Personal tax rates - staged 7-year reform plan starting from 2018/2019

In the 2018-19 Budget, the Government announced staged tax relief for low and middle income earners. The Government is proposing a major **7-year 3-step plan to reform**

Personal income tax:

- **Step 1** will see a new non-refundable Low and Middle Income Tax Offset from 2018 - 19 to 2021-22, designed to provide tax relief of up to $530 for each of those years. The offset will be delivered on assessment after an individual submits their tax return and will be in addition to the existing low income tax offset (LITO).

    - The Low and Middle Income Tax Offset will provide a benefit of up to $200 for taxpayers with taxable income of $37,000 or less. Between $37,000 and $48,000, the value of the offset will increase at a rate of 3 cents per dollar to the maximum benefit of $530. Taxpayers with taxable incomes from $48,000 to $90,000 will be eligible for the maximum benefit of $530. From $90,001 to $125,333, the offset will phase out at a rate of 1.5 cents per dollar. The benefit of the Low and Middle Income Tax Offset is in addition to the existing Low Income Tax Offset.

- **Step 2** will increase the top threshold of the 32.5% tax bracket from $87,000 to $90,000 from 1 July 2018. In 2022-23, the top threshold of the 19% bracket will increase from $37,000 to $41,000 and the LITO will increase from $445 to $645. The increased LITO will be withdrawn at a rate of 6.5 cents per dollar between incomes of $37,000 and $41,000, and at a rate of 1.5 cents per dollar between incomes of $41,000 and $66,667. The top threshold of the 32.5% bracket will increase from $90,000 to $120,000 from 1 July 2022.

- **Step 3** from 1 July 2024, the top threshold of the 32.5% bracket will increase from $120,000 to $200,000, removing the 37% tax bracket completely. Taxpayers will pay the top marginal tax rate of 45% from taxable incomes exceeding $200,000 and the 32.5% tax bracket will apply to taxable incomes of $41,001 to $200,000.

The Government says this means that around 94% of all taxpayers are projected to face a marginal tax rate of 32.5% or less in 2024-25.

Foreign residents
2017-18

Taxable income $	Tax payable $
0 - 87,000	32.5%
87,001 - 180,000	28,275 + 37% of excess over 87,000
180,001+	62,685 + 45% of excess over $180,000

The unchanged tax rates for foreign residents for 2017-18:
Foreign residents are not liable to pay the Medicare levy.

Medicare levy low-income thresholds for 2017-18

For the 2017-18 income year, the Medicare levy low-income threshold for singles will be increased to $21,980 (up from $21,655 for 2016-17). For couples with no children, the family income threshold will be increased to $37,089 (up from $36,541 for 2016-17). The additional amount of threshold for each dependent child or student will be increased to $3,406 (up from $3,356).

For single seniors and pensioners eligible for the SAPTO, the Medicare levy low-income threshold will be increased to $34,758 (up from $34,244 for 2016-17). The family threshold for seniors and pensioners will be increased to $48,385 (up from $47,670), plus $3,406 for each dependent child or student.

Date of effect
The increased thresholds will apply to the 2017-18 and later income years. Note that legislation is required to amend the thresholds and a Bill will be introduced shortly.
Source: Budget Paper No 2 [p 32]

Increased compliance activities: individuals and their tax agents

The Government will provide $130.8 million to the ATO from 1 July 2018 to increase compliance activities targeting individuals and their tax agents. This measure stems from the ATO identifying a number of significant compliance issues for individual taxpayers which results in a significant loss of revenue for the Government each year.

The extra funding will continue for income matching programs that would have been otherwise terminated from 1 July 2018 to allow the ATO to detect incorrect reporting of income such as foreign sourced income of high wealth individuals. The funding will also allow for new compliance activities including additional audits and prosecutions, improving education and guidance materials, pre-filling of income tax returns, and improving real time messaging to tax agents and individual taxpayers to deter over-claiming of entitlements, especially in relation to higher risk taxpayers and their agents.

Date of effect
This measure applies from 1 July 2018 *Source: Budget Paper No 2 [p 31]*

Taxation of income for high profile individuals

The Government will ensure that high profile individuals will no longer be able to take advantage of lower tax rates by licensing their fame or image to another entity.
Currently, high profile individuals such as sportspeople or actors can license their fame or image to another entity (a related company or trust), and the income derived goes to the entity that holds the licence. This creates opportunities to take advantage of different tax treatments. This measure will ensure that all remuneration (including payments and non-cash benefits) provided for the commercial exploitation of a person's fame or image will be included in the assessable income of the individual.

