

Tax cuts for the rich and tax hikes for the poor: this is not a good policy for Labor

A Briefing Paper for Catholic Social Services Victoria

Brian Lawrence

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A. Introduction

The Federal Treasurer, Jim Chalmers, recently announced the Government's intention to go ahead with the Stage 3 tax cuts and not, as many have argued, abandon them.

The main argument in opposition to those tax cuts is that they advantage the wealthy and provide nothing for the poor. The counter to that argument is that Stages 1 and 2 of the tax package have already delivered tax cuts to the low paid.

The Coalition went to the Federal 2019 election with a three-stage tax policy. Stage 1 picked up and added to the tax changes of 2018-19 and was proposed to have immediate effect, Stage 2 would apply from July 2022 and Stage 3 would commence in the 2024-25 tax year. With its re-election on 18 May 2019, the Coalition was able to pass the enabling legislation later in 2019. To abandon or modify the Stage 3 tax changes will require legislative intervention.

Labor's position in the 2019 election was somewhat unclear on the total package, but it did support the Stage 1 changes and gave itself some wiggle room on the full package. Over the last few years, including in the last election campaign, Labor continued to inject some uncertainty into the issue. With the May 2024 Budget approaching the Treasurer has announced the Government's decision. But might the tax package be modified?

There is substantial opposition within the Labor Party based on the unfairness of the Stage 3 tax cuts and, importantly, the unfairness of the whole tax package, Stages 1 to 3. The same criticism has been made by community groups concerned about poverty and social inequities. It is valid criticism.

The *modus operandi* of those who would want to flatten our progressive income tax system is to give short term tax cuts to the low paid, the "sugar hit", followed by permanent tax cuts for higher income earners, and then to campaign on the immediate benefits of the package. Trump did it in the U.S. in 2017 and in Australia it started with the Coalition's pre-election Budget in April 2019.

The unfairness of the tax package is most evident in the treatment of low paid workers, such as the cleaner on the lowest minimum award rate in the *Cleaning Services Award*, who do not receive a Living Wage.

The sugar hit for the low paid, which was inadequate in the first place, has now gone and we can see where these tax cuts, if fully enacted by Stage 3 of the plan, will land.

B. Our predictions have come true.

Of course, many of us knew in 2019 where we were headed.

In June 2019 the Australian Council of Social Services published a comprehensive description of the Coalition's tax policy, which was then before Parliament; see https://www.acoss.org.au/wp-content/uploads/2019/06/ACOSS-briefing-note_tax-cuts_who-gains_what-do-they-cost_final.pdf

In 2019 I drafted and presented the submissions of the Australian Catholic Bishops to the Annual Wage Review, as I had done for more than a decade. Our submissions always included detailed information about the living standards of the low paid, including the proportion of income tax paid by the low paid. We paid particular attention to the National Minimum Wage and the lowest minimum wage rate for cleaners. When the tax package was announced our focus was on the way in which these cleaners would be treated over the life of the package.

During the Budget debates in June 2019, I wrote in *Pearls and Irritations*:

“The Government's tax package is unfair to low paid workers.

The unfairness of the package is most evident in the treatment of low paid workers, such as the cleaner of the lowest minimum award rate in the *Cleaning Services Award*, who do not receive a Living Wage. Yet in a perplexing decision the Labor Opposition has just announced that it will support that part of the package which includes provisions that prejudice the lowest paid workers.

Both the enacted [from the May 2018 Budget] and the proposed changes would greatly advantage high income Australians and effectively penalise the lowest paid Australian workers.”

“The higher paid taxpayer will have almost five times the annual taxable income of the cleaner, but receive almost 20 times the tax cuts of the cleaner.”

“The cleaner, like other low paid workers who are not paid a Living Wage, would get crumbs out of the proposed increases under the 2019 Budget, which would soon be lost through bracket creep.”

This was no special insight into the tax package. Anyone who got beyond the smoke and mirrors would have seen the consequences this tax package. We have known that the three-stage tax package will not deliver tax cuts for the low paid and that they will finish up paying a higher proportion of their wages in income tax. It will deliver higher tax rates and greater tax bites out of the wages of low paid workers, many of whom are not paid a Living Wage. The consequences have only needed to be quantified with precision.

In 2017-18 the Cleaners were paying 11.6% of their award wages in income tax. As I noted in my June 2019 article, if award rates rose by 20% over the seven years to 2024-25, the average tax paid by the cleaner would rise to 13.3%. This has turned out to be an underestimation of the increase in the tax bite for low paid workers.

We can now address that question of the ongoing impact because we have a good idea of where award rates will be in 2024-25.

C. The incomes of Cleaners with minimum rates set by the *Cleaning Services Award*

Table 1 sets out the award rates and tax bites for a cleaner on the lowest wage rate in the *Cleaning Services Award* since 2009-10. It shows that the average tax bite in the first five years, 2009-10 through to 2013-14, was 9.2%. By 2019-20 the tax bite had increased to 11.7%. The calculations in Table 1 and the following tables are based on the income taxes applicable to a single adult with no dependents. Save for the calculations in Table 3, they assume that the full Medicare levy is payable by the worker.

