

IMPACT OF REMOVAL OF THE LOW-MIDDLE INCOME TAX OFFSET

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Our assessment of the combined personal tax, rebate and JobSeeker reforms include combined and separate impacts of the following changes to the tax-transfer system over the 2020-21 and 2021-22 financial years relative to a base year (2019-20). These include:

- Bringing forward Stage 2 of the Personal Tax Plan to 2020-21, which includes:
 - Changes to income tax brackets: raising the thresholds of the 19%, 32.5% and 37% tax brackets;
 - Increasing the Low Income Tax Offset (LITO) from \$445 to \$700 (up \$255) coupled with changes to the thresholds and withdrawal tapers;
 - Removal of the \$1,080 Low and Medium Income Tax Offset (LMITO) from 2021-22.
- Reduction of the JobSeeker COVID-19 supplement in September 2020;
- Withdrawal of the JobSeeker COVID-19 supplement in December 2020.

This brief provides analysis of changes in taxable income in 2019-20, 2020-21 and 2021-22. Analysis with and without JobSeeker is provided.

Impact of changes for selected earnings

The impact of changes to the tax system including changes to income bracket thresholds, the LITO and LMITO across various individual wages and salaries shows greater benefits towards higher earners (**Figure 1 & Table 1**)

Higher earners – those earning \$120,000 or \$180,000 benefit by \$2,430 per year in 2020-21 compared to 2019-20. There is little difference in changes to net incomes for these earners in 2020-22 compared to 2020-21.

Low-middle income earners (those earning between \$45,000 and \$90,000) gain by \$1,080 in 2020-21 compared to 2019-20. This is driven entirely by changes to the second tax threshold¹ from \$37,000 to \$45,000 and aligns with the LMITO amount.

The removal of the LMITO in 2021-22 will see a loss of the same amount (\$1,080) for people with taxable income between \$48,000 and \$90,000.

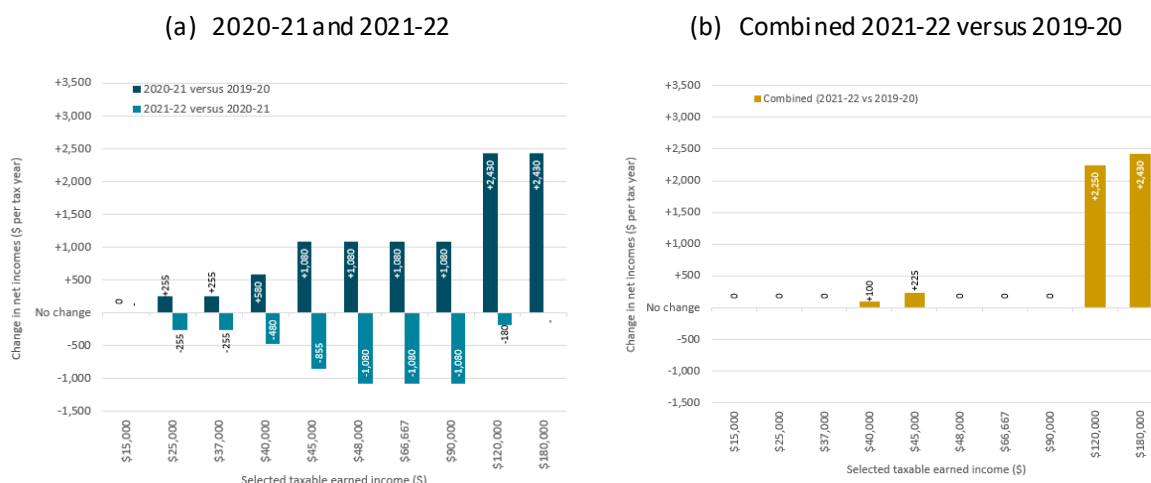
Effectively the removal of the LMITO in 2021-22 and changes to the tax thresholds cancel each other out for anyone earning between \$48,000 and \$90,000. This constitutes nearly 3.4 million tax payers of which 50% are women. Tax payers in these income ranges will be no better off than they were in 2019-20.

