

Chapter 1

Introduction

1.1 On 9 May 2018, the Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018 was introduced into the House of Representatives.¹ On 10 May 2018, the Senate referred the provisions of the bill to the Senate Economics Legislation Committee for inquiry and report by 18 June 2018.²

1.2 The bill seeks to implement the Personal Income Tax Plan, announced in the 2018–19 Budget, to make income taxes lower, simpler and fairer. In his second reading speech, the Treasurer emphasised that:

The plan will mean individuals will be able to take on additional work, seek advancement and put the extra hours in, knowing that their extra income and their extra hard work will remain with them and that a higher proportion will not go to the government in higher taxes...

The plan will be delivered in three steps.

1. It will provide tax relief to low- and middle-income earners first.
2. It will protect what Australians earn from bracket creep.
3. It will ensure Australians pay less tax, by making personal taxes simpler and flatter.³

Conduct of the inquiry

1.3 The committee advertised the inquiry on its website. It also wrote to relevant stakeholders and interested parties inviting written submissions by 25 May 2018. The committee received 22 submissions, which are listed at Appendix 1.

1.4 The committee held a public hearing in Canberra on 6 June 2018 for this inquiry. A list of witnesses who appeared at the hearing can be found at Appendix 2.

1.5 The committee would like to thank all the individuals and organisations that made written submissions and participated in the public hearing.

Overview of the bill

- 1.6 The bill has two schedules both of which amend various taxation acts.
- 1.7 Schedule 1 to the bill amend tax law to:
- introduce the low and middle income tax offset to reduce the tax payable by low and middle income earners in the 2018–19, 2019–20, 2020–21 and 2021–22 income years; and

1 *Journals and Proceedings*, No. 57, 9 May 2018, p. 1509.

2 *Journals of the Senate*, No. 97, 10 May 2018, p. 3094.

3 The Hon. Scott Morrison MP, Treasurer, *House of Representatives Hansard*, 9 May 2018, p. 8.

- for 2022–23 and later income years, the schedule merges the low and middle income tax offset and the low income tax offset into a new low income tax offset.

1.8 Schedule 2 to the bill amends tax law to progressively increase, over seven financial years, the income tax rate thresholds. Increases are set to occur in the following fiscal years, 2018–19, 2022–23 and 2024–25.

Tax offsets for low and middle income earners

1.9 Schedule 1 amends the Income Tax Assessment Act 1997 (ITAA 1997) and Income Tax Assessment Act 1936 (ITAA 1936) to introduce the low and middle income tax offset and later replace both that offset and the existing low income tax offset with a new low income tax offset.⁴

1.10 The low and middle income tax offset provides the benefit of the Personal Income Tax Plan to low and middle income earners prior to 2022–23.⁵

1.11 The low and middle income tax offset is available to individuals who are Australia residents during 2018–19, 2019–20, 2020–21 and 2021–22 income years and have a taxable income for that year not exceeding \$125 333. The low and middle income tax offset is also available to trustees during these years if they are taxed on a share of the net income of a trust on behalf of an Australian resident beneficiary that is under a legal disability, provided the amount does not exceed \$125 333. Similarly, if a trustee is taxed in relation to the shares of multiple beneficiaries of the trust, the trustee is separately entitled to the offset in respect of each share of a beneficiary for which the trustee is taxed.⁶

1.12 The low and middle income tax offsets operates in addition to the low income tax offset and taxpayers may be entitled to receive both tax offsets.⁷

1.13 The amount of the offset available depends on the relevant income of the individual or trustee for the income year. Table 1 summarises the amount of the low and middle income tax offset at different income levels.

Table 1: Amount of the low and middle income tax offset⁸

Amount of relevant income	Amount of the low and middle income tax offset
Not more than \$37,000	\$200
Exceeding \$37,000 but not exceeding \$48,000	\$200 plus 3 per cent of the amount of relevant income that exceeds \$37,000

4 *Explanatory Memorandum*, p. 13.

5 *Explanatory Memorandum*, p. 15.

6 *Explanatory Memorandum*, p. 14.

7 *Explanatory Memorandum*, p. 14.

8 *Explanatory Memorandum*, p. 15.

