

# FirstTech NewsFlash



## Proposed changes to the stage 3 tax cuts

The Government has announced proposed changes to the already legislated stage 3 tax cuts commencing on 1 July 2024.

In a [media release](#) on Thursday 25 January 2024, the Government stated that these changes are “designed to provide bigger tax cuts for middle Australia to help with cost-of-living, while making our tax system fairer.”

It is important to note that these changes are proposed only at this stage and have not yet been legislated.

### Background

The stage 3 tax cuts were part of the former Government’s seven-year personal income tax plan announced in the 2018-19 Federal Budget. These measures were subsequently legislated and further revised in subsequent years.

At a high level, stage 1 and stage 2 tax cuts that have already been implemented focused on low and middle income earners, while the stage 3 tax cuts (due to commence on 1 July 2024) focused on providing tax relief for higher income earners.

### What are the legislated stage 3 tax cuts?

The already legislated stage 3 tax cuts, due to commence from 1 July 2024, replaced marginal tax rates for taxable income from \$45,000 to \$200,000 with a flat 30% marginal tax rate.

The following table compares the tax brackets and tax rates (excluding Medicare Levy) for the current year and from 2024-25 onwards under the legislated rules:

2023-24		2024-25 and future years	
Thresholds (\$)	Rates (%)	Thresholds (\$)	Rates (%)
0 – 18,200	0	0 – 18,200	0
18,201 – 45,000	19	18,201 – 45,000	19
45,001 – 120,000	32.5	45,001 – 200,000	30
120,001 – 180,000	37		
Over 180,000	45	Over 200,000	45

Under the legislated stage 3 tax cuts, clients with taxable income of \$200,000 or more would receive the maximum tax cut of \$9,075 in 2024–25 and future years.

## What are the new stage 3 tax cut changes announced today?

The announced changes, effective from 1 July 2024 if legislated, will:

- reduce the current 19% tax rate to 16%
- reduce the current 32.5% tax rate to 30%
- increase the current threshold above which the 37% tax rate applies from \$120,000 to \$135,000
- increase the current threshold above which the 45% tax rate applies from \$180,000 to \$190,000

The table below summarises the proposed changes compared with the current year’s tax rates and thresholds.

2023-24		2024-25 and future years (proposed)	
Thresholds (\$)	Rates (%)	Thresholds (\$)	Rates (%)
0 – 18,200	0	0 – 18,200	0
18,201 – 45,000	19	18,201 – 45,000	16
45,001 – 120,000	32.5	45,001 – 135,000	30
120,001 – 180,000	37	135,001 to 190,000	37
Over 180,000	45	Over 190,000	45

It is important to note that Medicare levy remains payable based on taxable income.

As part of today’s announcement, the Government expressed its intention to increase the Medicare levy low-income threshold. This will ensure that people on lower incomes continue to pay a reduced levy rate or are exempt from the Medicare levy. The increased threshold is likely to become available in May 2024 when the Government delivers its Federal Budget.

## How would clients’ tax cuts change?

Compared to the stage 3 tax cuts which are legislated to commence from 1 July 2024, the Government’s proposed tax changes provide a higher tax cut to individual taxpayers with taxable income of approximately \$146,500 or less. Those with taxable income between \$45,000 and \$135,000 would receive an extra \$804 in tax cuts under the proposal.

