THE TAX INSTITUTE

THE MARK OF EXPERTISE

20 September 2016

Mr Mark Fitt
Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: economics.sen@aph.gov.au

Dear Mr Fitt,

Inquiry into Treasury Laws Amendment (Income Tax Relief) Bill 2016

The Tax Institute thanks the Senate Economics Legislation Committee (**Committee**) for the invitation to make a submission in relation to the *Treasury Laws Amendment (Income Tax Relief) Bill 2016* (**Bill**).

The Bill amends the personal marginal income tax rates to increase the third personal income tax threshold amount for residents from $80,000 to $87,000. This also impacts the first income tax bracket that applies to non-residents, raising the threshold amount from $80,000 to $87,000.

The taxable income of individuals is taxed at progressive marginal rates including a tax-free threshold. However, the rate of tax an individual may pay at a certain level of income is impacted by a variety of levies and tax offsets that may apply. That is, the headline marginal rate that may apply can differ greatly to the effective rate of tax ultimately paid by the individual.

In addition, the impact of bracket creep is to push individual taxpayers up to higher effective tax rates, in turn reducing their purchasing power and the incentive to work to achieve higher levels of income.

The Tax Institute supports the application of a transparent marginal tax rate system to individual taxpayers. As such, it is our view that the Government should review the factors that contribute to making the marginal tax rate system non-transparent, for example the Medicare levy and surcharge, and suggest they could be addressed by changes to the marginal tax rate system.

Ideally, those separate factors would be abolished, with the relevant policy objectives (if still valid) being achieved by altering marginal rates. To the extent this cannot be done, the complexity provided by these factors ought to be reduced as much as possible.

This may include, for example, introducing a new lower income tier above the tax-free threshold at which neither the Medicare levy needs to be paid nor is a low income tax offset required to be provided. Rather, the income level and applicable rate of tax at each income bracket could already take these factors into account. These changes will lead to increased transparency and simplicity with regard to the taxation of individuals.

In our view, the amendment in the Bill is a step towards addressing bracket creep and in line with the Institute's overall view in relation to the marginal tax rate system[1].

Other matters

In the second line of paragraph 1.5 of the Explanatory Memorandum to the Bill, the word 'of' is missing. We suggest the second line should read (amendment in red below):

> …calculated with reference to a rate of tax payable on taxable income.

Yours sincerely

Arthur Athanasiou
President

[1] Further information in relation to the Institute's view on the marginal tax rate system can be found in our Re:think – Tax Discussion Paper submission (http://www.taxinstitute.com.au/tisubmission/re-think-tax-discussion-paper-submission)