



## Tax Insights

# Personal tax cuts pass Parliament

### Snapshot

On 5 July 2019, the [Treasury Laws Amendment \(Tax Relief So Working Australians Keep More of Their Money\) Act 2019](#) was given Royal Assent.

This passed into law all three stages of tax cuts, which the Coalition Government [announced in the 2019-20 Federal Budget](#) and follows significant tax cuts announced and [legislated in the previous term of Parliament](#).

The three stages refer to three time periods: Stage 1 (from 1 July 2018), Stage 2 (from 1 July 2022) and Stage 3 (from 1 July 2024).

## Stage 1: Increasing the low and middle income tax offset (LMITO)

The first stage of cuts comes into operation immediately.

From 2018-19 to 2021-22, the non-refundable LMITO<sup>1</sup> will increase from a maximum amount of \$530 to \$1,080 per annum and the base amount will increase from \$200 to \$255 per annum. This relief will be received as a lump sum after an individual lodges their income tax return (with first effect for the year of income ended 30 June 2019).

Taxpayers earning between \$48,001 and \$90,000 should be eligible for the maximum offset of \$1,080.

The LMITO applies in addition to the existing low income tax offset (LITO) and the LMITO is temporary (expiring in the 2021-22 year). Further adjustments to the personal tax rates and an increase to LITO commencing from 1 July 2022 are to compensate for the cessation of the LMITO.

The LMITO will be calculated as follows for the 2018-19 to 2021-22 years:

<b>Taxable income (\$)</b>	<b>Maximum LMITO</b>
<b>Up to 37,000</b>	Up to \$255
<b>37,001 to 48,000</b>	\$255 + 7.5 per cent of the income that exceeds \$37,000
<b>48,001 to 90,000</b>	\$1,080
<b>90,001 to 126,000</b>	\$1,080 less 3 per cent of the income that exceeds \$90,000.

## Stage 2

### Increasing the low income tax offset (LITO)

From 1 July 2022, when the LMITO ceases and other tax rate changes commence, the Government will increase the LITO from \$645 to \$700.

As set out below, taxpayers earning up to \$37,500 will be entitled to the maximum LITO.

<b>Taxable Income (\$)</b>	<b>Maximum LITO</b>
<b>Up to 37,500</b>	\$700
<b>37,501 to 45,000</b>	\$700 less 5 per cent of the amount by which the income exceeds 37,500
<b>45,001 to 66,667</b>	\$325 less 1.5 per cent of the amount by which the income exceeds 45,000

### Changes to the personal income tax thresholds

In addition, from 1 July 2022, the top threshold of the 19 per cent personal income tax bracket will increase from \$41,000<sup>2</sup> to \$45,000.

<sup>1</sup> Taxpayers must have a liability for tax, in order to apply the offset. For instance, wage earners would receive a refund of PAYG amounts already withheld.

<sup>2</sup> Note that the top threshold for the 19% bracket was increased last year from \$37,000 to \$41,000.

### Stage 3: Changes to the personal income tax thresholds

From 1 July 2024, the 32.5 per cent marginal tax rate will be reduced to 30 per cent. This will more closely align the middle tax bracket of the personal income tax system with corporate tax rates.

#### In summary

To illustrate, the personal tax rates as legislated prior to the May 2019 election are:

Rate (%) <sup>3</sup>	From 1 July 2018 Income range (\$)	From 1 July 2022 Income range (\$)	From 1 July 2024 Income range (\$)
<b>Tax free</b>	0 – 18,200	0 – 18,200	0 – 18,200
<b>19</b>	18,201 – 37,000	18,201 – 41,000	18,201 – 41,000
<b>32.5</b>	37,001 – 90,000	41,001 – 120,000	41,001 – 200,000
<b>37</b>	90,001 – 180,000	120,001 – 180,000	-
<b>45</b>	>180,000	>180,000	>200,000
<b>LMITO</b>	Up to 530	-	-
<b>LITO</b>	Up to 445	Up to 645	Up to 645

As a result of the law passed in July 2019, the personal tax rates are as follows:

Rate (%)	From 1 July 2018 Income range (\$)	From 1 July 2022 Income range (\$)	From 1 July 2024 Income range (\$)
<b>Tax free</b>	0 – 18,200	0 – 18,200	0 – 18,200
<b>19</b>	18,201 – 37,000	18,201 – 45,000	18,201 – 45,000
<b>30</b>			45,001 – 200,000
<b>32.5</b>	37,001 – 90,000	45,001 – 120,000	
<b>37</b>	90,001 – 180,000	120,001 – 180,000	-
<b>45</b>	>180,000	>180,000	>200,000
<b>LMITO</b>	Up to 1,080	-	-
<b>LITO</b>	Up to 445	Up to 700	Up to 700

<sup>3</sup> All tables do not include the 2% Medicare levy  
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### Tax reduction (\$ per annum) under both legislated plans by taxable income – single resident taxpayer<sup>4</sup>.

