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Tax Laws Amendment (Personal Income Tax Reduction) Bill 2008

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Tax Laws Amendment (Personal Income Tax Reduction) Bill 2008

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Links: The *relevant links* to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at http://www.aph.gov.au/bills/. When Bills have been passed they can be found at ComLaw, which is at http://www.comlaw.gov.au/.

Purpose

The purpose of this Bill is to implement the promise made by the Government in the Labor Party Tax Plan issued before the 2007 federal elections to reduce personal income tax in three stages, namely, from 1 July 2008, 1 July 2009 and 1 July 2010.

It does this by the following proposed amendments.

1. The *Income Tax Rates Act 1986* will be amended:

(a) to increase from 1 July 2008, the 30 per cent marginal tax rate threshold so that the 15 per cent marginal tax rate will apply up to $34 000 instead of the current threshold of $30 000,

(b) to increase from 1 July 2009, the 30 per cent marginal tax rate threshold so that the 15 percent marginal tax rate will apply up to $35 000 and in addition reduce the 40 percent marginal tax rate to 38 per cent, and

(c) to increase from 1 July 2010, the 30 per cent marginal tax rate threshold so that the 15 per cent marginal tax rate will apply up to $37 000 and in addition reduce the 38 per cent marginal tax rate to 37 per cent.

2. The *Income Tax Assessment Act 1936* (ITAA 1936) will be amended to increase the maximum amount of the low income tax offset (LITO)[1]:

(a) from 1 July 2008 from $750 to $1 200 and the entitlement to the LITO will be phased out up to a taxable income of $60 000,

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1. Section 159N of the ITAA 1936 sets out the basis of working out the low income tax offset.

(b) from 1 July 2009 from $1 200 to $1 350 and the entitlement to the LITO will be phased out up to a taxable income of $63 750,

(c) from 1 July 2010 from $1 350 to $1 500 and the entitlement to the LITO will be phased out up to a taxable income of $67 500.

3. The *Medicare Levy Act 1986* will be amended to increase the income threshold at which Medicare levy becomes payable for taxpayers eligible for the senior Australian s tax offset.

   In consequence of the increases to LITO referred to in paragraph 2 above, senior Australians eligible for the LITO will not be liable to pay income tax until their income reaches:

- $28 867 for singles and $24 680 for each member of a couple in the 2008-09 income year,
- $29 867 for singles and $25 680 for each member of a couple in the 2009-10 income year, and
- $30 685 for singles and $26 680 for each member of a couple in the 2010-11 income year.

   The proposed amendments to the *Medicare Levy Act 1986* ensure that senior Australians who will, as a result of the increases in LITO not be liable to pay income tax at the income levels set out above, also not be liable to pay Medicare levy up to those income levels.

Background

Basis of policy commitment

On 15 October 2007, the then coalition government announced $34 billion in personal income tax cuts over three years. This plan included increasing the Low Income Tax Offset, increasing the 30 per cent threshold, and cutting back the top two marginal tax rates.

In response, the Labor Party announced its 'Tax Plan for Australia's Future' on 19 October. Labor's plan mirrored that of the Coalition's except for the intention to defer the Government's proposed tax cuts for those individuals earning more than $180 000 per year.[2] The majority of the savings from this alteration would be directed into an Education Tax Refund for all families receiving Family Tax Benefit A with children at school.

Despite the concerns of various commentators on the impact of the tax cuts on inflation referred to below, Prime Minister Kevin Rudd is determined to provide the tax cuts as they were promised:

> Prior to the election we committed to tax cuts flowing from the upcoming financial year. I have said repeatedly we honour the commitments we made prior to the election and we are serious about that. If you go to the people and say you are going to do something and you get elected, you have got to do it.[3]

Treasurer Wayne Swan has stated the decision to cut personal income tax will address skills shortages:

> The tax cuts play a vital role in encouraging workforce participation. They provide incentive for the workforce that has worked hard in recent years to make our economy strong and they deserve those tax cuts. What we're talking about here is the total Commonwealth Government spend and there will be room in the Budget for further cutbacks, Commonwealth spending and deliver the tax cuts.[4]

Position of significant interest groups/press commentary

The public response to the tax cuts has been varied due to the effect they will have on current inflationary pressures.

