



Household Assistance – Tax Reform

The Government will provide an \$8 billion tax reform package, including \$7 billion of tax cuts, from 1 July 2012 targeted at low and middle-income earners. Around 60 per cent of all taxpayers will get a tax cut of at least \$300 from 1 July 2012. Every taxpayer up to \$80,000 will get a tax cut, and no one will pay more tax.

The tax cuts will be delivered through major structural reform that increases the tax free threshold from \$6,000 to \$18,200. This means up to one million people will no longer need to fill in a tax return. When combined with the low income tax offset (LITO), people will not pay net tax until their income exceeds \$20,542.

In 2015-16, further tax cuts will be provided to every taxpayer up to \$80,000, worth at least \$80 per year for most. This will provide assistance for the flexible price period to cover the carbon price to at least 2019-20.

Cutting income tax and freeing more than a million people from filing a tax return

The Government will make structural improvements to the tax system as well as assisting households by introducing a higher tax-free threshold. The changes the Government is proposing will modernise and improve the personal tax system, making it more transparent and simpler for users to understand, consistent with the recommendations of the Australia's Future Tax System Review (AFTS).

Raising the tax free threshold to \$18,200 will free up to a million people from having to lodge a tax return from 2012-13. This will make life easier for many low-income earners who currently have to interact with both the tax system through the Australian Taxation Office and the transfer system through Centrelink. In future, many of these people will only have to interact with the transfer system.

In 2015-16, the Government will increase the tax free threshold again to \$19,400, to provide assistance for the projected carbon price out to 2019-20 and will free a further 100,000 people from having to file a tax return. This extra assistance will be reviewed closer to when Australia moves from a fixed carbon price to an emissions trading scheme, and may be increased if required, but it will not be reduced.

In addition to assisting households for a carbon price, this tax reform will contribute substantially to the Government's wider economic reform agenda aimed at strengthening the Australian economy for future generations.

Complexity and lack of transparency in the current tax system

Currently the LITO is used to deliver tax relief to low- and middle-income earners. While the LITO has been effective in delivering targeted relief to these groups, it has also created a gap between the published tax rates and thresholds that people see, and the effective tax rates and thresholds that people ultimately face.

It is a little known fact that most people who are nominally within the 30 per cent marginal tax rate bracket actually face an effective marginal tax rate of 34 per cent. Taxpayers between \$30,000 and \$67,500 currently pay their statutory marginal tax rate of 15 or 30 per cent, plus the 4 per cent tax rate created by the reduction of the LITO at four cents per dollar. The Government will cut this from 4 per cent to 1.5 per cent on 1 July 2012, and increase the threshold so that it only applies to income over \$37,000. From 1 July 2015, the Government will cut it further, to 1 per cent. Although there are higher headline statutory tax rates, the combination of a higher tax free threshold and lower rate of reduction for the LITO, mean tax cuts for all taxpayers up to \$80,000; and no-one pays more tax.

For example, currently, a person earning \$60,000 faces a headline statutory tax rate of 30 per cent, but also loses 4 cents of LITO for every dollar they earn. This means their combined marginal tax rate is actually 34 per cent (excluding the Medicare levy). Under the new scales from 1 July 2012, they will face a statutory tax rate of 32.5 per cent, but only lose 1.5 cents of LITO for every dollar they earn. So their combined marginal tax rate is still 34 per cent, but it is now more transparent. The tax reforms the Government is introducing will more closely align published marginal tax rates with effective marginal tax rates, which is more transparent and fairer for everybody.

In addition, the fact that the LITO is not explicitly reflected in the published tax schedule means that many low-income earners need to lodge an income tax return, even when their tax liability after the LITO is accounted for is nil. By incorporating more of the LITO into the tax free threshold and increasing transparency, it is easier for people to judge whether or not they need to lodge a tax return.

