Clean Energy (Income Tax Rates Amendments) Bill 2011
Clean Energy (Tax Laws Amendments) Bill 2011

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Economics Section

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Clean Energy (Income Tax Rates Amendments) Bill 2011

Clean Energy (Tax Laws Amendments) Bill 2011

Date introduced: 13 September 2011
House: House of Representatives
Portfolio: Treasury

Commencement: The amendments in Part 1 of Schedule 1 to the Clean Energy (Income Tax Rates Amendments) Bill 2011, together with the amendments in Part 1 of Schedule 1 and in Schedules 2 and 3 to the Clean Energy (Tax Laws Amendments) Bill 2011, will come into effect on the later of 1 July 2012 or the commencement of the Clean Energy Legislative Package.

The amendments in Part 2 of Schedule 1 to the Clean Energy (Income Tax Rates Amendments) Bill 2011, together with the amendments in Part 2 of Schedule 1 to the Clean Energy (Tax Laws Amendments) Bill 2011, will come into effect on the later of 1 July 2015 or the commencement of the Clean Energy Legislative Package.

Links: The links to the Bills, the Explanatory Memorandum and second reading speech can be found on the relevant Bill’s home page: Clean Energy (Income Tax Rates Amendments) Bill 2011 and Clean Energy (Tax Laws Amendments) Bill 2011, or through http://www.aph.gov.au/bills/. When Bills have been passed and have received Royal Assent, they become Acts, which can be found at the ComLaw website at http://www.comlaw.gov.au/.

Purpose

The Clean Energy (Income Tax Rates Amendments) Bill 2011 and Clean Energy (Tax Laws Amendments) Bill 2011, are part of the Clean Energy Legislative Package that implements a carbon price from 1 July 2012 covering parts of the Australian economy. These two Bills, together with the Clean Energy (Household Assistance Amendments) Bill 2011, seek to compensate households for the indirect effect of increases in prices of goods and services as a result of the imposition of a carbon price. The Bills amend the Income Tax Rates Act 1986 and the Income Tax Assessment Act 1986 to deliver cuts in income tax by:

• lifting the nominal tax-free threshold from $6001 to $18 201 from 2012-13 and then to $19 401 from 2015-16 and
• reducing the Low Income Tax Offset (LITO) from $1500 to $445 from 2012-13 and then to $300 from 2015-16, with changes to the withdrawal thresholds and rates.

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A simplification of tax offset arrangements is also proposed, with the low income pensioner tax offset to be merged with the senior Australians tax offset (SATO), which will be known as the seniors and pensioners tax offset (SAPTO).

Consequential amendments to the Medicare Levy Act 1986 and the A New Tax System (Medicare Levy Surcharge-Fringe Benefits) Act 1999 are also proposed to ensure that these changes are reflected in thresholds applied for the Medicare levy and tax offsets for seniors.