Table 1

Cleaner on the lowest award classification in the *Cleaning Services Award*

| | \$ gross per week | \$ gross per year | \$ net per year | \$ tax per year | \$ tax per week | \$ net per week | Tax as % of Award rate |
|---------------------|-------------------|-------------------|-----------------|-----------------|-----------------|-----------------|------------------------|
| 2009-10 | 582.72 | 30,406 | 27,622 | 2,783 | 53.33 | 529.39 | 9.2% |
| 2010-11 | 608.80 | 31,767 | 28,855 | 2,912 | 55.81 | 552.99 | 9.2% |
| 2011-12 | 629.50 | 32,847 | 29,713 | 3,134 | 60.06 | 569.44 | 9.5% |
| 2012-13 | 647.80 | 33,802 | 30,776 | 3,026 | 57.99 | 589.81 | 9.0% |
| 2013-14 | 664.60 | 34,679 | 31,472 | 3206 | 61.44 | 603.16 | 9.2% |
| 2014-15 | 684.50 | 35,717 | 32,119 | 3,598 | 68.95 | 615.55 | 10.1% |
| 2015-16 | 701.60 | 36,609 | 32,824 | 3,785 | 72.54 | 629.06 | 10.3% |
| 2016-17 | 718.40 | 37,486 | 33,444 | 4,042 | 77.46 | 640.94 | 10.8% |
| 2017-18 | 742.10 | 38,723 | 34,236 | 4,487 | 85.99 | 646.11 | 11.6% |
| 2018-19 | 768.10 | 40,079 | 35,589 | 4,490 | 86.05 | 682.05 | 11.2% |
| 2019-20 | 791.10 | 41,280 | 36,448 | 4,832 | 92.60 | 698.50 | 11.7% |
| 2020-21 | 804.90 | 42,000 | 37,743 | 4,257 | 81.58 | 723.32 | 10.1% |
| 2021-22 | 825.00 | 43,049 | 39,017 | 4,031 | 77.25 | 747.75 | 9.4% |
| 2022-23 | 865.00 | 45,136 | 39,420 | 5,716 | 109.54 | 755.46 | 12.7% |
| 2023-24 | 914.70 | 47,729 | 41,080 | 6,649 | 127.42 | 787.28 | 13.9% |
| 2024-25 (4%) | 951.30 | 49,638 | 42,417 | 7,221 | 138.39 | 812.91 | 14.5% |
| 2024-25 (5%) | 960.40 | 50,114 | 42,733 | 7,381 | 141.45 | 818.95 | 14.7% |

The calculations are taken from the Australian Taxation Office’s online tax calculators for the years 2021-22 to 2024-25 and, for 2009-10 and following, from TaxCalc at www.taxcalc.com.au. The ATO’s calculator for 2024-25, for example is at <https://atotaxrates.info/individual-tax-rates-resident/ato-tax-rates-2025/#tax-calculator-2024-25>. Access to the earlier years from TaxCalc should be made by searching, for example, “tax calculation 2009-10”. In these calculations there are 52.18 weeks in a year.

Part of the reason for this increase was the increase in the Medicare levy from 1.5% to 2% of taxable income from July 2014 to fund the National Disability Scheme. As this was a policy-induced change, it can be argued that comparisons with this earlier period should be comparisons with a notional rate of 9.7%, and similarly with all other calculations across the

higher income levels (see below), but for simplicity I will leave that adjustment aside from my calculations.

Had the tax bite of 9.2% applied in 2019-20, instead of the cleaner paying tax of \$4,832 for that year, the tax would have been \$3,798, which is tax increase of \$1,034 over the year, or \$19.82 per week. This is a very substantial amount for low paid workers. So, there was a clear case for a substantial change in the tax system to protect these low paid workers, but all they got was a sugar hit.

The sugar hit saw the cleaners' rate fall from 11.7% to 9.4% over the years 2019-20 to 2021-22, with 9.4%, still above the earlier five-year average of 9.2% (although lower than the Medicare-adjusted notional 9.7%). But they soon returned to even higher percentages than those that applied prior to the tax cuts.

Currently, in 2023-24, the cleaners' tax bite is 13.9%. The sugar hit has gone. If the cleaners paid the same average tax, of 9.2%, as they did in those five earlier years, they would be paying tax of \$4,363 this year, and not \$6,649. This amounts to \$2,286 more tax over the year, or \$43.81 in each week of 2023-24.

Earlier this year the Fair Work Commission awarded 5.7% increases in minimum wage rates, operative from July 2023. With CPI increases now running at 4.9% (see the CPI indicator to October 2023), we can factor in a 5% increase from July 2024, which is likely to be about the inflation rate, and, by comparison, a 4% increase which may be around the inflation rate, but which, if awarded, would be more likely to deliver a real (gross) wage cut.

My June 2019 estimation of the cleaner finishing up with a tax burden of 13.3% in 2024-25 was off the mark. A 5% increase in award rates in July 2024 would result in a 14.7% tax bite. A wage increase of 4% would produce a 14.5% tax bite. That is, the tax package has been more disadvantageous to the low paid than it appeared in 2019.

By reference to the five years from 2009-10 to 2013-14, a 5% increase in July 2024 will mean that the tax bite will have increased by 60%. With a 4% wage increase the tax bite will increase by 58%. The losses because of the increase in the tax bite in 2024-25 would be:

- \$2,198 per year or \$42.12 per week with a 4% increase in July 2024.
- \$2,269 per year or \$48.48 per week, with a 5% increase in July 2024.

These are enormous impacts on people who are not paid a Living Wage.

D. The incomes of workers on the lowest minimum rate for a trade-qualified worker

The increase in taxation is also evident in the rates paid for higher paid workers, such as those who are on the lowest award rate set for trade-qualified workers.