Access Economics Director, Chris Richardson, described the situation saying:

> It's going to be very difficult for the Government to get the balance right between, on the one hand, the tax cuts that it's promised, on the other hand, keeping inflation and interest rates low, as they've also promised to try to do, because that is a trickier combination now that the Australian economy is at full stretch. Given that we are at full stretch and a lot of money has been thrown at the economy, not just by further tax cuts, but also by further strengths in China's economy. It does mean that inflation pressures are on the rise here.[5]

There was some support for the tax cuts, particularly as a stimulant to the economy following increased interest rates later in the year:

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2. Kevin Rudd and Wayne Swan, *A Tax Plan for Australia's Future*, Media Release, Australian Labor Party, 19 October 2007.
3. Prime Minister Kevin Rudd, *Press Conference*, 8 February 2008
4 Treasurer Wayne Swan, *Press Conference*, 1 February 2008.
5 Chris Richardson, *AM*, ABC Radio, 17 December 2007.

> A government being criticised universally by economists for blindly following its politically driven tax promises might just find itself being urged late this year to apply a fiscal stimulus… the government should develop contingency plans to delay the first tranche of tax cuts to early next year.[6]

There has also been support for the tax cuts as a means to increase labour supply:

> Treasury calculated in the Mid-Year Economic and Fiscal Outlook that the tax cuts proposed by the Howard government last October – broadly the same as the new government's – would add an additional 65 000 workers to the labour force in the next three years… The economy needs all the workers it can get and tax cuts that increase labour supply ought not to be the first in line for the chop.[7]

Australian Workers' Union (AWU) National Secretary, Paul Howes, supported turning the tax cuts into a compulsory superannuation plan to avoid inflationary pressures:

> Mr Howes described his compulsory superannuation plan as a "short term" solution that would drive down inflation by boosting national savings that could be "invested in Australian infrastructure and technologies". Under the plan, half of the tax cuts would be locked into superannuation funds in $5 billion tranches over this year and each of the following two years.[8]

Chief Executive Officer of Lateral Economics, Nicholas Gruen, proposed a way to contribute to superannuation funds without going back on the election promise:

> Many people who might actually be well disposed to increasing their super contribution don't ever get around to doing so. So what would happen if their employers deposited the proceeds of their tax cuts into their super accounts, but also allowed them to opt out and receive the tax cuts in their pockets if they chose? …Prime Minister Kevin Rudd would be inviting employees to join him in a fiscal conservatism that would do the country good in the short term and themselves and their children good in the long run. And those who don't like it – well they just tick the box, opt out and that's it.[9]

In general, the media response was largely in favour of dropping or changing the tax cuts, despite the election promise:

> Many would be understandably cynical if the tax cuts were changed or dropped, but there has been a sufficient increase in external risk and uncertainty to cause the Government to change its position…. Delivering some of the cuts to lower income

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6 Barry Hughes, *The Australian Financial Review*, 14 February 2008, p. 79.

7 *The Australian Financial Review*, 14 February 2008, p. 78.

8 Steven Scott, *The Australian Financial Review*, 31 January 2008, p. 3.

9 Nicholas Gruen, *The Australian Financial Review*, 5 February 2008, p. 71.

> earners but delaying the rest, as well as paying some or all of it into superannuation, looks like the policy outcome one would select were it not for political pragmatism.[10]
>
> Swan argues that tax cuts will put downward pressure on inflation by lifting the incentive for low-skilled people to move from welfare to work. But that comes mostly from lifting the low-income tax offset – which is only a third of the total cost. If you really wanted to put the fight against inflation first, you could deliver that bit of the tax cuts, and put the rest in the fridge.[11]

Liberal/Australian Democrat/Greens/Family First policy position/commitments

The Greens slammed the tax cuts, labelling them 'irresponsible':

> These tax cuts will have an inflationary effect on the economy and it is very clear that Australians would prefer decent services.[12]

Senator Bob Brown agreed and came out in support of the AWU superannuation plan:

> Injecting money in the form of tax cuts into an overheated economy causes inflationary pressure. That money should go into capacity building infrastructure and services such as health, education and public transport instead of tax cuts – or into superannuation, as recommended by the AWU.[13]

In response to the announcement of the coalition and Labor plans to hand out tax cuts, Democrats Senator Lyn Allison said:

> We call on the major parties to stop bragging about their economic credentials and fix their policy priorities. Re-direct expenditure to where it is badly needed – in health and education. Restrict tax relief to low income pensioners, carers and working Australians. $34b worth of pork barrelling plus many billions more without adequate attention to inflationary pressure means we'll all end up paying for it in the end.[14]

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10 Michael Short, *The Age*, 13 February 2008, p. 12.