**Structure of the Legislative Package and supporting information**


**Table 1 Clean Energy Legislative Package**

<table>
<thead>
<tr>
<th>Clean Energy Bill 2011</th>
<th>Sets out the structure of the carbon price mechanism and process for its introduction. These include:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• entities and emissions that are covered by the mechanism</td>
</tr>
<tr>
<td></td>
<td>• entities’ obligations to surrender eligible emissions units</td>
</tr>
<tr>
<td></td>
<td>• limits on the number of eligible emissions units that will be issued</td>
</tr>
<tr>
<td></td>
<td>• the nature of carbon units</td>
</tr>
<tr>
<td></td>
<td>• the allocation of carbon units, including by auction and the issue of free units</td>
</tr>
<tr>
<td></td>
<td>• mechanisms to contain costs, including the fixed charge period and price floors and ceilings</td>
</tr>
<tr>
<td></td>
<td>• linking to other emissions trading schemes</td>
</tr>
<tr>
<td></td>
<td>• assistance for emissions-intensive, trade-exposed activities and coal-fired electricity generators</td>
</tr>
<tr>
<td></td>
<td>• monitoring, investigation, enforcement and penalties</td>
</tr>
<tr>
<td></td>
<td>• administrative review of decisions and</td>
</tr>
<tr>
<td></td>
<td>• reviews of aspects of the mechanism over time</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Clean Energy Regulator Bill 2011</th>
<th>Sets up the Regulator, which is a statutory authority that will administer the mechanism and enforce the law. The responsibilities of the Regulator include:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• providing education on the mechanism, particularly about the administrative arrangements of the mechanism</td>
</tr>
<tr>
<td></td>
<td>• assessing emissions data to determine each entity’s liability</td>
</tr>
<tr>
<td></td>
<td>• operating the Australian National Registry of Emissions Units (the Registry)</td>
</tr>
<tr>
<td></td>
<td>• monitoring, facilitating and enforcing compliance with the mechanism</td>
</tr>
<tr>
<td></td>
<td>• allocating units including freely allocated units, fixed charge units and auctioned units</td>
</tr>
<tr>
<td></td>
<td>• applying legislative rules to determine if a particular entity is eligible for assistance in the form of units to be allocated administratively and the number of other units to be allocated</td>
</tr>
<tr>
<td></td>
<td>• administering the National Greenhouse and Energy Reporting System (NGERS), the Renewable Energy Target (RET) and the Carbon Farming Initiative (CFI) and</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Climate Change Authority Bill 2011</strong></td>
<td>Sets up the Climate Change Authority, which will be an independent body that provides the Government with expert advice on key aspects of the mechanism and the Government’s climate change mitigation initiatives. The Government will remain responsible for carbon pricing policy decisions. This Bill also sets up the Land Sector Carbon and Biodiversity Board which will advise on key initiatives in the land sector.</td>
</tr>
<tr>
<td><strong>Clean Energy (Consequential Amendments) Bill 2011</strong></td>
<td>Makes consequential amendments to ensure:</td>
</tr>
<tr>
<td></td>
<td>• NGERS supports the mechanism</td>
</tr>
<tr>
<td></td>
<td>• the Registry covers the mechanism and the CFI</td>
</tr>
<tr>
<td></td>
<td>• the Regulator covers the mechanism, CFI, the Renewable Energy Target and NGERS</td>
</tr>
<tr>
<td></td>
<td>• the Regulator and Authority are set up as statutory agencies and regulated by public accountability and financial management rules</td>
</tr>
<tr>
<td></td>
<td>• that emissions units and their trading are covered by laws on financial services</td>
</tr>
<tr>
<td></td>
<td>• that activities related to emissions trading are covered by laws on money laundering and fraud</td>
</tr>
<tr>
<td></td>
<td>• synthetic greenhouse gases are subject to an equivalent carbon price applied through existing regulation of those substances</td>
</tr>
<tr>
<td></td>
<td>• the Regulator can work with other regulatory bodies, including the Australian Securities and Investments Commission (ASIC), the Australian Competition and Consumer Commission (ACCC) and the Australian Transaction Reporting and Analysis Centre (Austrac)</td>
</tr>
<tr>
<td></td>
<td>• the taxation treatment of emissions units for the purposes of GST and income tax is clear and</td>
</tr>
<tr>
<td></td>
<td>• the Conservation Tillage Refundable Tax Offset is established.</td>
</tr>
<tr>
<td><strong>Clean Energy (Unit Shortfall Charge—General) Bill 2011, Clean Energy (Unit Issue Charge—Fixed Charge) Bill 2011, Clean Energy (Unit Issue Charge—Auctions) Bill 2011, Clean Energy (Charges—Excise) Bill 2011</strong></td>
<td>Procedural Bills on those elements of the mechanism which oblige a person to pay money are implemented through separate Bills that comply with the requirements of section 55 of the Constitution.</td>
</tr>
<tr>
<td><strong>Clean Energy (Excise Tariff Legislation Amendment) Bill 2011, the Clean Energy (Customs Tariff Amendment) Bill 2011, Clean Energy (Fuel Tax Legislation Amendment) Bill 2011</strong></td>
<td>Impose an effective carbon price on aviation and non-transport gaseous fuels through excise and customs tariffs and reduce the business fuel tax credit entitlement of non-exempted industries for their use of liquid and gaseous transport fuels, in order to provide an effective carbon price on business through the fuel tax system.</td>
</tr>
</tbody>
</table>

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Background

The Clean Energy Legislative Package implements a carbon price to parts of the Australian economy, including electricity generation, industrial processes and waste. The Government expects that businesses directly subject to the carbon price will be pass on all, or part, of the carbon price to consumers.

Treasury estimate that the price impact on households of a $23 carbon price in 2012-13 to be $9.90 per week, or an increase in the Consumer Price Index (CPI) of 0.7 per cent. The major components of the price increase are:

- utilities (electricity, gas and other fuels and, water and sewerage) - $4.60 per week or 7.9 per cent price increase
- other housing (house purchase, property rates and charges, house repairs and maintenance) - $0.90 per week or 0.4 per cent price increase and
- private motoring (motor vehicles, automotive fuel, repairs and servicing) - $0.40 per week or 0.3 per cent price increase.

Of the compensation provided to households, the changes to income tax rates and thresholds account for $8 billion of the $15.4 billion of assistance provided to low-to middle-income households. Further information about transfer payments to compensate households can be found in the Bills Digest for the Clean Energy (Household Assistance Amendments) Bill 2011.

Proposed changes

The proposed changes to tax scales in the Bills will simultaneously adjust the nominal income tax thresholds and rates and reduce the value of the Low Income Tax Offset (LITO) and the rate at which

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the LITO declines. The effect of these changes will be to increase the effective tax-free threshold and adjust marginal tax rates faced by individuals on incomes less than $80 000. A summary of the combined changes is presented in table 2.