Table 2 shows the tax bites for these trade-qualified workers since 2009. The five-year reference point produces an average 10.2% tax bite. At a 5% increase from July 2025 the tax

bite will be 16.2%, an increase in the tax bite of 59% over the earlier five years. A 4% increase from July would result in a 16.1% tax bite, a 58% increase in the tax bite.

We can estimate the loss of take-home pay for these workers because of the increase in the tax bite compared to the 10.2% tax bite in the years 2009-10 to 2013-14. The losses because of the increase in the tax bite in 2024-25 would be:

- \$3,295 per year or \$63.15 per week with a 5% increase; and
- \$3,173 per year or \$60.81 per week with a 4% increase.

Table 2
Worker on the lowest minimum rate for a trade-qualified worker

| | \$ gross per week | \$ gross per year | \$ net per year | \$ tax per year | \$ tax per week | \$ net per week | Tax as % of Award rate |
|---------------------|-------------------|-------------------|-----------------|-----------------|-----------------|-----------------|------------------------|
| 2009-10 | 637.48 | 33,263 | 29,894 | 3,369 | 64.56 | 572.92 | 10.1% |
| 2010-11 | 663.60 | 34,627 | 31,128 | 3,499 | 67.06 | 596.54 | 10.1% |
| 2011-12 | 686.20 | 35,806 | 32,066 | 3,740 | 71.67 | 614.53 | 10.4% |
| 2012-13 | 706.10 | 36,844 | 33,193 | 3,650 | 69.95 | 636.15 | 9.9% |
| 2013-14 | 724.50 | 37,804 | 33,837 | 3,967 | 76.03 | 648.47 | 10.5% |
| 2014-15 | 746.20 | 38,936 | 34,372 | 4,564 | 87.47 | 658.73 | 11.7% |
| 2015-16 | 764.90 | 39,912 | 34,997 | 4,915 | 94.19 | 670.71 | 12.3% |
| 2016-17 | 783.30 | 40,873 | 35,612 | 5,261 | 100.82 | 682.48 | 12.9% |
| 2017-18 | 809.10 | 42,219 | 36,473 | 5,746 | 110.12 | 698.98 | 13.6% |
| 2018-19 | 837.40 | 43,696 | 38,176 | 5,520 | 105.79 | 731.61 | 12.6% |
| 2019-20 | 862.50 | 45,005 | 39,112 | 5,893 | 112.94 | 749.56 | 13.1% |
| 2020-21 | 877.60 | 45,793 | 40,755 | 5,038 | 96.55 | 781.05 | 11.0% |
| 2021-22 | 899.50 | 46,936 | 41,992 | 4,944 | 94.75 | 804.75 | 10.5% |
| 2022-23 | 940.90 | 49,096 | 41,954 | 7,142 | 136.87 | 804.03 | 14.5% |
| 2023-24 | 995.00 | 51,919 | 43,761 | 8,158 | 156.34 | 838.56 | 15.7% |
| 2024-25 (4%) | 1034.80 | 53,996 | 43,315 | 8,681 | 166.37 | 868.43 | 16.1% |
| 2024-25 (5%) | 1,044.80 | 54,518 | 45,662 | 8,856 | 169.72 | 875.08 | 16.2% |

E. Part-time workers earning 50% of the lowest minimum rate for a trade-qualified worker.

Table 3 covers part time workers who are employed on the minimum wage paid to a trade qualified worker, someone who is earning 50% of \$51,919 per year in 2023-24, i.e., \$25,960 per year or \$497.51 per week.

Unlike the other tables, this Table does not include the Medicare levy which has been payable in only some of the years over the period since 2009-10. The payment of the Medicare levy is income-related for various low-income earners. Over the first twelve years covered by Table 3, in only two years was the levy payable, and then only in the sum of \$108 per year and \$118

per year, both under \$2.30 per week. For single persons without dependents, in 2022-23 the Medicare levy was phased in over the annual income range \$24,276 to \$30,345. The thresholds for the payment of the Medicare levy for 2023-24 and 2024-25 have not been determined.

Table 3
Part-time workers earning 50% of the lowest minimum rate for a trade-qualified worker.

| | \$ gross per year | \$ net per year | \$ tax per year (Excluding any Medicare levies) | Tax as % of Income |
|---------------------|-------------------|-----------------|---|--------------------|
| 2009-10 | 16,632 | 16,389 | 243 | 1.5% |
| 2010-11 | 17,313 | 17,116 | 197 | 1.2% |
| 2011-12 | 17,903 | 17,618 | 285 | 1.6% |
| 2012-13 | 18,422 | 18,422 | No tax | - |
| 2013-14 | 18,902 | 18,902 | No tax | - |
| 2014-15 | 19,468 | 19,468 | No tax | - |
| 2015-16 | 19,956 | 19,956 | No tax | - |
| 2016-17 | 20,437 | 20,437 | No tax | - |
| 2017-18 | 21,109 | 20,001 | No tax | - |
| 2018-19 | 21,848 | 21,848 | No tax | - |
| 2019-20 | 22,503 | 22,385 | No tax | - |
| 2020-21 | 22,897 | 22,897 | No tax | - |
| 2021-22 | 23,468 | 23,458 | No tax | - |
| 2022-23 | 24,548 | 24,015 | 506 | 2.1% |
| 2023-24 | 25,960 | 25,017 | 774 | 3.0% |
| 2024-25 (4%) | 26,998 | 25,755 | 972 | 3.6% |
| 2024-25 (5%) | 27,259 | 25,940 | 1,021 | 3.7% |

For the decade after 2011-12, this worker did not pay income tax. However, in 2022-23 2.2% was lost in income tax: \$506 per year or \$9.70 per week. This increased to 3.0% in 2023-24: \$774 per year or \$14.83 per week.