Higher income earners on the other hand retain gains of over \$2,430 in 2021-22. This gain is driven by changes to the threshold in the second and third tax brackets². This constitutes nearly 3.6 million tax payers of which a third (32.3%) are women.

¹ The calculation is $[45,000-37,000] \times [0.325-0.19] = \$1,080$

² The calculation is $[45,000-37,000] \times [0.325-0.19] + [120,000-90,000] \times [0.37-0.325] = \$1,080 + \$1,350$

Figure 1: Average annual net income changes (excluding JobSeeker single) by selected taxable earned incomes: 2019-20 to 2021-22



Notes: See Table 1.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors’ calculations from the EVITA tax policy evaluation model

Table 1: Changes in net incomes (excluding JobSeeker single) by tax and rebate component and selected taxable earned incomes: 2019-20 to 2021-22

Taxable income	Net Income			Personal income tax		
	2020-21 versus 2019-20	2021-22 versus 2020-21	Combined (2021-22 vs 2019-20)	2020-21 versus 2019-20	2021-22 versus 2020-21	Combined (2021-22 vs 2019-20)
\$15,000	-	-	-	-	-	-
\$25,000	+255	-255	-	-	-	-
\$37,000	+255	-255	-	-	-	-
\$40,000	+580	-480	+100	-405	-	-405
\$45,000	+1,080	-855	+225	-1,080	-	-1,080
\$48,000	+1,080	-1,080	-	-1,080	-	-1,080
\$66,667	+1,080	-1,080	-	-1,080	-	-1,080
\$90,000	+1,080	-1,080	-	-1,080	-	-1,080
\$120,000	+2,430	-180	+2,250	-2,430	-	-2,430
\$180,000	+2,430	-	+2,430	-2,430	-	-2,430

Taxable income	Low Income Tax Offset (LITO)			Low and Middle Income Tax Offset (LMITO)		
	2020-21 versus 2019-20	2021-22 versus 2020-21	Combined (2021-22 vs 2019-20)	2020-21 versus 2019-20	2021-22 versus 2020-21	Combined (2021-22 vs 2019-20)
\$15,000	+255	-	+255	+700	-255	+700
\$25,000	+255	-	+255	+700	-255	+700
\$37,000	+255	-	+255	+700	-255	+700
\$40,000	+175	-	+175	+575	-175	+575
\$45,000	-	-	-	+325	-	+325
\$48,000	-	-	-	+280	-	+280
\$66,667	-	-	-	-	-	-
\$90,000	-	-	-	-	-	-
\$120,000	-	-	-	-	-	-
\$180,000	-	-	-	-	-	-

Notes: LMITO, LITO and Beneficiary Tax Rebate are all non-refundable, which means that the collective contribution of offsets and rebates to net income are capped at the level of personal income tax payable. Case studies are presented for different levels of taxable income. Medicare Levy Surcharge not included.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors’ calculations from the EVITA tax policy evaluation model

Share of total tax benefit

The total net tax benefit can be calculated as the total value of personal income tax reforms, net of benefits from tax offsets (LMITO, LITO, Beneficiary Tax Rebate and SAFTO).

The net tax benefit from bringing forward the Personal Tax Plan Phase 2, together with reforms to the Low Income Tax Offset (LITO) from 2020-21 and abolition of the Low and Middle Income Tax offset (LMITO) from 2021-22, amounts to around **\$7.38 billion (Table 2)**.

Nearly 90% of the total benefit from these reforms accrues to those with taxable earnings above \$90,000. Around 67.5% of the total tax benefit (**\$4.98 billion**) accrues to men, and 32.5% to women (**\$2.40 billion**).

Around 8.7% of the total tax benefit accrues to those with taxable incomes between \$37,000 and \$66,667, and stems from the threshold increase from \$37,000 to \$45,000, coupled with the misalignment of LITO/LMITO thresholds.

