tax on the income of the full year ending on the following 30th June. Moreover, the Committee was of the opinion that a proposal which required an employee to commence paying tax three months before he commenced to earn the income on which the tax was based could not be justified. It would also be a discrimination against employees as compared with non-employees.

43. The Committee, therefore, recommends that the deduction year be based on the year 1st July to 30th June. The deductions therefore will cover the same period as the income year. Deductions made during the income year will, in the great majority of cases, closely approximate the tax as finally assessed. Deductions made during the income year will be applied in payment of the tax finally assessed on the income of that year.

44. Certificates of exemption from deductions will, in the majority of cases, no longer be issued, since it will not be known until the end of the income year whether the taxpayer's deductions are sufficient to meet the tax on the income of that year.

Allocation of Deductions.

45. At the time the final assessment on the income of the previous year is received, deductions will have been made from the taxpayer in respect of the current income year. These deductions cannot, however, be

applied in payment of the assessment applicable to the previous income year. It will be necessary, therefore, to allocate the deductions, which have been made from the taxpayer up to the date of assessment, between the previous and the current income year. This allocation will be achieved automatically for employees whose *deductions are made under a group scheme, by providing* that the employer should, in general, issue a group certificate showing only the deductions made up to the end of the previous income year.

46. In the case of employees using stamps, however, allocation will be more difficult, as it will be necessary to identify the stamps issued in each income year and to exchange those issued in respect of the current income year for an interim stamps receipt. This interim stamps receipt will be retained by the employee and presented by him in part payment of the assessment for the current year. Each year it will be necessary for the department to issue a further interim stamps receipt for stamps presented by the employee which have been delivered to him after the end of the previous *income year.*

47. It is because of this difficulty in dealing with stamps under the plan, and of other existing disadvantages, that the proposal is made that the use of stamps be restricted, and that all employers employing more than ten persons should be required to adopt the group scheme.

48. As stated in paragraph 40, an employee at present receives 2 per cent. interest on deductions represented by a certificate of credit. It is considered that no interest should be allowed on interim stamps receipts *because they merely represent deductions made currently* during the year of income.

Earlier Issue of Assessments.

49. It should be noted that, since, by the end of the income year, all the deductions available to meet the tax on that income will have been made, it will be possible for the department to start issuing assessments as soon as practicable after the receipt of the return. At present the issue of assessments is deferred as long as possible to give employees an opportunity to accumulate sufficient deductions to meet the tax.

50. The position of the employee with income other than salary and wages will be discussed after the position of the non-employee has been dealt with.

NON-EMPLOYEES.

51. Under the plan proposed for non-employees, tax for the current year will be based on the income of that year, and will be collected during the income year by means of a provisional tax based on the income of the previous year. The provisional tax will be finally *adjusted in the following year after the lodgment of* return showing the actual income derived. Thus in each year there will be an adjustment of the previous year's provisional tax, together with provisional tax in respect of the income of the current year.

52. The provisional tax plan will provide a basis for fixing the amount of tax to be paid each year, without the necessity for any self-assessment or lodgment of periodical instalment statements. The provisional tax plays much the same part for the non-employee, as do the deductions made from the employee. In both *cases, the amount paid during the year of income is a* first approximation to the tax finally payable, and is adjusted in the following year by the issue of an assessment.

Basis of Calculation of Provisional Tax.

53. Under the plan the provisional tax will be calculated at the rate of tax applicable to the current year, but on the taxable income of the previous year and subject to the rebates on the concessional allowances of the previous year. This will be so whether or not it is known at the time of assessment of provisional tax that the income or concessional allowances are different in the current year. Similarly, in the case of a primary producer, the average income *applicable to the previous year will be adopted for the* provisional tax of the current year.

54. The result will be that unless there has been a change in rate, the provisional tax for the current year will be the same amount as the final tax for the previous year. This will be simple for the taxpayer to follow and will not involve a detailed explanation on the assessment notice.

55. The calculation of provisional tax on amounts of taxable income and subject to concessional allowances different from those adopted in the final assessment of *the previous year, would necessitate, in effect,* two assessments each year. The department would be unable to undertake such additional work without a considerable increase in accommodation, staff and equipment, seeing that there are at present about 2,000,000 taxpayers, of whom approximately 25 per cent., or, say, 500,000 are non-employees.

Variation of Provisional Tax.

56. In those cases where a final assessment of any year is amended for any reason with consequent variation of tax, the provisional tax included in that assessment will also be varied.

57. In the event of a change of rates in any year, it will be necessary to take such change into account in *fixing the amount of provisional tax to be assessed in* that year. Thus the provisional tax will be different from the final tax of the previous year.

58. With the present high rates of taxation, it is not likely that a change of rates would be effected by means of a simple percentage variation of existing rates. In order to avoid the necessity of making a complete double calculation in respect of each non-employee in the year of change—firstly, for the final tax of the previous year, and, secondly, for the provisional tax of the current year—it is considered that *the approximate percentage of the variation in rates* applicable to the particular amount of tax should be applied for purposes of provisional tax. As the provisional tax would be arbitrary, an approximate calculation should meet requirements where a change occurs in rates, seeing that the provisional tax will be subject to adjustment when the tax is finally assessed in the following year.

Effect of Fluctuating Income.

59. Where the income of a non-employee remains steady, the provisional tax plan will result in the payment of a provisional amount of tax which will closely approximate the amount of tax as finally determined. However, many incomes are of a fluctuating nature *and it is necessary to give consideration to the effect* of such fluctuations.

60. Where incomes rise, or concessional allowances decrease, the provisional tax for any year will be less than the tax finally assessable on the income of that year. Thus there will always be a delay in payment of tax in respect of rising incomes or decreasing concessional allowances.

