

**Response to  
Questions for Consultations**

**13 May 2019**

**Prepared by the Department of  
Jobs and Small Business and the  
Treasury**

**Preface – Caretaker Role**

As of 11 April 2019, the Government is operating in a caretaker role, and as such there is a longstanding convention that outlines the role of the public service through this period. With regard to the Annual Wage Review, the public service is unable to comment or express an opinion on matters of policy under the convention but may be able to assist by explaining any factual elements of the Government's submission which may be relevant to the Expert Panel's decision.

### **Additional question to Treasury and Department of Jobs and Small Business**

In the 2018–19 Budget, the Australian Government announced changes to the tax-transfer system for the next seven years. The following changes took effect from 1 July 2018 and impact disposable income:

- The introduction of the Low and Middle Income Tax Offset:
  - Operates in conjunction with the current Low Income Tax Offset (LITO).<sup>1</sup>
  - Eligible taxpayers are paid the LMITO as a lump sum after lodging their income tax return for the 2018–19 financial year.<sup>2</sup>
  - The LMITO provides an offset of \$200 for those whose personal income is less than \$37 000, increasing to \$530 for incomes from \$37 000 to less than \$48 000 at a rate of 3 cents per dollar. The maximum LMITO of \$530 applies to incomes between \$48 000 to \$90 000. For incomes above \$90 000, the LMITO phases out at a rate of 1.5 cents per dollar.<sup>3</sup>
  - The maximum LITO of \$445 applies to incomes of \$37 000 or less (before tapering off at 1.5 per cent for each dollar above \$37 000).<sup>4</sup>
- Changes to income tax:
  - The top threshold of the 32.5 per cent marginal tax rate increased from \$87 000 to \$90 000.<sup>5</sup>
- Increasing the Medicare levy low-income thresholds:
  - For the 2018–19 income year, the Medicare levy's low-income threshold for singles, families and seniors and pensioners was increased to take into account movements in the CPI.<sup>6</sup> The threshold for singles increased from \$21 980 to \$22 938, while the threshold for families increased from \$37 089 to \$37 794.<sup>7</sup>

In regards to the LMITO, Ai Group submitted that the:

---

<sup>1</sup> Australian Taxation Office, *Personal Income Tax Plan*, viewed 25 March 2019, <<https://www.ato.gov.au/general/new-legislation/in-detail/direct-taxes/income-tax-for-individuals/personal-income-tax-plan/>>.

<sup>2</sup> *Personal Income Tax Plan*, viewed 25 March 2019, <<https://www.ato.gov.au/general/new-legislation/in-detail/direct-taxes/income-tax-for-individuals/personal-income-tax-plan/>>.

<sup>3</sup> Ibid.

<sup>4</sup> Australian Taxation Office, *Low income earners*, viewed 25 March 2019, <<https://www.ato.gov.au/Individuals/Income-and-deductions/Offsets-and-rebates/Low-income-earners/>>.

<sup>5</sup> *Personal Income Tax Plan*, viewed 25 March 2019, <<https://www.ato.gov.au/general/new-legislation/in-detail/direct-taxes/income-tax-for-individuals/personal-income-tax-plan/>>.

<sup>6</sup> Australian Government, *Budget Paper No. 2: Budget Measures 2019–20*, Canberra, p. 19.

<sup>7</sup> Australian Government, *Budget Paper No. 2: Budget Measures 2019–20*, Canberra, p. 19.

‘... LAMITO delivers material increases in the disposable incomes of low and middle-income wage earners. The LAMITO delivers larger increases in post-tax incomes than would be delivered by the same dollar increase in the NMW.

While the impacts vary across low and middle-income groups, the increase in disposable income for a person earning the current NMW of \$719.20 a week is 0.63 per cent, which equates to a change in pre-tax income of 0.83 per cent. This is a material impact and should be taken into account in the determination of the change in the NMW.’<sup>8</sup>

The Australian Government provided a discussion on the effect of the Panel’s decisions on household disposable income and at Table 8.6 presented data on changes in real disposable income from 2014 to 2019 for various household types.<sup>9</sup>

While the Australian Government submitted that ‘[t]he introduction of the Low and Middle Income Tax Offset from 1 July 2018 will provide some tax relief for minimum wage earners’,<sup>10</sup> it is not clear what effect this will have on disposable incomes.

We request that Treasury and the Department of Jobs and Small Business provide an analysis of the impact of the 2018–19 Budget changes following the introduction of the LMITO and other tax-transfer changes on disposable incomes for 2018–19 for NMW workers.

### **Supplementary question regarding changes to the tax-transfer system and the impact on disposable income to Treasury and Department of Jobs and Small Business**

The ACTU submitted in their response to Ai Group’s analysis regarding the impacts of the Low and Middle income Tax Offset:

‘... this change amounts to on its own calculation 0.83% of pre tax income, the princely sum of \$5.97 before tax! This in fact demonstrates the precise reason why the Panel’s decision regarding the minimum wage increase is so crucial. New tax regimes are likely to be measly especially at the bottom, and reversible or more. The impact will be even less for those in households that are eligible for highly means tested deductions and payments, and in fact may entail a fall in income after taxes and transfers amounting to income traps.’<sup>11</sup> (emphasis added)

Supplementary to the question on notice published to the Treasury and Department of Jobs and Small Business, we further request that Treasury and the Department of Jobs and Small Business specifically respond to the ACTU statement by providing an analysis of the impact on the household types that appear in Table 8.4 of the Statistical report.

---

<sup>8</sup> Ai Group submission, 15 March 2019 at p. 56.

<sup>9</sup> Australian Government submission, 15 March at para. 296.