Table 2: Share of total benefit from Personal Tax Plan Stage 2, and LITO and LMITO tax offsets: 2021-22 compared to 2019-20, by gender taxable income range

Taxable income range	Share of total benefit from Personal Tax Plan Stage 2 and reforms to tax offsets		
	Men	Women	Persons
	%	%	%
Less than \$25K	0.0%	0.0%	0.0%
\$25K-\$37K	0.0%	0.0%	0.0%
\$37K-\$45K	0.6%	1.1%	1.7%
\$45K-\$48K	0.4%	0.7%	1.1%
\$48K-\$66.67K	2.7%	3.2%	5.9%
\$66.67K-\$90K	1.2%	1.2%	2.4%
\$90K-\$120K	11.9%	8.9%	20.8%
\$120K-\$180K	29.9%	12.3%	42.2%
\$180K and above	21.0%	5.2%	26.2%
All	67.5%	32.5%	100%
	\$bn	\$bn	\$bn
Total tax benefit	4.98	2.40	7.38

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from the EVITA tax policy evaluation model

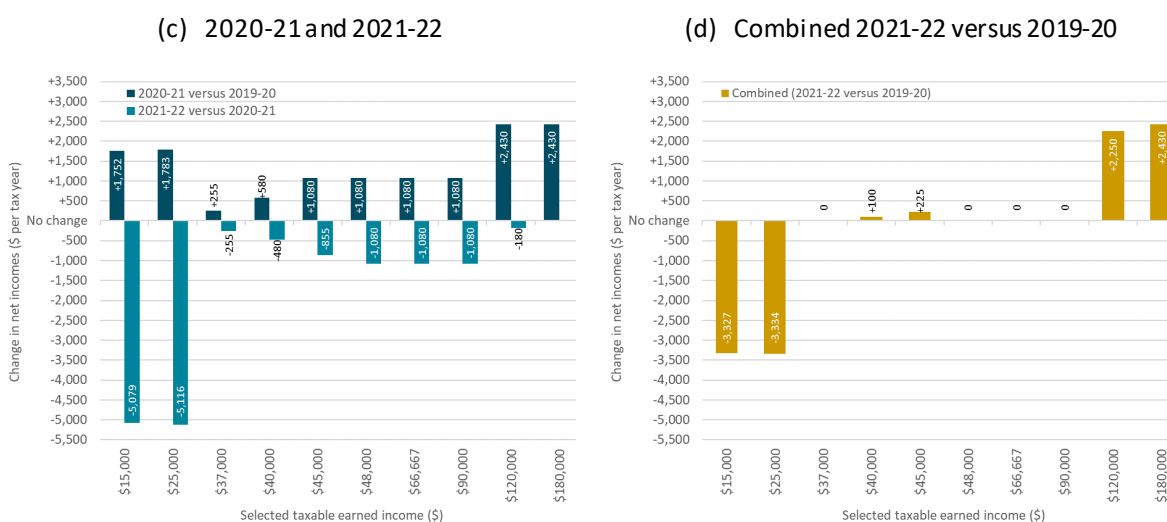
Impact including JobSeeker

JobSeeker is an allowance and therefore classified as taxable income and include in any changes to the tax system. People receiving JobSeeker can retain the payment while earning wages and salaries and other forms of income. For example, singles without children can earn up to \$1,257.50 per fortnight and receive some JobSeeker allowance.

By including JobSeeker (+supplement) in our analysis, the impact on low income earners is more severe in terms of loss in taxable income over time (**Figure 2**). For example, those earning \$25,000 per year improve their taxable income by \$1,783 in 2020-21 compared to 2019-20. However in 2021-22 they stand to lose just over \$5,116. This is primarily driven by removal of the JobSeeker COVID supplement.

The combined effects of changes in 2020-21 and 2021-22 are illustrated in **Figure 2 (d)**. Lower income earners face a significant reduction in their taxable income over the two years relative to 2019-20. Low-middle income earners are generally no better off when combining the two financial years, whereas higher earners face substantial net gains.