61. Conversely, where incomes fall, or concessional allowances increase, the provisional tax will be greater than the tax finally assessable on the income of the *year. The taxpayer will thus have over-paid tax which* will not be adjusted until the following year.

62. To the extent that the provisional tax plan results in a delay in payment of taxation in the case of rising incomes, the higher correct amount of tax

not being collected until the year following that in which it is derived, the defect in the plan cannot be avoided under present conditions. Similarly, where with a falling income provisional tax is over-assessed until finally adjusted in the year succeeding that in which the income is earned, the taxpayer must, in general, be prepared under the plan to make such temporary over-payment.

Collection and Recovery of Provisional Tax.

63. The tax for each year, comprising the provisional tax for the current income year, together with the adjustment of tax for the previous year, will be payable in one amount on the date shown on the notice of assessment issued during the income year. The date for payment of provisional tax will thus be partly in arrears and partly in advance of the earning of the income.

64. To ensure recovery of provisional tax, it will be necessary to provide in the Act that provisional tax is tax due and payable on the date specified in the Notice of Assessment. This will enable the operation of the existing machinery of the Act for collection and recovery of tax.

65. It is also considered advisable to provide, in the section of the Act dealing with extensions of time for payment of tax, that the fact that the assessment includes a provisional amount of tax which may be greater than the tax to be finally assessed, shall not, of itself, be a ground for the granting of an extension of time for payment of tax.

Where a Person Ceases to be a Taxpayer.

66. An assessment of provisional tax may have been made without knowledge of the fact that a taxpayer has ceased to derive assessable income, such as on death or retirement. Upon the department becoming aware of the facts, arrangements could readily be made either for the issue of a final assessment adjusting the provisional tax, or for the deferment of payment of the whole or part of the provisional tax, pending the issue of a final assessment. Thus there would not normally be any problem under the provisional tax plan when a person ceases to be a taxpayer.

Where a Person First Becomes a Taxpayer.

67. Unless special arrangements were made, the provisional tax plan would fail to provide, in the following respects, for non-employees who derive assessable income for the first time:—

(a) In the first income year provisional tax would not be assessed, as the return of income would not be furnished until after the end of that income year;

(b) In the second income year the non-employee would be required to pay both the final tax on the first year's income and the provisional tax on the second year's income; and

(c) The provisional tax in respect of that second year would not represent a full year's provisional tax if the income of the first year, on which it was based, was the income of part of a year only.

68. The Committee recommends that in the first income year in which a non-employee derives assessable income of an amount which he estimates would exceed the taxable amount, he should be required to furnish by the 31st March of that year, an interim return showing the income derived by him during that income year up to the date of furnishing the return, and the estimated income for the balance of the income year.

69. The requirements in the interim return respecting details of income and deductions should be kept to a minimum. No penalty by way of additional tax should be provided for non-lodgment of the interim return seeing that it would be a requirement imposed on a limited number of taxpayers who may be unaware of their liability, nor should any penalty be imposed for under-estimation of income, in view of the difficulty of estimation of income in the first year of business.

70. It should, however, be an offence for a non-employee to fail to lodge the return, so that the department could prosecute a taxpayer before a court and claim a court fine whenever the circumstances warranted such action.

71. The interim return form should make provision for the insertion of the date on which the taxpayer commenced to derive assessable income, and for the taxpayer's estimate of the amount of a full year's income.

72. On receipt of the interim return the Commissioner will assess the amount of provisional tax in time to permit of payment before the end of the income year.

73. On receipt of the normal return furnished by the taxpayer after the end of the income year, the Commissioner will make the final assessment on the first year's income. He will deduct the provisional tax assessed in the first year and add the provisional tax payable for the second year. He will base the provisional tax for the second year on the taxpayer's estimate of the income of a full year.

Example of Assessment under Provisional Tax Plan.

74. Appendix No. 7 sets out examples of—

(a) the information contained in a notice of assessment under present practice;

(b) the information which will be required under the provisional tax plan, assuming that there has been no alteration in rates; and

(c) the information which will be required under the plan if there has been an alteration in rates applied approximately in calculating the provisional tax.

75. It will be seen from the Appendix that two additional items of information will be set out in the notice of assessment, namely—

(1) the provisional tax calculated in respect of the previous year; and

(2) the provisional tax calculated in respect of the current year.

76. As regards (1), the amount will be readily available from the assessment for the previous year. As regards (2), the amount of provisional tax will be the same as the normal tax calculated in the assessment, except where a change in rate necessitates a recalculation.

EMPLOYEES WITH OTHER INCOME.

77. Special provisions are necessary to deal with the employee with income other than his salary or wages. Seeing that deduction is not made at the source on such other income, he should be subject to provisional tax on that other income, as in the case of the non-employee.

78. As to the amount of other income which would make it worth while to issue a provisional tax assessment, it is considered that wherever an employee's return shows more than £50 of income other than salary or wages, an assessment of provisional tax should be made.

79. Where the other income is derived from property sources, the amount of tax applicable thereto will, in general, be readily ascertained. Where, however, the

other income consists, like the salary and wages, of income from personal exertion, a separate calculation of tax will be necessary to determine the amount applicable to the other income. As the calculation is required for the purposes of a provisional tax which will be finally adjusted in the succeeding year, an approximate calculation should be sufficient and would save detailed calculation.

80. It is considered, therefore, that provision should be made in the law that, where an employee derives other income not subject to deduction at the source, the Commissioner may assess the approximate provisional tax on that other income. Examples showing the manner in which such a provision might operate are set out in Appendix No. 8.

COMPANIES.

81. The Committee considered that the proposed plan should not be applied to companies for the following reasons:—

(*a*) A company has continuity of existence, apart from its proprietors.