Table 2 Proposed changes to income tax scales and the low income tax offset

<table>
<thead>
<tr>
<th></th>
<th>Current Threshold ($)</th>
<th>Marginal rate</th>
<th>2012-13 Threshold ($)</th>
<th>Marginal rate</th>
<th>2015-16 Threshold ($)</th>
<th>Marginal rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st rate</td>
<td>6001</td>
<td>15%</td>
<td>18 201</td>
<td>19%</td>
<td>19 401</td>
<td>19%</td>
</tr>
<tr>
<td>2nd rate</td>
<td>37 001</td>
<td>30%</td>
<td>37 001</td>
<td>32.5%</td>
<td>37 001</td>
<td>33%</td>
</tr>
<tr>
<td>3rd rate</td>
<td>80 001</td>
<td>37%</td>
<td>80 001</td>
<td>37%</td>
<td>80 001</td>
<td>37%</td>
</tr>
<tr>
<td>4th rate</td>
<td>180 001</td>
<td>45%</td>
<td>180 001</td>
<td>45%</td>
<td>180 001</td>
<td>45%</td>
</tr>
<tr>
<td>Effective tax-free threshold</td>
<td>16 000</td>
<td></td>
<td>20 542</td>
<td></td>
<td>20 979</td>
<td></td>
</tr>
<tr>
<td>Low income tax offset</td>
<td>1500 with withdrawal from 30 000</td>
<td>4%</td>
<td>445 with withdrawal from 37 000</td>
<td>1.5%</td>
<td>300 with withdrawal from 37 000</td>
<td>1.0%</td>
</tr>
</tbody>
</table>


The effect of the proposed changes would be to deliver an annual tax cut of at least $300 for taxpayers with a taxable income of between $18 000 and $68 000 in 2012-13 (see figure 1, page 8). When the second round of changes are implemented in 2015-16, an annual tax cut of $228 will be received by taxpayers with a taxable income of between $22 000 and $37 000, with the amount of tax cut declining after this income threshold.
Figure 1 Tax cuts arising from proposed changes to income tax scales and the low income tax offset, by level of taxable income

Source: Parliamentary Library estimates.

Income tax arrangements

The most recent taxation statistics published by the Australian Taxation Office relate to 2008–09. In this year, of the 12.9 million individual taxpayers with a net tax payable equal to more than $0, almost 50 per cent of taxpayers had an assessable income of less than $34 000 (see figure 2, page 9). Around 750 000 taxpayers had a taxable income of between $6001 and $20 000, the income levels which are most affected by changes to the nominal tax-free threshold.6

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Figure 2 Cumulative share of total income taxpayers, by taxable income, 2008–09 income year (per cent)

![Graph showing cumulative share of total income taxpayers by taxable income from 2008-09 income year.


The proposed change to increase the nominal tax-free threshold from $6001 to $18 201 is the first change in this threshold since 2000–01 (table 3). The proposed marginal rate for the second threshold ($37 001)—while higher than the current rate at 32.5 per cent in 2012–13 and 33 per cent— is still below the marginal rate for the 2nd threshold of $20 701 that applied in 1999–00.
### Table 3 Income tax thresholds and marginal rates, 1999–00 to 2011–12

<table>
<thead>
<tr>
<th>Year</th>
<th>1st threshold (£)</th>
<th>2nd threshold (£)</th>
<th>3rd threshold (£)</th>
<th>4th threshold (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999–00</td>
<td>$5401</td>
<td>$20 701</td>
<td>$38 001</td>
<td>$50 001</td>
</tr>
<tr>
<td></td>
<td>20%</td>
<td>34%</td>
<td>43%</td>
<td>47%</td>
</tr>
<tr>
<td>2000–01</td>
<td>$6001</td>
<td>$20 001</td>
<td>$50 001</td>
<td>$60 001</td>
</tr>
<tr>
<td></td>
<td>17%</td>
<td>30%</td>
<td>42%</td>
<td>47%</td>
</tr>
<tr>
<td>2001–02</td>
<td>$6001</td>
<td>$20 001</td>
<td>$50 001</td>
<td>$60 001</td>
</tr>
<tr>
<td></td>
<td>17%</td>
<td>30%</td>
<td>42%</td>
<td>47%</td>
</tr>
<tr>
<td>2002–03</td>
<td>$6001</td>
<td>$21 601</td>
<td>$52 001</td>
<td>$62 501</td>
</tr>
<tr>
<td></td>
<td>17%</td>
<td>30%</td>
<td>42%</td>
<td>47%</td>
</tr>
<tr>
<td>2003–04</td>
<td>$6001</td>
<td>$21 601</td>
<td>$58 001</td>
<td>$70 001</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>30%</td>
<td>42%</td>
<td>47%</td>
</tr>
<tr>
<td>2004–05</td>
<td>$6001</td>
<td>$25 001</td>
<td>$75 001</td>
<td>$150 000</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>30%</td>
<td>42%</td>
<td>47%</td>
</tr>
<tr>
<td>2005–06</td>
<td>$6001</td>
<td>$30 001</td>
<td>$75 001</td>
<td>$150 001</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>30%</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td>2006–07</td>
<td>$6001</td>
<td>$30 001</td>
<td>$80 001</td>
<td>$180 001</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>30%</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td>2007–08</td>
<td>$6001</td>
<td>$35 001</td>
<td>$80 001</td>
<td>$180 001</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>30%</td>
<td>38%</td>
<td>45%</td>
</tr>
<tr>
<td>2008–09</td>
<td>$6001</td>
<td>$37 001</td>
<td>$80 001</td>
<td>$180 001</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>30%</td>
<td>37%</td>
<td>45%</td>
</tr>
</tbody>
</table>


A specific tax offset (rebate) for low income earners was first introduced for 1993–94, with taxpayers earning less than $24 450 eligible for a maximum rebate of $150, which was reduced by 4 cents for

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every $1 by which the taxpayer’s income exceeded $20 700. In 2008–09 around 8.1 million taxpayers claimed the LITO.

