



THE TAX INSTITUTE

30 May 2018

Senator Jane Hume
Chair, Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: economics.sen@aph.gov.au

Dear Ms Hume,

Inquiry into Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018

The Tax Institute welcomes the opportunity to make a submission to the Senate Economics Legislation Committee (**Committee**) in relation to the *Inquiry into Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018 (Inquiry)*.

Summary

The Tax Institute considers that the personal marginal tax rates in Australia are too high, in particular the highest marginal rate being 45% (not taking into account the Medicare Levy). While the measures in the 'Personal Income Tax Plan' (**Plan**) are a 'step in the right direction', they fall short of a holistic solution to the revenue reliance on personal taxes and the issues associated with the personal tax rate regime. The Tax Institute would prefer to see a transparent marginal tax rate system together with lower personal tax rates overall. In the current context, such changes should be supported by other base broadening measures.

Discussion

Rates

The centrepiece of the 2018-19 Federal Budget is the Plan contained in the *Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018 (Cth) (Bill)*.

The Tax Institute understands that some 75% to 80% of the taxpaying population (all those earning up to \$87,000) will get some benefit from this Plan, particularly with the increase to the existing Low Income Tax Offset and the introduction of the Low and Middle Income Tax Offset.

In the later years of this seven-year plan, the number of marginal tax brackets will be reduced from five to four with the elimination of the 37% tax bracket. The top rate of 45% will start to apply from \$200,001, in lieu of the \$180,001 under the rates that apply for the 2017-18 income year.

The measures in the Plan will assist in dealing with bracket creep, and are steps towards making our personal tax rate regime more competitive. However, retaining the top marginal tax rate of 45% is still too high relative to rates imposed in other countries. Examples include Singapore (22%) and Hong Kong (15%) not to mention New Zealand (33%), the US (39.60%) and Canada (33%).

The Tax Institute believes the top personal marginal tax rate should be no more than 37% (plus the Medicare levy) and this could be achieved without any net detriment to the revenue base primarily through a broadening of various tax bases. Some examples may include:

- a) expanding the scope of the Goods and Services Tax (**GST**) by eliminating the GST-free categories for basic food, health and education with up to half of the additional tax revenue being used to compensate lower paid income earners and pensioners for the additional cost;
- b) changing the operation of the capital gains tax discount available to individuals and superannuation funds, for example by reducing the discount percentage; and
- c) introducing a standard deduction for work-related expenses for employees.

Transparency

The Tax Institute also considers there should be transparency within the personal marginal tax rate regime. The taxable income of individuals is taxed at progressive marginal rates including a tax-free threshold. However, the effective rate of tax an individual may pay at a certain level of income is impacted by a variety of levies and tax offsets that may apply. In this context, we refer to the 'effective rate' being the actual amount of tax they will pay as a percentage of their taxable income. That is, the headline marginal rate that may apply can differ greatly to the effective rate of tax ultimately paid by the individual.

For example, the Medicare levy of 2% is added to an individual's applicable rate of tax and an additional 1 – 1.5% may be added depending on whether the individual must also pay the Medicare levy surcharge¹.

Similarly, low income earners may be entitled to a low income tax offset and may also be relieved from paying the Medicare levy. Marginal rates are also impacted by HELP repayments and the withdrawal of social security at particular levels of income.

¹ Because they do not have sufficient private patient hospital insurance.

Based on a review of the effective rates of tax that will apply to individual taxpayers under the Plan, the new marginal rate scale is still highly progressive. However, the effective rates vary significantly from the headline rates. Please refer to the table in Appendix B.

Levies and tax offsets affecting the marginal rate of tax that applies to an individual make it difficult for an individual to clearly identify which tax bracket they fall into and therefore what tax rate they face and as such should be consolidated into the headline marginal rates.

If you would like to discuss any of the above, please contact either myself or Tax Counsel, Stephanie Caredes, on [REDACTED]

Yours faithfully,

[REDACTED]

Tracey Rens
President

Appendix A

ABOUT THE TAX INSTITUTE

The Tax Institute is the leading forum for the tax community in Australia. We are committed to representing our members, shaping the future of the tax profession and continuous improvement of the tax system for the benefit of all, through the advancement of knowledge, member support and advocacy.

Our membership of almost 12,000 includes tax professionals from commerce and industry, academia, government and public practice throughout Australia. Our tax community reach extends to over 40,000 Australian business leaders, tax professionals, government employees and students through the provision of specialist, practical and accurate knowledge and learning.

We are committed to propelling members onto the global stage, with over 7,000 of our members holding the Chartered Tax Adviser designation which represents the internationally recognised mark of expertise.

The Tax Institute was established in 1943 with the aim of improving the position of tax agents, tax law and administration. More than seven decades later, our values, friendships and members' unselfish desire to learn from each other are central to our success.

Australia's tax system has evolved and The Tax Institute has become increasingly respected, dynamic and responsive, having contributed to shaping the changes that benefit our members and taxpayers today. We are known for our committed volunteers and the altruistic sharing of knowledge. Members are actively involved, ensuring that the technical products and services on offer meet the varied needs of Australia's tax professionals.

Appendix B

EFFECTIVE TAX RATES TABLE

Income Amount	Current Rates		Post 1 July 2018		Post 1 July 2024		Average effective tax rate (%)
	Tax payable*	Effective tax rate (%)	Tax payable*	Effective tax rate (%)	Tax payable*	Effective tax rate (%)	
\$10,000	Nil	0	Nil	0	Nil	0	0
\$20,000	Nil	0	Nil	0	Nil	0	0
\$30,000	\$2,397	7.99%	\$2,197	7.32%	\$2,197	7.32%	7.55%
\$40,000	\$4,947	12.37%	\$4,657	11.64%	\$4,492	11.23%	11.75%
\$50,000	\$8,547	17.09%	\$8,017	16.03%	\$8,007	16.01%	16.38%
\$60,000	\$12,147	20.25%	\$11,617	19.36%	\$11,607	19.35%	19.65%
\$70,000	\$15,697	22.42%	\$15,167	21.67%	\$15,157	21.65%	21.91%
\$80,000	\$19,147	23.93%	\$18,617	23.27%	\$18,607	23.26%	23.49%
\$90,000	\$22,732	25.26%	\$22,067	24.52%	\$22,057	24.51%	24.76%
\$100,000	\$26,632	26.63%	\$26,117	26.12%	\$25,507	25.51%	26.09%
\$110,000	\$30,532	27.76%	\$30,167	27.42%	\$28,957	26.32%	27.17%
\$120,000	\$34,432	28.69%	\$34,217	28.51%	\$32,407	27.01%	28.07%
\$130,000	\$38,332	29.49%	\$38,197	29.38%	\$35,857	27.58%	28.82%
\$140,000	\$42,232	30.17%	\$42,097	30.07%	\$39,307	28.08%	29.44%
\$160,000	\$50,032	31.27%	\$49,897	31.19%	\$46,207	28.88%	30.45%
\$180,000	\$57,832	32.13%	\$57,697	32.05%	\$53,107	29.50%	31.23%
\$200,000	\$67,232	33.62%	\$67,097	33.55%	\$60,007	30.00%	32.39%

* "Tax payable" includes the Medicare levy and adjustments for the low income tax offset and low and middle income tax offset where relevant.