Figure 2: Average annual net income changes (including JobSeeker single) by selected taxable earned incomes: 2019-20 to 2021-22



Notes: See Table 3.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from the EVITA tax policy evaluation model

Table 3: Changes in net incomes (including JobSeeker single) by tax and rebate component and selected taxable earned incomes: 2019-20 to 2021-22

	Net Income			Personal income tax		
	2020-21 versus 2019-20	2021-22 versus 2020-21	Combined (2021-22 vs 2019-20)	2020-21 versus 2019-20	2021-22 versus 2020-21	Combined (2021-22 vs 2019-20)
Taxable income	\$	\$	\$	\$	\$	\$
\$15,000	+1,752	-5,079	-3,327	+309	-1,031	-723
\$25,000	+1,783	-5,116	-3,334	+309	-1,031	-723
\$37,000	+255	-255	-	-	-	-
\$40,000	+580	-480	+100	-405	-	-405
\$45,000	+1,080	-855	+225	-1,080	-	-1,080
\$48,000	+1,080	-1,080	-	-1,080	-	-1,080
\$66,667	+1,080	-1,080	-	-1,080	-	-1,080
\$90,000	+1,080	-1,080	-	-1,080	-	-1,080
\$120,000	+2,430	-180	+2,250	-2,430	-	-2,430
\$180,000	+2,430	-	+2,430	-2,430	-	-2,430
	Low Income Tax Offset (LITO)			Low and Middle Income Tax Offset (LMITO)		
	2020-21 versus 2019-20	2021-22 versus 2020-21	Combined (2021-22 vs 2019-20)	2020-21 versus 2019-20	2021-22 versus 2020-21	Combined (2021-22 vs 2019-20)
Taxable income	\$	\$	\$	\$	\$	\$
\$15,000	+255	-	+255	+700	-255	+700
\$25,000	+255	-	+255	+700	-255	+700
\$37,000	+255	-	+255	+700	-255	+700
\$40,000	+175	-	+175	+575	-175	+575
\$45,000	-	-	-	+325	-	+325
\$48,000	-	-	-	+280	-	+280
\$66,667	-	-	-	-	-	-
\$90,000	-	-	-	-	-	-
\$120,000	-	-	-	-	-	-
\$180,000	-	-	-	-	-	-
	JobSeeker (single)			Beneficiary Tax Rebate		
	2020-21 versus 2019-20	2021-22 versus 2020-21	Combined (2021-22 vs 2019-20)	2020-21 versus 2019-20	2021-22 versus 2020-21	Combined (2021-22 vs 2019-20)
Taxable income	\$	\$	\$	\$	\$	\$
\$15,000	+1,625	-5,429	-3,804	+244	-814	-571
\$25,000	+1,625	-5,429	-3,804	+244	-573	-329
\$37,000	-	-	-	-	-	-
\$40,000	-	-	-	-	-	-
\$45,000	-	-	-	-	-	-
\$48,000	-	-	-	-	-	-
\$66,667	-	-	-	-	-	-
\$90,000	-	-	-	-	-	-
\$120,000	-	-	-	-	-	-
\$180,000	-	-	-	-	-	-

