

THE HON WAYNE SWAN MP

TREASURER

**SECOND READING SPEECH
TAX LAWS AMENDMENT (PERSONAL INCOME TAX REDUCTION)
BILL 2008
HOUSE OF REPRESENTATIVES**

14 February 2008

Mr Speaker, the amendments contained in this Bill will cut personal income tax for all Australian taxpayers from 1 July 2008, and implement important taxation reforms that have been long championed by the newly elected Government.

These tax reforms are designed to reward the hard work of Australians whose efforts are so critical to keeping the economy strong.

They are also a down payment on a more internationally competitive tax system that will enhance the economy's productive capacity and help attract and retain highly skilled workers.

In order to continue our remarkable 17 year long economic expansion it is necessary to draw more Australians into the labour market. The tax reforms contained in this Bill are designed to do just that.

Lifting the supply of labour is a key component of the Government's five point plan to tackle inflation. Labour shortages are now widespread and employers frequently report they are the number one constraint on business expansion.

By expanding the pool of labour available to businesses they are better able to meet the high levels of demand they are facing for the goods and services they provide.

This tax reform package will significantly improve the financial incentives for second income earners and those on welfare benefits to make the transition into the workforce or increase their hours of work. These incentives will be reinforced by other measures to be implemented by the Government, including the 50 percent child care tax rebate and 450,000 additional skills training places.

Economic modelling undertaken by the Treasury indicates the personal income tax reforms alone will lift aggregate labour supply by around 65,000 persons in the medium term.

This increase in workers, together with the increase in the effort of existing workers, will make available around 2.5 million additional hours of work to the economy each week.

These tax reforms will also enhance the incentives for taxpayers to upgrade their skills and gain higher qualifications by allowing workers to keep more of the wage gains that come with being more highly skilled and productive.

The tax reforms in this Bill are fiscally responsible. They will be progressively phased in — taking effect in three stages: from 1 July 2008, 1 July 2009 and 1 July 2010.

This phased introduction will ensure that the increased disposable income that flows from the tax reductions will better match the anticipated improvement in the productive capacity of the economy in the years ahead.

It should also be noted that the tax reductions will be accompanied by new savings incentives, such as the Government's new First Home Saver accounts, which will encourage eligible taxpayers to make the most of their disposable income gains by boosting their savings efforts.

Importantly, the new tax measures that take effect in the first year are focused on taxpayers that have the greatest labour supply response.

From 1 July this year, the Government will increase the 30 per cent marginal tax rate threshold so that the 15 per cent marginal tax rate will apply up to \$34,000 of income, an increase in the threshold of \$4,000.

In addition, the Low Income Tax Offset will be increased from \$750 to \$1,200. It will continue to phase out at four cents for every dollar of income above \$30,000.

This means that those eligible for the full Low Income Tax Offset will not incur a net income tax liability until their annual income exceeds \$14,000.

Importantly and for the first time, from 1 July 2008, low-income earners will receive half the benefit of this offset through their regular pay, rather than receiving the total as a lump sum when their income tax returns are assessed.

This will ensure that they receive more timely tax relief in their take home pay and will sharpen incentives to participate in the workforce.

Further tax cuts will apply from 1 July 2009, including an increase in the 30 per cent marginal tax rate threshold, so that the 15 per cent marginal tax rate will apply up to \$35,000 of income. In addition, the 40 per cent marginal tax rate will be reduced to 38 per cent.

The Low Income Tax Offset will be increased from \$1,200 to \$1,350 from 1 July 2009. This means that those eligible for the full Low Income Tax Offset will not incur a net income tax liability until their annual income exceeds \$15,000.

From 1 July 2010 the threshold for the 30 per cent marginal tax rate will increase so that the 15 per cent marginal tax rate will apply up to \$37,000 of income. In addition, the 38 per cent marginal tax rate will be reduced to 37 per cent.

The Low Income Tax Offset will also be increased from \$1,350 to \$1,500 from 1 July 2010. This means that those eligible for the full Low Income Tax Offset will not incur a net tax liability until their annual income exceeds \$16,000.

Importantly, this plan provides the greatest tax cuts in percentage terms to those who need it the most — low- and middle-income earners. Compared with their income tax liability for 2007-08, not taking into account the Medicare levy, a person with taxable income of \$20,000 will have an income tax reduction of around 56 per cent, a person with taxable income of \$50,000 will have an income tax reduction of around 18 per cent and a person with taxable income of \$100,000 will have an income tax reduction of around 8 per cent by 2010-11.

I would also note that the increase in the 30 per cent threshold and the Low Income Tax Offset will provide a greater incentive for those outside the workforce to re-enter it and those in part-time work to take on additional hours.

As a result of the increases in the Low Income Tax Offset and the threshold for the 30 per cent tax rate, the income up to which senior Australians eligible for the Senior Australians Tax Offset do not pay income tax will also increase.

From 1 July 2008, senior Australians who are eligible for the Senior Australians Tax Offset will not pay income tax until they reach an annual income of \$28,867 for singles and \$24,680 for each member of a couple. From 1 July 2009, these income levels will increase to \$29,867 for singles and \$25,680 for each member of a couple. From 1 July 2010, these income levels will increase further to \$30,685 for singles and \$26,680 for each member of a couple.

This package provides more than \$30 billion of benefit to taxpayers over the period to 2010-11 and will enhance Australia's reputation as a low-tax country. This tax plan has been developed within the context of a responsible fiscal envelope to enhance individual incentive and workforce participation, particularly for part-time workers and secondary earners.

Overall, these tax cuts will deliver assistance to working Australians under financial pressure and help prepare Australia for its future economic challenges.

The tax reforms contained in this Bill are the first stage in the Government's tax plan to flatten Australia's personal income tax system, by reducing the number of income tax

rates from four to three — with a personal income tax scale of 15 per cent, 30 per cent and 40 per cent – and a more generous Low Income Tax Offset delivering an effective tax free threshold of \$20,000 to low income earners.

These further reforms will be implemented in due course as economic circumstances allow.

Full details of the amendments in this Bill are contained in the explanatory memorandum. I commend the Bill to the House.