

Information note—Changes to the tax-transfer system

This note provides an overview of recent changes to the tax-transfer system. This includes:

1. legislated changes to the tax-transfer system following the 2017–18 Review;¹
2. changes addressed in previous Reviews that have taken effect in 2018–19; and
3. changes addressed in previous Reviews that are still effective in 2018–19.

1. Legislated changes to the tax-transfer system following the 2017–18 Review

In the 2018–19 Budget, the Australian Government announced changes to the income tax system over the next seven years.² Some of the changes which took effect from 1 July 2018 include:

- the introduction of the Low and Middle Income Tax Offset;
- raising the income threshold for the 32.5 per cent marginal tax bracket from \$87 000 to \$90 000; and
- increasing the low-income threshold to the Medicare levy in conjunction with inflation.

Introduction of the Low and Middle Income Tax Offset

- From 1 July 2018, a new, non-refundable tax offset called the Low and Middle Income Tax Offset (LMITO) took effect. This will operate in conjunction with the current Low Income Tax Offset (LITO) for a period of 4 years.³
- Eligible taxpayers will be paid the LMITO as a lump sum after lodging their income tax return for the 2018–19 financial year.⁴
- 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.⁵
- The maximum LITO of \$445 still applies for incomes of \$37 000 or less (before tapering off at 1.5 per cent for each dollar above \$37 000).⁶

¹ The Australian Government announced forecasted changes to the tax-transfer system in the 2019–20 Budget, including to the LMITO, LITO, income tax brackets and marginal tax rates. See Australian Government, *Budget Paper No. 2: Budget Measures 2019–20*, Canberra, pp. 17–19, <<https://www.budget.gov.au/2019-20/content/bp2/index.htm>> and <<https://www.budget.gov.au/2019-20/content/tax.htm>>.

² Australian Government, *Budget Paper No. 1: Budget Strategy and Outlook 2018–19*, Canberra, p. 1-2.

³ 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/>>.

⁴ *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/>>.

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

- This change is estimated to assist over 10 million people, including about 4.4 million taxpayers with incomes between \$48 000 and \$90 000 that are estimated to receive the full \$530 offset in 2018–19.⁷
- From 1 July 2022, the LMITO will be removed and integrated into the tax system by increasing the top threshold of the 19 per cent marginal tax bracket from \$37 000 to \$41 000 and increasing the LITO from \$445 to \$645 (see Table 1).⁸

Changes to income tax

- From 1 July 2018, the top threshold of the 32.5 per cent tax bracket increased from \$87 000 to \$90 000, and will increase to \$120 000 from 1 July 2022.
- From 1 July 2022, the top threshold of the 19 per cent tax bracket will increase from \$37 000 to \$41 000.
- From 1 July 2024, the number of income tax brackets will reduce from five to four by removing the 37 per cent tax bracket. Following this, the 32.5 per cent tax bracket will apply to incomes between \$41 000 and an increased top threshold of \$200 000.⁹
- Table 1 summarises the changes to the income tax thresholds effective from 1 July 2018 to 1 July 2024.

Table 1: New personal tax rates and thresholds 2018–19, 2022–23 and 2024–25

Rate (%)	Tax threshold income ranges (\$)		
	From 1 July 2018	From 1 July 2022	From 1 July 2024
Tax free	0–18 200	0–18 200	0–18 200
19 per cent	18 201–37 000	18 201–41 000	18 201–41 000
32.5 per cent	37 001–90 000	41 001–120 000	41 001–200 000
37 per cent	90 001–180 000	120 001–180 000	–
45 per cent	>180 000	>180 000	>200 000
LMITO	Up to 530	–	–
LITO	Up to 445	Up to 645	Up to 645

Source: *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/>>.

Increasing the Medicare levy low-income thresholds

- For the 2017–18 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.¹⁰ The threshold for singles increased from \$21 655 to \$21 980, while the threshold for families increased from \$36 541 to \$37 089.¹¹

⁷ Australian Government, *Budget Paper No. 1: Budget Strategy and Outlook 2018–19*, Canberra, p. 1-12.

⁸ *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/>>.

⁹ *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/>>.

