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Tax Laws Amendment (Personal Income Tax Reduction) Bill 2007

Diane Spooner
Law and Bills Digest Section

Bernard Pulle
Economics Section

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Tax Laws Amendment (Personal Income Tax Reduction) Bill 2007

Date introduced: 10 May 2007

House: House of Representatives

Portfolio: Treasury

Commencement: Royal Assent

Purpose

The purpose of the Tax Laws Amendment (Personal Income Tax Reduction) Bill 2007 (the bill) is to amend:

- the *Income Tax Rates Act 1986* to increase the threshold where the 30 percent tax rate begins (from 1 July 2007) and to increase the thresholds for the 40 per cent and 45 per cent tax brackets (from 1 July 2008);
- the *Income Tax Assessment Act 1936* to increase the low income tax offset and the threshold at which this offset begins to phase out; and
- the *Medicare Levy Act 1986* to increase the income threshold for taxpayers eligible for the senior Australians tax offset.

Background

The amendments in the bill give effect to the personal income tax cuts announced by the Government on 8 May 2007 in the latest Budget.

In his second reading speech[1] the Treasurer, Peter Costello said that the measures:

> Overall, in percentage terms, the greatest tax cuts have once again been provided to low-income earners. These tax changes will ensure that more than 80 per cent of taxpayers face a top marginal tax rate on only 30 per cent or less over the next four years. Taxpayers earning $30,000 paid $6,222 in income tax in 1999. From 1 July 2007 they will only pay $2, 850-more than halving their tax.

The Bill makes the following changes:

- From 1 July this year, an increase to the 30 per cent marginal tax rate threshold so that the 15 per cent marginal rate will apply up to $30,000 of income, an increase in the threshold of $5,000.

- From 1 July 2007 the low income tax offset will be increased from $600 to $750. It will begin to phase-out at the start of the new 30 per cent threshold, $30,000, compared to $25,000 currently.
- From 1 July 2008 the threshold for the 40 per cent rate will rise from $75,001 to $80,001 and the threshold for the 45 per cent rate will rise from $150,001 to $180,001.
- Senior Australians who are eligible for the senior Australians tax offset will not pay tax on their annual income up to $25,867 for singles and up to $43,360 for couples for 2007-08.

Position of significant interest groups/press commentary

Response to the tax cuts has been overall positive. On the Budget generally, the Australian Chamber of Commerce and Industry was reported to state[2]:

> However, it is also a sound economic document because it is able to pay for these [tax changes and expenditure proposals] and deliver a Budget surplus, thus keeping pressure off interest rates'.

The Australian Industry Group said[3]:

> The budget aligns the politically resonant with key economic objectives powered by the enormous fiscal surplus that has enabled broad-based spending, together with tax relief.

Specifically on the tax cuts the Australian Council of Trade Unions (ACTU) was reported to state[4]:

> The tax cuts translate to $14 a week for average income earners on $50,000 a year while part time workers on less than $25,000 a year get nothing until 2008. By contrast, high income earners on more than $180,000 a year get $53 a week in tax cuts from July 1, 2008.

A selection of some of the editorial comments on the day after the delivery of the budget made comments on the tax cuts aspects of the package. Some examples follow:

> The $31.5 billion in tax cuts over the next four years and the raising of the thresholds for higher tax brackets will benefit lower and middle Australia beset by pressure from rising interest rates and other costs.
>
> There is a touch of Robin Hood about the Treasurer in this, his 12th Budget; he is funding his election year personal tax cuts out of the increased corporate tax take. Businesses won't like it, but they don't vote. [5]

The Age editorial described the budget as being a 'balanced, well-measured investment in the country with an ample splash of electoral gifts[6], whilst the *Australian's* editorial headline described the budget as 'clever'.[7] The *Sydney Morning Herald* said in part:

> The budget's pre-election bribes are quite barefaced, yet they are cleverly done. Low-income earners will be the chief beneficiaries of the tax cuts to start this July 1. Howard's battlers have had their taxes cut by the largest proportion of any group since 2004-05. [8]

