

## EXTENDING THE LOW AND MIDDLE INCOME TAX OFFSET BEYOND 2020-21

### Rebecca Cassells and Alan Duncan

The Federal Budget 2020-21 introduced a set of amendments to the Personal Income Tax Plan announced in the previous 2019-20 budget, with the intention to stimulate the economy and reduce the burden of taxation felt by individuals.

Specifically, the additional measures in Federal Budget 2020-21 (Budget Paper No.1) included:

- Bringing forward Stage 2 of the Personal Income Tax Plan to 2020-21:
  - Raising the upper threshold of the 19% tax rate (and lower threshold of the 32.5% tax rate) from \$37,000 to \$45,000;
  - Raising the upper thresholds of the 32.5% tax rate (and lower threshold of the 37% tax rate) from \$90,000 to \$120,000;
  - Increasing the Low Income Tax Offset (LITO) from \$445 to \$700 coupled with changes to the LITO thresholds and withdrawal tapers;
  - Extending the \$1,080 Low and Medium Income Tax Offset (LMITO) to 2020-21, with its removal deferred to 2021-22.

Stage 3 of the Personal Income Tax Plan remains in place from 2024-25, comprising the removal of the 37% income tax rate; the reduction of the 32.5% tax rate to 30%; and an increase in the upper threshold of the new 30% rate (and lower threshold of the 45% rate) from \$180,000 to \$200,000.

This note assesses the combined impacts on net incomes of personal taxation and tax offset changes from 2021-22 through to 2024-25 financial years relative to 2020-21 as the reference year.

JobSeeker payments, other pensions and allowance entitlements, and family payments are excluded from the analysis, along with any projected real wage increases.

From these results, we can infer the impact on individuals' net incomes of an extension to the LMITO over the three years from 2021-22 to 2023-24.

This Briefing Note also compares the estimated impact of the LMITO removal on women and men.

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### Distributional impacts

- The effects of tax measures on net annual incomes from 2019-20 through to 2024-25 (including changes to income tax rates and thresholds, the LITO and LMITO) are shown in **Table 1** for selected levels of taxable income.
- **Changes** in net annual incomes from the combination of measures listed above for selected taxable incomes are shown in **Table 2**, expressed relative to a base 2020-21 financial year.
- The withdrawal of the LMITO from 2021-22 onwards will lead to an **increase** of \$1,080 in net taxes paid for people with taxable income between \$48,000 and \$90,000 (**Table 2**). This constitutes nearly 3.4 million tax payers of which 50% are women.
- These losses would be **eliminated** if the LMITO were to be extended from 2021-22 through to 2023-24. This would cost **around \$7.2bn per year**.
- Those earning \$126,000 or more drew no financial benefit from the LMITO, and will be unaffected by its withdrawal in 2021-22.
- The financial benefits from Stage 3 of the Personal Income Tax Plan fall disproportionately on those with annual incomes above \$120,000, and particularly above \$180,000 (**Figure 1**).

**Table 1:** Net annual incomes after bringing forward the Personal Income Tax Plan Stage 2 to 2020-21: by selected taxable incomes, 2019-20 to 2024-25

