

TREASURY

HOUSE OF REPRESENTATIVES QUESTION
(Question No. 1)

Submission No. **73B**.....

Mr Barresi (Chair) asked the Department of the Treasury, in writing, on 17 February 2005:

Please give an overview of **legislation** that has been presented to parliament since July 2004 that is attempting to address the issues of increasing participation in paid work. For example:

- a. mature age workers tax offset (a new tax offset which will provide a maximum offset of \$500 on the income tax liability of workers aged 55 years and over), and
- b. assistance in providing accommodation for employees, such as an FBT exemption.

Mature Age Worker Tax Offset (MAWTO)

- Commencing 1 July 2004, the MAWTO will provide a non-refundable tax offset of up to \$500, payable on assessment, to workers 55 years or older who earn 'net income from working' in a certain income range.
 - 'Net income from working' generally comprises wages and salaries, other employment income and income from carrying on a business as a sole trader or partnership, less allowable deductions.
 - Passive income, such as interest, capital gains, pensions, and dividends, will not be included in calculating 'net income from working'.
- Workers will meet the age criterion for the offset if they turn 55 by 30 June of the relevant income year.
- The offset will phase in from the first dollar of net income from working, with the full \$500 offset being available to mature age workers when net income from working reaches \$10,000.
- The offset will phase out gradually (at 5 per cent) from \$48,000 (in 2004-05), so that no offset is available when net income from working exceeds \$58,000.
 - From 2005-06 the phase out threshold will increase to \$53,000 so that mature age workers with net income from working up to \$63,000 will benefit from some offset.
- The offset is non-refundable, meaning that it cannot reduce an individual's tax liability below zero, and non-transferable, meaning that the benefits of this offset cannot be transferred to another taxpayer.

Effective Marginal Tax Rates

16. Please discuss the operation of EMTRs.

Effective marginal tax rates, or EMTRs, are often used as a measure of the financial incentive to seek paid work. There are a number of ways to measure the financial rewards from working, each of which has advantages and disadvantages. Some of the more common measures include EMTRs, effective average tax rates (or EATRs) and replacement rates.

- EMTRs measure the net rewards (after tax and changes to income support payments) from earning a small additional amount, usually one dollar. As such they are best suited to analysing individuals' decisions about small variations in hours worked.
- EATRs measure the net return from earning a larger additional amount of money. For example, an EATR can be calculated as the net return from working an additional 3 or 4 hour shift. EATRs can be useful in analysing decisions about whether to increase the number of hours an individual works, including whether to work overtime.
- Replacement rates compare the amount of income that would be received on income support to that which would be received by working. Replacement rates are most useful in analysing decisions about whether to accept a job or stay on income support.

While measures such as those outlined above can represent an important component of an individual's decision on whether to participate in the labour force, there are many other factors that influence the participation decision. The relative weight placed on each factor may vary from person to person, and for a given individual may also vary over time.

Other factors affecting the participation decision can include:

- Capacity, such as education and skills and health status.
 - There is strong evidence that those with higher skill levels are more likely to participate in the workforce.
 - Poor health can lead to early retirement, spells out of work and lost productivity through sickness or injury.
- Caring responsibilities. Those responsible for the care of others may have reduced availability for work.
- Expectations of higher earnings in the future. Apprentices often work for low incomes during the early years of their apprenticeship in the expectation of higher pay once they have finished their training. Similarly, those facing high EMTRs may accept work or an increase in hours (notwithstanding low immediate returns) in the expectation that, through the experience gained, they will continue to improve their earnings potential and gain higher rewards in the future.

Strong economic growth has led to a significant increase in employment and the unemployment rate has fallen to 30-year lows. This has encouraged extra people to participate in the workforce in anticipation of finding a job more easily. Government policies supporting participation in paid work, including those outlined above, have complemented strong macroeconomic fundamentals in boosting the participation rate.