11 Tim Colebatch, *The Age*, 13 February 2008, p. 12.

12 Senator Rachel Siewert, *Quarantining tax cuts irresponsible – Greens*, Press Release, 8 January 2008.

13 Senator Bob Brown, *Rudd should scrap tax cuts – Brown*, Press Release, 5 February 2008.

14 Senator Lyn Allison, *Tax cuts pork will fan future inflation fires*, Press Release, 24 October 2007.

Financial implications

The financial implications are considered against the background of changes to the personal tax rates commencing with the proposals in the 2007-08 Budget.

Tax rates at 2007–08 budget time

Table 1 provides details of tax rate and low income tax offset (LITO) changes announced in the 2007–08 Commonwealth Budget.[15] The changes from one period to the next are bolded for reference.

Table 1: Personal Income Tax Rates (2007–08 Budget)

Baseline – 1 July 2006			**From 1 July 2007**			**From 1 July 2008**		
Thresholds		***Rate***	***Thresholds***		***Rate***	***Thresholds***		***Rate***
0	6 000	0	0	6 000	0	0	6 000	0
6 001	25 000	15	6 001	**30 000**	15	6 001	30 000	15
25 001	75 000	30	**30 001**	75 000	30	30 001	**80 000**	30
75 001	150 000	40	75 001	150 000	40	**80 001**	**180 000**	40
150 001	and over	45	150 001	and over	45	**180 001**	**and over**	45
LITO value		$600	LITO value		**$750**	LITO value		$750

According to the Treasury, the total cost of these cuts over the forward years (2007-08 to 2010-11) was to be around $31.49 billion.[16] Table 2 provides a breakdown of these costs by year.

Table 2: Tax revenue cost of budget tax changes

$m	**2007–08**	**2008–09**	**2009–10**	**2010–11**
Revenue cost	-5 305	-8 350	-8 785	-9 050

15 Department of the Treasury, *Budget Paper No.2 Budget Measures 2007–08*, Department of the Treasury, 2007, p. 18.

16 ibid.

Mid Year Adjustment

From the 2007–08 Budget to the Mid–Year Economic and Fiscal Outlook (MYEFO) the then coalition government proposed additional tax cuts. [17] The revised tax and LITO details are reproduced in Table 3. Once again the key changes are highlighted in bold.

Table 3: Personal Income Tax Rates (2007–08 MYEFO)

From 1 July 2008			**From 1 July 2009**			**From 1 July 2010**		
Thresholds		***Rate***	***Thresholds***		***Rate***	***Thresholds***		***Rate***
1	6 000	0	1	6 000	0	1	6 000	0
6 001	**34 000**	15	6 001	**35 000**	15	6 001	**37 000**	15
34 001	80 000	30	**35 001**	80 000	30	**37 001**	80 000	30
80 001	180 000	40	80 001	180 000	**38**	80 001	180 000	**37**
180 001	and over	45	180 001	and over	**43**	180 001	and over	**42**
LITO value		**$1 200**	LITO value		**$1 350**	LITO value		**$1 500**

According to the Treasury, the total cost of these cuts over the forward years was to be around an additional $33.98 billion. [18] Table 4 provides a breakdown of these costs by year.

Table 4: Tax revenue cost of MYEFO tax changes

$m	**2007–08**	**2008–09**	**2009–10**	**2010–11**
Revenue cost		-7 110	-10 940	-15 930

Labor's election commitment

During the federal election campaign the Labor Party announced a tax plan that endorsed the majority of the MYEFO tax plan announcements. The promoted Labor tax policy is summarised in Table 5. [19] The proposed changes are bolded for ease of reference.

The difference between the Labor Party and coalition tax polices are:

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17 Department of the Treasury, *Budget Paper Mid Year Economic and Fiscal Outlook 2007–08*, Department of the Treasury, 2007, pp. 6 and 62.

18 ibid, p. 62.

19 Kevin Rudd and Wayne Swan, *A Tax Plan for Australia's Future*, Media Release, Australian Labor Party, 19 October 2007.

- A higher tax rate for taxable income above $180 000 (45 per cent compared to 42 per cent); and
- Different aspirations, with the coalition targeting 2012–13 changes which reduced the 37 and 42 per cent rates to 35 and 40 per cent respectively; and Labor targeting 2103–14 changes which drop the 37 per cent threshold altogether and expanding the 30 per cent upper bound to $180 000.
- In addition, the Labor plan included an increase in the low income tax offset from $1 500 to $2 100 from the start of their aspiration period.