ALP/Australian Democrat/Greens/Family First/responses

The Shadow Treasurer, Mr Wayne Swan welcomed the tax cuts on behalf of the Opposition and said that Federal Labor would support the tax cuts 'enthusiastically because we think it's about time low and middle income earners got a fair go from the Howard Government because they've been left behind for a long period of time'.[9] In his press release relating to the tax cuts and family benefits Mr Swan says:

> These tax cuts will help working families cope with the pressures on the family budget from the four interest rate rises since the last election, which have added $240 to average monthly mortgage repayments in capital cities.
>
> However these tax cuts don't even hand back all the additional tax that the Government is collecting as a consequence of the mining boom.

The Democrats spokesperson, Senator Murray said that the Democrats would support the cuts but agreed with comments that the cuts were more like compensation than tax reform for the extra tax sucked from taxpayers by bracket creep.[10]

In contrast Senator Bob Brown says the Australian Greens oppose the second round of the tax cuts that 'solely benefit high income earners in Australia'. In his media release on the tax cuts Senator Brown states:

> Modelling by the Greens shows that the cost of tax cuts for those earning over $75,000 is around 44% of the total cost of the tax cuts, yet they account for only 10.5% of wage and salary earners.

Senator Fielding from Family First is reported[11] as expressing disappointment that there was no announcement of petrol tax cuts in the budget.

Financial implications

According to the Explanatory Memorandum, this measure will have the following impact on revenue over the next four years.

2007-08	***2008-09***	***2009-10***	***2010-11***
-$5.305b	-$8.350b	-$8.785b	-$9.050b

Source: Explanatory Memorandum, p. 1

Main provisions

Part 1- Amendments with effect from the 2007-08 year of income

Increase in the low income tax offset

Items 1-3 in **Schedule 1** amend **section 159N** of the *Income Tax Assessment Act 1936* to increase the amount of low income tax offset and to raise the threshold at which the offset begins to phase out. The level of taxable income is increased from $40 000 to $48 750 to be eligible for the tax offset or rebate. The maximum amount of the rebate is increased from $600 to $750. **Item 3** increases the level at which the rebate is payable from $25,000 to $30 000.

Increase in the threshold where the 30 percent marginal tax rate begins

Items 4-7 amend **Schedules 7**, **8**, and **10** the *Income Tax Rates Act 1986* to increase the threshold from which the 30 per cent marginal tax rate begins to apply. The increase is from $25 000 to $30 000.

Increase in the Medicare levy threshold in respect of eligible senior Australians

Items 8-11 amend the *Medicare Levy Act 1086* to increase the income threshold that applies to senior Australians who are eligible for the low income tax offset under section 160AAAA of the *Income Tax Assessment Act 1936.* These amendments will ensure that:

- the Medicare levy threshold for single seniors will be increased to $25,867 to ensure that they do not pay the Medicare levy until they are liable to income tax; and
- the new senior family threshold will be $37,950 so that senior couples do not incur a Medicare levy until they incur Eligible senior Australians.

Application

Item 11 of **Schedule 1** provides that the above amendments apply for the 2007-08 income year and later income years.

Part 2- Amendments with effect from the 2008-09 year of income

Items 12-15 amend the *Income Tax Rates Act 1986* to increase the thresholds for the top two marginal tax rates from $75 000 to $80 000 and $150 000 to $180 000 respectively.

Full explanation and details of the changes are set out in the Explanatory Memorandum to the bill.[12]

Application

Item 16 of **Schedule 1** states that the amendments in Part 2 apply to assessments for the 2008-09 year of income and later years of income.

Concluding comments

Comparative tax thresholds for the years 2006-07, 2007-08 and 2008-09

The Bill will establish new tax thresholds for the years 2007-08 and 2008-09. For comparative purposes the thresholds for the current year and the years 2007-08 and 2009-09 are set out in the following table.