(*b*) A company generally makes provision out of its income to meet the tax payable on that income, whereas the individual usually expends his income, as earned, on personal requirements and family commitments.

(*c*) A company normally has assets with which to meet tax liability on liquidation, whereas the individual, on termination of employment, frequently is without assets with which to meet tax on the income of the previous year.

(*d*) In many instances, part of the income derived by a company is represented by stock in trade and book debts which will not be received in cash until the following year. In respect of most individuals, the income is received in the income year.

82. It should be noted that in the United States of America and Canada companies are still assessed to tax on the basis of the previous year's income.

TRANSITION ADJUSTMENTS.

Cancellation of Tax.

83. Under the existing system, tax would be payable in the financial year 1944-45 on the income of the year ended 30th June, 1944. Under the proposed system, tax will be payable in the financial year 1944-45 on the income of the year ended the 30th June, 1945.

84. It becomes necessary, therefore, to determine whether the transition should be effected by relieving taxpayers of liability to tax in respect of the income of the year ended 30th June, 1944, either in whole or in part.

85. The Committee had regard to the fact that, of the 2,000,000 persons now liable to pay tax, approximately 1,500,000 are employees. At present the deduction year in respect of these employees ends on the 31st March, as explained in paragraphs 38 to 40. By the 30th June, 1944, they will have had deductions made from salary and wages of approximately 25 per cent. of the tax payable under the present system for the financial year 1944-45 on the income of the year ended 30th June, 1944. The amount of the deductions made in this period will be about £15,000,000. Revenue requirements would not permit either of the refunding of this amount or of the cessation of deductions for one quarter of the year.

86. Deductions made in the year commencing on the 1st July, 1944, will relate to the tax payable on the income of that year. The Committee recommends that employees be relieved of 75 per cent. of the tax on the income of the year ended the 30th June, 1944, and that the balance of 25 per cent. of tax in respect of that year's income be made payable in the year of assessment, namely, the year ended 30th June, 1945. Sufficient deductions will normally have been made in the period from the 1st April to the 30th June to meet this tax liability.

87. Non-employees cannot be placed in any better position than employees, and the Committee, therefore, considers that they should also be made liable for the 25 per cent. assessment on the income of the year ended 30th June, 1944, and that the remaining 75 per cent. of the tax should be cancelled. Since non-employees will not have had this tax deducted, it is proposed that, in order to avoid undue hardship in making the payment, it should be spread over the three years ended 30th June, 1945, 1946 and 1947, 8⅓ per cent. being payable in each year. Even if the taxpayer's income should decline seriously, this payment will be a much lighter burden than the present requirement that he should pay, in the year of declining income, full tax on a previous year's high income.

88. An employee deriving income in addition to salary or wages will already have had deductions made from the salary or wages during the period from the 1st April to the 30th June, 1944. These deductions should be sufficient to meet the 25 per cent. tax on the salary or wages portion of the income. The tax on the remainder of the income will be spread over three years where such other income exceeds £50.

89. Appendix 9 shows tables setting out for taxpayers on various incomes and in various family circumstances, tax payable at present rates, and the additional amount which will be payable in each of three years by non-employees, viz., one-third of the 25 per cent. assessment.

90. It is to be noted that, in making the transition, the United States of America, Canada and the United Kingdom were not prepared to cancel 100 per cent. of the tax on the income of the transition year and accept one year's tax in respect of the income of two years.

Windfall Income.

91. The possibility must be considered that the income of the year ended the 30th June, 1944, may be abnormally high. This may arise either from true windfalls of income or from manipulation of stock values, deferment of expenditure, &c. Taxpayers whose income is inflated in this way would, if no special provisions were made, receive the benefit of an abnormally great amount of cancellation of tax.

92. In the normal case, taxpayers will be assessed at 25 per cent. rates on the income of the year ended the 30th June, 1944, i.e., the equivalent of taxing them at full rates but allowing a rebate of 75 per cent. of the tax on that year's income. The Committee is of the opinion, however, that, where the income of the year ended the 30th June, 1944, exceeds £500 and exceeds the income of the year ended the 30th June, 1943, by more than 20 per cent., special provisions relating to cancellation should be applied. In such cases taxpayers should be allowed a rebate of 75 per cent. of the tax assessed on the income of the year ended the 30th June, 1943, with the addition of 20 per cent., in lieu of the rebate of 75 per cent. of the tax on the income of the year ended the 30th June, 1944.

93. Where, in such cases, taxpayers derived a very low or no taxable income in the year ended the 30th June, 1943, it should be provided that a rebate of at

least 75 per cent. of the tax on a £500 personal exertion income should be allowed. In no case, however, should the rebate be greater than 75 per cent. of the tax on the income of the year ended the 30th June, 1944.

94. The Committee considered that a further provision should be made that, where the rebate of 75 per cent. is to be calculated in respect of income other than the taxable income of the year ended the 30th June, 1944, and the Commissioner is satisfied that the income on which the rebate is to be calculated does not represent a normal year's income, he may determine what would be a normal year's income and allow a rebate on the amount so determined. If the taxpayer is not satisfied with the Commissioner's determination, he should have the right to apply to the Board of Referees constituted under the War-time (Company) Tax Assessment Act, for an increase. Any decision of the Board of Referees should be final. A determination by the Commissioner or the Board of Referees should not, however, allow a rebate greater than 75 per cent. of the tax on the taxable income of the year ended the 30th June, 1944.

95. In those cases where the income of the year ended 30th June, 1944, was unduly high, the Committee considered the possibility of basing the 75 per cent. rebate of tax on the income of the year ended 30th June, 1945, but decided that the income of the year ended 30th June, 1943, was preferable for the following reasons:—

(*a*) Since the income of the year ended 30th June, 1943, has already been returned, it is beyond the power of the taxpayer to manipulate it in his favour.