The amount of the offset, and the threshold at which it applies, have changed several times since its introduction (table 4). The most recent change was in the 2010–11 Budget, when the value of the offset was lifted from $1350 to $1500.

**Table 4 Low income tax offset thresholds and rates, 1993–94 to 2010–11**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal amount ($)</td>
<td>150</td>
<td>235</td>
<td>600</td>
<td>750</td>
<td>1200</td>
<td>1350</td>
<td>1500</td>
</tr>
<tr>
<td>Nominal threshold ($)</td>
<td>24 450</td>
<td>27 475</td>
<td>40 000</td>
<td>48 750</td>
<td>60 000</td>
<td>63 750</td>
<td>67 500</td>
</tr>
<tr>
<td>Nominal withdrawal threshold ($)</td>
<td>20 700</td>
<td>21 600</td>
<td>25 000</td>
<td>30 000</td>
<td>30 000</td>
<td>30 000</td>
<td>30 000</td>
</tr>
<tr>
<td>Withdraw rate</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>


As the LITO is available to all individuals below a specified income threshold, it creates an effective tax-free threshold at a point higher than the nominal threshold at lower income levels. The effective tax-free threshold is calculated by adding an amount to the nominal tax-free threshold that is equal to the value of the LITO applying at each income rate divided by the marginal tax rate faced by the individual.

The combination of changes to nominal income tax rate thresholds and marginal rates and the LITO have resulted in an increase in the effective tax-free threshold from $6150 in 1993–94 to $16 000 in 2011–12. In real terms (adjusting for inflation), the effective tax-free threshold has approximately doubled in the same period (see figure 3, page 12).

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7. Taxation (Deficit Reduction) Act (No. 3) 1993, Division 2.

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Figure 3 Impact of the low income tax offset on the tax-free threshold, 1993–94 to 2012–13

Source: Parliamentary Library estimates based on the nominal low income tax offset (rebate) and tax thresholds and marginal rates applying in the relevant year. Real values were calculated using the Consumer Price Index (All Groups) Australia index series for June each year compiled by the Australian Bureau of Statistics and re-basing the index series so that the base is June 2011, viewed 11 October 2011, http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Jun%202011?OpenDocument

Henry Tax Review and proposed changes to personal income tax arrangements

The recent Henry Review of taxation (‘Australia’s Future Tax System’) examined in detail the structure of income tax arrangements and transfer payments and their potential impact on income redistribution, the transparency and simplicity of income tax arrangements and labour force participation.10


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In broad terms, the Henry Review considered that the personal income tax system should continue to be progressive, but it should operate in a simpler and more transparent way.\textsuperscript{11} The Review noted:

The centrepiece of the system should be a high tax-free threshold with a constant marginal rate for most people. The personal income tax system should support workforce participation by limiting high effective tax rates, especially for those people who are likely to be most responsive to financial incentives to work.

The primary unit in the personal tax system should continue to be the individual, and subsidies for dependants through the tax system should be restricted.

Income support and supplementary payments should be exempt to simplify tax and transfer interactions. Where possible, tax offsets that are structural in nature should be incorporated into the personal income tax rates scale, along with the Medicare levy. Tax offsets that provide a concession for a particular group should be removed or delivered as a direct payment or service.\textsuperscript{12}

The key recommendations of the Henry Review relating to changes to personal income tax arrangements were:

- progressivity in the tax and transfer systems should be delivered through the personal income tax rates scale and transfer payments. A high tax-free threshold with a constant marginal rate for most people should be introduced to provide greater transparency and simplicity\textsuperscript{13} and
- the Medicare levy and structural tax offsets—the low income, senior Australians, pensioner and beneficiary tax offsets—should be removed as separate components of the system and incorporated into the personal income tax rates scale. If a health levy is to be retained, it could be applied as a proportion of the net tax payable by an individual.\textsuperscript{14}

**Committee consideration**

The Bills were referred to the Joint Select Committee on Australia’s Clean Energy Future Legislation for inquiry and report by 7 October 2011. Details of the inquiry are at [http://www.aph.gov.au/house/committee/jscacefl/index.htm](http://www.aph.gov.au/house/committee/jscacefl/index.htm). The majority report of the Committee recommended that the Senate and the House of Representatives should pass the 19 Bills that comprise the Clean Energy Legislative Package.\textsuperscript{15} A dissenting report by Coalition members of the Committee disagreed with the majority report and recommended that the Clean Energy

\begin{itemize}
\item \textsuperscript{11} Ibid., p. 11.
\item \textsuperscript{12} Ibid.
\item \textsuperscript{13} Ibid., recommendation 2, p. 22.
\item \textsuperscript{14} Ibid., recommendation 5, p. 31.
\end{itemize}
Legislative Package not be passed. Supplementary remarks by the Australian Greens indicated that they had yet to finalise their position on the additional assistance to the steel industry proposed by the Steel Transformation Plan Bill 2011. The Australian Greens subsequently announced that they would move an amendment in the Senate to the Steel Transformation Plan Bill 2011 to pay particular regard to the Green Jobs Illawarra Action Plan and any other similar plans in other affected regions, but would support the Bill through both Houses of Parliament.

