

Budget 2020 – Taxation: Individuals

Taxation: Individuals Overview

The changes to personal taxation consisted of:

- Increasing the tax thresholds for the two middle tax brackets;
- Increasing the Low Income Tax Offset (LITO) and
- Extending the Low and Middle Income Tax Offset (LMITO) until 30/6/2021.

For the year ended 30 June 2021 there is support for taxpayers earning less than \$90,000, but this support expires after the current tax year and is paid after the taxpayer submits their annual tax return. This will result in most of these taxpayers being significantly worse off in the 2021-2022 and following tax years.

The highest value of benefits is delivered to people earning more than \$120,000. These tax cuts do not expire after the 2020-21 year and provide higher levels of tax relief to higher income earners, who will receive the benefits in their take-home pay.

These changes have already been legislated, with the Bill passing the Senate on 8 October 2020.

Taxation: Individuals

The Budget

The Budget made a number of significant tax changes in respect of both personal and business taxation.

JobMaker Plan — bringing forward the Personal Income Tax Plan and retaining the low and middle income tax offset

Receipts (\$m)	2020-21	2021-22	2022-23	2023-24
Australian Taxation Office	-6,940.0	-16,870.0	5,730.0	250.0

The Government will bring forward the second stage of its Personal Income Tax Plan by two years to 1 July 2020 while retaining the low and middle income tax offset (LMITO) for 2020-21. The changes will provide immediate tax relief to individuals and support the economic recovery and jobs by boosting consumption.

Source: 2020 Budget Paper No 2, Budget Measures 2020-21 — Part 1: Receipt Measures p.18.

The individual tax changes are expected to stimulate the economy by increasing the disposable income of consumers.

The tax plan was announced in the 2017-18 budget as a three stage plan. Stage 1 was implemented, and further changes were introduced in the 2018-19 budget. Government analysis of the effect of the changes compares the proposed changes with pre 2018 tax rates.

Stage 1 introduced a tax offset to assist middle income earners, the Low and Middle Income Tax Offset (LMITO) which was due to be removed from July 2021 when the reduced tax thresholds were introduced.

The tax rates and offsets prior to the budget, were:

Pre 2018		STAGE 1 1 July 2018		STAGE 2 1 July 2022 Now 1 July 2020		STAGE 3 1 July 2024	
Income threshold	Tax rate	Income threshold	Tax rate	Income threshold	Tax rate	Income threshold	Tax rate
\$18,200	19%	\$18,200	19%	\$18,200	19%	\$18,200	19%
\$37,000	32.5%	\$37,000	32.5%	\$45,000	32.5%	\$45,000	30%
\$87,000	37%	\$90,000	37%	\$120,000	37%	\$200,000	45%
\$180,000	45%	\$180,000	45%	\$180,000	45%		

The Tax Offsets were:

	STAGE 1 1 July 2018		STAGE 2 1 July 2022 - Now 1 July 2020	
Low Income Tax Offset (LITO)	<\$37,000	\$445	< \$37,500	\$700
	\$37,001 - \$66,666	\$445 Phased out @ 1.5%	\$37,501 - \$45,000	\$700 phased out at 5%
	> \$66,666	nil	\$45,001 - \$66,666	\$700 phased out at 1.5%
			>\$66,667	nil
Low and Middle Income Tax Offset (LMITO)			Scheduled to end on 30 June 2020 Extended until 30 June 2021	
	<\$37,000	\$255	<\$37,000	\$255
	\$37,001 - \$48,000	\$255 + 7.5% of income over \$37,000	\$37,001 - \$48,000	\$255 + 7.5% of income over \$37,000
	\$48,001 - \$90,000	\$1,080	\$48,001 - \$90,000	\$1,080
	\$90,001 - \$126,000	\$1080 Phased out @ 3%	\$90,001 - \$126,000	\$1080 Phased out @ 3%
	>\$126,000	nil	>\$126,000	nil

The main difference between tax relief provided as a lower tax rate compared to a tax offset is that a tax offset is not refunded until the annual tax return is lodged whereas a reduction in the tax rate can be provided through a payroll adjustment. Tax offsets are also non-refundable so the value is limited to the amount of tax payable. The increase to the LITO raises the effective tax free threshold from \$18,200 to \$23,226.

The LMITO was originally designed to expire at the same time that the Stage 2 tax cuts came into effect. Retaining the LMITO for a further 12 months will provide a temporary tax boost to taxpayers earning less than the cut-off of \$126,000.

Supporting Older Australians — exempting granny flat arrangements from capital gains tax

The cost of this measure over the forward estimates cannot be reliably estimated

Source: 2020 Budget Paper No 2, Budget Measures 2020-21 — Part 1: Receipt Measures p.23

This measure is discussed in detail in the Housing section of this paper.