In 2024-25 the tax bite for these very low paid workers will increase to 3.7% if a wage increase of 5% is awarded in July 2024 or 3.6% if a 4% wage increase is awarded:

- At a 5% wage increase in July 2024, the loss will be \$1,021 per year or \$19.57 per week.
- At a 4% increase in July 2024, the loss will be \$972 per year or \$18.63 per week.

F. Comparisons with middle income workers

Table 4 compares the incomes and income tax positions of cleaners and workers who are paid double the cleaners' award rate.

The higher paid workers covered by Table 4 are an important cohort within Australian employment. They are among the "middle-income" of the Australian workforce. Over the

period covered by the Table they have had incomes near to the measure of Average Weekly Ordinary Time Earnings (AWOTE) for full time adult workers published by the Australian Bureau of Statistics. The most recent publication, for May 2023, showed that AWOTE (trend) was \$1,838.60 per week, or \$95,938, close to the Table 5 incomes of \$90,272 in 2022-23 and \$95,458 in 2023-24.

Middle income workers are more often used as a reference point in political debate and campaigning than low paid workers. The differential treatment of the two groups, as illustrated in Table 4, is evidence of emphasis being given to middle income workers when framing governmental policies. While both groups have come to pay a higher percentage of their incomes in taxation over the period covered by Table 4, the low paid have been much more.

Table 4
Income and Income Tax on Taxpayers with incomes double the lowest award rate for a Cleaner

| | Workers on the lowest award rate for cleaners | | | | Workers on double the lowest award rate for cleaners | | | |
|---------------------|---|----------------------|------------------------|------------------------|--|----------------------|------------------------|--------------------|
| | Annual income \$ gross | Annual income \$ net | Income tax \$ per year | Tax as % of Award rate | Annual income \$ gross | Annual income \$ net | Income tax \$ per year | Tax as % of income |
| 2009-10 | 30,406 | 27,622 | 2,783 | 9.2% | 60,812 | 47,924 | 12,888 | 21.2% |
| 2010-11 | 31,767 | 28,855 | 2,912 | 9.2% | 63,534 | 50,129 | 13,405 | 21.1% |
| 2011-12 | 32,847 | 29,713 | 3,134 | 9.5% | 65,694 | 51,444 | 14,250 | 21.7% |
| 2012-13 | 33,802 | 30,776 | 3,026 | 9.0% | 67,604 | 53,072 | 14,532 | 21.5% |
| 2013-14 | 34,679 | 31,472 | 3,206 | 9.2% | 69,358 | 54,229 | 15,129 | 21.8% |
| 2014-15 | 35,717 | 32,119 | 3,598 | 10.1% | 71,434 | 55,242 | 16,192 | 22.7% |
| 2015-16 | 36,609 | 32,824 | 3,785 | 10.3% | 73,218 | 56,412 | 16,807 | 23.0% |
| 2016-17 | 37,486 | 33,444 | 4,042 | 10.8% | 74,972 | 57,560 | 17,412 | 23.2% |
| 2017-18 | 38,723 | 34,236 | 4,487 | 11.6% | 77,446 | 59,180 | 18,266 | 23.6% |
| 2018-19 | 40,079 | 35,589 | 4,490 | 11.2% | 80,158 | 62,036 | 18,122 | 22.6% |
| 2019-20 | 41,280 | 36,448 | 4,832 | 11.7% | 82,560 | 63,610 | 18,950 | 23.0% |
| 2020-21 | 42,000 | 37,743 | 4,257 | 10.1% | 84,000 | 65,633 | 18,367 | 21.9% |
| 2021-22 | 43,049 | 39,017 | 4,031 | 9.4% | 86,098 | 67,427 | 18,671 | 21.7% |
| 2022-23 | 45,136 | 39,420 | 5,716 | 12.7% | 90,272 | 68,661 | 21,611 | 24.0% |
| 2023-24 | 47,729 | 41,080 | 6,649 | 13.9% | 95,458 | 72,058 | 23,400 | 24.5% |
| 2024-25 (4%) | 49,638 | 42,417 | 7,221 | 14.5% | 99,276 | 75,916 | 23,360 | 23.5% |
| 2024-5 (5%) | 50,114 | 42,733 | 7,381 | 14.7% | 100,228 | 76,563 | 23,665 | 23.6% |

The average tax bite of the higher paid workers in the first five years, 2009-10 to 2013-14, was 21.5%. Over the five years to 2023-24, the tax bite had risen to 23.0%. It will increase to 23.5% with a 4% increase in the award rate in July 2024 and 23.6% with a 5% increase.

Of course, this does not mean that workers on double the cleaners' rate will necessarily get these kinds of pay rises in July 2024, although those workers whose wages are determined by award increases could expect those increases. The purpose of this comparison is to estimate the differential impact of the tax package on various income levels within the community.

By reference to the average percentage over the first five years, these higher paid workers were paying 3 percentage points more tax in 2023-24. Income taxation at the earlier percentage of 21.5%, and not 24.5%, in 2023-24 would mean annual tax of \$20,523 and not \$23,400. This increase of \$2,877 per year equates to \$55.14 per week.

