# Information note—Low and middle income tax offset (LMITO) and fuel excise

16 May 2022

This information note provides additional material on the low and middle income tax offset (LMITO) and the temporary reduction in fuel excise. The information note poses questions for the Commonwealth Treasury. All parties are invited to comment on the material and responses to the questions can be provided at the public consultations.

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## Low and middle income tax offset (LMITO)

### When was it first considered by the Panel?

The low and middle income tax offset (LMITO) was introduced for the 2018–19 financial year and was paid as a lump sum after the lodging of income tax returns (i.e. from 1 July 2019). The LMITO worked in conjunction with the low income tax offset (LITO).[[1]](#footnote-2)

The Panel stated in the 2018–19 Review:

… we accept that the introduction of the LMITO effective from 1 July 2018 and the increase in the Medicare levy’s low-income threshold for the 2018–19 financial year (to take into account movements in the CPI) have, broadly speaking, provided a benefit to low-paid households. These changes are a moderating factor on our assessment of the appropriate level of increase to the NMW and modern award minimum wages arising from this Review. But for the reasons we have given, it is not appropriate to apply a direct, quantifiable, discount to the increase in the NMW and modern award minimum wages we would have awarded in the absence of such changes in the tax-transfer system.[[2]](#footnote-3)

### What happened next?

The 2019–20 Budget (handed down earlier on 2 April 2019 due to the federal election) announced that the LMITO would be extended for the 2019–20, 2020–21 and 2021–22 financial years.

The Budget also announced an increase to the LMITO: the minimum offset amount would increase to $255 (up from $200), with the rate increasing by 7.5 cents per dollar (up from 3 cents) to the new maximum level of $1080 (up from $530), before phasing out at 3 cents per dollar (up from 1.5 cents).[[3]](#footnote-4) This higher LMITO replaced the initial offset amounts for the 2018–19 financial year and thereafter.

In the 2019–20 Review, Ai Group pointed out that ‘the amount of LMITO made available to taxpayers in respect of income earned in the 2018–19 year was larger than the LMITO factored into last year’s Review [the 2018–19 Review]’ and submitted that ‘the higher rate of LMITO be taken into account in this year’s decision [the 2019–20 Review]’.[[4]](#footnote-5)

As such, the Panel affirmed its position that it is not appropriate to apply a direct, quantifiable discount to the increase that would have been awarded in the absence of such changes, but that these changes were a moderating factor in its assessment of the appropriate level of the NMW and modern award minimum wages arising from the Review.[[5]](#footnote-6)

In the 2020–21 Review, the ACTU argued that the retention of the LMITO for the next financial year meant no change in the net position for impacted workers relative to the current state. This was accepted by the Panel.[[6]](#footnote-7)

### Increasing the LMITO for the 2021–22 financial year

The 2022–23 Budget proposed increasing the LMITO covering the 2021–22 income year by $420 (called the Cost of living tax offset). All LMITO recipients will receive the additional $420 offset except those that do not require the full offset to reduce their tax liability to zero. The maximum LMITO benefit therefore increases from $1080 to $1500. No other changes are made to the LMITO thresholds or the rates it is increased or withdrawn.[[7]](#footnote-8) Consistent with the current LMITO, taxpayers with incomes of $126 000 or more will not receive the additional $420.[[8]](#footnote-9) The LMITO will be payable once tax returns are lodged from 1 July 2022.

### What have parties said in this Review?

ACCI argued that this measure should be taken into account in this year’s Review[[9]](#footnote-10) and that all household types presented in the Statistical report will receive the additional $420.[[10]](#footnote-11) Ai Group submitted that the ‘higher level of the LMITO should be treated in a consistent way’.[[11]](#footnote-12) NRA submitted that 2022–23 Budget measures ‘will contribute to further easing of cost-of-living pressures during the period under consideration for the current Review’.[[12]](#footnote-13)

The ACTU argued that the LMITO ‘is not recurrent income that can sensibly be allocated to a material change in living standards over the year ahead’.[[13]](#footnote-14) The ACTU also noted that it does not apply to those earning less than the tax-free threshold of $18 200 and that ‘the lowest paid will not benefit’.[[14]](#footnote-15)

ACCER agreed with ACTU’s position.[[15]](#footnote-16) ACCER also stated that:

In circumstances where the LMITO will not be effected until 1 July 2022, it is argued that this matter should not be a consideration for the Expert Panel in this year's review.[[16]](#footnote-17)

This statement was made in relation to the Panel stating that the initial year of the LMITO (for the 2018–19 financial year and payable from 1 July 2019) ‘would not as a practical matter provide any financial benefits to employed persons on or before 30 June 2019, the Panel does not propose to take them into account in this Review.’[[17]](#footnote-18)

#### Question for Treasury:

The announcement of the LMITO noted that it would operate in conjunction with the low income tax offset (LITO), for incomes up to $37 000. Can you provide further information on the LITO amount and how or whether it still operates in the same way?

## Temporary reduction in fuel excise

As discussed in additional material published for this Review,[[18]](#footnote-19) the fuel excise and excise-equivalent customs duty rate that applies to petrol and diesel will be halved for 6 months. The excise and excise-equivalent customs duty rates for all other fuel and petroleum-based products, except aviation fuels, will also be reduced by 50 per cent for 6 months.

