

Clean Energy Future Plan – Reform to the personal income tax system

CHANGES TO TAX RATES AND THRESHOLDS AND THE LITO

- The tax changes involve a significant increase in the tax free threshold, to \$18,200 in 2012-13 and \$19,400 in 2015-16, and corresponding reductions in the low income tax offset (LITO).
- This is expected to simplify the tax system by freeing over one million low-income individuals from needing to file an income tax return. Regular wage earners with income below the new tax free threshold will get to keep all of their wages in their regular pay packets, which will mean higher take-home pay and better incentives to work. This also means less people needing to interact with both the tax and transfer systems.
- Adjustments to the LITO and some marginal rates ensure that assistance through the tax reform is targeted at low- and middle-income earners.
 - All taxpayers below \$80,000 receive a tax cut in 2012-13, 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.
 - The further changes in 2015-16 mean that those people with taxable income up to \$68,000 will receive a tax cut of around \$385 per year from 2015-16 compared to 2011-12.
 - Combined with cuts to the LITO withdrawal rate and an increase in the withdrawal threshold, the increases in statutory marginal rates leave effective marginal rates unchanged for many taxpayers.

	2011-12		2012-13		2015-16	
	Threshold	Marginal Rate	Threshold	Marginal Rate	Threshold	Marginal Rate
1st Rate	\$6,001	15.0%	\$18,201	19.0%	\$19,401	19.0%
2nd Rate	\$37,001	30.0%	\$37,001	32.5%	\$37,001	33.0%
3rd Rate	\$80,001	37.0%	\$80,001	37.0%	\$80,001	37.0%
4th Rate	\$180,001	45.0%	\$180,001	45.0%	\$180,001	45.0%
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).

THE SENIOR AUSTRALIANS TAX OFFSET (SATO) AND PENSIONER TAX OFFSET (PTO)

- The PTO is being merged into the SATO with the new offset to be called the seniors and pensioners tax offset (SAPTO).
- The threshold above which the SATO is withdrawn is being increased from \$30,685 to \$32,279 for singles and from \$26,680 to \$28,974 for members of a couple. This will provide an additional benefit to seniors and pensioners.
- For example, a single senior Australian on \$40,000 of taxable income will receive a \$199 increase in their SATO entitlement in 2012-13, in addition to a \$303 tax cut.
- A pensioner earning \$35,000 will receive an additional financial benefit of around \$279 in 2012-13 compared to 2011-12, over and above the general tax cuts.
- Background: The SATO is a non-refundable tax offset provided to senior Australians of Age Pension age to reduce their tax burden. The PTO is a non-refundable offset that is primarily a means of ensuring pensioners (below Age Pension age) do not pay tax on their pension income and their income free area. Because the formula for the PTO ignores the LITO, it is currently more generous than necessary to offset the tax paid on a person's pension and income free area income.

THE BENEFICIARY TAX OFFSET (BENTO)

- The formula for calculating the amount of BENTO that an individual is entitled to will be amended to ensure recipients continue to receive the same amount of BENTO after the reform. The BENTO is available for certain payments and allowances, such as Newstart allowance and Youth Allowance.

MEDICARE LEVY LOW-INCOME THRESHOLDS

- The Medicare levy low-income thresholds, above which a person becomes liable to pay the levy, are being increased for singles, seniors and pensioners. These thresholds are being increased to prevent people in these groups from paying the Medicare levy before they pay income tax.