

Fair Go Gone: Stage 3 tax cuts and LMITO by occupation

The stage 3 tax cuts will give occupations like CEOs of large corporations, surgeons, and federal politicians a \$9,075 a year tax cut. While aged care workers, hairdressers, and café workers will get nothing. When the LMITO ends teachers, nurses and chefs will pay \$1080 more in tax.

Author: Matt Grudnoff

Date: March 2022

The stage 3 tax cuts, worth \$15.7 billion per year will come into effect in July 2024, while the Low- and Middle-Income Tax Offset (LMITO), worth \$7 billion per year is due to end this year. Previous analysis of the stage 3 tax cuts and the LMITO has looked at who benefits by income and who benefits by gender.¹ It found stage 3 tax cuts mainly go to high income taxpayers and because men are more likely to have high incomes, most of the benefit goes to men. More than 50 per cent of the tax cut goes to the top 10 per cent of taxpayers. Men get twice the benefit from the tax cut when compared to women. The LMITO mainly goes to middle income earners and is evenly distributed between men and women.

This paper looks at the distribution of the tax cuts by occupation. It uses Australian Bureau of Statistics data on average incomes by occupation.² It uses these average incomes by occupation to calculate the size of the tax cut going to each occupation. It

¹ Grudnoff M (2022) *The LMITO and stage 3 tax cuts by electorate*, The Australia Institute, February, available at <<https://australiainstitute.org.au/report/the-lmito-and-stage-3-tax-cuts-by-electorate/>>

² ABS (2019) *Employee Earnings and Hours, Australia, May 2018*, Australian Bureau of Statistics, January, available at <<https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/employee-earnings-and-hours-australia/may-2018>>

calculates the amount going to people earning the average income for each occupation for both the stage 3 tax cuts and the LMITO.

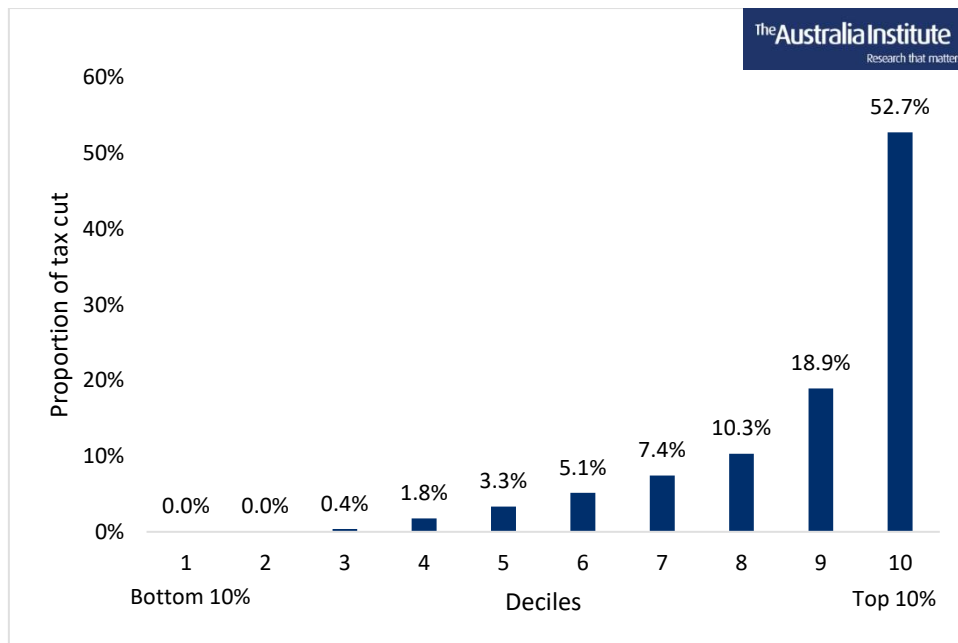
STAGE 3 TAX CUTS

In July 2024 the stage 3 tax cuts will come into effect. These tax cuts will:

- Increase the income at which the top tax bracket begins from \$180,001 to \$200,001.
- Remove the 37 per cent bracket which previously applied to incomes from \$120,001 to \$180,000.
- Lower the income tax rate for the new bracket that extends from \$45,001 to \$200,000 from 32.5 per cent to 30 per cent.

The stage 3 tax cuts will mainly go to those on high incomes. Those earning \$45,000 or less a year will get nothing from the tax cut, while those earning \$200,000 a year will get a tax cut of \$9,075 per year. Looking at the income distribution of the tax cut by deciles we see the top 10 per cent of taxpayers get most of the tax cut (53 per cent), while the bottom 20 per cent of taxpayers receive nothing. The distribution of the stage 3 tax cuts by income is shown in Figure 1.

Figure 1 – Income distribution by decile of stage 3 tax cuts in 2024-25



Source: Grudnoff M (2022) *Rich Man's World: Gender Distribution of the Stage 3 Tax Cuts*, The Australia Institute, February, available at <<https://australiainstitute.org.au/report/rich-mans-world-gender-distribution-of-the-stage-3-tax-cuts/>>

The stage 3 tax cuts also primarily go to men. Men get 67 per cent of the tax cuts while women get 33 per cent. This means for every \$2 of tax cut going to men, women get \$1.