Table 5: Labor Party tax plan

From 1 July 2009			**From 1 July 2010**			**Aspiration (2013–14)**		
Thresholds		***Rate***	***Thresholds***		***Rate***	***Thresholds***		***Rate***
1	6 000	0	1	6 000	0	1	6 000	0
6 001	**35 000**	15	6 001	**37 000**	15	6 001	37 000	15
35 001	80 000	30	**37 001**	80 000	30	37 001	**180 000**	**30**
80 001	180 000	**38**	80 001	180 000	**37**	180 001	and over	**40**
180 001	and over	45	180 001	and over	45			
LITO value		**$1 200**	LITO value		**$1 350**	LITO value		**$2 100**

Table 6 summarises the marginal impact on the budget from the Labor plan, as reported in the Department of the Treasury election commitments costings.[20]

This revenue impact is in addition to the MYEFO budget impacts, and as would be expected, is a saving of $3.15 billion relative to the MYEFO plan, due to the higher assumed tax rates at the highest income threshold. That is, not allowing the threshold for taxable income greater than $180 000 to be reduced will reduce the MYEFO costing by $3.15 billion.

Costing of the aspiration regime is not feasible because it exceeds the Treasury forecast timeline.

Table 6: Marginal tax revenue impact of Labor Party policy

$m	**2007–08**	**2008–09**	**2009–10**	**2010–11**
Revenue cost			1 150	2 000

20 Department of the Treasury, *Public release of costings: personal income tax costings*, Department of the Treasury, 2007.

Personal tax reductions proposed in the Bill

The proposals in the Bill implement the tax cuts set out in Table 7.

Table 7: Proposed amendments to the Tax Laws

From 1 July 2008			**From 1 July 2009**			**From 1 July 2010**		
Thresholds		***Rate***	***Thresholds***		***Rate***	***Thresholds***		***Rate***
0	6 000	0	0	6 000	0	1	6 000	0
6 001	**34 000**	15	6 001	**35 000**	15	6 001	**37 000**	15
34 001	80 000	30	**35 001**	80 000	30	**37 001**	80 000	30
80 001	180 000	40	80 001	180 000	**38**	80 001	180 000	**37**
180 001	and over	45	180 001	and over	45	180 001	and over	45
LITO value		**$1 200**	LITO value		**$1 350**	LITO value		**$1 500**

Table 8 summarises the final cost on the budget from the implementation of Labor's election commitment. As expected the costing is the sum of the MYEFO changes and the election costings from the Department of the Treasury. The policy will cost the budget $30.83 billion over three years.

Table 8: Final cost to the budget of the Labor Party policy

$m	**2008–09**	**2009–10**	**2010–11**	**Total**
Revenue cost	–7 110	–9 790	–13 930	–30 830

Main provisions

Amendments to the *Income Tax Rates Act 1986*

Amendments by Part 1 of Schedule 1 of the Bill having effect from the 2008-09 year of income

The table in clause 1 of Part 1 of Schedule 7 of the *Income Tax Rates Act 1986* (the Rates Act) sets out the tax rates for resident individuals. The table in clause 1 of Part 11 of Schedule 7 of the Rates Act sets out the tax rates for non-resident individuals.

Tax rates for resident individuals for 2008-09

Item 3 of **Part 1** of **Schedule 1** of the Bill replaces the table in clause 1 of Part 1 of Schedule 7 of the Rates Act with the following new table to reflect the proposed changes for resident individuals from the 2008-09 year of income.

Tax rates for resident taxpayers		
Item	**For the part of the ordinary taxable income of the taxpayer that:**	**The rate is:**
1	exceeds $6,000 but does not exceed $34,000	15%
2	exceeds $34,000 but does not exceed $80,000	30%
3	exceeds $80,000 but does not exceed $180,000	40%
4	exceeds $180,000	45%

Tax rates for non-resident individuals for 2008-09

Item 4 of **Part 1** of **Schedule 1** of the Bill replaces the table in clause 1 of Part 11 of Schedule 7 of the Rates Act with the following new table to reflect the proposed changes for non-resident individuals from the 2008-09 year of income.[21]

Tax rates for non-resident taxpayers		
Item	**For the part of the ordinary taxable income of the taxpayer that:**	**The rate is:**
1	does not exceed $34,000	29%
2	exceeds $34,000 but does not exceed $80,000	30%
3	exceeds $80,000 but does not exceed $180,000	40%
4	exceeds $180,000	45%

Application

The amendments made by **Part 1** of **Schedule 1** of the Bill commence on 1 July 2008.

Item 10 of **Part 1** of **Schedule 1** provides that the amendments made by this Part apply to assessments for the 2008-09 year of income.

21. Non-residents are not entitled to a tax-free threshold. They are liable to tax on the very first dollar of taxable income.