The measure commenced from 12.01am on 30 March 2022 and will end at 11.59pm on 28 September 2022. Under the measure, existing policy settings for fuel excise and excise-equivalent customs duty, including indexation in August, will continue but on the basis of the halved rates. At the conclusion of the 6-month period, the excise and excise-equivalent customs duty rates will then revert to previous rates, including indexation that would have occurred on those rates during the 6-month period.

### What have parties said in this Review?

The ACTU submitted that ‘fuel prices are indeed the major driver of cost of living increases’ and noted that the 2022–23 Budget forecast for inflation is lowered by ¼ percentage point due to the reduction in fuel excise. It further submitted that ‘its impact is too uncertain for it to be regarded as anything other than a neutral factor over the year ahead.[[19]](#footnote-20) ACCI submitted that this would contribute to ‘reducing cost pressures and increasing the household disposable income of low-income households’.[[20]](#footnote-21)

ARA submitted that ‘it is reasonable to assume that the reduction in fuel excise, and the continued strengthening of the Australian dollar, will put downward pressure on the price of durable goods and produce over the next six months given the proportion of costs that can be attributed to fuel usage along the supply chain. The combined effect of these factors has the potential to maintain underlying inflation at or below current levels through 2022-23.’[[21]](#footnote-22)

Parties were invited to respond to the additional material in their submission in reply.

Ai Group submitted that the temporary reduction ‘will reduce the costs of living faced by the low paid as for other Australians in the June and September quarters of 2022 and will be reflected in consumer price data for these quarters’.[[22]](#footnote-23) NRA submitted that it ‘can be expected to have a swift downward effect on headline CPI’.[[23]](#footnote-24)

ACCER submitted that it ‘has no meaningful effect on lowering the cost of living for low income earners’ and that it ‘will give the low paid no security or benefit post September 2022’.[[24]](#footnote-25) Further, that ‘the reduction of the fuel excise will be less impactful on low income earners’ because lower-income households are less likely to own cars.[[25]](#footnote-26)

#### Question for Treasury

Can Treasury confirm whether the forecasts for inflation published in the 2022–23 Budget include the temporary reduction, and then reversal, in fuel excise throughout 2022?

1. The LITO applied to incomes of $37 000 or less. The maximum LITO was $445. See Fair Work Commission (2019), *Information note—Changes to the tax-transfer system*, additional material for the 2018–19 Review, 3 April. [↑](#footnote-ref-2)
2. [2019] FWCFB 3500 at [354] [↑](#footnote-ref-3)
3. The maximum LMITO applied to incomes between $48 000 and $90 000. [↑](#footnote-ref-4)
4. [2020] FWCFB 3500 at [355] [↑](#footnote-ref-5)
5. [2020] FWCFB 3500 at [357] [↑](#footnote-ref-6)
6. [2021] FWCFB 3500 at [69] [↑](#footnote-ref-7)
7. Australian Government (2022), *Budget 2022–23, Budget Paper No. 1*, 29 March, p. 15. [↑](#footnote-ref-8)
8. Australian Government (2022), *Budget 2022–23, Budget Paper No. 2*, 29 March, p. 16; [*Treasury Laws Amendment (Cost of Living Support and Other Measures) Act 2022*](https://www.legislation.gov.au/Details/C2022A00014). [↑](#footnote-ref-9)
9. ACCI submission, 1 April 2022, at paras 245–246. [↑](#footnote-ref-10)
10. ACCI submission in reply, 10 May 2022, at para. 65. [↑](#footnote-ref-11)
11. Ai Group submission, 1 April 2022, at p. 43. [↑](#footnote-ref-12)
12. NRA submission in reply, 6 May 2022, at para. 1.2. [↑](#footnote-ref-13)
13. ACTU submission in reply, 8 May 2022, at para. 122. [↑](#footnote-ref-14)
14. ACTU submission, 1 April 2022, at para. 166(b). [↑](#footnote-ref-15)
15. ACCER submission in reply, 6 May 2022, at para. 8. [↑](#footnote-ref-16)
16. ACCER submission in reply, 6 May 2022, at para. 10. [↑](#footnote-ref-17)
17. ACCER submission in reply, 6 May 2022, at para. 9; [2018] FWCFB 3500 at [292]. [↑](#footnote-ref-18)
18. Fair Work Commission (2022), [*Information note—Summary of measures from the 2022–23 Budget*](https://www.fwc.gov.au/documents/wage-reviews/2021-22/infonote-2022-23budgetmeasures.docx), additional material, 14 April. [↑](#footnote-ref-19)
19. ACTU submission, 1 April 2022, at para. 166(a). [↑](#footnote-ref-20)
20. ACCI submission, 1 April 2022, at para. 246. [↑](#footnote-ref-21)
21. ARA submission, 1 April 2022, at p. 4. [↑](#footnote-ref-22)
22. Ai Group submission in reply, 10 May 2022, at p. 22. [↑](#footnote-ref-23)
23. NRA submission in reply, 6 May 2022, at para. 1.3. [↑](#footnote-ref-24)
24. ACCER submission in reply, 10 May 2022, at paras 19–20. [↑](#footnote-ref-25)
25. ACCER submission in reply, 10 May 2022, at para. 21. [↑](#footnote-ref-26)