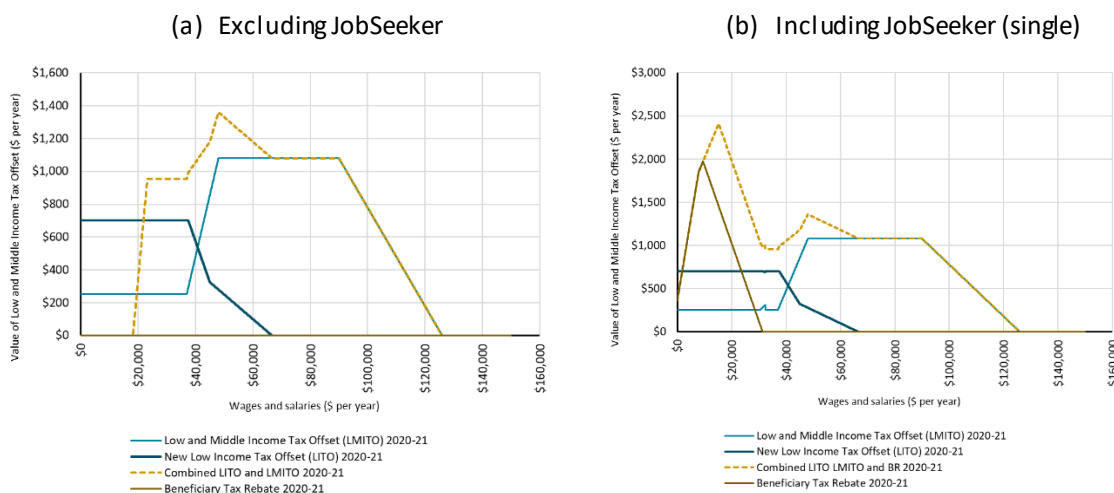
Notes: LMITO, LITO and Beneficiary Tax Rebate are all non-refundable, which means that the collective contribution of offsets and rebates to net income are capped at the level of personal income tax payable. Case studies are presented for different levels of taxable earned income (excluding JobSeeker payments) assuming no other sources of taxable income. The value of taxable income used to assess personal tax liabilities, rebates and offsets includes JobSeeker payments whenever eligible. Medicare Levy Surcharge is not included.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from the EVITA tax policy evaluation model

LITO & LMITO Design + Effective Marginal Tax Rates: JobSeeker excluded & included

The designs of the LITO and LMITO with and without JobSeeker are illustrated in Figure 3. The new \$700 LITO for 2020-21 is a “clunky” design, with two withdrawal tapers at 5 per cent of taxable income from \$37,500 to \$45,000, and 1.5 per cent thereafter until it ceases at \$66,667. This design creates a steeper effective marginal tax rate and is amplified when JobSeeker is added and the Beneficiary Tax Rebate comes into scope.

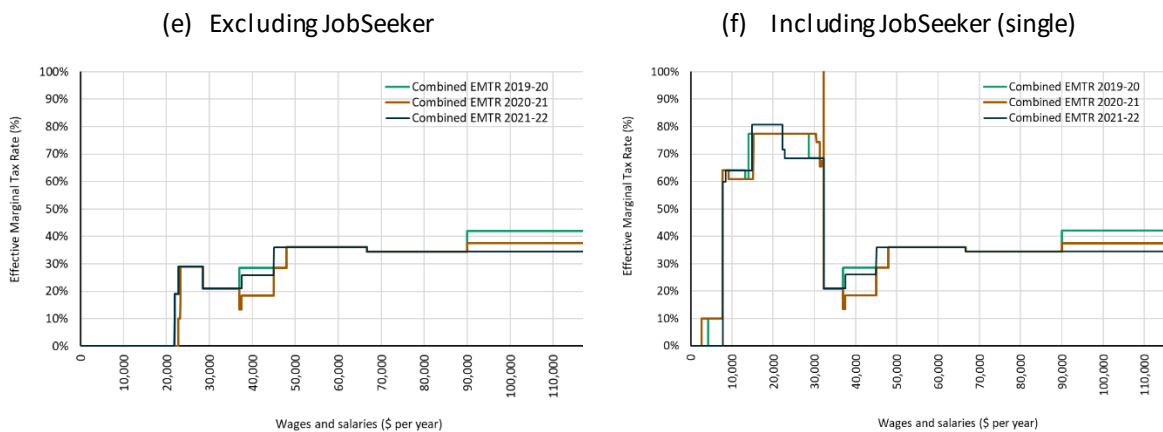
Figure 3: Low Income Tax Offset (LITO), Low and Middle Income Tax Offset (LMITO) and Beneficiary Tax Rebate combined: 2020-21



Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors’ calculations from the EVITA tax policy evaluation model

The combined Effective Marginal Tax Rates (EMTRs) including and excluding JobSeeker are shown in Figure 4. The inclusion of JobSeeker reveals a significant elevation in marginal tax rates among lower income individuals. Those earning between \$7,800 and \$32,000 face EMTRs of more than 60 per cent and a significant cliff at the point at which JobSeeker is removed entirely. EMTRs progressively decrease for those earning between \$90,000 per and \$110,000 per year, with changes to the tax thresholds lowering this amount.

