

**Key Policy in discussion**

**TAXATION**

**Portfolio and or agency**

**Treasury**

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**Key author/s of this budget analysis:** Helen Hodgson 0418 906 162

**Chair, Social Policy Committee NFAW:** Prof. Helen Hodgson 0418 906 162 [h.hodgson@tpg.com.au](mailto:h.hodgson@tpg.com.au)

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### **Overview**

The stage three tax cuts should not proceed. They are regressive, with benefits flowing to high income earners. Analysis from the Australia Institute costs the tax cuts at \$15.7 billion pa, with people earning more than \$200,000 pa receiving a tax cut of \$9,075 pa. Two thirds of the recipients of the tax cuts will be men as male incomes are higher than women's incomes. In contrast, the LMITO, which benefits people earning between \$37,000 and \$120,000 pa and affects men and women equally, will be withdrawn from the end of the current financial year. There will be a last offset payable when tax returns are lodged in July 2022, then the offset will be ended.

Inequality is growing post COVID with clear differences between people with secure jobs that can be performed remotely and others working part time or casually in a face to face role; such as retail or aged care workers, who are predominantly female workers. The taxation system should be used as a means of levelling out inequality, not increasing it.

Australia is a low tax country. There is a clear need for additional funds to increase spending on child care and aged care, as well as to assist businesses and individuals in the economic recovery from the COVID pandemic. Tax reform, beyond tinkering with tax rates, is vital to provide the level of, and equitable access to, services that Australians deserve.

Governments have done little to address the high Effective Marginal Tax Rates (EMTRs) which continue to make it financially unviable for thousands of Australian women to increase their hours of work to full time participation rates.

### **Budget Measures**

- **One off increase in LMITO**

In the 2022-23 Budget the Government increased the LMITO by \$420 to \$1,500 as part of the cost of living package. This will be paid following lodgement of income tax returns for the year ended 30 June 2022, and will only be available to offset income tax payable. The LMITO is scaled as follows:

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The National Foundation for Australian Women is dedicated to promoting and protecting the interests of Australian women, including intellectual, cultural, political, social, economic, legal, industrial and domestic spheres, and ensuring that the aims and ideals of the women's movement and its collective wisdom are handed on to new generations of women. NFAW is a feminist organisation, independent of party politics and working in partnership with other women's organisations.

Authorised by the National Foundation for Australian Women, Canberra: President Ms Jane Madden.

<b>Taxable Income</b>	<b>Previous rate 2020-2021</b>	<b>Amended rate 2021-2022 (+ \$420)</b>
Less than 37,000	\$255	\$675
\$37,001 - \$48,000	\$255 + 7.5% of income exceeding \$37,000	\$675 + 7.5% of income exceeding \$37,000
\$48,001 - \$90,000	\$1,080	\$1,500
\$90,001 - \$126,000	\$1,080 – 3% of income exceeding \$90,000	\$1,080 – 3% of income exceeding \$90,000
More than \$126,000	Nil	Nil

The Low Income Tax Offset (LITO) is still in place in conjunction with the LMITO to provide relief to low income earners:

<b>Taxable Income</b>	<b>Continuing Rate</b>
Less than 37,500	\$700
\$37,501 - \$45,000	\$700 minus 5% of income exceeding \$37,500
\$45,001 - \$66.667	\$325 minus 1.5% of income exceeding \$45,000

Note that the offset is not refundable but reduces tax payable. Taking into account both the LITO and the LMITO if a person earns less than \$25,437 they will not get the full entitlement of the combined tax offsets. There is a further complexity as people will be entitled to either the increased tax offset or the \$250 cost of living payment.

From the 2022 -23 income year the LMITO will disappear, but the LITO will continue.

As discussed in the Election Briefing, the use of tax offsets is a poorly targeted strategy that adds complexity to the tax system. The use of tax offsets to benefit low income taxpayers should be replaced by further assistance targeted through the transfer system.

This measure has been passed urgently by the Parliament, with the support of the opposition.

- **Fuel excise**

This has been halved until September 2022 as part of the cost of living package. The Act has already received Royal Assent.

The reduction of the Fuel Excise is expected to flow through the economy, reducing the costs of transport of goods as well as reducing the cost of petrol to households. However this is a short-sighted initiative. While giving temporary relief, it will slow down the rate of substitution of clean energy sources. There have been no equivalent incentives given to promote the use of electric vehicles.

This will be discussed further in the Climate Change paper.

- **COVID Rapid Antigen Tests**

These will be tax deductible from 1 July 2021 where they are connected to income earning activities.

- **Business Initiatives**

There are accelerated tax deductions available to small businesses for investment in digital technology, up to \$100,000 pa, and to provide training courses for employees. The training must be external to the organisation, and provided by an Australian entity. In our view there must be eligibility criteria to ensure that the training is accredited. The patent box regime to encourage innovation by Australian companies will also be extended; and there are changes to increase the amount that an employee can invest in employee share scheme arrangements.

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In our [pre-budget briefing on taxation](#) we raised a number of questions around priority policies for women that need to be addressed. Some of these are not budget matters. Of those that are, how effective was the budget response? Is there a corresponding Opposition measure?

**1. What measures are proposed, other than an annual extension of the Low and Middle Income Earners Tax Offset (LMITO), to ensure that the benefits of tax cuts flow through to lower income earners?**

There is no measure to replace the LMITO when it expires in July 2022.

**2. If tax offsets are used to provide tax benefits to lower income earners, will a delivery mechanism be implemented to allow the offset to be distributed through payroll instead of when tax returns are lodged?**

There was no change to the delivery mechanism. Recipients will need to wait until their income tax return has been processed to receive this amount. Noting that recipients of the Cost of Living Payment will receive this from April, this raises questions about the priority of payments for a person who may be eligible for both.

As noted in the election briefing document, there is no reason why these offsets cannot be delivered in real time as the technology now allows income levels to be monitored in real time.

**3. If elected, will your government commit to genuine tax reform and prioritisation of expenditure, in order to fund services that are in urgent need of additional resourcing, including the aged care and child care sectors and workforces?**

There is no commitment to tax reform in the budget. The ALP has abandoned proposals for tax reform that were part of the campaign agenda in 2019, including changes to negative gearing and franking credit reform. It agreed to pass the regressive stage three tax cuts.

**4. How will your government ensure that tax and transfer settings will no longer be a disincentive to women working extra days of work, but instead reward and improve women's full time workforce participation rate, contributing to higher GDP?**

There is no commitment in the Budget to reviewing the tax and transfer system to remove disincentives to work.

The Women's Budget Statement references the reforms to childcare that took effect in the 2021-22 year, specifically removing the annual cap on the child care subsidy and increasing the childcare rebate with two or more children using child care. However, this is not sufficient.

The ALP has committed to a National Strategy to Achieve Gender Equality. This must include tax and transfer reform with a plan to reduce disincentives to work.

- 5. Instead of treating the delivery of care as an expenditure burden that necessitates higher taxes, will your government acknowledge that adequately resourcing care services (childcare, aged care, disability care) is an investment in the productivity and participation rates of our workforce, and thereby largely pays for itself in terms of long-term fiscal strategy?**

There was no acknowledgement in the budget that social infrastructure increases productivity and participation rates.

The ALP has committed to support the work value case in the Aged Care sector, and to increase the level of child care subsidies for families earning less than \$530,000 pa.

Also refer to the Employment paper for further discussion.

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**Questions that still need to be raised in the run up to the election.**

**Reduction in Fuel Excise: Will your Government reinstate the fuel excise after September 2022, and what measures will you introduce to encourage the purchase and use of electric and other vehicles that are powered by clean energy sources?**