Taxable income (\$)	From 1 July 2018	From 1 July 2022	From 1 July 2024
<b>40,000</b>	480	580	580
<b>60,000</b>	1,080	1,080	1,455
<b>80,000</b>	1,080	1,080	1,955
<b>100,000</b>	915	1,665	3,040
<b>120,000</b>	315	2,565	4,440
<b>140,000</b>	135	2,565	5,840
<b>160,000</b>	135	2,565	7,240
<b>180,000</b>	135	2,565	8,640
<b>200,000+</b>	135	2,565	11,640

#### Deloitte comment

The three-phase approach to the personal tax plan was to provide both a political and economic rationale to the cuts. Lower income earners would benefit immediately with high-income earners having to wait for their tax cuts. At the same time, the Government could manage the cost of the package in a staggered approach, thereby protecting the return to surplus. However strategically, this left the Government exposed to Opposition amendments to delay committing to stage three of the reforms on the basis of the cost, the benefits to high income earners, and long term uncertainty.

Despite the political posturing prior to the vote, much of the heavy lifting in terms of reform of the rates and thresholds was done in the last Parliamentary term, particularly with the flattening of the tax rates for “middle” income earners (with taxable incomes between \$41,000 and \$200,000). However, the Budget impact of the offsets and rate changes in the latest Act, whilst less radical in scope, are still substantial in cost at \$158 million over the 10-year projection period.

Despite concerns that the rate and threshold changes primarily benefit high income earners, and would distort the progressivity of the tax collections, the projections indicate that in 2024-25 around 60 per cent of all personal income tax will be paid by the highest earning 20 per cent of taxpayers, broadly similar to that cohort’s share if 2017-18 rates and thresholds were left unchanged. The share of personal income tax paid also remains similar for the top 1, 5 and 10 per cent of taxpayers.

The Government also projects that in 2024-25, 94 per cent of taxpayers will face a marginal rate of 30 per cent or less as a result of the rate changes. The new LMITO will benefit over 10 million low and middle-income earners.

(Source: 2019-20 Federal Budget overview “Lower taxes”; <https://www.budget.gov.au/2019-20/content/tax.htm>)

<sup>4</sup> Treasury Laws Amendment (Tax Relief So Working Australians Keep More Of Their Money) Bill 2019 Bill Digest prepared by Treasury [https://www.aph.gov.au/Parliamentary\\_Business/Bills\\_Legislation/bd/bd1920a/20bd001](https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/bd/bd1920a/20bd001)  
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## Contacts



### Michael Ward

Partner  
Tel: +61 2 9322 7319  
Michaelward1@deloitte.com.au



### Shelley Nolan

Partner  
Tel: +61 7 3308 7232  
shnolan@deloitte.com.au



### Michael Gastevich

Partner  
Tel: +61 3 9671 8273  
mgastevich@deloitte.com.au



### Richard Wheeler

Partner  
Tel: +61 7 3308 7251  
riwheeler@deloitte.com.au



### Marc Worley

Partner  
Tel: +61 8 9365 7807  
maworley@deloitte.com.au



### Spyros Kotsopoulos

Partner  
Tel: +61 2 9322 3593  
skotsopoulos@deloitte.com.au



### Geoff Cowen

Partner  
Tel: +61 3 9671 7197  
gcowen@deloitte.com.au



### Tim Maddock

Partner  
Tel: +61 8 8407 7123  
tmaddock@deloitte.com.au



### Peta McFarlane

Account Director  
Tel: +61 3 9671 7868  
pmcfarlane@deloitte.com.au



### Jillian McCorkindale

Partner  
Tel: +61 8 9365 7307  
jmccorkindale@deloitte.com.au

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