Amendments by Part 2 of Schedule 1 of the Bill having effect from the 2009-10 year of income

Tax rates for resident individuals for 2009-10

Item 13 of **Part 2** of **Schedule 1** of the Bill replaces the table in clause 1 of Part 1 of Schedule 7 of the Rates Act with the following new table to reflect the proposed changes for resident individuals from the 2009-10 year of income.

Tax rates for resident taxpayers

Item	For the part of the ordinary taxable income of the taxpayer that:	The rate is:
1	exceeds $6,000 but does not exceed $35,000	15%
2	exceeds $35,000 but does not exceed $80,000	30%
3	exceeds $80,000 but does not exceed $180,000	38%
4	exceeds $180,000	45%

Tax rates for resident non-individuals for 2009-10

Item 14 of **Part 2** of **Schedule 1** of the Bill replaces the table in clause 1 of Part 11 of Schedule 7 of the Rates Act with the following new table to reflect the proposed changes for non-resident individuals from the 2009-10 year of income.

Tax rates for non-resident taxpayers

Item	For the part of the ordinary taxable income of the taxpayer that:	The rate is:
1	does not exceed $35,000	29%
2	exceeds $35,000 but does not exceed $80,000	30%
3	exceeds $80,000 but does not exceed $180,000	38%
4	exceeds $180,000	45%

Application

Amendments to **Part 2** of **Schedule 1** commence on 1 July 2009.

Item 20 of **Part 2** of **Schedule 1** provides that the amendments made by this Part apply to assessments for the 2009-10 year of income.

Amendments by Part 3 of Schedule 1 of the Bill having effect from the 2010-11 year of income

Tax rates for resident individuals from the 2010-11 year of income

Item 23 of **Part 3** of **Schedule 1** of the Bill replaces the table in clause 1 of Part 1 of Schedule 7 of the Rates Act with the following new table to reflect the proposed changes for resident individuals from the 2010-11 year of income.

Tax rates for resident taxpayers

Item	For the part of the ordinary taxable income of the taxpayer that:	The rate is:
1	exceeds $6,000 but does not exceed $37,000	15%
2	exceeds $37,000 but does not exceed $80,000	30%
3	exceeds $80,000 but does not exceed $180,000	37%
4	exceeds $180,000	45%

Tax rates for non-resident individuals from the 2010-11 year of income

Item 24 of **Part 3** of **Schedule 1** of the Bill replaces the table in clause 1 of Part 11 of Schedule 7 of the Rates Act with the following new table to reflect the proposed changes for non-resident individuals from the 2009-10 year of income.

Tax rates for non-resident taxpayers

Item	For the part of the ordinary taxable income of the taxpayer that:	The rate is:
1	does not exceed $37,000	29%
2	exceeds $37,000 but does not exceed $80,000	30%
3	exceeds $80,000 but does not exceed $180,000	37%
4	exceeds $180,000	45%

Application

The amendments to **Part 3** of **Schedule 3** commence on 1 July 2010.

Item 30 of **Part 3** of **Schedule 1** provides that the amendments made by this Part apply to assessments for the 2010-11 year of income and later income years.

Amendments to the Income Tax Assessment Act 1936

Subsection 159N(2) of the ITAA 1936 sets out the maximum amount of the low income tax offset (LITO) for eligible taxpayers. Subsection 159N(1) of the ITAA 1936 sets out the taxable income at which the LITO is phased out from the amount of taxable income of $30 000 at a rate of 4 cents in the dollar for every dollar of income over $30 000.

The amendments made by the Bill to subsections 159N(1) and (2) of the ITAA 1936 to give effect to the increases in the low income tax offset (LITO) and the amount of taxable income at which the LITO will be phased out are set out in the following table.

Year	**2008-09**	**2009-10**	**2010-11 and later income years**
Maximum amount of LITO changed from $750 for 2007-08 to	$1 200	$1 350	$1 500
Provisions in the Bill to change the maximum amount of LITO	**Item 2** of **Part 1** of **Schedule 1**	**Item 12** of **Part 2** of **Schedule 1**	**Item 22** of **Part 3** of **Schedule 1**
Limit of taxable income to qualify for part of LITO increased from $48 750 for 2007-2008	$60 000	$63 750	$67 500
Provisions in the Bill to change the taxable income limits to qualify for part of the LITO	**Item 1** of **Part 1** of **Schedule 1**	**Item 11** of **Part 2** of **Schedule 1**	**Item 21** of **Part 3** of **Schedule 1**

Application

Item 10 of **Part 1**, **Item 20** of **Part 2**, and **Item 30** of **Part 3** of **Schedule 1** provide that the amendments made by these Parts apply to assessments for the 2008-09, 2009-10 and for the 2010-11 income year and later years of income respectively.

