



# TapIn Flash

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## Compensation for the proposed Carbon Tax

The Government papers announcing the proposed new Carbon tax indicate that more than half of the revenue raised from this tax will go to households to help meet the expected price increases caused by the tax.

In broad terms, Australian households will receive assistance through proposed:

1. Personal income tax cuts; and
2. Increases to family payments, pensions and allowances.

The Government papers state that nine out of ten households will receive assistance through tax cuts, the extra transfer payments, or both. And for two out of three households, this assistance will be enough to cover their entire average Carbon tax price impact.

Outlined below is a summary of the key household compensation measures.

### 1. Personal Income Tax cuts from 1 July 2012

The Government proposes to change the personal tax scales, and the Low Income Tax Offset (LITO). These changes will result in a tax cut where yearly taxable income is under \$80,000.

These tax changes are to be delivered in two rounds – the first of these on 1 July 2012 and the second on 1 July 2015 are both summarised in the following table:

## Proposed new tax scales

Tax Scales*	Current 2011-12		2012-13		2015-16	
	Threshold (\$)	Marginal Rate	Threshold (\$)	Marginal Rate	Threshold (\$)	Marginal Rate
<b>1<sup>st</sup> Rate</b>	6,001	15%	18,201	19%	19,401	19%
<b>2<sup>nd</sup> Rate</b>	37,001	30%	37,001	32.5%	37,001	33%
<b>3<sup>rd</sup> Rate</b>	80,001	37%	80,001	37%	80,001	37%
<b>4<sup>th</sup> Rate</b>	180,001	45%	180,001	45%	180,001	45%
<b>LITO</b>	Up to \$1,500	4% withdrawal rate on income over \$30,000	Up to \$445	1.5% withdrawal rate on income over \$37,000	Up to \$300	1% withdrawal rate on income over \$37,000
<b>Effective Tax Free Threshold**</b>	16,000		20,542		20,979	

\* Excludes Medicare Levy/Flood levy (2011/12)

\*\* Includes the effect of the tax free threshold and LITO

### Notes/Key points:

- The tax-free threshold will initially increase from \$6,000 to \$18,200, and according to the Government will free up to one million low-income earners from needing to lodge a tax return from 2012-13.  
From a financial planning perspective we note that it is likely to encourage investment income splitting strategies with a lower income earning spouse/adult age children.
- The LITO will initially be reduced from \$1,500 to \$445.
- The combined effect of the higher statutory tax-free threshold and the LITO is that the effective tax-free threshold will initially rise to \$20,542. This means individuals will be able to earn up to \$20,542 from 2012-13 without paying any net income tax, and that all taxpayers below \$80,000 will receive a tax cut – with the Government indicating that around 60% of all taxpayers will initially receive a tax cut of at least \$300.
- No individual will pay more tax as a result of these changes, but where taxable income is greater than \$80,000 pa the yearly tax saving is \$3.
- The pensioner tax offset will also be rolled into the more generous Senior Australians Tax Offset to create a single seniors and pensioners tax offset.

## 2. Increases to family payments, pensions and allowances

A new Clean Energy Supplement will be paid, equal to a 1.7 per cent increase in pensions, allowances and family payments. The assistance will mean:

- Up to \$338 extra per year for single pensioners and self-funded retirees who hold a Commonwealth Seniors Health Card, and up to \$510 per year for pensioner/self funded retiree couples combined.
- Up to \$110 per child for a family that receives Family Tax Benefit Part A.
- Up to \$69 extra for families that receive Family Tax Benefit Part B.
- Up to \$218 extra per year for single income support recipients and \$390 per year for couples combined for people on allowances.

- Up to \$234 per year for single parents in addition to the increased family payments they receive.

Households will receive these extra payments initially in the form of a lump sum advance payment in May-June 2012.

For pensioners/self-funded retirees and most allowees, this advance payment will be equivalent to nine months – or in other words, about three quarters – of the extra annual payment.

For families, this advance payment will be equivalent to a full year of the extra payment.

Regular payments of the Clean Energy Supplement will then be paid on a fortnightly basis from March 2013 for pensions and most allowances, July 2013 for family payments and January 2014 for students on Youth Allowance.

Some low-income households – such as retirees under pension age who are not paying any tax on their superannuation income – might not receive enough assistance through tax cuts or Government payments to offset their average expected cost impact under a carbon price. These households will be able to claim a new \$300 annual Low Income Supplement to ensure they receive assistance as they adjust to changes in their costs of living after the carbon price is introduced.

A special Single Income Family Supplement of up to \$300 will assist single income families with income between \$68,000 and \$150,000.

### **Essential Medical Equipment Payment**

Around 110,000 Australians who hold a Commonwealth concession card and who rely on certain medical equipment will be eligible for an annual cash payment of \$140 a year – in addition to their other assistance. This is to cover the average electricity price increase from the use of their medical equipment due to the carbon price.

### **Support for aged care residents and their providers**

The Government has indicated that arrangements will be introduced to ensure that assistance is shared fairly between aged care residents and providers.

Aged care providers bear many costs for their residents, including electricity, and will receive around half of the assistance paid through the age pension.

Age pensioners living in aged care will receive the balance of the payment to help them with increases in their other costs of living.

More information will be provided once the required legislation is introduced into Parliament.

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