Date of effect: This measure will apply from 1 July 2019
Source: Budget Paper No 2 [p 45]

Medicare levy low-income thresholds for 2017-18

For the 2017-18 income year, the Medicare levy low-income threshold for singles will be increased to $21,980 (up from $21,655 for 2016-17). For couples with no children, the family income threshold will be increased to $37,089 (up from $36,541 for 2016-17). The additional amount of threshold for each dependent child or student will be increased to $3,406 (up from $3,356).

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Source: Budget Paper No 2 [p 32]

Low income tax offset
The currently legislated low income tax offset (LITO) rates will not change for 2017-18 and are:

- LITO amount - $445.
- Lower withdrawal limit - $37,000.
- Upper withdrawal limit - $66,667.
- Withdrawal rate - 1.5%.

A standard tax deduction for work expenses? Not in this Budget

Talk of allowing individual taxpayers a standard tax deduction for work-related expenses (WRE) has been around for more years than we may care to remember. There was some pre-Budget speculation around the likelihood of the Government introducing a standard tax deduction in this year's Budget, especially after the ATO aired its strong concerns about what it said was the over-claiming of work-related tax deductions. Calls for a standard deduction are not new and have been around for a number of years, most notably recommended by the Henry Tax Review in 2010, however, there was no announcement in this year's 2018-19 Federal Budget.

The Government on 15 February 2018 tabled in the House of Reps its response to the inquiry of the House of Reps Standing Committee on Economics into Tax Deductibility – see 2018 WTB 7 [165]. The Committee's review focussed on enhancing compliance in relation to tax deductions, and looked especially at Work Related Deductions and deductibility of interest for companies.

In relation to work-related expenses (WREs), the Committee said it saw little rationale for altering existing arrangements that allow taxpayers to claim personal income tax deductions for valid WREs. The Committee said the ability to claim deductions for valid work-related expenses is "an entirely appropriate part of our taxation system".

The Committee considered that it was clear that it was not possible to reduce the cost to the budget of WRE deductions "without leaving a significant number of taxpayers worse off".

The Committee was against any proposal to establish a standard tax deduction. It said a proposal to introduce a system where all taxpayers could claim a standard WRE deduction without substantiation, coupled with the ability to make additional WRE claims with substantiation, was "not supported by the committee". While this system would have the benefit of simplicity, the Committee said it would be likely to come at an additional cost to government revenue. This is the case because all taxpayers would be able to claim the standard deduction, while those with substantial workplace expenses would still be able to claim their existing WREs. The overall impact of this would most likely be an increase in the total cost of WREs, the Committee said.

In the Committee's view, it is important that the actual cost to government revenue of WREs is clearly understood in order to inform budget planning. It was for this reason that the Committee recommended that The Treasury provide a clear estimate of the actual cost to Government revenue of WREs so as to properly inform policy in this area.

BUSINESS TAXATION

$20,000 instant asset write-off for SBEs extended by 12 months

The Government will extend the current instant asset write-off ($20,000 threshold) for small business entities (SBEs) by 12 months to 30 June 2019. This applies to businesses with aggregated annual turnover less than $10 million.

The threshold amount was due to return to $1,000 on 1 July 2018. As a result of this announcement, SBEs will be able to immediately deduct purchases of eligible depreciating assets costing less than $20,000 that are acquired between 1 July 2017 and 30 June 2019 and first used or installed ready for use by 30 June 2019 for a taxable purpose. Only a few assets are not eligible for the instant asset write-off (or other simplified depreciation rules), eg horticultural plants and in-house software.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the general small business pool (the pool) and depreciated at 15% in the first income year and 30% each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

The current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for 5 years if they opt out) will continue to be suspended until 30 June 2019. The instant asset write-off threshold and the threshold for immediate deductibility of the balance of the pool will revert to $1,000 on 1 July 2019.

Comment

While the extension of the write-off will be welcomed, SMEs of course need to have the cash-flow to enable them to spend the $20,000 in the first place.
Source: Budget Paper no2, P20