Exceeding \$48,000 but not exceeding \$90,000	\$530
Exceeding \$90,000 but not exceeding \$125,333	\$530 less 1.5 per cent of the amount of relevant income that exceeds \$90,000

1.14 The amount of the offset is capped and is not available to reduce tax payable on unearned income of minors.⁹

1.15 Where a taxpayer is entitled to both the low and middle income tax offset and the beneficiary tax offset, the beneficiary tax offset applies to reduce tax payable before the low and middle income tax offset.¹⁰

1.16 The new low income tax offset replaces both the low and middle income tax offset and the low income tax offset in the 2022–23 income year and later years. The new low income tax offset is available to individuals who are an Australian resident during 2022–23 or a later income year if their taxable income for that income year does not exceed \$66 667. Similar provisions for trustee apply as for the low and middle income tax offset.¹¹

1.17 The amount of the new low income tax offset available depends on the relevant income of the individual or trustee for the income year. Table 2 summarises the amount of the new low income tax offset at different income levels.

Table 2: Amount of the new low income tax offset¹²

Amount of relevant income	Amount of new low income tax offset
Not exceeding \$37,000	\$645
Exceeding \$37,000 but not exceeding \$41,000	\$645 less 6.5 per cent of the amount of relevant income that exceeds \$37,000
Exceeding \$41,000 but not exceeding \$66,667	\$385 less 1.5 per cent of the amount of relevant income that exceeds \$41,000

1.18 Consistent with the low and middle income tax offset, the amount of the new low income tax offset is capped and is not payable on the unearned income of minors.¹³

1.19 Also consistent with the low and middle income tax offset, in determining the amount of this cap, the beneficiary tax offset is treated as having been applied in the way most favourable to the taxpayer.¹⁴

9 *Explanatory Memorandum*, p. 15.

10 *Explanatory Memorandum*, p. 15.

11 *Explanatory Memorandum*, pp. 16–17.

12 *Explanatory Memorandum*, p. 17.

13 *Explanatory Memorandum*, p. 17.

14 *Explanatory Memorandum*, p. 18.

1.20 This schedule also makes amendments to the low income tax offset so it is not available after the introduction of the new low income tax offset in the 2022–23 income year.¹⁵

Income tax thresholds

1.21 Schedule 2 amends the *Income Tax Rates Act 1986* (ITRA 1986) to make the following changes to the rates of tax that apply to the taxable income of individuals and other entities not subject to special rules:

- from the 2018–19 income year, the rate of income tax that applies to the amount of an individual's ordinary taxable income between \$37 000 and \$90 000 (rather than \$87 000) is 32.5 per cent;
- from the 2022–23 income year:
 - the rate of tax that applies to the amount of an individual's ordinary taxable income between \$18 201 and \$41 000 (rather than \$37 000) is 19 per cent; and
 - the rate of tax that applies to the amount of an individual's ordinary taxable income between \$41 001 and \$120 000 (rather than \$87 000 or \$90 000) is 32.5 per cent;
- from the 2024–25 income year:
 - the rate of tax that applies to the amount of an individual's ordinary taxable income between \$40 001 and \$200 000 (rather than \$87 000, \$90 000 or \$120 000) is 32.5 per cent;
 - the rate of tax that applies to the amount of an individual's ordinary taxable income exceeding \$200 000 (rather than \$180 000) is 45 per cent; and
 - the 37 per cent rate of income tax is abolished.¹⁶

1.22 Equivalent changes will apply to other entities that are taxed like individuals as well as to the thresholds that apply to foreign residents and working holiday-makers.¹⁷

1.23 Tables 3, 4, 5 and 6 summarise the proposed changes to income tax rates and thresholds over the course of the plan.¹⁸

15 *Explanatory Memorandum*, p. 18.

16 *Explanatory Memorandum*, p. 7.

17 *Explanatory Memorandum*, p. 7.

18 *Explanatory Memorandum*, pp. 10–13.

Table 3: Income tax rates and thresholds in 2017–18

Australian residents		Foreign residents		Working holiday-makers	
<i>Taxable income</i>	<i>Tax payable</i>	<i>Taxable income</i>	<i>Tax payable</i>	<i>Taxable income</i>	<i>Tax payable</i>
0 to \$18,200	Nil	0 to \$87,000	32.5 cents for each \$1	0 to \$37,000	15 cents for each \$1
\$18,201 to \$37,000	19 cents for each \$1 over \$18,200	\$87,000 to \$180,000	\$28,275 plus 37 cents for each \$1 over \$87,000	\$37,001 to \$87,000	\$5,550 plus 32.5 cents for each \$1 over \$37,000
\$37,001 to \$87,000	\$3,572 plus 32.5 cents for each \$1 over \$37,000	\$180,001 and over	\$62,685 plus 45 cents for each \$1 over \$180,000	\$87,001 to \$180,000	\$21,800 plus 37 cents for each \$1 over \$87,000
\$87,001 to \$180,000	\$19,822 plus 37 cents for each \$1 over \$87,000			\$180,000 and over	\$56,210 plus 45 cents for each \$1 over \$180,000
\$180,001 and over	\$54,232 plus 45 cents for each \$1 over \$180,000				