Stage 3 will bring some tax relief to these workers. With a 5% increase in income in 2024-25, average tax will fall to 23.6%, but will still be substantially greater than it was in the first five years when the average tax bite was 21.5%.

At a 21.5% tax bite, a 5% increase in incomes in 2024-25 would result in income tax of \$21,549, \$2,116 less than will be the outcome under the Stage 3 tax changes. This equates to a loss of \$40.55 per week. If these workers have a 4% increase in income in that year, the earlier 21.5% tax bite would have delivered annual tax of \$21,344, \$2,016 less than the outcome under the Stage 3 tax changes, which equates to a loss of \$38.64 per week.

As noted earlier, in the five years to 2023-24, the year average tax paid by the higher paid group of workers was 23.0%. It may be that any assessment of the tax changes for this middle-income cohort will focus on the comparison between the 2024-25 rates and those five years so that the increased tax bites in 2024-25 might not seem significant. A 23.0% tax bite in 2024-25 (at the 5% wage increase) would mean annual income tax of \$23,052, \$613 less than under the Stage 3 rates. This equates to \$11.75 per week.

Whether the comparator is the average tax bite of the first five years or the average tax bite of the most recent five years, these middle-income workers are much better off than the cleaners and other low paid workers.

G. In contrast to tax hikes for the low paid, higher income earners will get big tax cuts.

How do these outcomes for low paid workers compare with the outcomes for high income earners? Selecting a datum point for comparisons of past present and proposed taxation rates and choosing the income levels at which comparisons might be made for tax equity purposes must be a matter of judgment.

The commentaries on Tables 1 and 2 have used the average tax bites of the five years, 2009-10 to 2013-14 as a comparator in the assessment of the impact of the tax changes of recent years and the prospective Stage 3 tax changes, in particular. For low paid workers those prospective changes will deliver tax hikes, whether compared to the average tax bites in that five-year period or compared with the tax bites of more recent years.

Table 5 deals with the incomes and average tax rates of taxpayers who have taxable incomes three times and five times more than the cleaner on the lowest minimum award rate in the Cleaning Services Award. In the current 2023-24 tax year they are taxpayers with taxable annual incomes of \$143,187 and \$238,645, respectively.

Table 5

Income Taxes paid by Taxpayers with incomes three times and five times the lowest award rate for a Cleaner

| | Three times the lowest award rate for cleaners | | | | Five times the lowest award rate for cleaners | | | |
|---------------------|--|----------------------|------------------------|--------------------|---|----------------------|------------------------|--------------------|
| | Annual income \$ gross | Annual income \$ net | Income tax \$ per year | Tax as % of income | Annual income \$ gross | Annual income \$ net | Income tax \$ per year | Tax as % of income |
| 2009-10 | 91,218 | 63,737 | 23,481 | 25.7% | 152,030 | 104,528 | 47,502 | 31.2% |
| 2010-11 | 95,301 | 70,660 | 24,641 | 25.9% | 158,835 | 109,734 | 49,101 | 30.9% |
| 2011-12 | 98,581 | 72,434 | 26,147 | 26.5% | 164,235 | 112,162 | 52,073 | 31.7% |
| 2012-13 | 101,406 | 74,418 | 26,988 | 26.6% | 169,010 | 115,994 | 53,016 | 31.4% |
| 2013-14 | 104,037 | 76,036 | 28,001 | 26.9% | 173,395 | 118,691 | 54,704 | 31.5% |
| 2014-15 | 107,151 | 77,415 | 29,736 | 27.8% | 178,585 | 120,990 | 57,595 | 32.3% |
| 2015-16 | 109,827 | 79,047 | 30,780 | 28.0% | 183,045 | 123,406 | 59,639 | 32.6% |
| 2016-17 | 112,458 | 80,967 | 31,491 | 28.0% | 187,430 | 125,957 | 61,473 | 32.8% |
| 2017-18 | 116,129 | 83,191 | 32,938 | 28.4% | 193,615 | 129,384 | 64,231 | 33.2% |
| 2018-19 | 120,237 | 86,020 | 34,217 | 28.5% | 200,395 | 133,112 | 67,283 | 33.6% |
| 2019-20 | 123,840 | 88,110 | 35,730 | 28.9% | 206,400 | 136,295 | 70,105 | 34.0% |
| 2020-21 | 126,000 | 91,793 | 34,207 | 27.1% | 210,000 | 140,633 | 69,367 | 33.0% |
| 2021-22 | 129,147 | 93,713 | 35,434 | 27.4% | 215,245 | 143,413 | 71,832 | 33.4% |
| 2022-23 | 135,408 | 97,532 | 37,876 | 28.0% | 225,640 | 148,922 | 76,718 | 34.0% |
| 2023-24 | 143,187 | 102,277 | 40,910 | 28.6% | 238,645 | 155,815 | 82,830 | 34.7% |
| 2024-25 (4%) | 148,914 | 109,669 | 39,245 | 26.4% | 248,190 | 169,949 | 78,241 | 31.5% |
| 2024-25 (5%) | 150,342 | 110,641 | 39,701 | 26.4% | 250,570 | 171,210 | 79,360 | 31.7% |

Taxpayers with incomes three times the cleaners' award rate: The average tax bite for the first five years was 26.3%. In 2024-25, the average tax bite will be 26.4% (rounded to the same figure with both possible wage increases for cleaners). This is very close to the first five years, but substantially below the 28.0% average of the five previous years 2019-20 to 2023-24.

