EXPLANATORY STATEMENT

Issued by authority of the Minister for Revenue and Assistant Treasurer

A New Tax System (Goods and Services Tax) (Average Input Tax Credit Fraction) Determination 2007

Purpose

The purpose of the A New Tax System (Goods and Services Tax) (Average Input Tax Credit Fraction) Determination 2007 is to specify the average input tax credit fractions for particular compulsory third party (CTP) schemes.

Background

Section 79-100 of the *A New Tax System (Goods and Services Tax) Act 1999* sets out the meaning of 'average input tax credit fraction'. CTP operators use the average input tax credit fraction for their CTP scheme to work out the amount of decreasing adjustments they have when making certain payments under their scheme.

Subsection 79-100(3) of the Act requires the Treasurer (or relevant Minister), in the financial year beginning on 1 July 2006 and every third financial year thereafter, to determine whether each CTP scheme should have a new average input tax credit fraction. This financial year is called the 'determination year'.

The Treasurer is required to work out the 'business vehicle use fractions' for each CTP scheme using statistical information published by the Australian Bureau of Statistics (ABS) during the three financial years before the determination year. The 'business vehicle use fraction' is business vehicle use as a proportion of total vehicle use in the State or Territory in which the CTP scheme operates. The statistical information is that relating to business and total use of vehicles for the State or Territory in which the CTP scheme operates. Data from the *Survey of Motor Vehicle Use* series published by the ABS on 25 September 2003, 21 October 2004 and 19 September 2005 was used.

Having established the 'business vehicle use fractions' for each CTP scheme, the Treasurer must then work out the average of those fractions (the 'new fraction'). If the Treasurer considers the new fraction is significantly different from the current average input tax credit fraction for the CTP scheme, subsection 79-100(3) of the Act requires that he determine, in writing, the new fraction to be the average input tax credit fraction for that scheme from the 'operative year'. The operative year is the financial year following the determination year.

The Minister for Revenue and Assistant Treasurer considers that the new fractions for the CTP schemes in Western Australia, the Australian Capital Territory and the

Northern Territory are significantly different from the existing average input tax credit fractions for those schemes.

Explanation of the Determination

The Determination has three clauses.

Clause 1 of the Determination specifies the name of the Determination as the A New Tax System (Goods and Services Tax) (Average Input Tax Credit Fraction) Determination 2007.

Clause 2 of the Determination specifies that it commences on 1 July 2007.

Clause 3 of the Determination specifies that for subsection 79-100(3) of the Act, the average input tax credit fraction for each CTP scheme mentioned in the table is the average input tax credit fraction for that scheme for the financial year that begins on 1 July 2007.

The table specifies the following average input tax credit fractions:

- for the compulsory third party insurance scheme under the *Motor Vehicle (Third Party Insurance) Act 1943* (WA) — 33/100;
- for the compulsory third party insurance scheme under the *Road Transport (General) Act 1999* (ACT) — 22/100; and
- for the motor accidents compensation scheme under the *Motor Accidents (Compensation) Act* (NT) — 43/100.

Consultation

Consultation on the proposed average input tax credit fractions was undertaken with representatives of the CTP insurance industry, CTP scheme regulators and the Insurance Council of Australia.