Key facts

- The tax free threshold will be increased more than threefold, from \$6,000 to \$18,200, freeing up to one million low-income earners from needing to lodge a tax return from 2012-13.
- A higher statutory tax free threshold means better interactions with the transfer system and builds on the reforms the Government introduced in the Budget, which mean more cash in people's take home pay from week to week and more immediate and direct returns to work.
- The LITO will be reduced from \$1,500 to \$445, with the benefit being reflected in the new tax free threshold.
- The combined effect of the higher statutory tax free threshold and the LITO is that the effective tax free threshold will rise to \$20,542. This means that individuals can earn up to \$20,542 from 2012-13 without paying any net income tax.
 - All taxpayers below \$80,000 receive a tax cut from 1 July 2012, with most getting a cut of at least \$300.
 - This means around 60 per cent of all taxpayers will receive a tax cut of at least \$300 and no one will be required to pay more income tax.
 - These changes are a major step towards the vision for a simpler, more transparent tax system, as identified by AFTS but without the tax increases through the middle income range that the AFTS personal tax scales would have resulted in.

- In 2015-16, the tax free threshold will increase by a further \$1,200 to \$19,400 so that those earning up to \$68,000 will receive a tax cut of around \$385 per year from 2015-16 compared to 2011-12. The effective tax free threshold applying to individuals will rise to \$20,979 and an additional 100,000 people will be freed from having to lodge a tax return.
 - These tax cuts will provide assistance to cover the projected price impact of the carbon price out to 2020.
- The tax cuts build on the three rounds of substantial tax cuts provided by the Government since 2007. By 2015-16, the total tax cuts provided to a person on an income of \$30,000 will be \$1,136 per year compared to 2007-08. For a person earning \$80,000, their total tax cut will be \$1,566, while a high-income earner on \$180,000 will have received a tax cut worth \$6,066 each year compared to 2007-08 (see the table on page 4 for more detail on tax cuts by income level).
- The pensioner tax offset will be rolled into the more generous senior Australians tax offset to create a single seniors and pensioners tax offset, further reducing complexity in the tax system.

The new tax scales

	Current		2012-13		2015-16	
	Threshold (\$)	Marginal Rate	Threshold (\$)	Marginal Rate	Threshold (\$)	Marginal Rate
1st Rate	6,001	15%	18,201	19%	19,401	19%
2nd Rate	37,001	30%	37,001	32.5%	37,001	33%
3rd Rate	80,001	37%	80,001	37%	80,001	37%
4th Rate	180,001	45%	180,001	45%	180,001	45%
LITO	Up to \$1,500	4% withdrawal rate on income over \$30,000	Up to \$445	1.5% withdrawal rate on income over \$37,000	Up to \$300	1% withdrawal rate on income over \$37,000
Effective tax free threshold*	16,000		20,542		20,979	

* Includes the effect of the tax free threshold and the low income tax offset (LITO).

Tax cuts by income

Income	Tax Cuts*			Total tax cut in 2015 compared to 2007
	From 1 July 2012	From 1 July 2015	Total	
\$20,000	\$600	--	\$600	\$1,350
\$25,000	\$503	\$83	\$586	\$1,336
\$30,000	\$303	\$83	\$386	\$1,136
\$35,000	\$303	\$83	\$386	\$1,886
\$40,000	\$303	\$83	\$386	\$2,186
\$45,000	\$303	\$83	\$386	\$2,186
\$50,000	\$303	\$83	\$386	\$2,136
\$55,000	\$303	\$83	\$386	\$1,936
\$60,000	\$303	\$83	\$386	\$1,736
\$65,000	\$303	\$83	\$386	\$1,536
\$70,000	\$253	\$63	\$316	\$1,366
\$75,000	\$128	\$38	\$166	\$1,216
\$80,000+	\$3	\$13	\$16	\$1,566+ **

* Personal Income tax cuts compared to 2011-12. Does not include the Medicare Levy or the impact of the temporary flood and cyclone reconstruction levy ending in 2011-12.

** Tax cuts since 2007 are larger for people on incomes over \$80,000

Further Information

For further information go to the Clean Energy Future website at www.cleanenergyfuture.gov.au or call 1800 057 590.