Taxpayers with incomes five times the cleaners' award rate: The average tax bite for the first five years was 31.3%. In 2024-25 the average tax bite will be 31.5% (at a 5% increase) or 31.7% (at a 4% increase). These are marginally above the average of the first five years, but substantially below the 33.8% average of the five years 2019-20 to 2023-24.

While there is reason for reviewing, and adjusting to some extent, the income tax burdens on these higher income earners, as a matter of equity and fairness it must be done in the context of the income tax burdens placed on low-income earners.

What will be the tax cut for these high-income earners under Stage 3 tax cuts? The following is taken from the Australian Tax Office's Calculator

Table 6
Stage 3 tax cuts for higher income earners

| | Tax at 2023-24 rates \$ | Tax 2023-24 rates % | Tax at 2024-25 rates \$ | Tax at 2024-25 rates % | Tax cut per year \$ | Tax cut per week \$ |
|----------------|-------------------------------|---------------------------|-------------------------------|------------------------------|---------------------------|---------------------------|
| 100,000 | 24,967 | 25.0% | 23,592 | 23.6% | 1,375 | 26.35 |
| 125,000 | 33,817 | 27.1% | 31,592 | 25.3% | 2,225 | 42.64 |
| 150,000 | 43,567 | 29.0% | 39,592 | 26.4% | 3,975 | 76.18 |
| 175,000 | 53,317 | 30.5% | 47,592 | 27.2% | 5,725 | 109.72 |
| 195,000 | 62,317 | 32.0% | 53,922 | 27.7% | 8,395 | 160.89 |
| 200,000 | 64,667 | 32.3% | 55,592 | 27.8% | 9,075 | 173.92 |
| 250,000 | 88,167 | 35.3% | 79,092 | 31.6% | 9,075 | 173.92 |
| 300,000 | 111,667 | 37.2% | 102,592 | 34.2% | 9,075 | 173.92 |
| 350,000 | 135,167 | 38.6% | 126,092 | 36.0% | 9,075 | 173.92 |
| 400,000 | 158,667 | 39.7% | 149,592 | 37.4% | 9,075 | 173.92 |
| 450,000 | 182,167 | 40.1% | 173,092 | 38.5% | 9,075 | 173.92 |
| 500,000 | 205,667 | 41.1% | 196,592 | 39.3% | 9,075 | 173.92 |

Tax includes the Medicare levy at 2.0%. Data drawn from calculators at <https://atotaxrates.info/individual-tax-rates-resident/ato-tax-rates>

I. Entrenching disadvantage: low paid workers beyond 2024-25

Tables 1, 2 and 3 show that low paid workers are worse off under the current income tax rates. They have had tax hikes, not tax cuts, and this will continue into 2024-25.

Worse is to come beyond 2024-25. Bracket creep will increase the 2024-25 tax bites into the following years unless and until the Government acts. Bracket creep occurs when a higher proportion of taxable income is taxed at the worker's highest marginal tax rate. This will occur even when the extra income does not move the worker into a higher marginal tax rate.

Under the 2024-25 tax scales the 30% marginal tax rate covers incomes from \$41,001 to \$200,000, which means that low paid workers and high paid workers (up to \$200,000 per year, pay the same proportion of tax. However, there is another factor at work.

To illustrate:

- If a worker on \$100,000 per year has a pay increase of \$1,000, the increase in tax (before the Medicare levy) will be \$300 dollars, with the overall average tax paid moving from 23.6% to 23.7%.
- If a worker on \$50,000 per year has a pay increase of \$1,000, the increase in tax (before the Medicare levy) will be \$315 dollars, with the overall average tax paid moving from 14.7% to 15.1%.

The cause of this differential in income tax is the impact of changes in the Low Income Tax Offset (LITO).

In 2024-25 the LITO will provide a maximum offset of \$700 per year, which will reduce at the rate of 5% for incomes over the range \$37,501 to \$45,000 and reduce at the rate of 1.5% for incomes over the range \$45,001 to \$66,666, after which it will not be payable.

The underlying general tax scale in 2024-25 (before the Medicare levy), and in following years unless the rates are changed, will be:

- 0 to \$18200, no tax
- \$18,201 to \$45,000, 19 cents for each \$1 over \$18,200
- \$45,001, to \$200,000, \$5,092 plus 30% for each \$1 over \$45,000
- \$200,001 and over \$51,592 plus 45 cents for each \$1 over \$200,000.

The rationale of the LITO is that the income tax thresholds and marginal tax rates need to be modified to provide fair tax burdens for low-income taxpayers. It is a targeted measure that finely tunes the tax rates in a way that the low marginal tax rates cannot, and it modifies the underlying general tax scale without passing on the tax savings that would otherwise be required to higher income taxpayers.

Coming back to the cleaner in Table 1. If the rate for cleaners increases by 4.0% on 1 July 2024, the tax bite will increase from 13.9% (in 2023-24) to 14.5%. (With a 4% increase in July 2024 the LITO tax offset would be only worth \$255 in that year.) A 3.0% award increase in July 2025 would lift the minimum rate to \$51,127, on which the tax bite would be 15.1%. For the taxpayer on \$100,000 in 2024-25 (who has already had a large tax cut under the new tax scales) a 3% increase in 2024-25 would only increase the tax bite from 23.6% to 23.8%. A summary of the LMITO published by the Australian Tax Office (ATO) is in the Attachment hereto.