The majority report endorsed the proposed income tax changes as part of the broader household assistance package. The Coalition dissenting report noted a number of issues associated with the proposed income tax changes, including the extent of the increase to the tax-free threshold, increases to the marginal tax rates that are proposed to apply at the second income threshold and the risk of ‘bracket creep’ affecting compensation.

Position of major interest groups

The positions of major interest groups in relation to the Clean Energy package as a whole are discussed in the Bills Digest for the Clean Energy Bill 2011. In relation to the proposed income tax changes introduced by the Clean Energy (Income Tax Rates Amendments) Bill 2011 and Clean Energy (Tax Laws Amendments) Bill 2011, interest groups have generally supported the changes but have done so for different reasons.

Westpac Banking Corporation (Westpac) is supportive of the income tax changes as a stand-alone measure, considering that the measures could potentially assist to expand the labour force at a time of labour shortages. Westpac consider that the changes are important for part-time and casual workers who form a large part of the retail, food services and hospitality labour force.

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22. Ibid.
The Australian Council of Social Service noted that the changes to the low income tax offset would increase transparency. However, they expressed concerns about how these changes would affect incentives to work, particularly for women.23

UnitingCare Australia supports the increase in the tax-free threshold, considering that it is important in assisting people who are moving from income support payments to work.24

Policy position of non-government parties/independents

The policy positions of non-government parties and independents in relation to the overall Clean Energy Legislative Package are discussed in the Bills Digest for the Clean Energy Bill 2011.

In relation to the proposed changes introduced by the Clean Energy (Income Tax Rates Amendments) Bill 2011 and Clean Energy (Tax Laws Amendments) Bill 2011, the following views have been expressed:

- the Coalition have indicated that they will repeal elements of the Clean Energy Legislative Package, including the carbon price mechanism and the Clean Energy Finance Corporation.25 The Coalition voted against all the Bills that were part of the Clean Energy Legislative Package in the House of Representatives26, however, have not made a clear statement about whether the proposed income tax changes will be repealed and
- the Australian Greens welcome the income tax changes as part of the broader household compensation package.27

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23. Australian Council of Social Service (ACOSS), Submission to the Senate Select Committee on Scrutiny of New Taxes, Inquiry into new taxes, September 2011, viewed 29 September 2011  

24. S Helyar, UnitingCare Australia, transcript, Joint Select Committee on Clean Energy Future Legislation, 26 September 2011, p. 61, viewed 3 October 2011,  

http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=id%3A%22chamber%2Fhansardr%2Fdb1227e-c808-4b45-8e11-e59ca86f689e%2F0004%22; J Hockey, 'Second reading speech: Clean Energy Bills', House of Representatives, Debates, 11 October 2011, p. 36, viewed 11 October 2011,  
http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=id%3A%22chamber%2Fhansardr%2Fdb12227e-c808-4b45-8e11-e59ca86f689e%2F0004%22; A Robb, 'Interview with Alexandra Kirk', ABC AM, 18 October 2011, viewed 19 October 2011,  

26. Australia, House of Representatives, Votes and proceedings, no. 73, 12 October 2011, pp. 972–973, viewed 19 October 2011,  
http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=id%3A%22chamber%2Fvotes%2F2011-10-12%2F0003%22

27. A Bandt, 'Second reading speech: Clean Energy Bills', House of Representatives, Debates, 19 September 2011, p. 41, viewed 4 October 2011,

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Financial implications

According the Explanatory Memorandum, the proposed changes to income tax arrangements and LITO will lead to revenue foregone of around $8 billion over the forward estimates (table 5).

Table 5 Tax revenue cost of proposed changes to income tax and the low income tax offset, 2011–12 to 2014–15

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue cost</td>
<td>0</td>
<td>-3350</td>
<td>-2370</td>
<td>-2320</td>
<td>-8040</td>
</tr>
</tbody>
</table>


Main issues

Simplification of income tax arrangements

The Government claims that the changed income tax arrangements are consistent with the Henry Review recommendations through the lifting of the tax-free threshold, simplifying the tax structure by reducing the impact of the LITO on nominal marginal tax rates and removing the need for over a million people to go to the effort of lodging annual tax returns. The Government also claims that the changes will encourage workforce participation.

Commentators have generally agreed that the income tax changes are consistent with the direction of the Henry Tax Review recommendations, but that any simplification is concentrated at lower incomes, with some taxpayers facing higher marginal tax rates.

