

Technical update

July 2018

Personal income tax cuts now law

On 8 May 2018, the Turnbull Government announced in the Federal Budget that there could be changes to personal income taxation commencing 1 July 2018. These proposed changes included:

- introduction of a new temporary Low and Middle Income Tax Offset (LMITO) payable over four financial years
- progressive changes to personal income tax thresholds.

Since the announcement was made, the changes have now passed Parliament and await Royal Assent, which is usually just a formality. With this in mind, we take a look at what these changes may mean for you.

Personal income tax cuts

Low and Middle Income Tax Offset

In addition to the Low Income Tax Offset (LITO), a new Low and Middle Income Tax Offset (LMITO) has been introduced. This is a non-refundable tax offset of up to \$530 per annum to Australian residents who are low and middle income taxpayers.

The offset is only available for the 2018/19, 2019/20, 2020/21 and 2021/22 financial years. Here is how the new rates will apply:

- Where taxable income is \$37,000 or less the LMITO provides a benefit up to \$200
- Taxable income between \$37,000 and \$48,000 sees the offset increases at a rate of 3 cents per dollar up to the maximum benefit of \$530
- Taxable income from \$48,000 to \$90,000 sees the taxpayer eligible for the maximum benefit of \$530
- Taxable income from \$90,001 to \$125,333 sees the offset phase out at a rate of 1.5 cents per dollar.

Personal income tax threshold changes over 7 years

From 1 July 2018

- The upper threshold of the 32.5% income tax bracket increases from \$87,000 to \$90,000.

From 1 July 2022

- The upper threshold of the 19% income tax bracket increases from \$37,000 to \$41,000
- The upper threshold of the 32.5% income tax bracket increases from \$90,000 to \$120,000
- The temporary LMITO is no longer payable. However, the low income tax offset increases from \$445 to \$645. The increased low income tax offset has a taper rate of 6.5 cents per dollar between income of \$37,000 and \$41,000 and at a rate of 1.5 cents per dollar between incomes of \$41,000 and \$66,667.

From 1 July 2024

- The upper threshold of the 32.5% income tax bracket increases from \$120,000 to \$200,000
- The 37% marginal tax rate will cease to exist and the 32.5% tax bracket will apply to taxable incomes of \$41,001 to \$200,000
- The top marginal tax rate of 45% applies for taxable incomes exceeding \$200,000.

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Changes for Australian tax residents

Rate	Current threshold	New threshold from 1 July 2018	New threshold form 1 July 2022	New threshold from 1 July 2024
Nil	0 - \$18,200	0 - \$18,200	0 - \$18,200	0 - \$18,200
19%	\$18,201 - \$37,000	\$18,201 - \$37,000	\$18,201 - \$41,000	\$18,201 - \$41,000
32.5%	\$37,001 - \$87,000	\$37,001 - \$90,000	\$41,001 - \$120,000	\$41,001 - \$200,000
37%	\$87,001 - \$180,000	\$90,001 - \$180,000	\$120,001 - \$180,000	-
45%	\$180,000+	\$180,000+	\$180,000+	\$200,000+
Low and middle income tax offset (max)	-	\$530	-	-
Low income tax offset (max)	\$445	\$445	\$645	\$645

Future tax cuts for Australian tax residents

Income	Tax cut from 1 July 2018	Tax cut from 1 July 2022 (compared to 2017/18)	Tax cut from 1 July 2024 (compared to 2017/18)
\$30,000	\$200	\$200	\$200
\$40,000	\$290	\$455	\$455
\$50,000	\$530	\$540	\$540
\$60,000	\$530	\$540	\$540
\$70,000	\$530	\$540	\$540
\$80,000	\$530	\$540	\$540
\$90,000	\$665	\$675	\$675
\$100,000	\$515	\$1,125	\$1,125
\$110,000	\$365	\$1,575	\$1,575
\$120,000	\$215	\$2,025	\$2,025
\$130,000	\$135	\$2,025	\$2,475
\$140,000	\$135	\$2,025	\$2,925
\$160,000	\$135	\$2,025	\$3,825
\$180,000	\$135	\$2,025	\$4,725
\$200,000	\$135	\$2,025	\$7,225

Calculate your benefits

An [online calculator](#) is available to estimate the tax benefits given a specified level of income.

How does this affect you?

Looking at the scale of tax cuts, it may mean that in coming tax years you are paying less tax. This may provide you with the opportunity to divert some of your extra cashflow into super or savings. You may consider reducing non-deductible debt, funding insurance premiums or making co-contributions to your super fund.

Speak to your financial adviser about any increased opportunities to reduce your tax and increase other opportunities to save.