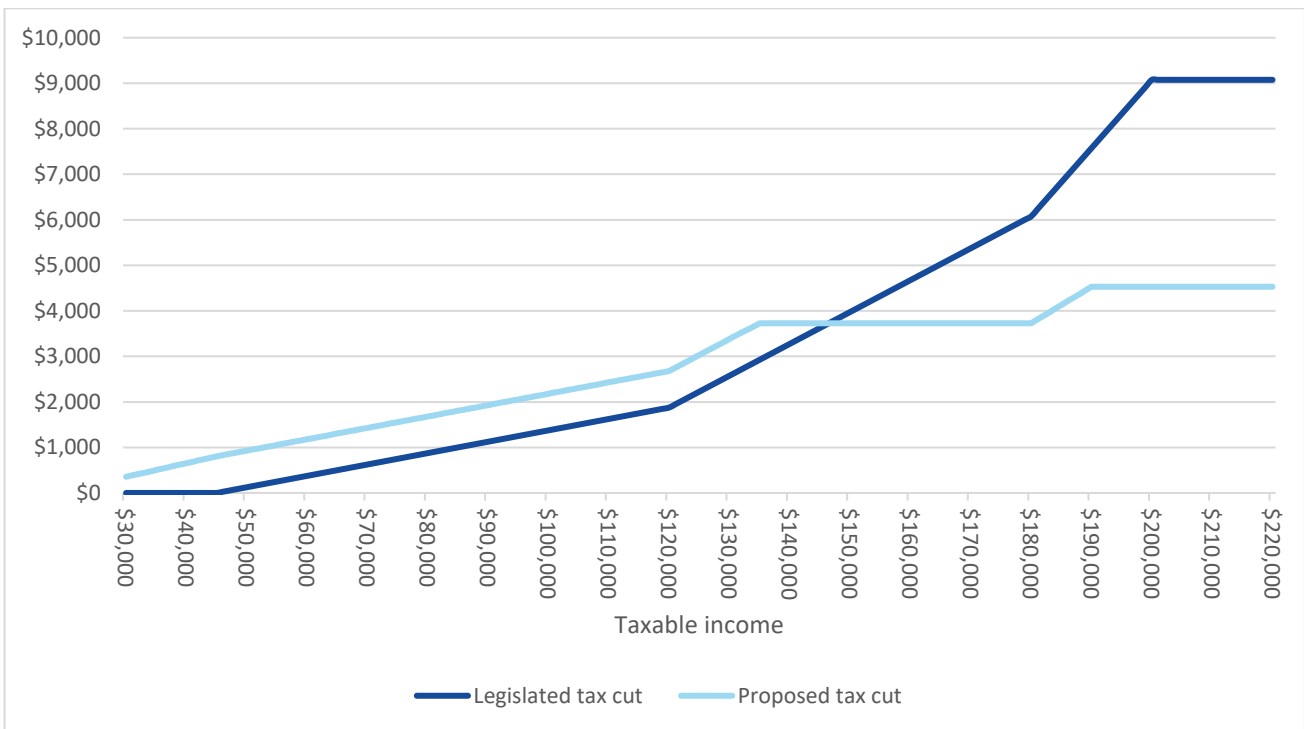
Taxpayers with taxable income of more than approximately \$146,500 would receive a lower tax cut from 1 July under the proposed changes. The maximum tax cut would also be approximately halved (from \$9,075 to \$4,529) under the proposal, with the maximum tax cut applying where taxable income is \$190,000 or more.

The following table summarises the legislated and proposed tax cuts from 1 July 2024 for various income levels.

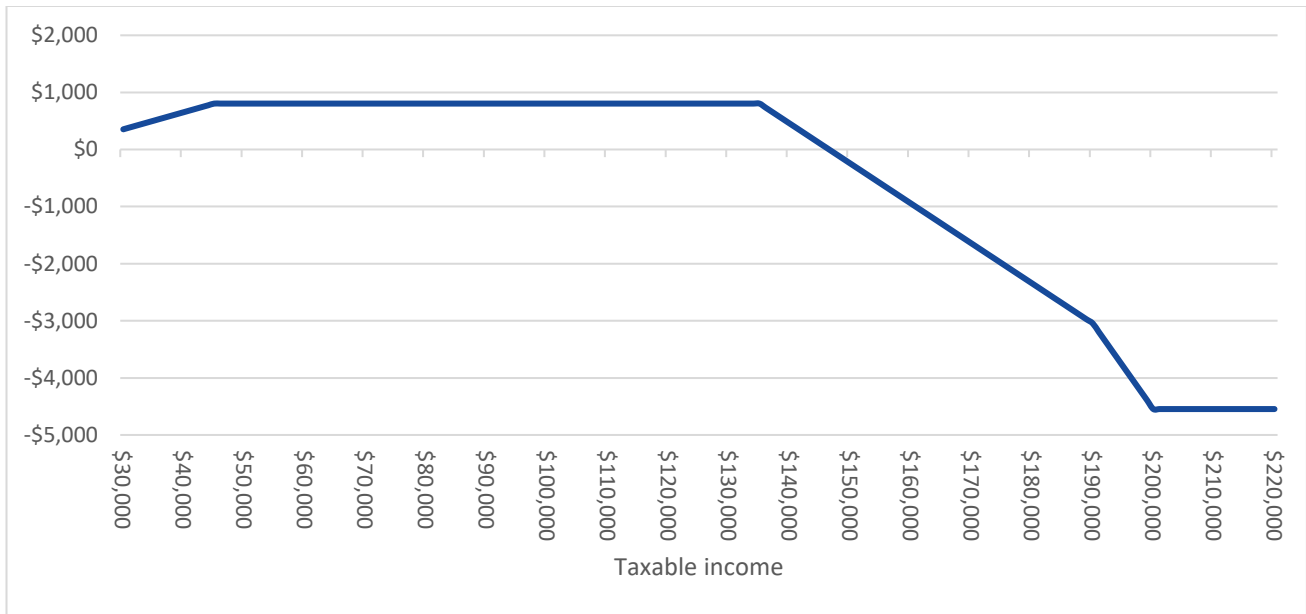
Taxable income	Legislated tax cut	Proposed tax cut	Difference
\$30,000	\$0	\$354	\$354
\$45,000	\$0	\$804	\$804
\$70,000	\$625	\$1,429	\$804
\$100,000	\$1,375	\$2,179	\$804
\$135,000	\$2,925	\$3,729	\$804
\$150,000	\$3,975	\$3,729	-\$246
\$180,000	\$6,075	\$3,729	-\$2,346
\$190,000	\$7,575	\$4,529	-\$3,046
\$200,000	\$9,075	\$4,529	-\$4,546

Chart 1 shows both the legislated and proposed tax cuts from 1 July 2024 for income levels from \$30,000 to \$220,000, while Chart 2 shows the difference in tax cut that would apply from 1 July 2024 under the proposal (compared with the legislated stage 3 tax cuts).

