



## What Are The Recent Income Tax Changes?

*There's no doubt that COVID-19 caused massive disruption to Australia's economic landscape and affected both individuals and businesses alike. As a result, the Federal government made huge changes to Australia's tax system and brought forward adjustments to personal income taxes.*

What are the changes made to the Personal Income Tax Plan for Australian individuals and how will they affect you?

### Low and Middle Income Tax Offset

The Low and Middle Income Tax Offset (LMITO) is a tax offset automatically applied if your income is between \$37,001 and \$126,000. Depending on your taxable income and how much tax you've paid, you will receive between \$255 and \$1,080 as a tax offset. The full offset is \$1,080 per annum for singles and up to \$2,160 for dual income couples.

The Federal government has locked in the benefits of the LMITO through the changes to the income tax thresholds and the low income tax offset from 1 July 2022. The top threshold of the 19 per cent tax bracket from \$37,000 to \$45,000 and the maximum amount of the low income tax offset from \$445 to \$700 will be increased.

Taxable Income	Offset
\$37,000 or less	\$255
Between \$37,001 and \$48,000	\$255 plus 7.5 cents for every dollar above \$37,000, up to a maximum of \$1,080
Between \$48,001 and \$90,000	\$1,080
Between \$90,001 and \$126,000	\$1,080 minus 3 cents for every dollar of the amount above \$90,000

### Low Income Tax Offset

The \$700 Low Income Tax Offset (LITO) is combined with the tax-free threshold of \$18,200 and the LMITO. This allows Australians to earn up to \$22,801 for the 2020-21 financial year before income tax will need to be paid or the Medicare Levy applied.

Australians who earn less than \$66,667 will be eligible to receive some of the LITO. If your earnings are \$37,500 or less, you'll receive the full LITO of \$700. This tax offset will be automatically applied when you lodge your personal income tax return.

It's important to note that the LITO is a non-refundable tax offset, meaning it is used to lower your personal income tax rate on the tax you owe. It cannot be received as a tax refund or used to pay your Medicare Levy.

Tax Offsets work differently than tax deductions. Both will reduce the amount of personal income tax you are obligated to pay, however tax deductions are work expenses that are subtracted from your gross earnings before tax is paid, while tax offsets are deducted from your tax liability after taxed have been calculated.

LITO will be available for the 2018-19 to 2021-22 income years.

Income	LITO amount
\$37,500 or less	\$700
\$37,501 - \$45,000	\$700 minus ((Taxable Income minus \$37,500) x 5%)
\$45,001 - \$66,667	\$325 minus ((Taxable Income minus \$45,000) x 1.5%)
More than \$66,667	Nil

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## Personal Income Tax Thresholds

The 2020-21 Federal Budget brought forward all components of stage 2 of the 2018 and 2019 tax changes to the 2020-21 financial year, which was originally intended to come into effect in 2022-23.

From 1 July 2020

- the top threshold of the 32.5 per cent tax bracket will increase from \$90,000 to \$120,000
- the top threshold of the 19 per cent tax bracket will increase from \$37,000 to \$45,000

The stage 3 permanent tax cuts will commence in 2024-25 and the tax rate will be 30 per cent for taxable income \$45,001 up to a taxable income of \$200,000 removing the 32.5 and 37 per cent marginal tax rates entirely. Incomes over \$200,000 will have retain the 45 per cent tax.

The personal income tax rates for 2020-21 for Australian residents for tax purposes is:

Taxable Income	Tax to be paid on this income
0 - \$18,200	Nil
\$18,201 - \$45,000	19 cents for each \$1 over \$18,200
\$45,001 - \$120,000	\$5,092 plus 32.5 cents for each \$1 over \$45,000
\$120,001 - \$180,000	\$29,467 plus 37 cents for each \$1 over \$120,000
\$180,001 and over	\$51,667 plus 45 cents for each \$1 over \$180,000

Other tax rates apply for foreign residents, holiday makers and children.

The enhanced Personal Income Tax Plan is due to be completed in 2024-25 and result in a simpler tax system with only three tax rates. Individual Australians who earn between \$45,000 and \$200,000 will incur a marginal tax rate of 30 percent.

*If you have any questions regarding your personal income tax rate or the tax deductions you're eligible to claim, phone 1800 367 487 for a no obligation chat to one of our friendly Tax Accountants. ITP have helped Australian individual and businesses with their tax affairs for 50 years. Call today!*