The proposed increase in the nominal tax-free threshold and reduction in the LITO is generally consistent with the Henry Tax Review recommendations relating to a higher tax-free threshold and more transparent and simpler income tax system. However, some degree of complexity has been

http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2F Hansard%2F9273d8f9-c390-4d28-81ec-80e436f0f4d4%2F0073%22
29. Ibid., p. 41.

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retained with the retention of the LITO (albeit much reduced) together with a number of additional transfer payments that are part of the overall compensation package.

Encouraging workforce participation

An individual taxpayer’s decision to re-enter the workforce or work more hours is likely to be affected by the extent to which any additional income is taxed, as well as the extent to which transfer payments are withdrawn as income rises. Other relevant factors may include expenses on child care costs, public housing rent-setting, and child support liabilities or receipts.

The most recent comprehensive analysis of effective marginal tax rates in Australia, undertaken by researchers from the National Centre for Social and Economic Modelling (NATSEM) in 2009 using data relating to 1996–97 to 2006–07, found that in 2006–07, an estimated 7.1 per cent of working-age Australians faced high effective marginal tax rates of more than 50 per cent.

To illustrate the potential for effective marginal tax rates to impact on the workforce participation, Treasury estimated that the effective marginal tax rates vary significantly for a couple with two children, aged 13 and 15 years old, when one parent earns $30 000 and the second parent starts looking for work in 2012–13 (see figure 4, page 18). The example highlights a specific example and effective marginal tax rates faced by individuals in a household will vary significantly between households depending on circumstances.

More recent, but unpublished, research by NATSEM was reported to have found that the changes to income tax scales and the LITO would reduce the average tax rate for low- to middle-income earners, but that it would do so at the expense of a slightly steeper rate of clawback for every dollar earned above the first tax threshold of $18 200, pushing many from the 10–20 per cent tax band to the 20–30 per cent tax band.

Without any specific analysis of the interaction of the proposed additional transfer payments provided under the Clean Energy (Household Assistance Amendments) Bill 2011 and the proposed changes to income tax arrangements, it is difficult to determine the final likely impact of the changes on labour force participation.

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Figure 4 Effective Marginal Tax Rates for a couple with children aged 13 and 15, 2012–13


Income tax returns and other government policy measures

While the requirement to submit a tax return annually may be removed for many low income earners with the lifting of the tax-free threshold, the tax return system is used to deliver payments for some superannuation policy measures. For example, the superannuation co-contribution and the proposed superannuation low income co-contribution require recipients to lodge a tax return with the Australian Taxation Office, who then pay the appropriate amount into the taxpayer’s superannuation fund.\(^{35}\)

In a submission to Treasury about the Government’s proposed $500 low income government superannuation co-contribution, Mercer noted that the requirement to lodge a tax return to be able

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to claim the co-contribution when this obligation was being removed due to the lifting of the tax-free threshold would see many low income earners miss out on the co-contribution.36

Key provisions

Clean Energy (Income Tax Rates Amendments) Bill 2011

Part 1 – Amendments applying from the 2012–13 year of income

Amendments to the Income Tax Rates Act 1986

Changes to the tax-free threshold

Item 1 of Schedule 1 amends subsection 3(1) to define the term ‘tax-free threshold’, which is set to equal $18,200 for 2012–13. Consequential amendments to the current nominal tax-free threshold of $6,000 are made by items 2, 3, 4 and 5 that substitute references to ‘$6,000’ with the term ‘the tax-free threshold’, thereby lifting the nominal tax-free threshold from $6,000 to $18,200.

Prorating the tax-free threshold for individuals and trustees who are residents for a part-year for taxation purposes

Item 2 repeals existing subsections 20(1) and (2) and inserts proposed subsections 20(1), (1A) and (2) to amend the formula used to calculate the tax-free threshold that applies for part-year residency of a person and trustee beneficiary. The only effective change is to raise the nominal tax-free threshold from $500 multiplied by the number of months in the year of income when a part-year period applies to a formula that provides for a minimum nominal tax-free threshold of $13,464 in 2012–13 plus pro-rated access to the remaining $4,736 of the nominal tax-free threshold depending on the part-year period that applies.

Increase in marginal tax rates

Item 3 repeals the existing table items 1 and 2 of Part 1 of Schedule 7 of the Act and inserts proposed table items 1 and 2 that, in addition to removing the reference to the existing nominal tax-free threshold of $6,000 in item 1, change the existing nominal marginal tax rates for the first and second tax thresholds from 15 per cent and 30 per cent to 19 per cent and 32.5 per cent respectively for 2012–13.

Application

Item 6 specifies that items 1 to 5 above apply to the 2012–13 year of income and later years of income.


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Part 2 – Amendments applying from the 2015–16 year of income

Further increase in tax-free threshold and marginal tax rate

Item 7 substitutes the value defined as the tax-free threshold of $18,200 to be $19,400.

Item 8 repeals table item 2 of Part 1 of Schedule 7 and inserts proposed table item 2 that provides for an increase in the marginal tax rate for the second tax threshold to 33 per cent.

Item 9 specifies that items 7 and 8 above apply to the 2015–16 year of income and later years of income.