(*b*) The taxable income of the year ended 30th June, 1943, is known, while if the income of the year ended 30th June, 1945, was taken as a basis, it would be necessary to defer making a final adjustment until that income was known.

(*c*) There is no reason to believe that the variations in income between the income years ended the 30th June, 1944, and the 30th June, 1945, would be different from those between the income years ended the 30th June, 1943, and the 30th June, 1944.

(*d*) In any case where the Commissioner and the Board of Referees have power to determine a normal year's income, they will be able to take into account the income of the year ended 30th June, 1945, in making that determination.

Appreciation.

96. We desire to place on record our appreciation of the valuable assistance rendered by the Commissioner and officers of the Taxation Department in preparing all available information and setting out impartially the administrative advantages and disadvantages of the various proposals submitted for our consideration.

97. Senator Spicer dissents from the recommendations in this report in so far as they limit cancellation of tax on the income of the year ended 30th June, 1944, to 75 per cent.

J. B. CHIFLEY (Chairman).
H. L. ANTHONY.
A. W. COLES.
R. V. KEANE.
J. H. SCULLIN.
P. C. SPENDER.
J. A. SPICER.

Parliament House,
Canberra,
10th February, 1944.

APPENDIX No. 1.

United States of America Taxation System.

Prior to the adoption of pay-as-you-earn taxation, the United States taxation system provided for the assessment of tax on the basis of the income derived by the taxpayer during the previous calendar year. Return forms for each calendar year were lodged on the 15th March following, and tax payable on that income was calculated by the taxpayer and paid in four equal instalments, the first with the return, and succeeding instalments on the 15th June, September and December.

Adoption of Pay-as-you-earn Taxation.

2. In June, 1943, a pay-as-you-earn system was adopted, to apply to income derived during the calendar year 1943. The principal features of the plan are:—

(*a*) For salary and wage-earners (exclusive of casuals, &c.), a 20 per cent. "withholding" deduction is made by employers from the pay of employees. Prescribed exemptions are allowed for dependants, on production of certificates on the lines of the dependants' declarations furnished by employees to employers in Australia.

(*b*) Taxpayers who are exempt from withholding, e.g., casuals, business incomes (exclusive of farmers), investment incomes, or taxpayers for whom withholding is inadequate because the 20 per cent. withholding rate is too low (e.g. a single man with an income over 2,700 dollars, or a married man with an income over 3,500 dollars), are required to pay tax by instalments on the current year's income in the current year itself. The method by which this is done is by the payment of four equal quarterly instalments on the 15th March, June, September and December. These instalments, instead of being based on the previous year's income as formerly, are now based on the taxpayer's own estimate of what his income in the current year will be. This estimate is required to be made by the 15th March, and may be revised each quarter at the election of the taxpayer.

(*c*) Farmers have until December each year to estimate the current year's income and pay the tax.

3. The 20 per cent. withholding tax deducted from salaries and wages must be paid to the Treasury each quarter. All deductions are made by cash by the employer, and no tax stamps are used. Employers are required to furnish each employee, once a year or upon termination of employment, with a statement of the amount withheld. Employers are also required to furnish to the Collector of Inland Revenue a return for each calendar year, which must include the duplicate copies of statements issued to employees showing the amount of wages paid and tax withheld therefrom during the entire calendar year.

4. All taxpayers must lodge a return of the previous year's income and self-assessment of tax on that income, by the 15th March, and show the amount of tax paid, either by withholding or by instalments, in that year. Any balance of tax owing must be paid with the return.

5. For taxpayers who are liable to make quarterly instalments, the 15th March return must also show the estimated income for the current year and calculation of the tax on that income. This serves as the basis for instalments to be paid during the current year.

6. If a taxpayer underestimates his tax by more than 20 per cent. (33⅓ per cent. in the case of farmers) a penalty of 6 per cent. (flat) of the difference between the total tax and the total estimated tax is imposed.

Transition Adjustments.

7. On the adoption of pay-as-you-earn taxation in 1943, the following provisions were made for the adjustment of each individual's tax liability:—

(*a*) Cancellation of 75 per cent. of the tax on 1942 income where the tax on 1943 income exceeds the tax on 1942 income.

(*b*) Cancellation of 75 per cent. of the tax on 1943 income where the tax on 1942 income exceeds the tax on 1943 income.

(*c*) Where the tax in the lower of the two years did not exceed 67 dollars, the whole amount of tax up to 50 dollars was cancelled.

8. The uncancelled amount of the lower year's tax, namely 25 per cent., was made payable in two equal instalments on the 15th March, 1944, and the 15th March, 1945. A special windfall provision was also made whereby the taxpayer was required to pay any amount by which the tax on the lower of 1942 or 1943 incomes exceed a notional amount of tax

based on 1942 rates on the highest of several prior years, to which is added 20,000 dollars of income. The taxpayer is *given five years to pay this additional amount of tax.*

COMPANIES.

9. Companies have not been brought within the provisions of pay-as-you-earn taxation, which is limited to personal or individual income taxes.

APPENDIX No. 2.

CANADIAN TAXATION SYSTEM.

Prior to 1940, the Canadian taxation system provided for the assessment of tax on the basis of the income derived by the taxpayer *during* the previous calendar year. Return forms for each calendar year were lodged on the 15th March following, and tax payable on that income was calculated by the taxpayer, and paid either at the time of lodgment of return, or, alternatively, one-third on the 31st March, and the balance, plus interest at 5 per cent., at any time up to the 31st August. No deductions were made from salary or wages.

DEDUCTIONS FROM SALARY AND WAGES.