Taxable income	Net annual income (\$)					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	\$	\$	\$	\$	\$	\$
\$40,000	35,533	36,113	35,633	35,633	35,633	35,633
\$50,000	42,533	43,613	42,533	42,533	42,533	42,658
\$60,000	48,933	50,013	48,933	48,933	48,933	49,308
\$70,000	55,383	56,463	55,383	55,383	55,383	56,008
\$80,000	61,933	63,013	61,933	61,933	61,933	62,808
\$90,000	68,483	69,563	68,483	68,483	68,483	69,608
\$100,000	74,283	75,813	75,033	75,033	75,033	76,408
\$110,000	80,083	82,063	81,583	81,583	81,583	83,208
\$120,000	85,883	88,313	88,133	88,133	88,133	90,008
\$150,000	104,003	106,433	106,433	106,433	106,433	110,408
\$200,000	132,903	135,333	135,333	135,333	135,333	144,408
\$250,000	159,403	161,833	161,833	161,833	161,833	170,908
<b>PITP Phase 1 (2019-20)</b>						
<i>Personal income tax</i>						
0 to \$18,200	Zero					
\$18,201 to \$37,000	19.0%					
<b>\$37,001 to \$90,000</b>	<b>32.5%</b>					
\$90,001 to \$180,000	37.0%					
More than \$180,000	45.0%					
<b>LMITO maximum</b>	<b>\$1,080</b>					
LITO maximum	\$445					
<b>Amended PITP Phase 2 (2020-21 to 2023-24)</b>						
<i>Personal income tax</i>						
0 to \$18,200	Zero	Zero	Zero	Zero	Zero	Zero
<b>\$18,201 to \$45,000</b>	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
<b>\$45,001 to \$120,000</b>	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%
<b>\$120,001 to \$180,000</b>	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
More than \$180,000	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
<b>LMITO maximum</b>	<b>\$1,080</b>	-	-	-	-	-
<b>LITO maximum</b>	<b>\$700</b>	<b>\$700</b>	<b>\$700</b>	<b>\$700</b>	<b>\$700</b>	<b>\$700</b>
<b>PITP Phase 3 (2024-25)</b>						
<i>Personal income tax</i>						
0 to \$18,200	Zero					
\$18,201 to \$45,000	19.0%					
<b>\$45,001 to \$200,000</b>	<b>30.0%</b>					
<b>More than \$200,000</b>	<b>45.0%</b>					
LMITO maximum	-					
LITO maximum	\$700					

**Notes:** Reform elements for each phase of the Personal Income Tax Plan are highlighted in green. The LMITO and LITO are both refundable tax offsets, so that the maximum combined LMITO/LITO payment can only offset tax actually paid. Modelling incorporates the revised timings of Personal Tax Plan as announced in the Federal Budget 2020-21 (Budget Paper No.1). The calculations of net annual incomes includes personal income taxes, the Medicare Levy (excluding surcharges), the Low Income Tax Offset (LITO) and the Low and Middle Income Tax Offset (LMITO), but excludes JobSeeker payments and other pensions, allowances and family payments.

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

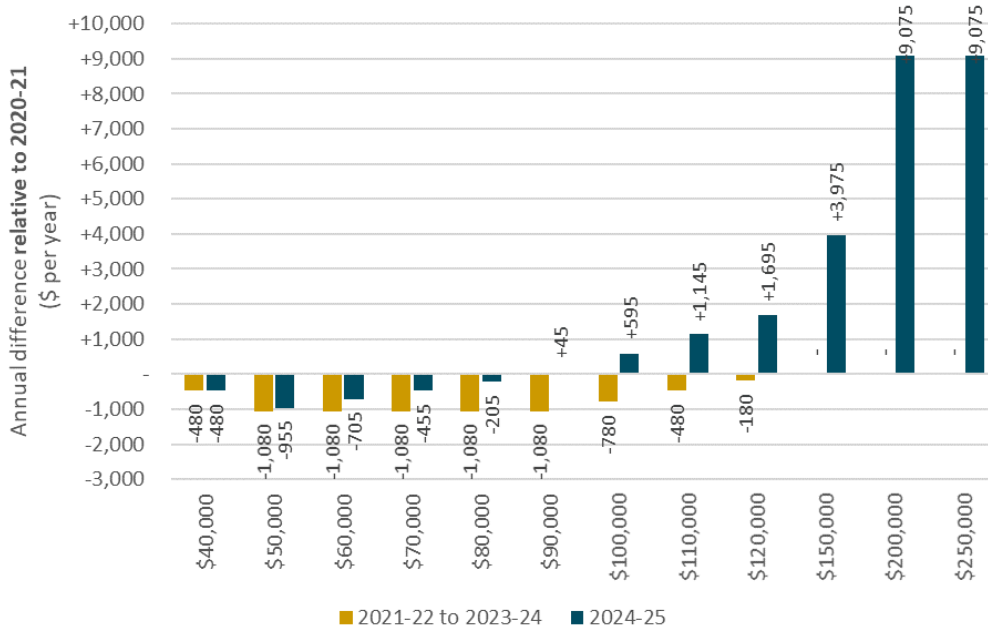
**Table 2:** Changes in annual net incomes by selected taxable incomes: 2021-22 to 2024-25, relative to 2020-21