Philanthropy — updates to the list of specifically listed deductible gift recipients

Receipts (\$m)	2020-21	2021-22	2022-23	2023-24
Australian Taxation Office	..	-1.9	-1.8	-0.4

A number of philanthropic organisations have been added to the list of deductible gift recipients:

- Royal Agricultural Society Foundation Limited from 1 July 2020
- Judith Neilson Institute for Journalism and Ideas from 1 July 2020
- The Andy Thomas Space Foundation from 1 July 2020
- The Royal Humane Society of New South Wales from 1 July 2020
- Youthsafe from 1 July 2020
- Alliance for Journalists' Freedom from 1 July 2020
- The Great Synagogue Foundation Trust Fund from 1 July 2020 to 30 June 2025.

Source: 2020 Budget Paper No 2, Budget Measures 2020-21 — Part 1: Receipt Measures p.21-22

Privileges and Immunities — clarify income tax exemptions available to individuals engaged by the International Monetary Fund and the World Bank Group

The cost of this measure over the forward estimates cannot be reliably estimated

Source: 2020 Budget Paper No 2, Budget Measures 2020-21 — Part 1: Receipt Measures p.22

This measure grants income tax exemption to Australians working on short term projects for the IMF and World Bank, and is consistent with our international obligations.

Gender implications

Why is this an issue for women?

A reduction in the higher tax rates will benefit more men than women. Tax rates and systems are gender blind: they do not take account of gender. The gendered effect of tax cuts is a consequence of the gender pay gap that results in women being underrepresented in the higher income brackets.

Labour market participation rates are highly dependent on effective marginal tax rates ([Kalb, 2017](#)). The effective marginal tax rate takes account of the tax rate payable on an additional dollar of income and the rate at which social security benefits, such as the Family Tax Benefit, are withdrawn. In deciding whether to take on additional work the taxpayer will take into account

the effective marginal tax rate and additional child care costs to decide whether it is worth taking on the extra hours of work.

The latest tax data give a picture of the gender breakdown of individual tax returns in each of the tax brackets.

Percentage of 2017-18 year Individual Tax Returns in income brackets, by Gender.

Income Bracket	New tax rate	Female	Male	Total
\$18,200 or less	nil	10.56%	8.16%	18.72%
\$18,201 to \$45,000	19%	17.32%	13.02%	30.34%
\$45,000 to \$120,000	32.5%	18.23%	23.41%	41.64%
\$120,000 to \$180,000	37%	1.64%	4.30%	5.94%
Over \$180,000	45%	0.89%	2.46%	3.35%
		48.64%	51.36%	100%

Extracted from *Taxation Statistics 2017-18, Individuals Table 3A (updated 5 Aug 2020)* Data.gov.au

Note that this data does not reflect people who do not submit a tax return, for example pensioners or retirees may not earn enough taxable income to lodge a return.

The data show that women represent a far smaller proportion than men in the highest tax brackets, with less than 30% of taxpayers earning more than \$120,000 being women. While the difference is smaller in the middle tax rate of 32.5%, women, who submit fewer than half as many tax returns, make up more than half of people returning incomes under \$45,000.

Therefore when designing changes to the tax system, changes that benefit lower income earners will assist women more than men. It will increase the financial incentive to participate in the workforce as well as putting more cash in the purses of low income earners.

What are the 2020 Budget impacts on women?

Analysis of the changes incorporated in this budget shows that the benefits delivered in the 2021 year are significantly reduced in the following year for all except the highest 20% of income earners. Although 75% of Australians benefit in the 2020-21 year either through the tax changes or through the coronavirus supplements payable to eligible welfare recipients, this drops significantly in the 2021-22 year when the LMITO and supplements are withdrawn. Taxpayers earning over \$120,000 will receive a permanent tax cut of \$2,430 pa.

Women will receive 40% of the tax benefits in the 2020-21 year, dropping to 31% of the benefits in the 2021-22 year.

Lower and middle income earners, who are predominately female, will receive their benefit as a tax offset that is delivered as a refund after the end of the financial year. The boost to take-home pay for people earning between \$45,000 and \$87,000, which constituted 63% of taxpayers in 2017-18, will be \$360 per annum or about \$7 per week from lower tax rates, with the balance of \$1,080 delivered after the end of the 2020-2021 financial year as a tax offset.

The extension of the LMITO has directed additional relief to middle income earners, however the timing of the tax offset does not achieve the goal of stimulating the economy through increased consumer spending, and recipients will be worse off after it is withdrawn.

Taxpayers earning more than \$120,000, who are predominately male, will be entitled to a tax cut of \$2,430 pa, or \$47 pw. This can be received in their take-home pay through an adjustment to tax withholding rates, and will not expire at 30 June 2021.

The structure of the 2020 tax relief package suffers from the same problems that NFAW identified in the 2017-18 Gender Lens when the package was introduced.

Recommendations

NFAW recommends that

- Tax offsets for low- and middle-income earners should be converted to a transfer payment available in conjunction with other payments, instead of being delivered through the tax system.
- If delivered through the tax system, the tax offset component of tax relief should be delivered to wage earners in their take home pay through an adjustment to tax withholding rates.
- The benefit currently delivered as the Low and Middle Income Tax Offset must be continued past 30 June 2021, either as real tax cuts or as a transfer payment.