2. Deduction at the source from salary and wages first commenced in 1940, when the National Defense Tax was imposed at flat rates. In 1942 the rates of tax were increased, and the National Defense Tax was merged with the ordinary income tax. Deductions were made by the employer after taking *into account the status and dependants of the employee.*

3. Employers were required to pay to the Treasury the deductions made from salary and wages within one week of each pay day. Employers were also required to furnish to each employee a statement of the amount of tax deductions made up to the end of the year.

ADOPTION OF PAY-AS-YOU-EARN TAXATION.

4. Canada adopted the pay-as-you-earn plan in 1943 to apply to income derived from the 1st January, 1943. The *principal features of the plan are:—*

- (*a*) For salary and wage earners (i.e., taxpayers receiving more than three-quarters of their income from salary or wages), deduction is made at the source, based on current rates designed to be approximately equal to the tax payable on the income of the year, allowance being made for dependants.
- (*b*) *Taxpayers other than employees as defined in (a)* above, and farmers, are required to pay tax by instalments on the current year's income in the current year itself. This is done by the payment of four quarterly instalments of 20 per cent., 25 per cent., 25 per cent. and 30 per cent. on the last day of March, June, September and December. *These instalments are based on the taxpayer's own* estimate of what his income and tax in the current year will be. The instalments may be reduced by the amount of tax, if any, deducted at the source from salary or wages.
- (*c*) Farmers will make a single payment at any time during the year of income representing two-thirds *of the self-assessed tax based on an estimate of the* current year's income.

5. All taxpayers must lodge a return of the previous year's income and self-assessment of tax on that income by the 31st March, and show the amount of tax paid, either by deduction from salary or wages or by instalments, in that year. Any balance of tax owing must be paid with the return.

6. A penalty is imposed on any tax short paid by instalments, calculated at the rate of 5 per cent. per annum for the period from the end of the year of income to the date of issue of assessment.

TRANSITION ADJUSTMENTS.

7. Rates of tax in Canada were substantially increased in June, 1942. These increased tax rates were to apply to the income year 1942, but instead of the previous practice of requiring payment after the end of the income year, deductions *from salary and wages were increased from* the 1st September, 1942, to the new level of rates. Other taxpayers were required to pay quarterly instalments on the 15th October, 1942, and the 15th January, 1943. These quarterly instalments were each equal to one-quarter of the tax on the 1941 income calculated at the increased rates.

8. As a result of this arrangement, taxpayers had, by *January, 1943, discharged the whole of the tax on 1941* income and approximately one-half of the tax at the increased rates on 1942 income. When pay-as-you-earn taxation was introduced in March, 1943, 50 per cent. of the tax on 1942 income was accepted in full discharge of the tax liability for that year.

9. Fifty per cent. of the tax on 1942 income was not, however, accepted as full discharge of the tax on investment income in excess of 3,000 dollars. Payment of the remaining one-half of this tax was deferred until the death of the taxpayer.

COMPANIES.

10. Companies have not been brought within the provisions of pay-as-you-earn taxation, but they are required to pay the tax based on the previous year's income by monthly instal*ments, six of which fall within that income year*, and six after the close of the income year.

APPENDIX No. 3.

UNITED KINGDOM TAXATION SYSTEM.

PRESENT SYSTEM OF TAXATION.

1. At the *present time manual workers are assessed* each half-year, the first assessment being on wages earned from the 6th April to the 5th October, and the second assessment on wages earned from the 6th October to the 5th April.

2. The tax on the wages of the first six months from the 6th April to the 5th October is collected from the wages of the six months commencing the following February, while the tax on the wages of the second six months from the 6th October to the 5th April is collected from the wages of the six months commencing the following August.

3. The year of income covers the period from the 6th April of one year to the 5th April of the following year. As collections of tax assessed in respect of the first six months of the year of income commence in the following February, i.e., two *months* before the close of the year, there is a lag of ten months in collections.

4. In the case of other weekly wage-earners (clerks, typists, &c.), the deduction of tax commences on the 1st November. As the year ends on the 5th April, the lag in collection is seven months.

ADOPTION OF PAY-AS-YOU-EARN TAXATION.

5. A system of pay-as-you-earn taxation will commence to operate in the United Kingdom on the 6th April, 1944. Tax deductions made after that date will be in respect of the current year's income. The system will apply to weekly wage-earners only. (Since proposed to extend pay-as-you-earn taxation through the whole range of Schedule E tax*payers.*)

TRANSITION ADJUSTMENTS.

6. At the close of the year ended the 5th April, 1944, manual workers will have paid two-twelfths of their tax for that year while other weekly wage-earners will have paid five-twelfths.

7. Under the new system weekly wage-earners will not be *required to pay the balance of the liability* in respect of the year ended the 5th April, 1944.

NEW DEDUCTION SYSTEM.

8. A new deduction system will be adopted, under which the amount of tax due from the wage-earner on the total amount of wages paid up to date will be ascertained by the employer at the end of every week. The amount of tax will be calculated by allowing against such total amount of wages, the proportionate part of the personal reliefs due to the taxpayer for the whole year. The amount of tax to be deducted in any particular week will be the tax due on the aggregate wages up to and including that week less the tax already deducted in the previous weeks of the year.

9. Each wage-earner will be given a code number by the Inland Revenue Authorities to indicate the allowances and reliefs due to him, and the code number for each of his employees will be notified to the employer before the beginning of the year.

10. The employer will be supplied with tax tables showing, for each code number, the cumulative tax on any given aggregate of wages up to the end of each week of the year.

11. The employer will be required to keep a tax deduction card for each employee showing, in respect of each pay day *for the year, the wages paid, the gross amount* paid to each date, the total tax due up to each date and the amount of tax deducted or refunded at each date. The tax deducted by the employer must be remitted monthly to the Collector of Taxes. The tax deduction card for each employee will be forwarded to the Inland Revenue Authorities after the end of the year.