LMITO and the sugar hit. During the three years 2018-19 to 2021-22 another income-related tax offset was available to low-income earners: the Low and Middle Income Tax Offset (LMITO). As the name makes clear, it also covered middle income taxpayers. Two summaries of the LMITO published by the ATO are in the Attachment hereto. Also included is a summary published by the ATO of the changes in the LITO and the LMITO over the years 2017-18 to 2024-25.

The LMITO was the principal means by which the short-term reduction in the tax bite, the “sugar hit”, was delivered. In 2021-22, on the cleaners’ award wage of \$43,049, the LITMO was \$422.55 and the LMITO was \$1,128.68, a total of \$1,551.23. In 2022-23, on the award rate of \$45,136, only the LITO was payable, at the rate of \$322.96 for the year, resulting in a cut in tax offsets of \$1,228.27. It was a tax hike. This was the main contributor to the increase in the cleaners’ tax bite increasing from 9.4% to 12.7% in the years 2021-22 and 2022-23.

The calculation of losses for low paid workers can also be illustrated by holding the annual income at \$45,000 for both years. In 2021-23 the LITO was \$325 and the LMITO was \$1,275, a total of \$1,600. In 2022-23 for the same income only the LITO offset was available, at \$325. This meant a tax hike of \$1,275 in 2022-23. How much would a wage increase need to be before the worker has the same after-tax income as he or she had in 2021-23? The worker would have had to get an annual wage increase of \$1,992 (\$38.18 per week) in the second year, to have a taxable income of \$46,992, so as to yield the same disposable income as he or she had in 2021-22.

J. Conclusion

The picture that emerges from the foregoing Tables is the unfairness for low paid workers of the three-stage tax package that the Government proposes to support and finalise for 2024-2025. The unfairness is not just in the historically high tax bites that are taken and the provisions that will see them increase in percentage terms over the following years, but in the comparisons between the taxation impacts on low-income taxpayers and high-income taxpayers. The inequity in the differential treatment of low-income workers and high-income taxpayers is extraordinary.

In stark contrast to low paid workers, high income taxpayers will move to average taxation rates that are near to their average taxation of a decade earlier. While, in general, they would return to earlier levels of taxation under the Stage 3 changes, low paid workers would be unable to see that outcome; indeed, their position would worsen. The figures given earlier are compelling.

While low paid workers are so disadvantaged there is a strong case for changes to be made for a substantial increase in the LITO, in a similar way to how LITO and the LMITO operated in 2018-19 to 2021-22. In that year the maximum tax offset, from both, was \$1,375, whereas the current prospective offset for that year is only \$700.

Adopting the earlier figure, or more, as the LITO figure for 2024-25 and would provide some equity and fairness to low-income earners, and extending the phase-out range of the LITO would lower the effective marginal tax rate on low paid workers.

There is a good argument in support of the reduction in the LITO starting at one of the lower annual award rates, and not at \$37,501. If the LITO was to be phased-out from or above the cleaners’ lowest award rate, a cleaner on \$50,114 in 2024-25 (having received a 5% increase

in July 2024) would receive a tax offset of \$1,375 and not the currently prospective LITO of \$248.29. The increase in the LITO (\$1,127) would reduce the tax payable from \$7,380 to \$6,253 to 12.5%, down from the currently prospective 14.7%. It would not overcome the after-tax losses suffered over the past decade and a half, where the average tax bite in the first five years was 9.2%, but it would be a significant step to overcoming these losses. Of course, a higher LITO would further alleviate those losses.

Each year the Fair Work Commission holds an Annual Wage Review to review and adjust minimum wage rates. One of the objectives of the Commission is to set wages that provide for the needs of the low paid, which means that it must consider the post-tax position of low paid workers. Any attempt by it to maintain and improve the living standards of low paid workers will be blunted by rising tax bites into the award incomes of the low paid and/or will result in costs to employers that could be avoided if the tax bites were lower.

The income tax burdens on low paid workers have macroeconomic costs. The tax bite adds to the costs of employment. We all know this, but long gone are the days when there was a serious discussion about the interplay of wages and taxes and the possibilities of wage-tax trade-offs. Income tax on the lowest paid workers is, in practice, a tax on employment.

The Budget is built on a variety of values and at the heart of them is fairness across income groups. Here fairness to the low paid requires some intervention.

A decision about the details of the income taxation rates for 2024-25 must be made well in advance of the May 2024 Budget. It is now “five minutes to midnight” and modifications for 2024-25 must be limited and they will not be able to fully address the inequities within the tax system.

In principle and pragmatically, a campaign to improve the LITO in the way suggested above appears to be the only option to assist the low paid in 2024-25. Furthermore, the delay in the lifting of the threshold at which the top marginal tax rate is paid, from \$180,000 to \$200,000 could be abandoned or phased in.

We need a more searching public discussion about these issues. Providing taxation equity for the low paid and providing a more rational taxation system for the setting of minimum wages requires ongoing research and public discussion so that the issues are canvassed and the policy proposals are formulated well in advance of Budgets and elections.

As well as advising that the Stage 3 tax cuts will proceed, the Treasurer announced that the Government was looking at ways to help those struggling with costs of living pressures. Hopefully, it is thinking about the ways in which low-income Australians can be helped through much needed reforms to income taxation. As we can see, there is a way in which it can be done in the May 2024 Budget.