Amendments to the *Medicare Levy Act 1986*

As mentioned above, in consequence of the increases to LITO, senior Australians eligible to the LITO will not be liable to pay income tax until their income reaches:

- $28 867 for singles and $24 680 for each member of a couple in the 2008-09 income year,
- $29 867 for singles and $25 680 for each member of a couple in the 2009-10 income year, and
- $30 685 for singles and $26 680 for each member of a couple in the 2010-11 income year.

One of the purposes of this Bill is to effect changes to the Medicare levy so that senior Australians eligible to LITO do not pay Medicare levy until they are liable to income tax.

The Bill includes the following measures for this purpose.

- The Medicare levy threshold in paragraph (a) of the definition of threshold amount in subsection 3(1) of the *Medicare Levy Act 1986* is increased by omitting $25 867 and substituting $28 867 for the 2008-09 income year, $29 867 for the 2009-10 income year and to $30 685 for the 2010-11 income year and later income years (**items 8**, **18** and **28** of **Part 1**, **Part 2** and **Part 3** of **Schedule 1** respectively).
- The senior family threshold in subsection 8(7) of the Medicare Levy Act 1986 is being raised from $37 950 to $42 000 from 1 July 2008, to $43 500 from 1 July 2009 and to $44 500 from 1 July 2010 (items **9, 19,** and **29** of **Part 1**, **Part 2** and **Part 3** of **Schedule 1** respectively). With the proposed senior family thresholds, senior couples will not be liable to the Medicare levy until they are liable to income tax.

Application

Item 10 of **Part 1**, **Item 20** of **Part 2**, and **Item 30** of **Part 3** of **Schedule 1** provide that the amendments made by these Parts apply to assessments for the 2008-09, 2009-10 and for the 2010-11 income year and later years of income respectively.

Concluding comments

Impact of personal tax reductions on individual taxpayers

The impact of the tax cuts on taxpayers will depend entirely upon their taxable income level. The attachments provide details of savings compared to the 2007–08 financial year for a range of taxable income levels. For those who are earning the average weekly wage of $56 235 the tax cuts alone will provide an additional income of $11.54 per week in 2008–09, increasing to $20.19 per week in 2010–11 (Attachment A).

Including the LITO impact the average earners income will increase by $14.37 per week in 2008–09, increasing to $28.79 per week by 2010–11 (Attachment B).

Attachment C compares the percentage increase in annual income as a result of the tax and LITO changes across a range of taxable incomes in the year 2010–11. Without LITO changes, and within the range of incomes modelled, those earning $200 000 would receive the highest percentage boost to income by 2010–11. Including the changes to LITO boosts the percentage income gain for all those earning less than $67 500 per annum compared to just the tax cuts. The income category receiving the highest percentage income increase including the LITO changes, of those incomes modelled, are those earning $40 000 per annum.

Reserve Bank warning on inflationary pressures over the next two years

The Reserve Bank of Australia has warned that inflationary pressures will be a concern for at least the next two years:

> Taking into account these factors, including the Board's decision to increase the cash rate in February, inflation is forecast to decline gradually from late this year, but would still be around 3 per cent in two years time… Absent a further shift in economic risks to the downside, therefore, monetary policy is likely to need to be tighter in the period ahead.[22]

These observations of the Reserve Bank regarding future inflationary trends would appear to add substance to the concerns expressed by some of the commentators referred to earlier in this Bills Digest about the wisdom of proceeding with the tax cuts.

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[22] Reserve Bank of Australia, *Statement on Monetary Policy*, 11 February 2008.