ASSESSMENT OF TAX.

12. After the end of the year, the employee will lodge the usual annual return and claim for allowances. Tax will be assessed on the basis of this return. If a balance of tax is found to be due by the employee, he will not be required to make a direct payment, but the coding of the following year

will be adjusted so as to increase the deductions by the amount of the outstanding tax. A corresponding coding adjustment will be made if the tax deducted exceeds the final liability, unless the employee desires immediate repayment.

APPENDIX No. 4.

REDUCED INCOME RELIEF PLAN.

The Taxation Advisory Committee furnished a report to the Treasurer upon the following matters:—

(a) The suggestion that section 217 of the Income Tax Assessment Act should be amended to provide for exemption from tax of income derived by a deceased person within twelve months prior to death.

(b) Whether provision should be made in the Income Tax Assessment Act for relief or exemption from tax in respect of taxpayers whose incomes suffer a sudden serious decline on account of retirement from employment or other causes.

Exemption of Income Received Prior to Death.

2. It was pointed out by the Advisory Committee in its report that income derived by a person in the year of his death, to the extent that it had been retained by him or invested, became corpus of his estate. The assets of a deceased person usually include his total accumulation of income up to the date of his death. The income of previous years would, generally, have been subject to income tax. Therefore, the Advisory Committee could not see any reason why different treatment, as regards income tax, should be accorded the income of the year in which a taxpayer dies, except on the ground of hardship.

3. It was thought by the Advisory Committee that something should be done to relieve the position where the estate funds are small. Bearing in mind that the object is to alleviate hardship, it was thought possible to specify a maximum sum and to provide that if the net funds of the estate exceeded that sum, special treatment should not be accorded, but such taxpayers should be left to place their case before the Hardships Board constituted under section 265 of the Act.

4. The Advisory Committee considered that, having regard to the weight of taxes upon citizens generally, complete exemption of the income derived during the twelve months prior to death should not be allowed where the net value of the estate exceeds £1,000.

5. They therefore recommended that—

(a) Where the net value of the estate does not exceed £1,000, the trustee should be relieved from payment of tax on income derived by the deceased during the twelve months prior to his death.

(b) Where the net value of the estate exceeds £1,000, the exemption should diminish progressively and vanish when the net value of the estate is £11,000.

Reduction of Income Owing to Retirement or Other Causes.

6. The Advisory Committee considered that special treatment, within certain limits, should be accorded to a taxpayer who establishes that, owing to his retirement from his occupation, or any other cause (but not including disposal or change of assets), his taxable income has been permanently reduced to less than two-thirds of the taxable income of the previous year, after excluding from the latter any income received by him from sources from which he does not usually receive income.

7. The special treatment recommended was as follows:—

(a) Where the reduced taxable income does not exceed £1,000, a deduction should be allowed from the taxable income of the previous year to reduce it to an amount equal to the reduced taxable income.

(b) Where the reduced taxable income exceeds £1,000, the deduction should decrease progressively until it vanishes at a reduced taxable income of £5,000.

Relation of Plan to Pay-as-you-earn Taxation.

8. The Advisory Committee reported that, in the event of the adoption of a Pay-as-you-earn system of taxation, the special treatment recommended would not be necessary.

APPENDIX No. 5.

OPTIONAL WAGES TAX PLAN.

This plan was designed to deal only with the problems of pay-as-you-earn taxation of employees. Pay-as-you-earn taxation for non-employees would be introduced under some other method.

2. It provided for the collection of tax at the source at current rates on current earnings from all employees. The chief feature of the plan would be to dispense with the lodgment of annual returns of income by employees except in certain cases.

Compulsory Lodgment of Returns.

3. Returns would be required from the following employees:—

(a) Those in receipt of salary and wages in excess of £520 per annum.

(b) Those in receipt of salary and wages, irrespective of the amount, who derived income in excess of £10 from other sources.

(c) Those in receipt of salary and wages who incurred allowable expenditure in deriving their income, and whose weekly tax was based upon an amount less than the gross amount of salary and wages.

(d) Those in receipt of salary and wages from more than one employer in respect of any week.

(e) Those from whom, for any reason, tax was not deducted at the source.

Optional Lodgment of Returns.

4. Employees, other than those mentioned in the preceding paragraph, would not be required to lodge returns, but every employee would have the option of furnishing a return to permit of a final adjustment of tax where, due to casual employment, seasonal occupation or any other circumstances, his tax paid at the source exceeded the tax payable on a return for the year of income by more than £1.

Scale of Weekly Tax Deductions.

5. A scale of weekly deductions, based on the annual amounts of tax payable after allowing for a concessional rebate of tax on £10 to cover small amounts of medical expenses, &c., would be prescribed for the use of employers making weekly deductions of tax.

6. Provision would also be made in the scale for a rebate of tax to be allowed from the weekly tax in respect of other concessional allowances, such as dependants, &c., shown in a declaration to be furnished by the employee to his employer. The scale would show the amount of weekly tax after allowing a rebate for each unit of £10 in the total of such concessional allowances.

Declarations by Employees.

7. An employee would lodge a declaration, in duplicate, with his employer where he claimed a concessional rebate for any of the following annual recurring items:—

(a) Dependants provided for in the Act.

(b) Premiums for life assurance, and payments to superannuation funds or friendly societies.

(c) Annual membership subscription to an association or union.

(d) Rates and taxes on non-income producing property.

8. The employee would set out in his declaration the amount of each such item for which a rebate was claimed by him. He would also insert the total of those items and the number of units of £10 each in that total. The declaration would be furnished as at the 30th June each year. A fresh declaration would be required within fourteen days after any variation in the items claimed.