¹⁰ Australian Government, *Budget Paper No. 2: Budget Measures 2018–19*, Canberra, p. 32.

¹¹ Australian Government, *Budget Paper No. 2: Budget Measures 2018–19*, Canberra, p. 32.

2. Changes to child care assistance addressed in previous Reviews that will take effect in 2018–19

Child Care Subsidy

- In the 2017–18 Review, the Expert Panel stated that changes to child care assistance were likely to be of some benefit to low-income families, although the impact was uncertain. Therefore, the effects were given little weight in the decision, with parties invited to provide further material to the Annual Wage Review 2018–19.¹²
- The *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Act 2017* replaced the current Child Care Benefit (CCB) and the Child Care Rebate (CCR) with the Child Care Subsidy (CCS) from 2 July 2018. To be eligible for the CCS, a child must be aged 13 years or under and not attending secondary school, similar to the requirements under the CCB and CCR.
- A component of the Child Care Safety Net—the Additional Child Care Subsidy (ACCS)—is also now available for families who, among other things, are suffering significant financial hardship due to an exceptional circumstance or for parents who are transitioning to the workforce. The ACCS replaced the Special Child Care Benefit, Grandparent Child Care Benefit and Jobs, Education and Training Child Care Fee Assistance.
- The CCS is means tested on combined family income to determine a subsidy of between 20 per cent and 85 per cent of the actual child care fee charged, up to an hourly fee cap which depends on the type of child care service.
- In 2018–19, families earning up to \$66 958 per year will be eligible to receive the subsidy of 85 per cent. The amount of subsidised hours will be determined by the activity level of both parents in recognised activities.¹³
- In 2018–19, an annual subsidy cap of \$10 190 per child per financial year applies to families whose annual income is between \$186 958 and \$351 248 (higher than the current cap of \$7 613 per child per year under the CCR). Families earning less than \$186 958 per year will have no annual cap.¹⁴
- Families can gain access to 36, 72 or 100 hours of subsidised child care per child per fortnight, depending on the amount of work, study or other recognised activity undertaken. A higher level of activity leads to more hours of subsidy.
- In 2018–19, low-income families on a combined income of \$66 948 or less who do not meet the activity test will be able to access 24 hours of subsidised child care per child per fortnight.¹⁵

¹² [2018] FWCFB 3500 at para. 290.

¹³ Department of Human Services, 'Child Care Subsidy – Your income can affect it', viewed 25 March 2019, <<https://www.humanservices.gov.au/individuals/services/centrelink/child-care-subsidy/how-much-you-can-get/your-income-can-affect-it>>.

¹⁴ Department of Education and Training, *Child Care Subsidy – combined family income*, viewed 25 March 2019, <<https://www.education.gov.au/child-care-subsidy-combined-family-income-0>>.

¹⁵ Department of Human Services, '*Child Care Subsidy – Activity level and subsidised care*', viewed 25 March 2019, <<https://www.humanservices.gov.au/individuals/services/centrelink/child-care-subsidy/how-much-you-can-get/your-activity-level-affects-it/activity-level-and-subsidised-care>>.

3. Changes addressed in previous Reviews and still effective in 2018–19

Family Tax Benefit

- The *Social Services Legislation Amendment Act 2017*, referred to in the *Annual Wage Review 2016–17*¹⁶ and the 2017–18 Review,¹⁷ included a measure to freeze the base and maximum rate of the Family Tax Benefit (FTB) (Part A) and the maximum rate of the FTB (Part B) by pausing indexation for July 2017 and July 2018, with indexation to recommence on 1 July 2019. This measure reduces the real value of these benefits by the amount of inflation over the two years.

Freezing the income area for Parenting Payments

- The *Social Services Legislation Amendment Act 2017* froze indexation of the income free areas for working age payments and Parenting Payments for three years from 1 July 2017, indexation will recommence on 1 July 2020.¹⁸ This measure means that transfers are withdrawn at a lower level of earnings than would otherwise have applied had income free areas increased with CPI.

¹⁶ [2017] FWCFB 3500 at para. 416.

¹⁷ [2018] FWCFB 3500 at para. 285.

¹⁸ [2017] FWCFB 3500 at para. 416.