Attachment

Screenshots regarding tax offsets from the Australian Tax Office's website, taken on 4 December 2023

Low Income Tax Offset

For 2023 full the Low Income Tax Offset is valued at \$700 on low incomes up to \$37,500.

The offset is withdrawn at the rate of 5% of income above \$37,500 up to \$45,000, where it is reduced to \$325 and then withdrawn at the rate of 1.5% of income above \$45,000.

For incomes above \$66,666 there is no LITO offset available.

On this page



LITO Formula

"LITO" calculation formulae for the tax years 2021, 2022 and 2023 and following.

| Income | Offset |
|----------------------|--|
| 0 to \$37,500 | \$700 |
| \$37,501 to \$45,000 | \$700 less 5% of [Income minus \$37,500] |
| \$45,001 to \$66,666 | \$325 less 1.5% of [Income minus \$45,000] |
| \$66,667+ | nil |

The Low Income Tax "Offset" is an amount subtracted from tax payable. If the calculated LITO offset is greater than your tax payable, the excess is not refundable, and it also can't be used to offset Medicare Levy.

LITO and LMITO

The new LITO of \$700 replaced the \$445 offset from 1 July 2020, and applies **together with the LMITO of up to \$1,080** which ended 30 June 2022. (The LMITO was retained for 2020-21, and was later extended to include the 2021-22 year. [Budget 2022](#) increased the maximum LMITO by \$420 from \$1,080 to \$1,500.)

From 2022-23 onward, only the LITO (maximum \$700) is applicable. The calculations for both offsets (LITO and LMITO) have been included in the calculators below.

<https://atotaxrates.info/tax-offset/low-income-tax-offset/>

Low and Middle Income Tax Offset

Low and Middle Income Tax Offset "LMITO" formulae only applies for the years 2019 to 2022.

LMITO Formula For 2021-22

The Low and Middle Income Tax Offset is valued at \$675 on low incomes up to \$37,000. The offset is increased at the rate of 7.5% of income above \$37,000 up to \$48,000. Incomes above \$48,000 to \$90,000 have an offset of \$1,500 for 2021-22 only.

For incomes above \$90,000 the offset is withdrawn at the rate of 3% of income above \$90,000. On incomes above \$126,000 there is no offset.

Budget 2022 announcement 29 March 2022:

Low and Middle income earners who were eligible for the LMITO will have that increased by \$420 for the 2021-22 financial year (only).

The Low Middle Income Tax Offset becomes payable at the time of tax return assessment, and so the benefit of this increase will flow to taxpayers from July 2022 onwards.

How the formula changed for 2021-22:

| Budget 2022 amendment.. | Previously.. |
|---|---|
| Schedule 6 to the main Bill increases the low and middle income tax offset amount | The tax offset amount for persons who are eligible to receive the low and middle income tax offset is as follows: |
| for the 2021-22 income year by \$420 for eligible individuals (and trustees). | <ul style="list-style-type: none"> • Taxable income does not exceed \$37,000; <ul style="list-style-type: none"> – \$255; • Taxable income exceeds \$37,000 but is not more than \$48,000; <ul style="list-style-type: none"> – \$255, plus an amount equal to 7.5 per cent of the excess; • Taxable income exceeds \$48,000 but is not more than 90,000; <ul style="list-style-type: none"> – \$1,080; • Taxable income exceeds \$90,000 but is not more than \$126,000; <ul style="list-style-type: none"> – \$1,080, less an amount equal to three per cent of the excess. |

Source: Explanatory Memorandum Treasury Laws Amendment (Cost of Living Support and Other Measures) Bill 2022.

<https://atotaxrates.info/tax-offset/low-and-middle-income-tax-offset/>

How Low and Middle Income Tax Offset is calculated 2021-22

The full LMITO is \$1,500 from 1 July 2021 to 30 June 2022

| Taxable Income | LITO Offset Amount/Formula |
|-----------------------|---|
| 0 – \$37,000 | \$675 |
| \$37,001 – \$48,000 | \$675 + [(taxable income - \$37,000) x 7.5%] |
| \$48,001 – \$90,000 | \$1,500 |
| \$90,001 – \$126,000 | \$1,500 - [(taxable income - \$90,000) x 3%] |

<https://atotaxrates.info/tax-offset/low-and-middle-income-tax-offset/>

| Year | LITO | LMITO | Nominal Tax Threshold | Effective Tax-Free Threshold |
|-------------|-------------|--------------|------------------------------|-------------------------------------|
| 2024-25 | \$700 | – | \$18,200 | \$21,885 |
| 2023-24 | \$700 | – | \$18,200 | \$21,885 |
| 2022-23 | \$700 | – | \$18,200 | \$21,885 |
| 2021-22 | \$700 | \$675 | \$18,200 | \$25,436 |
| 2020-21 | \$700 | \$255 | \$18,200 | \$23,227 |
| 2019-20 | \$445 | \$255 | \$18,200 | \$21,885 |
| 2018-19 | \$445 | \$255 | \$18,200 | \$21,885 |
| 2017-18 | \$445 | | \$18,200 | \$20,542 |

Note: the LMITO for 2021-22 is the amount of the LMITO payable to workers earning up to \$37,000 per year. The maximum amount of the LMITO was \$1,500, payable over the income range \$48001 to \$90,000.

<https://atotaxrates.info/individual-tax-rates-resident/tax-free-threshold/>,