Attachment A: Impact of tax changes

Income tax impact compared to 2007-08

	Extra income per week			*Per cent of base income*		
Income	*2008-09*	*2009-10*	*2010-11*	*2008-09*	*2009-10*	*2010-11*
$30,000	$0.00	$0.00	$0.00	0.00%	0.00%	0.00%
$31,000	$2.88	$2.88	$2.88	0.48%	0.48%	0.48%
$32,000	$5.77	$5.77	$5.77	0.94%	0.94%	0.94%
$33,000	$8.65	$8.65	$8.65	1.36%	1.36%	1.36%
$34,000	$11.54	$11.54	$11.54	1.76%	1.76%	1.76%
$35,000	$11.54	$14.42	$14.42	1.71%	2.14%	2.14%
$40,000	$11.54	$14.42	$20.19	1.50%	1.88%	2.63%
$45,000	$11.54	$14.42	$20.19	1.33%	1.67%	2.33%
$50,000	$11.54	$14.42	$20.19	1.20%	1.50%	2.10%
$55,000	$11.54	$14.42	$20.19	1.09%	1.36%	1.91%
$56,235 [1]	**$11.54**	**$14.42**	**$20.19**	**1.07%**	**1.33%**	**1.86%**
$60,000	$11.54	$14.42	$20.19	1.00%	1.25%	1.75%
$65,000	$11.54	$14.42	$20.19	0.92%	1.15%	1.62%
$70,000	$11.54	$14.42	$20.19	0.86%	1.07%	1.50%
$75,000	$11.54	$14.42	$20.19	0.80%	1.00%	1.40%
$80,000	$21.15	$24.04	$29.81	1.38%	1.56%	1.94%
$85,000	$21.15	$25.96	$32.69	1.29%	1.59%	2.00%
$90,000	$21.15	$27.88	$35.58	1.22%	1.61%	2.06%
$95,000	$21.15	$29.81	$38.46	1.16%	1.63%	2.11%
$100,000	$21.15	$31.73	$41.35	1.10%	1.65%	2.15%
$105,000	$21.15	$33.65	$44.23	1.05%	1.67%	2.19%
$110,000	$21.15	$35.58	$47.12	1.00%	1.68%	2.23%
$120,000	$21.15	$39.42	$52.88	0.92%	1.71%	2.29%
$130,000	$21.15	$43.27	$58.65	0.85%	1.73%	2.35%
$140,000	$21.15	$47.12	$64.42	0.79%	1.75%	2.39%
$150,000	$21.15	$50.96	$70.19	0.73%	1.77%	2.43%
$200,000	$30.77	$64.42	$85.58	1.30%	2.38%	3.03%
$250,000	$40.38	$77.88	$100.96	1.04%	1.90%	2.42%
$300,000	$50.00	$91.35	$116.35	0.87%	1.58%	2.02%
$350,000	$50.00	$91.35	$116.35	0.74%	1.36%	1.73%
$400,000	$50.00	$91.35	$116.35	0.65%	1.19%	1.51%
$450,000	$50.00	$91.35	$116.35	0.58%	1.06%	1.34%
$500,000	$50.00	$91.35	$116.35	0.52%	0.95%	1.21%

Notes: Applies only to Australia resident tax payers
Income means taxable income
These savings do not incorporate changes to the low income tax offset
1. This income level is the current average weekly ordinary time earnings

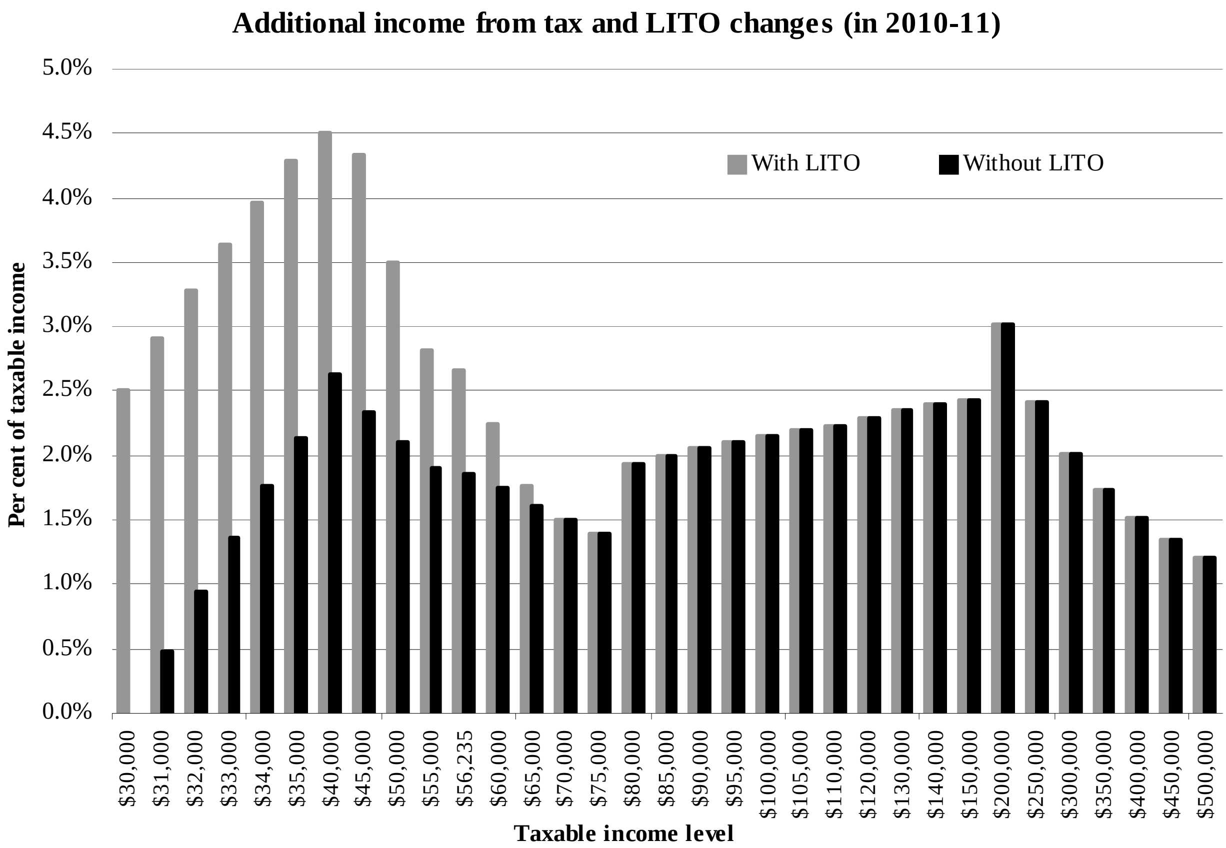
Attachment B: Impact of income tax and LITO changes