Figure 4: Combined Effective Marginal Tax Rates by taxable earnings: 2019-20 to 2021-22



Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors’ calculations from the EVITA tax policy evaluation model

APPENDIX: Detailed tax and rebate calculations

Table 4: Net incomes by component (including JobSeeker) for selected taxable earned incomes: 2019-20 to 2021-22

(a) 2019-20 taxyear

	Net Income 2019-20	Personal income tax liability 2019-20	Marginal income tax rate 2019-20	Medicare low income levy liability 2019-20	Marginal medicare tax rate 2019-20	LMITO 2019-20	LMITO taper 2019-20	LITO 2019-20	LITO taper 2019-20	JobSeeker 2019-20	JobSeeker taper 2019-20	Beneficiary Tax Rebate 2019-20	Marginal Beneficiary Tax Rebate taper rate 2019-20	Combined EMTR 2019-20
Taxable income	\$	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	%
\$15,000	28,448.48	2,088.48	7.6%	583.84	0.8%	255.00	0.0%	445.00	0.0%	14,192.00	60.0%	1,228.80	9.0%	77.4%
\$25,000	30,708.48	2,848.48	7.6%	663.84	0.8%	255.00	0.0%	445.00	0.0%	8,192.00	60.0%	328.80	9.0%	77.4%
\$37,000	33,388.00	3,572.00	32.5%	740.00	2.0%	255.00	-7.5%	445.00	1.5%	0.00	0.0%	0.00	0.0%	28.5%
\$40,000	35,533.00	4,547.00	32.5%	800.00	2.0%	480.00	-7.5%	400.00	1.5%	0.00	0.0%	0.00	0.0%	28.5%
\$45,000	39,108.00	6,172.00	32.5%	900.00	2.0%	855.00	-7.5%	325.00	1.5%	0.00	0.0%	0.00	0.0%	28.5%
\$48,000	41,253.00	7,147.00	32.5%	960.00	2.0%	1,080.00	0.0%	280.00	1.5%	0.00	0.0%	0.00	0.0%	36.0%
\$66,667	53,199.95	13,213.81	32.5%	1,333.34	2.0%	1,080.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	34.5%
\$90,000	68,483.00	20,797.00	37.0%	1,800.00	2.0%	1,080.00	3.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	42.0%
\$120,000	85,883.00	31,897.00	37.0%	2,400.00	2.0%	180.00	3.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	42.0%
\$180,000	122,303.00	54,097.00	45.0%	3,600.00	2.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	47.0%