<sup>10</sup> Australian Government submission, 15 March at para. 294.

In line with the additional and supplementary questions, Treasury and the Department of Jobs and Small Business provide below an analysis of the impacts of the 2018-19 Budget changes for the NMW worker cameos in Table 8.4 of the Statistical report. The analysis also separately includes the effects of the unlegislated 2019-20 Budget measures.

The following assumptions are used for the cameos:

- Following assumptions made by Ai Group in their submission, full time (FT) cameos earn 100 per cent of the minimum wage, while part time (PT) cameos earn 50 per cent of the minimum wage. This differs from our earlier submission, where part time cameos were assumed to work 15 hours per week, corresponding to 39 per cent of the minimum wage.
- Children in single child families are aged 10, and children in two child families are aged 9 and 10.
- Disposable income includes all available income transfers, unless otherwise specified. This includes rent allowance and the grandfathered Family Tax Benefit energy supplement.
- While Ai Group assumes both FT and PT single parents are not in receipt of income support, we present analysis for these cameos both with income support and without income support. Previous modelling assumes single parents receive income support when eligible.
- For all cameos, wage income is the only source of private income.
- The analysis uses the income support parameters as at 1 January 2019, and tax and family assistance parameters for the 2019-19 tax year. This differs from Ai Group who used 1 July 2018 transfer payment parameters. The exception is for the Budget measure parameters, which are the subject of the analysis, whose modelled values are detailed in Table 1.

*Table 1: Tax policy parameters modelled in the various scenarios (yearly amounts). Unlegislated changes are indicated by the superscript ^.*

Parameter	Before 2018-19 Budget tax relief	Including 2018-19 Budget tax relief	Including 2019-20 Budget measures
Medicare Levy Single Threshold	\$21,655	\$21,980	\$22,398
Medicare Levy Pensioner Single Threshold	\$34,244	\$34,758	\$35,418
Medicare Levy Senior Single Threshold	\$34,244	\$34,758	\$35,418
Medicare Levy Family Threshold	\$36,541	\$37,089	\$37,794
Medicare Levy Pensioner Family Threshold	\$47,670	\$48,385	\$49,304
Medicare Levy Senior Family Threshold	\$47,670	\$48,385	\$49,304
Medicare Levy Dependent Child Increase	\$3,356	\$3,406	\$3,471
LMITO Base Rate		\$200	\$255 <sup>^</sup>
LMITO Max Offset		\$530	\$1,080 <sup>^</sup>
LMITO Threshold to Increase		\$37,000	\$37,000 <sup>^</sup>
LMITO Max Rate Threshold		\$48,000	\$48,000 <sup>^</sup>
LMITO Taper Threshold		\$90,000	\$90,000 <sup>^</sup>
LMITO Increase Taper Rate		3.00%	7.50% <sup>^</sup>
LMITO Decrease Taper Rate		1.50%	3.00% <sup>^</sup>
Third Income Tax Threshold	\$87,000	\$90,000	\$90,000

The results of the analysis is presented in Table 2. Note that while the results present the benefits of the LMITO in weekly terms, the benefit of the rebate is only realised upon lodgement of tax returns at the end of a financial year.

Annual Wage Review 2019

Table 2: Results of Treasury and Department of Jobs and Small Business modelling of the impacts of Budget measures on the disposable incomes on FMW workers. All dollar amounts are weekly averages.

Household type	Before tax wage income	Disposable income before 2018-19 Budget tax relief	Disposable income including 2018-19 Budget tax measures	Disposable income including further 2019-20 Budget tax measures (unlegislated)	Improvement due to 18/19 Budget measures	Total improvement to 19/20 Budget measures (unlegislated)
Single adult	\$719	\$642	\$646	\$648	\$4	\$6
Single parent working FT, 1 child (with NSA)	\$719	\$937	\$942	\$945	\$5	\$8
Single parent working FT, 1 child (no NSA)	\$719	\$907	\$911	\$912	\$4	\$5
Single parent, working PT, 1 child (with NSA)	\$360	\$777	\$781	\$782	\$4	\$5
Single parent, working PT, 1 child (no NSA)	\$360	\$610	\$610	\$610	\$0	\$0
Single parent, working FT, 2 children (with NSA)	\$719	\$1,045	\$1,050	\$1,053	\$5	\$8
Single parent, working FT, 2 children (no NSA)	\$719	\$1,015	\$1,019	\$1,020	\$4	\$5
Single parent, working PT, 2 children (with NSA)	\$360	\$885	\$889	\$890	\$4	\$5
Single parent, working PT, 2 children (no NSA)	\$360	\$718	\$718	\$718	\$0	\$0
Single-earner couple (with NSA)	\$719	\$822	\$827	\$830	\$5	\$8
Single earner-couple (no NSA)	\$719	\$655	\$660	\$662	\$5	\$7
Single-earner couple, 1 child (with NSA)	\$719	\$1,015	\$1,020	\$1,023	\$5	\$8
Single earner-couple, 1 child (no NSA)	\$719	\$907	\$911	\$912	\$4	\$5
Single-earner couple, 2 children (with NSA)	\$719	\$1,127	\$1,131	\$1,132	\$4	\$5
Single earner-couple, 2 children (no NSA)	\$719	\$1,015	\$1,019	\$1,020	\$4	\$5
Dual-earner couple	\$719 + \$360	\$1,002	\$1,006	\$1,007	\$4	\$5
Dual-earner couple, 1 child	\$719 + \$360	\$1,193	\$1,197	\$1,198	\$4	\$5
Dual-earner couple, 2 children	\$719 + \$360	\$1,301	\$1,305	\$1,306	\$4	\$5