Income tax and LITO impact compared to 2007-08

	Extra income per week			*Per cent of base income*		
Income	*2008-09*	*2009-10*	*2010-11*	*2008-09*	*2009-10*	*2010-11*
$30,000	$8.65	$11.54	$14.42	1.50%	2.00%	2.50%
$31,000	$11.54	$14.42	$17.31	1.94%	2.42%	2.90%
$32,000	$14.42	$17.31	$20.19	2.34%	2.81%	3.28%
$33,000	$17.31	$20.19	$23.08	2.73%	3.18%	3.64%
$34,000	$20.19	$23.08	$25.96	3.09%	3.53%	3.97%
$35,000	$20.19	$25.96	$28.85	3.00%	3.86%	4.29%
$40,000	$20.19	$25.96	$34.62	2.63%	3.38%	4.50%
$45,000	$23.08	$28.85	$37.50	2.67%	3.33%	4.33%
$50,000	$19.23	$25.00	$33.65	2.00%	2.60%	3.50%
$55,000	$15.38	$21.15	$29.81	1.45%	2.00%	2.82%
$56,235	**$14.37**	**$20.13**	**$28.79**	**1.33%**	**1.86%**	**2.66%**
$60,000	$11.54	$17.31	$25.96	1.00%	1.50%	2.25%
$65,000	$11.54	$14.42	$22.12	0.92%	1.15%	1.77%
$70,000	$11.54	$14.42	$20.19	0.86%	1.07%	1.50%
$75,000	$11.54	$14.42	$20.19	0.80%	1.00%	1.40%
$80,000	$21.15	$24.04	$29.81	1.38%	1.56%	1.94%
$85,000	$21.15	$25.96	$32.69	1.29%	1.59%	2.00%
$90,000	$21.15	$27.88	$35.58	1.22%	1.61%	2.06%
$95,000	$21.15	$29.81	$38.46	1.16%	1.63%	2.11%
$100,000	$21.15	$31.73	$41.35	1.10%	1.65%	2.15%
$105,000	$21.15	$33.65	$44.23	1.05%	1.67%	2.19%
$110,000	$21.15	$35.58	$47.12	1.00%	1.68%	2.23%
$120,000	$21.15	$39.42	$52.88	0.92%	1.71%	2.29%
$130,000	$21.15	$43.27	$58.65	0.85%	1.73%	2.35%
$140,000	$21.15	$47.12	$64.42	0.79%	1.75%	2.39%
$150,000	$21.15	$50.96	$70.19	0.73%	1.77%	2.43%
$200,000	$50.00	$91.35	$116.35	1.30%	2.38%	3.03%
$250,000	$50.00	$91.35	$116.35	1.04%	1.90%	2.42%
$300,000	$50.00	$91.35	$116.35	0.87%	1.58%	2.02%
$350,000	$50.00	$91.35	$116.35	0.74%	1.36%	1.73%
$400,000	$50.00	$91.35	$116.35	0.65%	1.19%	1.51%
$450,000	$50.00	$91.35	$116.35	0.58%	1.06%	1.34%
$500,000	$50.00	$91.35	$116.35	0.52%	0.95%	1.21%

Notes: Applies only to Australia resident tax payers
Income means taxable income
These savings incorporate changes to the low income tax offset
1. This income level is the current average weekly ordinary time earnings

Attachment C: Impact of changes as a proportion of taxable income



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