(b) 2020-21 taxyear

	Net Income 2020-21	Personal income tax liability 2020-21	Marginal income tax rate 2020-21	Medicare low income levy liability 2019-20	Marginal medicare tax rate 2019-20	LMITO 2020-21	LMITO taper 2020-21	LITO 2020-21	LITO taper 2020-21	JobSeeker 2020-21	JobSeeker taper rate 2020-21	Beneficiary Tax Rebate 2020-21	Marginal Beneficiary Tax Rebate taper rate 2020-21	Combined EMTR 2020-21
Taxable income	\$	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	%
\$15,000	30,200.66	2,397.23	7.6%	616.34	0.8%	255.00	0.0%	700.00	0.0%	15,817.00	60.0%	1,472.55	9.0%	60.8%
\$25,000	32,490.98	3,157.23	7.6%	696.34	0.8%	255.00	0.0%	700.00	0.0%	9,817.00	60.0%	572.55	9.0%	77.4%
\$37,000	33,643.00	3,572.00	19.0%	740.00	2.0%	255.00	-7.5%	700.00	0.0%	0.00	0.0%	0.00	0.0%	13.5%
\$40,000	36,113.00	4,142.00	19.0%	800.00	2.0%	480.00	-7.5%	575.00	5.0%	0.00	0.0%	0.00	0.0%	18.5%
\$45,000	40,188.00	5,092.00	32.5%	900.00	2.0%	855.00	-7.5%	325.00	1.5%	0.00	0.0%	0.00	0.0%	28.5%
\$48,000	42,333.00	6,067.00	32.5%	960.00	2.0%	1,080.00	0.0%	280.00	1.5%	0.00	0.0%	0.00	0.0%	36.0%
\$66,667	54,279.95	12,133.81	32.5%	1,333.34	2.0%	1,080.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	34.5%
\$90,000	69,563.00	19,717.00	32.5%	1,800.00	2.0%	1,080.00	3.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	37.5%
\$120,000	88,313.00	29,467.00	37.0%	2,400.00	2.0%	180.00	3.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	42.0%
\$180,000	124,733.00	51,667.00	45.0%	3,600.00	2.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	47.0%

(c) 2021-22 taxyear

	Net Income 2021-22	Personal income tax liability 2021-22	Marginal income tax rate 2021-22	Medicare low income levy liability 2021-22	Marginal medicare tax rate 2021-22	LMITO 2021-22	LMITO taper 2021-22	LITO 2021-22	LITO taper 2021-22	JobSeeker 2021-22	JobSeeker taper rate 2021-22	Beneficiary Tax Rebate 2021-22	Marginal Beneficiary Tax Rebate taper rate 2021-22	Combined EMTR 2021-22
Taxable income	\$	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	%
\$15,000	25,121.85	1,365.76	7.6%	258.82	4.0%	0.00	0.0%	700.00	0.0%	10,388.20	60.0%	658.23	9.0%	80.6%
\$25,000	27,374.68	2,125.76	7.6%	587.76	0.8%	0.00	0.0%	700.00	0.0%	4,388.20	60.0%	0.00	0.0%	68.4%
\$37,000	33,388.00	3,572.00	19.0%	740.00	2.0%	0.00	0.0%	700.00	0.0%	0.00	0.0%	0.00	0.0%	21.0%
\$40,000	35,633.00	4,142.00	19.0%	800.00	2.0%	0.00	0.0%	575.00	5.0%	0.00	0.0%	0.00	0.0%	26.0%
\$45,000	39,333.00	5,092.00	32.5%	900.00	2.0%	0.00	0.0%	325.00	1.5%	0.00	0.0%	0.00	0.0%	36.0%
\$48,000	41,253.00	6,067.00	32.5%	960.00	2.0%	0.00	0.0%	280.00	1.5%	0.00	0.0%	0.00	0.0%	36.0%
\$66,667	53,199.95	12,133.81	32.5%	1,333.34	2.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	34.5%
\$90,000	68,483.00	19,717.00	32.5%	1,800.00	2.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	34.5%
\$120,000	88,133.00	29,467.00	37.0%	2,400.00	2.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	39.0%
\$180,000	124,733.00	51,667.00	45.0%	3,600.00	2.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	47.0%

Notes: LMITO, LITO and Beneficiary Tax Rebate are all non-refundable, which means that the collective contribution of offsets and rebates to net income are capped at the level of personal income tax payable. Case studies are presented for different levels of taxable earned income (excluding JobSeeker payments) assuming no other sources of taxable income. JobSeeker entitlements are based on the payment rate for single people, with an income test based on taxable rebatable earned income. The value of taxable income used in the assessment of personal tax liabilities, rebates and offsets includes JobSeeker payments whenever eligible. Medicare Levy Surcharge not included.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from the EVITA tax policy evaluation model