Table 4: Income tax rates and thresholds between 2018–19 and 2021–22

Australian residents		Foreign residents		Working holiday-makers	
<i>Taxable income</i>	<i>Tax payable</i>	<i>Taxable income</i>	<i>Tax payable</i>	<i>Taxable income</i>	<i>Tax payable</i>
0 to \$18,200	Nil	0 to \$90,000	32.5 cents for each \$1	0 to \$37,000	15 cents for each \$1
\$18,201 to \$37,000	19 cents for each \$1 over \$18,200	\$90,001 to \$180,000	\$29,250 plus 37 cents for each \$1 over \$90,000	\$37,001 to \$90,000	\$5,550 plus 32.5 cents for each \$1 over \$37,000
\$37,001 to \$90,000	\$3,572 plus 32.5 cents for each \$1 over \$37,000	\$180,001 and over	\$62,550 plus 45 cents for each \$1 over \$180,000	\$90,001 to \$180,000	\$22,775 plus 37 cents for each \$1 over \$90,000
\$90,001 to \$180,000	\$20,797 plus 37 cents for each \$1 over \$90,000			\$180,000 and over	\$56,075 plus 45 cents for each \$1 over \$180,000
\$180,001 and over	\$54,097 plus 45 cents for each \$1 over \$180,000				

Table 5: Income tax rates and thresholds in 2022-23 and 2023-24

Australian residents		Foreign residents		Working holiday-makers	
<i>Taxable income</i>	<i>Tax payable</i>	<i>Taxable income</i>	<i>Tax payable</i>	<i>Taxable income</i>	<i>Tax payable</i>
0 to \$18,200	Nil	0 to \$120,000	32.5 cents for each \$1	0 to \$41,000	15 cents for each \$1
\$18,201 to \$41,000	19 cents for each \$1 over \$18,200	\$120,001 to \$180,000	\$39,000 plus 37 cents for each \$1 over \$120,000	\$41,001 to \$120,000	\$6,150 plus 32.5 cents for each \$1 over \$41,000
\$41,001 to \$120,000	\$4,332 plus 32.5 cents for each \$1 over \$41,000	\$180,001 and over	\$61,200 plus 45 cents for each \$1 over \$180,000	\$120,001 to \$180,000	\$31,825 plus 37 cents for each \$1 over \$120,000
\$120,001 to \$180,000	\$30,007 plus 37 cents for each \$1 over \$120,000			\$180,000 and over	\$54,025 plus 45 cents for each \$1 over \$180,000
\$180,001 and over	\$52,207 plus 45 cents for each \$1 over \$180,000				

Table 6: Income tax rates and thresholds in 2024-25 and later income years

Australian residents		Foreign residents		Working holiday-makers	
<i>Taxable income</i>	<i>Tax payable</i>	<i>Taxable income</i>	<i>Tax payable</i>	<i>Taxable income</i>	<i>Tax payable</i>
0 to \$18,200	Nil	0 to \$200,000	32.5 cents for each \$1	0 to \$41,000	15 cents for each \$1
\$18,201 to \$41,000	19 cents for each \$1 over \$18,200	\$200,001 and over	\$65,000 plus 45 cents for each \$1 over \$200,000	\$41,001 to \$200,000	\$6,150 plus 32.5 cents for each \$1 over \$41,000
\$41,001 to \$200,000	\$4,332 plus 32.5 cents for each \$1 over \$41,000			\$200,001 and over	\$57,825 plus 45 cents for each \$1 over \$200,000
\$200,001 and over	\$56,007 plus 45 cents for each \$1 over \$200,000				

Consequential amendments and other provisions

1.24 The bill also makes a number of consequential amendments to the tax law to reflect the proposed changes relating to the introduction of the Personal Income Tax Plan.¹⁹

1.25 The repeal of Part IV of the ITRA 1986 applies in relation to the 2017–18 income year and later years. It does not affect the operation of the temporary budget repair levy in prior years when it was operative.²⁰

1.26 A number of the amendments to income tax rate thresholds made by the bill only apply to specified periods. As such, schedules 1 and 2 contain amendments to repeal these provisions two years after they have ceased to apply and remove related references that have become redundant. This ensure that tax law is not unnecessarily expanded and made more complex for the reader by keeping redundant provisions.²¹

Human rights implications

1.27 The bill is compatible with human rights and does not raise any human rights issues.²²

19 *Explanatory Memorandum*, pp. 20–21.

20 *Explanatory Memorandum*, p. 21.

21 *Explanatory Memorandum*, p.22.

22 *Explanatory Memorandum*, p. 23.

