



PROPOSED CHANGES TO THE STAGE 3 TAX CUTS



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P 07 4924 9100 / E kfs@kennas.com / www.kennas.com

5th Floor Capricornia Electricity Centre Cnr Fitzroy & Alma Streets / PO Box 201 / Rockhampton Qld 4700



THE REDESIGNED STAGE 3 PERSONAL INCOME 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, will replace 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	
Thresholds (\$)	Rates (%)
0 – 18,200	0
18,201 – 45,000	19
45,001 – 120,000	32.5
120,001 – 180,000	37
Over 180,000	45

2024-25 and future years	
Thresholds (\$)	Rates (%)
0 – 18,200	0
18,201 – 45,000	19
45,001 – 200,000	30
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.



NEW STAGE 3

TAX CUT CHANGES

WHAT ARE THE NEW STAGE 3 TAX CUT CHANGES ANNOUNCED ON 25 JANUARY 2024?

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.

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

As part of the 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.

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



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 from 1 July would 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 some 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

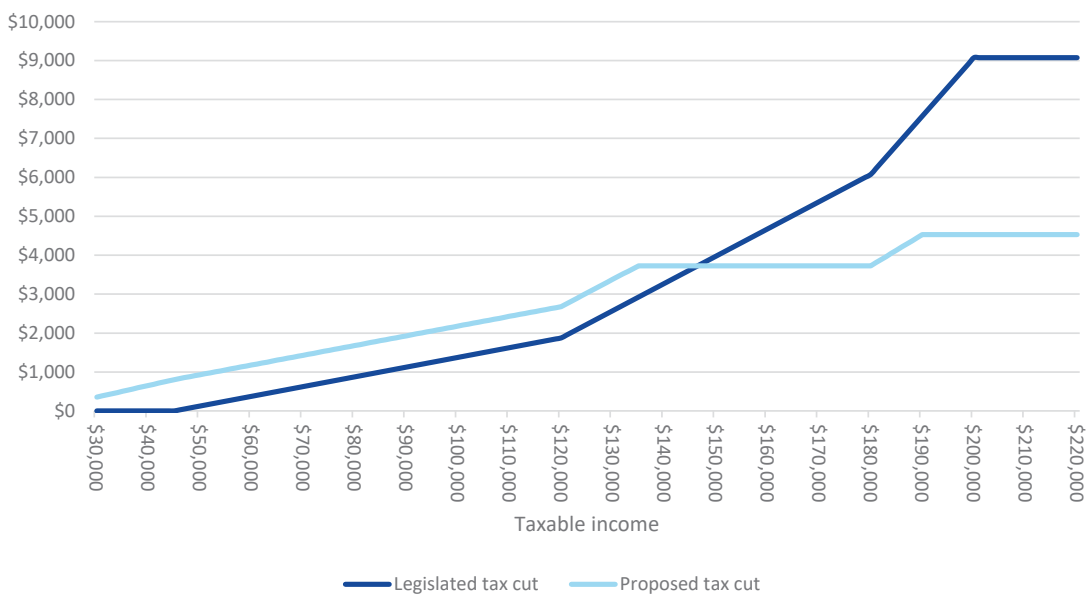


Chart 2: Difference in tax cut the proposal would provide (compared to legislated stage 3 tax cuts)