Taxable income	Changes to annual net incomes			
	2021-22	2022-23	2023-24	2024-25
	versus 2020-21	versus 2020-21	versus 2020-21	versus 2020-21
	\$	\$	\$	\$
\$40,000	-480	-480	-480	-480
\$50,000	-1,080	-1,080	-1,080	-955
\$60,000	-1,080	-1,080	-1,080	-705
\$70,000	-1,080	-1,080	-1,080	-455
\$80,000	-1,080	-1,080	-1,080	-205
\$90,000	-1,080	-1,080	-1,080	+45
\$100,000	-780	-780	-780	+595
\$110,000	-480	-480	-480	+1,145
\$120,000	-180	-180	-180	+1,695
\$150,000	-	-	-	+3,975
\$200,000	-	-	-	+9,075
\$250,000	-	-	-	+9,075

**Notes:** Modelling incorporates the revised timings of Personal Tax Plan as announced in the Federal Budget 2020-21 (Budget Paper No.1). The calculations of net annual incomes and effective marginal tax rates includes personal income taxes, the Medicare Levy (excluding surcharges), the Low Income Tax Offset (LITO) and the Low and Middle Income Tax Offset (LMITO), but excludes JobSeeker payments and other pensions, allowances and family payments. The maximum combined LMITO/LITO payment can only offset tax actually paid.

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

**Figure 1:** Average annual net income changes by selected taxable incomes: 2019-20 to 2021-22



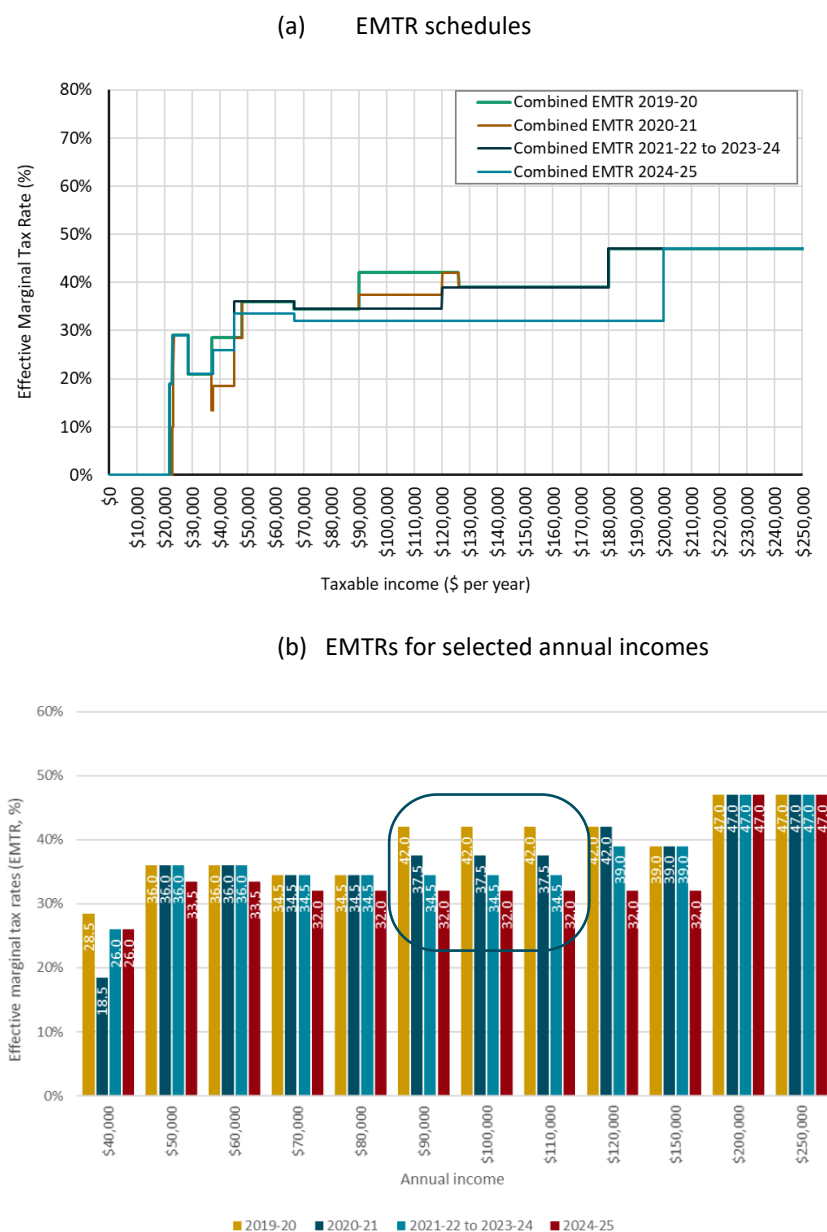
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## Effects on effective marginal tax rates

- Withdrawal of the LMITO will **raise** effective marginal tax rates from 18.5% to 26% for those on incomes of \$40,000.
- Stage 2 and 3 of the Personal Income Tax Plan reduces effective marginal tax rates most for those on annual incomes of between \$90,000 and \$120,000 (circled in **Figure 2** panel b).