**Chart 1: Annual tax cut from 1 July 2024 – legislated (stage 3) v proposed**



**Chart 2: Difference in tax cuts between legislated and proposed stage 3 tax cuts**



\* Note that for both of the above graphs, the proposed increase in low income threshold for Medicare levy is not yet known and has not been factored in.

### What are the advice implications?

The proposed changes may have a range of advice impacts if legislated. It’s important to review whether any advice recommendations based on the already legislated rules are still effective. For example, under the proposal:

- Due to the reduction of the 19% tax rate to 16%, from 1 July 2024 the Seniors and Pensioners Tax Offset (SAPTO) rebate income threshold and the effective tax-free threshold (ie taxable income before income tax becomes payable) would increase.

#### SAPTO rebate income thresholds changes

Status	Maximum SAPTO	Shading-out threshold		Cut-out threshold	
		Current and legislated tax-cuts from 1 July 2024	Proposed tax-cuts from 1 July 2024	Current and legislated tax-cuts from 1 July 2024	Proposed tax-cuts from 1 July 2024
Single	\$2,230	\$32,279	<b>\$34,919</b>	\$50,119	<b>\$52,759</b>
Member of a couple (each)	\$1,602	\$28,974	<b>\$30,994</b>	\$41,790	<b>\$43,810</b>

## Effective tax-free thresholds changes

Assumptions used in this section are:

- The 19% tax rate is lowered to 16%
- The \$18,200 tax-free threshold remains unchanged
- The Low Income Tax Offset (LITO) remains unchanged (maximum LITO is \$700 and shade-out threshold is \$37,000)
- The SAPTO maximum offset amounts remain unchanged but the rebate thresholds are changed (see above)

From 1 July 2024, the effective tax-free threshold under the proposed tax-cuts will increase from \$21,884 to \$22,575 for resident taxpayers who are eligible for the LITO but not eligible for the SAPTO. Higher thresholds are available for those who are eligible for both LITO and SAPTO. It's therefore important to review impacted clients' salary sacrifice and personal deductible contributions strategies.

The following table compares the effective tax-free income thresholds between the current/legislated tax-cuts and from 1 July 2024 under the proposed changes.

### Resident individuals

Status	Tax offsets applicable	Effective tax-free threshold (taxable income before income tax becomes payable)	
		Current and legislated tax-cuts from 1 July 2024	Proposed tax-cuts from 1 July 2024
Single or member of a couple (not eligible for SAPTO)	LITO	\$21,884	<b>\$22,575</b>
Single	LITO and SAPTO	\$33,088	<b>\$35,813</b>
Member of a couple (each)	LITO and SAPTO	\$29,783	<b>\$31,888</b>

### FirstTech comment

Please note that the SAPTO rate is based on rebate income (rather than just taxable income), which includes adjusted fringe benefits, total net investment loss and reportable super contributions.

The effective tax-free thresholds listed above for SAPTO recipients assume that the individual has no reportable super contributions, net investment losses or adjusted fringe benefits. However, this will not be the case where an individual has made salary sacrifice contributions or personal tax-deductible contributions (for example to reduce their taxable income to their effective tax-free threshold). Where they have, their rebate income will further reduce their SAPTO, and therefore their effective tax-free threshold will be lower.

- The expected tax savings for certain higher income earners would be reduced from the next year. This may have an impact on:
  - A planned salary sacrifice arrangement or personal deductible contributions strategy.
  - The amount that can be contributed to super as after-tax contributions. This can be relevant for spouse contribution and non-concessional contributions strategies or the government co-contribution strategy for a spouse on a lower income.
  - The amount of additional repayments on non-deductible debt such as a home loan.
- Clients who earn less than approximately \$146,500 would receive a higher amount of tax savings. It would be important to review these clients' super contributions strategies and other financial arrangements to take into account additional disposable income.
- Under the legislated stage 3 tax cuts, many individuals' MTR in future financial years will be comparable to an investment company or an insurance bond provider (ie 30%). However, the changes announced today to keep the 37% marginal tax rate (which would apply to taxable income between \$135,000 and \$190,000) could mean that superannuation, an investment company or an insurance bond provider may be a more tax effective structure compared with their individual marginal tax rate.
- It may still be more tax effective to bring-forward future tax deductions to the current year where possible, or delay a tax event that can result in higher taxable income to a future financial year, however, the tax savings resulting from the strategy may be less than planned, particularly for higher income earners.

FirstTech will produce more detailed analysis in due course.

## Useful links

[Media release: Tax cuts to help Australians with the cost of living](#)

[Tax cuts to help with the cost of living](#)

[Government fact sheet: Tax cuts to help Australians with the cost of living](#)

[Tax cut calculator](#)

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