Clean Energy (Tax Laws Amendments) Bill 2011

Schedule 1- Low income tax offset

Amendments to the *Income Tax Assessment Act 1936*

Part 1- Amendments applying from the 2012–13 year of income

Changes in Low Income Tax Offset value, thresholds and withdrawal rate

Item 1 of Schedule 1 amends subsection 159N(1) to decrease the maximum income threshold at which the Low Income Tax Offset applies from $67,500 to $66,667.

Item 2 repeals the existing subsection 159N(2) and substitutes proposed subsection 159N(2) that: lowers the amount of the Low Income Tax Offset from $1500 to $445; raises the income threshold at which the offset is partly withdrawn from $30,000 to $37,000 and changes the withdrawal rate from 4 cents for every $1 above the income threshold at which the offset is partly withdrawn to 1.5 cents for every $1 above the income threshold at which the offset is partly withdrawn.

Application

Item 3 specifies that items 1 and 2 above apply to the 2012–13 year of income and later years of income.

Part 2- Amendments applying from the 2015–16 year of income

Changes in Low Income Tax Offset value, thresholds and withdrawal rate

Item 4 of Schedule 1 amends subsection 159N(1) to increase the maximum income threshold at which the Low Income Tax Offset applies from the proposed $66,667 to $67,000.

Item 5 repeals subsection 159N(2) and substitutes proposed subsection 159N(2) that: lowers the amount of the Low Income Tax Offset from $445 to $300 and changes the withdrawal rate from 1.5 cents for every $1 above the income threshold at which the offset is partly withdrawn (proposed to...
be $37,000) to 1 cent for every $1 above the income threshold at which the offset is partly withdrawn.

**Application**

Item 6 specifies that items 4 to 5 above apply to the 2015–16 year of income and later years of income.

**Schedule 2- Medicare levy and Medicare levy surcharge**

On changing tax thresholds and the LITO rate, consequential amendments relating to the Medicare levy are required to maintain arrangements that individual taxpayers do not pay the Medicare levy until they are liable to income tax. These include changes to thresholds relating to the threshold for individuals for Medicare levy surcharge purposes and the thresholds at which individuals and families are exempt from paying the Medicare levy.

**Amendments to the *A New Tax System (Medicare Levy Surcharge-Fringe Benefits) Act 1999***

**Medicare levy surcharge low-income threshold**

Item 1 of Schedule 2 amends paragraphs 15(1)(c) and 16(2)(c) to raise the threshold below which a family member is not required to pay the surcharge on reportable fringe benefits from $18,839 to $20,542 – aligning with the effective tax-free threshold that is proposed to apply from 2012–13.

**Amendments to the *Medicare Levy Act 1986***

**Medicare levy low-income thresholds and phase in limits**

Item 2 amends paragraph 3(1)(a) to raise the phase in limit applying to recipients of the low income tax offset available to pensioners and seniors (see Schedule 3 below) from $36,100 to $37,975.

Item 3 amends paragraph 3(1)(c) to raise the phase in limit applying to the low-income threshold for a single individual with no dependents from $22,163 to $24,167.

Item 4 amends paragraph 3(1)(a) to raise the low-income threshold applying to recipients of the tax offset available to pensioners and seniors (see Schedule 3 below) from $30,685 to $32,279.

Item 5 amends paragraph 3(1)(c) to raise the low-income threshold applying to a single individual from $18,839 to $20,542.

Item 6 amends subsection 8(7) to raise the low-income family income threshold for individuals with a spouse and/or dependents from $44,500 to $46,000.

**Medicare levy surcharge thresholds**

Items 7 to 10 amend references to the individual low-income threshold of $18,839 to increase this to $20,542 in the Medicare levy surcharge provisions. As a result, taxpayers with income for

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surcharge purposes below this amount will not be liable to pay the Medicare levy surcharge on any
taxable income and amount subject to family trust distribution tax they have received in the income
year.

Application

Items 1 to 10 above apply to the 2012–13 year of income and later years of income.

Schedule 3- Tax rebate for low-income aged persons and pensioners

Under current arrangements, older Australians may be eligible for the pension tax offset or senior
Australians tax offset. The thresholds and phase out rates for these offsets are established in
sub-regulation 150AB(2) of the Income Tax Regulations 1936. The maximum amount of the offset
and the cut-off threshold vary according to a taxpayer’s marital status.

The level for these tax offsets and the withdrawal rate for 2010–11 is set out in table 5. In 2008–09,
the most recent year for which data is available, the senior Australians tax offset was claimed by
612 000 taxpayers and the pension tax offset was claimed by 304 000 taxpayers.37

From 1 July 2012, the Clean Energy (Tax Laws Amendments) Bill 2011 proposes that the pensioner
tax offset will no longer be available and all individuals previously eligible for the pension tax offset
will be eligible for the Senior Australians Tax Offset (SATO), which will be known as the single Seniors
and Pensioners Tax Offset (SAPTO). The proposed amendments largely relate to changing the
definitions related to the SATO to ensure that the eligibility for the pension tax offset—which
essentially relate to individuals whose assessable income includes the age pension and several other
types of payments—is reflected in the SAPTO eligibility requirements. Consequential amendments to
the Medicare Levy are also proposed to provide that recipients of the SAPTO will be exempt from
the levy.