9. The employer, by reference to the scale, would deduct the weekly tax appropriate to the number of units set out in the declaration. He would forward one copy of the declaration to the Taxation Department which would check the claim and notify the employer of any variation necessary.

Remittance of Tax by Employers.

10. An employer registered for pay-roll tax purposes, i.e., one who pays more than £20 weekly in wages, would be required to remit monthly to the department the amount of tax deducted, unless the Commissioner otherwise directed.

11. Any other employer would be required to purchase one or more stamps for the total tax deduction shown on his pay sheets. These stamps would be printed in two parts, one part to be attached to his pay sheets, and the other part attached to a schedule to be forwarded to the department half-yearly.

Tax Deduction Certificates.

12. In no case would stamps be delivered to an employee. Where required, the employer would furnish an employee once a year, or upon termination of service, with a statement of wages paid and tax deductions made.

APPENDIX No 6.

INSTALMENT PLAN FOR NON-EMPLOYEES.

The following plan of pay-as-you-earn taxation for non-employees was prepared on the principles of the plans adopted in the United States of America and Canada in respect of non-employees:—

NON-EMPLOYEES OTHER THAN PRIMARY PRODUCERS AND COMPANIES.

2. The plan as regards income derived by persons (excluding primary producers and companies) from sources other than salary and wages, provided for—

(a) Payment by periodical instalments during the year of income of tax based on estimated income and calculated in accordance with a prescribed scale;
(b) Lodgment of return and issue of assessment after the end of the year of income as at present, and
(c) Instalments of tax paid during the year of income to be applied in payment of tax as finally assessed, any deficiency being met in cash and any excess refunded.

3. It would be an essential requirement of the plan that a taxpayer should—

(a) estimate his income with reasonable accuracy;
(b) make a calculation of the tax payable on his estimated income, and
(c) remit the amount of the tax so calculated to the Department in the year of income by periodical instalments.

ESTIMATE OF INCOME.

4 The taxpayer would make an estimation of income based on the income of the previous year, adjusted by any variations which have actually taken place and which would be reflected in the amount of income of the whole year.

5. Provision would be made for a penalty where the taxpayer's estimate of income falls short by more than 20 per cent. of the income as finally returned. The penalty would be imposed at the rate of 5 per cent. flat on the amount of tax underpaid as a result of the under-estimation of income.

SELF-ASSESSMENT OF TAX.

6. For purposes of self-assessment, a scale would be supplied to the taxpayer, which would enable the calculation of the approximate amount of tax payable. Such a scale would provide for personal exertion, property and composite incomes, as well as the various rebates.

NUMBER OF INSTALMENTS.

7. Estimated tax would be paid by three instalments during the year of income on the last day of September, January and May. The instalments in respect of each year would be kept separate, and, in addition, the taxpayer would be required to make an additional adjusting payment of any amount by which the instalments for a year fell short of the tax as assessed by the Department on the income of that year.

PERSONS LIABLE TO PAY TAX BY INSTALMENTS.

8. The following persons would be required to pay tax by periodical instalments:—

(a) An employee deriving income in excess of £50 other than his salary or wages, where that other income is not subject to deduction at the source.
(b) Any person, other than an employee, who is liable to pay tax.

9. Partnerships and trusts would thus not normally be required to pay instalments.

PRIMARY PRODUCERS.

10. Persons primarily and principally carrying on the business of primary production would only be required to pay two instalments on the 31st January and 31st May, each of one-third of the estimated tax. The remaining one-third would be payable upon assessment after the end of the year of income. In addition, primary producers would be allowed a 33⅓ per cent. margin for under-estimation of income.

COMPANIES.

11. The plan would not be applied to companies but they would be required to pay normal and super tax by three instalments in the year succeeding the year of income, instead of in one amount as at present.

APPENDIX No. 7.

PROVISIONAL TAX PLAN FOR NON-EMPLOYEES.

The following examples set out the information required in the Notice of Assessment for a taxpayer with £1,000 Personal Exertion Income and £200 Concessional Allowances:—

(A) *Present Notice of Assessment*—

Assessment for the financial year 1945–1946 (based on income of the year ended 30th June, 1945)—

	£	s.	d.
Taxable Income £1,000, Personal Exertion at 85.3d.	355	8	0
Less Rebates, £200 at 85.3d.	71	2	0
Tax Payable	284	6	0

(B) *Provisional Tax Plan—No Alteration in Rates*—

Assessment for the financial year 1944–1945 (based on income of the year ended 30th June, 1945)—

	£	s.	d.
Taxable Income £1,000, Personal Exertion at 85.3d.	355	8	0
Less Rebates, £200 at 85.3d.	71	2	0
Tax	284	6	0
Less Provisional Tax levied for 1944–1945 (*assumed*)	280	0	0
	4	6	0
Add Provisional Tax for 1945–1946, i.e., tax payable as shown above	284	6	0
Amount Payable	288	12	0

(C) *Provisional Tax Plan—Altered Rates Applied Approximately*—

Assessment for the financial year 1944–1945 (based on income of the year ended 30th June, 1945)—

	£	s.	d.
Taxable Income £1,000, Personal Exertion at 85.3d.	355	8	0
Less Rebates, £200 at 85.3d.	71	2	0
Tax	284	6	0
Less Provisional Tax levied for 1944–1945 (*assumed*)	280	0	0
	4	6	0
Add Provisional Tax for 1945–1946, i.e., tax payable, as shown above, plus 7 per cent. (*assumed*) for increase in rates	304	0	0
Amount Payable	308	6	0

APPENDIX No. 8.

PROVISIONAL TAX PLAN FOR EMPLOYEES WITH OTHER INCOME.

The following examples illustrate how the Provisional Tax Plan would be applied to an employee who had income, exceeding £50, from sources outside his employment :—

(a) Where the income consists of salary plus property income.