**Figure 2:** Effective marginal tax rates by taxable incomes: 2019-20 to 2021-22



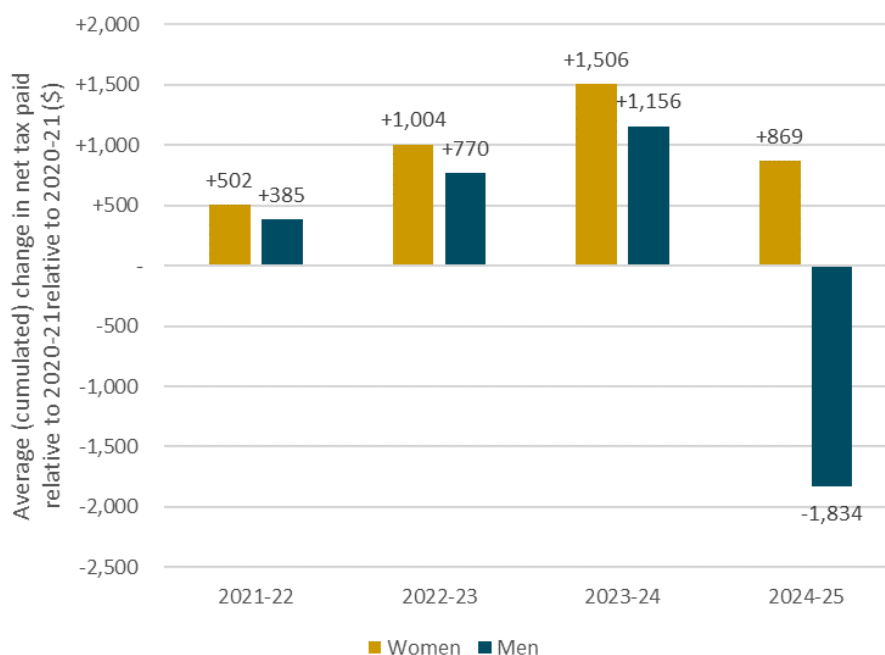
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## Impact of LMITO withdrawal by gender

- Of the 13 million workers in Australia, around 6.17 million (47%) are women and 6.83 million are men. Men are far more likely to work full-time (5.49 million) compared to the number of women working full-time (3.4 million).
- The withdrawal of LMITO from 2021-22 will disproportionately affect women, who will face an average increase in taxes paid of **\$502 per year** (current prices) from 2021-22 to 2023-24, relative to 2020-21.
- For men, the average annual increase in taxes paid will be lower, at around **\$385 per year**.
- Net taxes paid by women will fall by an average of **\$637 per year** (relative to 2020-21) once Stage 3 of the Personal Income Tax Plan is introduced in 2024-25.
- This compares to an average reduction of **\$2,989 per year** in net taxes paid by men from 2024-25 onwards, compared to 2020-21.
- The cumulative increases in net taxes paid amount to **\$1,506 for women** by 2023-24, compared to **\$1,156 for men** (Figure 3).
- These tax increases would be eliminated if LMITO were to be extended for three years from 2021-22 to 2023-24, at an **annual cost of around \$7.2 billion**.

**Figure 3:** Effect of LMITO removal on cumulative taxes paid: 2021-22 to 2024-25 relative to 2020-21



**Notes:** Modelling incorporates the revised timings of Personal Tax Plan as announced in the Federal Budget 2020-21 (Budget Paper No.1). The calculations of effective marginal tax rates includes personal income taxes, the Medicare Levy (excluding surcharges), the Low Income Tax Offset (LITO) and the Low and Middle Income Tax Offset (LMITO), but excludes JobSeeker payments and other pensions, allowances and family payments. The maximum combined LMITO/LITO payment can only offset tax actually paid.

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