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Table 6 Pensioner tax offset and Seniors tax offset

<table>
<thead>
<tr>
<th>Received an Australian Government pension or allowance from Centrelink</th>
<th>Received an Australian Government pension or allowance from Department of Veteran Affairs</th>
<th>$2732 reduced by 12.5 cents for each dollar of rebate income in excess of $24,214. Once the person’s rebate income reaches $46,070, no part of the rebate is available</th>
<th>$2857 reduced by 12.5 cents for each dollar of rebate income in excess of $25,047. Once the person’s rebate income reaches $47,903, no part of the rebate is available</th>
</tr>
</thead>
<tbody>
<tr>
<td>No spouse</td>
<td></td>
<td></td>
<td>$2230 reduced by 12.5 cents for each dollar of rebate income in excess of $30,685 (the shade-out threshold). This means that once the person’s rebate income reaches $48,525 (the cut-out threshold), no part of the offset is available</td>
</tr>
<tr>
<td>Spouse</td>
<td>$1905 reduced by 12.5 cents for each dollar of rebate income in excess of $18,700. Once the partner’s rebate income reaches $33,940, no part of the rebate is available to that partner</td>
<td>$2003 reduced by 12.5 cents for each dollar of rebate income in excess of $19,354. Once the partner’s rebate income reaches $35,378, no part of the rebate is available to that partner</td>
<td>$1602 reduced by 12.5 cents for each dollar of rebate income in excess of $26,680. This means that once the partner’s rebate income reaches $39,496, no part of the offset is available to that partner</td>
</tr>
<tr>
<td>living apart from your spouse at any time during the year due to illness or because one of you resided in a nursing home</td>
<td>$2577 reduced by 12.5 cents for each dollar of rebate income in excess of $23,180. Once the partner’s rebate income reaches $43,796, no part of the rebate is available to that partner</td>
<td>$2700 reduced by 12.5 cents for each dollar of rebate income in excess of $24,000. Once the partner’s rebate income reaches $45,600, no part of the rebate is available to that partner</td>
<td>$2040 reduced by 12.5 cents for each dollar of rebate income in excess of $29,600. This means that once the partner’s rebate income reaches $45,920, no part of the offset is available to that partner</td>
</tr>
</tbody>
</table>

Note: Unused amounts of the offsets can be transferred to a person’s spouse if that spouse is also entitled to the offset.
Source: CCH, Australian master tax guide 2011, pp. 15-142 and 15-144.

Amendments to the Income Tax Assessment Act 1936

Item 1 of Schedule 3 includes the definition of ‘rebatable benefit’ in subsection 6(1), to insert a cross reference to the definition in subsection 160AAA(1).

Item 2 repeals the existing heading for section 160AAAA and substitutes the new heading ‘Tax rebate for low income aged persons’ to reflect the broader eligibility for the SAPTO.

Items 4 to 6 amends section 160AAAA to broaden the eligibility for the SAPTO by including recipients of specified payments as being eligible, including the exclusion relating to person’s who were in gaol for at least one day during the year of income.

38. A ‘rebatable benefit’ is defined in subsection 160AAA(1) and includes allowances paid under the Social Security Act 1991 as well as various other government income support payments.

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Items 7 to 11 amend section 160AAAB so that the proposed changes applying to taxpayers under items 2 to 6 are also applied to trustees.

Items 12 to 14 amends section 160AAA and repeals subsections 160AAA(1) and (2) to reflect the abolition of the pensioner tax offset.

Item 15 amends subsection 160AAA(4) so that a person entitled to receive both the SAPTO and beneficiary tax offset in an income year is able to claim one, but not both, of the offsets if they are of the same value, or the offset of the greater value if they are not the same.

Item 16 repeals existing subsection 160AAA(4A) and inserts proposed subsection 160AAA(4A) to provide that an individual is not entitled to an amount of beneficiary offset if they are a beneficiary of a trust whose trustee is entitled to an offset under section 160AAAB and the amount of that offset is the same or greater than the amount of the beneficiary tax offset.

Amendments to the Income Tax Assessment Act 1997

Items 17 to 21 are consequential amendments that reflect the merging of the SATO and pensioner tax offset that amend the list of tax offsets in section 13-1 of the Act and the order in which tax offsets are applied against a person’s income tax liability under subsection 63-10(1).

Amendments to the Medicare Levy Act 1986

Items 22 and 23 repeal the definitions of ‘phase-in limit’ and ‘threshold amount’ that relate to recipients of the pensioner tax offset in subsection 3(1) as a result of the merging of the pensioner tax offset with the SATO.

Application

Items 1 to 23 above apply to the 2012–13 year of income and later years of income.

Concluding comments

The proposed income tax changes and adjustments to the LITO are part of household compensation arrangements related to the introduction of the Clean Energy Legislative Package that impose a price on greenhouse gas emissions from some sectors of the economy. The proposed changes are among the most significant changes made to income tax arrangements in the past 20 years. Changes to income tax arrangements are significant to the extent that they may change the choices individuals make about the extent to which they participate in the labour market.

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