—	Personal Exertion.	Property.	Total.
	£ s. d.	£ s. d.	£ s. d.
Assessment for 1944–1945 (*based on income of the year ended 30th June,* 1945)—			
Income	800 0 0	200 0 0	£1,000 0 0
Rate	85.3d.	106.55d.	..
	£ s. d.	£ s. d.	
Tax	284 6 0	88 16 0	373 2 0
Less Provisional Tax for 1944–1945	..	80 0 0	80 0 0
	284 6 0	8 16 0	293 2 0
Add Provisional Tax for 1945–1946	..	88 16 0	88 16 0
Amount Payable	..	..	381 18 0
Note.—Employee would make payment with—			
(*a*) Group certificate 1st July, 1944, to 30th June, 1945	..	248 19 0*	..
(*b*) Cash	..	132 19 0	381 18 0

(b) Where the income consists of salary plus business profit.

—		Personal Exertion.	Property.	Total.
		£ s. d.	£ s. d.	£ s. d.
Assessment for 1944–1945—				
Income—	£			
Salary	800			
Profits	200			
	—	1,000 0 0	..	1,000 0 0
Rate	..	85·3d.	..	..
		£ s. d.		
Tax	..	355 8 0	..	355 8 0
Less Provisional Tax for 1944–1945	..	66 13 0	..	66 13 0
		288 15 0	..	288 15 0
Add Provisional Tax for 1945–1946 (£200 at approximate rate of 7s.)		70 0 0	..	70 0 0
Amount Payable	..	358 15 0	..	358 15 0
Note.—Employee would make payment with—				
(*a*) Group certificate 1st July, 1944, to 30th June, 1945 ..	..	..	248 19 0*	..
(*b*) Cash	..	..	109 16 0	358 15 0

(c) Where income consists of salary, business profits and property income.

—		Personal Exertion.	Property.	Total.
		£ s. d.	£ s. d.	£ s. d.
Assessment for 1944–1945—				
Income—	£			
Salary	800			
Profits	200			
	—	1,000 0 0	100 0 0	1,100 0 0
Rate	..	87.8455d.	109.6727d.	..
		£ s. d.	£ s. d.	
Tax	..	366 0 0	45 14 0	411 14 0
Less Provisional Tax for 1944–1945	..	68 0 0	44 0 0	112 0 0
		298 0 0	1 14 0	299 14 0
Add Provisional Tax for 1945–1946 (£200 personal exertion at 7s. 3d.; £100 property at actual rate)	..	72 10 0	45 14 0	118 4 0
Amount Payable	..	370 10 0	47 8 0	417 18 0
Note.—Employee would make payment with—				
(*a*) Group Certificate 1st July, 1944, to 30th June, 1945 ..	..	..	248 19 0*	..
(*b*) Cash	..	..	168 19 0	417 18 0

* Being 52 weekly deductions of £4 15s. 9d. each as shown in the prescribed scale for a weekly wage of £15 7s. 8d (i.e., £800 per annum).

APPENDIX No. 9.

TRANSITION YEAR TAXES.—AMOUNTS PAYABLE BY NON-EMPLOYEES.

(a) Taxpayers without dependants.

Actual Income.	Income from Personal Exertion.		Income from Property.	
	Tax at Present Rates.	Transition Tax 8⅓ per cent. for three years.	Tax at Present Rates.	Transition Tax 8⅓ per cent. for three years.
(1)	(2)	(3)	(4)	(5)
£	£	£	£	£
100	..	..	..	..
150	10.5	0.9	10.5	0.9
200	21.9	1.8	21.9	1.8
250	36.7	3.1	40.1	3.3
300	55.0	4.6	63.3	5.3
350	75.1	6.3	89.2	7.4
400	95.4	7.9	115.2	9.6
500	136.7	11.4	167.9	14.0
600	178.7	14.9	221.5	18.5
800	265.4	22.1	331.0	27.6
1,000	355.4	29.6	444.0	37.0
1,500	619	52	766	64
2,000	951	79	1,159	97
3,000	1,747	146	2,026	169
5,000	3,530	294	3,830	319
10,000	8,155	680	8,455	705
20,000	17,405	1,450	17,705	1,475
40,000	35,905	2,992	36,205	3,017

(b) Taxpayers with Dependants—Income from Personal Exertion.

Actual Income.	Married Taxpayer.		Married Taxpayer with One Child.		Married Taxpayer with Two Children.	
	Tax at Present Rates.	Transition Tax 8⅓ per cent. for Three Years.	Tax at Present Rates.	Transition Tax 8⅓ per cent. for Three Years.	Tax at Present Rates.	Transition Tax 8⅓ per cent. for Three Years.
(1)	(2)	(3)	(4)	(5)	(6)	(7)
£	£	£	£	£	£	£
100	..	..	..	..	..	..
150	3.5	0.3	..	..	..	..
200	10.9	0.9	2.7	0.2	..	..
250	18.3	1.5	7.3	0.6	2.9	0.2
300	36.7	3.1	22.9	1.9	17.4	1.4
350	53.6	4.5	37.5	3.1	31.1	2.6
400	71.6	6.0	53.7	4.5	46.5	3.9
500	109.3	9.1	88.8	7.4	80.8	6.7
600	149.0	12.4	126.6	10.5	118.6	9.9
800	232.2	19.3	207.3	17.3	199.3	16.6
1,000	319.9	26.7	293.2	24.4	285.2	23.8
1,500	578	48	547	46	539	45
2,000	906	75	870	72	862	72
3,000	1,702	142	1,658	138	1,650	137
5,000	3,485	290	3,440	287	3,432	286

By Authority: L. F. Johnston, Commonwealth Government Printer, Canberra.