Current tax thresholds Income range ($)	Tax rate %	New tax thresholds from 1 July 2007 Income range ($)	Tax rate %	New tax thresholds from 1 July 2008 Income range ($)	Tax rate %
0 - 6000	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 +	45	150,001 +	45	180,001 +	45

Source: Budget Measures 2007-08, Budget Paper No. 2, Part 1, Revenue Measures, p. 18.

General impact on taxpayers

Budget Paper No. 2, after setting out the above table, makes the following comments on the impact on taxpayers affected by these changes.

> The tax cuts will increase disposable incomes for all Australian taxpayers and provide further incentives, especially for lower income earners, to participate in the workforce and will further enhance Australia's international competitiveness.
>
> Over 80 per cent of taxpayers will face a top marginal tax rate of no more than 30 per cent over the forward estimates period with taxpayers needing to earn $134,000 to pay an average tax rate of 30 per cent in 2008-09.
>
> In 2008-09, the top marginal tax rate will apply to around 2 per cent of taxpayers.

The table set out below gives the impact on individual taxpayers on various taxable incomes in terms of the percentage reduction of the tax payable for the 2007-08 and 2008-09 years from the position in the 2006-07 year.[13]

Individual Tax Paid 2006-07 to 2008-09

Taxable Income p.a.	2006-07	2007-08	2008-09	Change 2006-07 to 2007-08	Change 2007-08 to 2008-09	Total change 2006-07 to 2008-09
$	$	$	$	%	%	%
10 000	0	0	0	0.0	0.0	0.0
20 000	1 500	1 350	1 350	-10.0	0.0	-10.0
30 000	3 950	2 850	2 850	-27.8	0.0	-27.8
40 000	7 350	6 250	6 250	-15.0	0.0	-15.0
50 000	10 350	9 600	9 600	-7.2	0.0	-7.2
60 000	13 350	12 600	12 600	-5.6	0.0	-5.6
70 000	16 350	15 600	15 600	-4.6	0.0	-4.6
80 000	19 850	19 100	18 600	-3.8	-2.6	-6.3
90 000	23 850	23 100	22 600	-3.1	-2.2	-5.2
100 000	27 850	27 100	26 600	-2.7	-1.8	-4.5
110 000	31 850	31 100	30 600	-2.4	-1.6	-3.9
120 000	35 850	35 100	34 600	-2.1	-1.4	-3.5
130 000	39 850	39 100	38 600	-1.9	-1.3	-3.1
140 000	43 850	43 100	42 600	-1.7	-1.2	-2.9
150 000	47 850	47 100	46 600	-1.6	-1.1	-2.6
160 000	52 350	51 600	50 600	-1.4	-1.9	-3.3
170 000	56 850	56 100	54 600	-1.3	-2.7	-4.0
180 000	61 350	60 600	58 600	-1.2	-3.3	-4.5
190 000	65 850	65 100	63 100	-1.1	-3.1	-4.2

Note: Includes low income tax offset; excludes Medicare levy and (if applicable) Medicare levy surcharge.

Endnotes

1. P. Costello *Second Reading Speech* 10 May 1007 Hansard p. 1.
2. *Age*, 9 May 2007 p.11.
3. op.cit
4. *Canberra Times*, 9 May 2007, p. 20.
5. *Herald Sun*, 9 May 2007, p. 20.
6. *The Age*, 9 May 2007, p. 10.
7. *The Australian*, 9 May 2007, p. 25.
8. *The Sydney Morning Herald*, 9 May 2007, p. 12.
9. Transcript of Doorstop Interview, Parliament House, *Budget Reply*, 10 May 2007.
10. *Press Release*, Senator Andrew Murray, 9 May 2007.
11. *Sydney Morning Herald*, 9 May 2007, p. 4.
12. However, please note that the Explanatory Memorandum in Table 1.1 on page 5, dealing with the current tax thresholds and tax rates (i.e. for the year 2006-07) in columns 1 and 2 respectively, states incorrectly in column 2 that the tax rate for the income range $6,001 to $25,000 is 17%, whereas the actual rate is 15%.
13. This table was prepared by the Statistics and Mapping Section of the Parliamentary Library.