

Questions for consultations

Additional question to Treasury and Department of Jobs and Small Business

In the 2018–19 Budget, the Australian Government announced changes to the tax-transfer system for the next seven years. The following changes took effect from 1 July 2018 and impact disposable income:

- The introduction of the Low and Middle Income Tax Offset:
 - Operates in conjunction with the current Low Income Tax Offset (LITO).¹
 - Eligible taxpayers are paid the LMITO as a lump sum after lodging their income tax return for the 2018–19 financial year.²
 - The LMITO provides an offset of \$200 for those whose personal income is less than \$37 000, increasing to \$530 for incomes from \$37 000 to less than \$48 000 at a rate of 3 cents per dollar. The maximum LMITO of \$530 applies to incomes between \$48 000 to \$90 000. For incomes above \$90 000, the LMITO phases out at a rate of 1.5 cents per dollar.³
 - The maximum LITO of \$445 applies to incomes of \$37 000 or less (before tapering off at 1.5 per cent for each dollar above \$37 000).⁴
- Changes to income tax:
 - The top threshold of the 32.5 per cent marginal tax rate increased from \$87 000 to \$90 000.⁵
- Increasing the Medicare levy low-income thresholds:
 - For the 2018–19 income year, the Medicare levy's low-income threshold for singles, families and seniors and pensioners was increased to take into account movements in the CPI.⁶ The threshold for singles increased from \$21 980 to \$22 938, while the threshold for families increased from \$37 089 to \$37 794.⁷

In regards to the LMITO, Ai Group submitted that the:

¹ Australian Taxation Office, *Personal Income Tax Plan*, viewed 25 March 2019, <<https://www.ato.gov.au/general/new-legislation/in-detail/direct-taxes/income-tax-for-individuals/personal-income-tax-plan/>>.

² *Personal Income Tax Plan*, viewed 25 March 2019, <<https://www.ato.gov.au/general/new-legislation/in-detail/direct-taxes/income-tax-for-individuals/personal-income-tax-plan/>>.

³ Ibid.

⁴ Australian Taxation Office, *Low income earners*, viewed 25 March 2019, <<https://www.ato.gov.au/Individuals/Income-and-deductions/Offsets-and-rebates/Low-income-earners/>>.

⁵ *Personal Income Tax Plan*, viewed 25 March 2019, <<https://www.ato.gov.au/general/new-legislation/in-detail/direct-taxes/income-tax-for-individuals/personal-income-tax-plan/>>.

⁶ Australian Government, *Budget Paper No. 2: Budget Measures 2019–20*, Canberra, p. 19.

⁷ Australian Government, *Budget Paper No. 2: Budget Measures 2019–20*, Canberra, p. 19.

‘... LAMITO delivers material increases in the disposable incomes of low and middle-income wage earners. The LAMITO delivers larger increases in post-tax incomes than would be delivered by the same dollar increase in the NMW.

While the impacts vary across low and middle-income groups, the increase in disposable income for a person earning the current NMW of \$719.20 a week is 0.63 per cent which equates to a change in pre-tax income of 0.83 per cent. This is a material impact and should be taken into account in the determination of the change in the NMW.’⁸

The Australian Government provided a discussion on the effect of the Panel’s decisions on household disposable income and at Table 8.6 presented data on changes in real disposable income from 2014 to 2019 for various household types.⁹

While the Australian Government submitted that ‘[t]he introduction of the Low and Middle Income Tax Offset from 1 July 2018 will provide some tax relief for minimum wage earners’,¹⁰ it is not clear what effect this will have on disposable incomes.

We request that Treasury and the Department of Jobs and Small Business provide an analysis of the impact of the 2018–19 Budget changes following the introduction of the LMITO and other tax-transfer changes on disposable incomes for 2018–19 for NMW workers.

⁸ Ai Group submission, 15 March 2019 at p. 56.

⁹ Australian Government submission, 15 March at para. 296.

¹⁰ Australian Government submission, 15 March at para. 294.