LOW- AND MIDDLE-INCOME TAX OFFSET

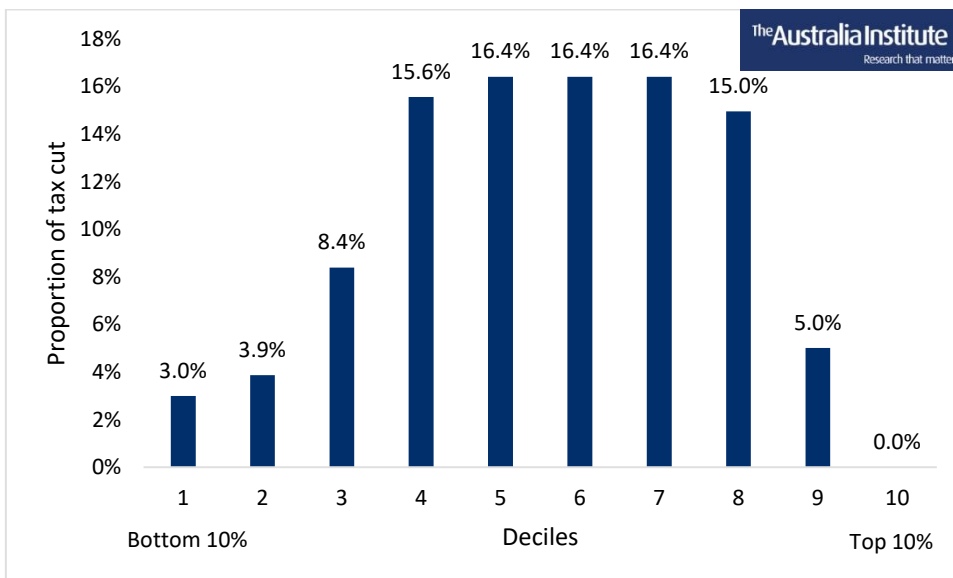
The Low- and Middle-Income Tax Offset (LMITO) is a tax offset paid to people when they submit their tax return. Unless it is extended in the 2022 budget, it is due to expire in 2021-22. The rates of the LMITO are shown in Table 1.

Table 1 – Rates of the LMITO

Taxable income	LMITO
\$37,000 or less	\$255
\$37,001 to \$48,000	\$255 plus 7.5% of the portion of taxable income over \$37,000
\$48,001 to \$90,000	\$1,080
\$90,001 to \$126,000	\$1,080 minus 3% of the portion of taxable income over \$90,000

The LMITO benefits a very different group of income earners than the stage 3 tax cuts. The benefits of the LMITO mainly flow to low- and middle-income earners. The income distribution of the LMITO beneficiaries is shown in Figure 2.

Figure 2 – Income distribution by decile of LMITO in 2021-22



Source: Grudnoff M (2022) *The LMITO and stage 3 tax cuts by electorate*, The Australia Institute, February, available at <<https://australiainstitute.org.au/report/the-lmito-and-stage-3-tax-cuts-by-electorate/>>

As Figure 2 shows, 50 per cent of taxpayers between the fourth and eighth deciles get 80 per cent of the LMITO. None goes to those in the top 10 per cent and only 5 per cent goes to those in the top 20 per cent.

The gender distribution of the LMITO is almost even between men and women. Men get 51 per cent of the benefit of the tax cut and women get 49 per cent.

STAGE 3 TAX CUTS BY OCCUPATION

Because the stage 3 tax cuts mainly go to high income earners, the occupations that benefit the most from these tax cuts are occupations with high average incomes. Occupations like surgeons and anaesthetists get the maximum tax cut worth \$9,075 per year, because these occupations have average incomes over \$200,000. The base salary for federal parliamentarians is \$211,250, which means all federal parliamentarians get the maximum rate of \$9,075 per year.

CEOs of major companies are also large beneficiaries of the tax cut. The CEOs of the big four banks earn between \$4.2 million and \$6.3 million per year. They will all get a tax cut of \$9,075. The CEO salaries of the ASX200, the largest 200 companies listed on the Australian Stock Exchange, are all larger than \$200,000 per year, all these CEOs will also receive a \$9,075 tax cut.³

Table 2 list a selection of occupations that get a large benefit from the stage 3 tax cuts. These occupations have average incomes high enough so that they get no benefit from the LMITO. As such they will not be affected if the LMITO is not extended in the 2022 budget.

³ <https://acsi.org.au/wp-content/uploads/2021/07/CEO-Pay-in-ASX200-Companies-2021-embargoed-13-July-2021.pdf> p12

Table 2 – Selected occupations that get a large benefit from stage 3 tax cuts and no benefit from the LMITO

Occupation	Average Salary	Amount of stage 3 tax cut (annual)	Amount of LMITO (annual)
Big 4 Bank CEOs	\$5.2 million	\$9,075	\$0
Federal Parliamentarians	\$211,250 plus	\$9,075	\$0
Surgeons	\$274,887	\$9,075	\$0
Anaesthetists	\$272,452	\$9,075	\$0
Financial Dealers	\$159,799	\$4,661	\$0
Financial Managers	\$158,328	\$4,558	\$0
Human Resource Managers	\$147,614	\$3,808	\$0
Barristers	\$140,788	\$3,330	\$0
Advertising and Sales Managers	\$130,887	\$2,637	\$0

LOW- AND MIDDLE-INCOME TAX OFFSET BY OCCUPATION

Occupations that get the maximum benefit from the LMITO are very different from those that get the largest benefit from the stage 3 tax cuts. Table 3 shows a selection of occupations that get the maximum rate of the LMITO. Some of these occupations will also get some benefit from the stage 3 tax cuts, but the benefit from the stage 3 tax cuts is smaller than the benefit from the LMITO. This means people earning these occupations average incomes will be worse off if the LMITO is removed and will continue to be worse off in net terms even after the stage 3 tax cuts come into effect. These occupations include teachers, nurses, and chefs.

Table 3 – Selected occupations that get the maximum rate of LMITO and some benefit from the stage 3 tax cuts

Occupation	Average Salary	Amount of stage 3 tax cut (annual)	Amount of LMITO (annual)
Secondary School Teachers	\$84,493	\$987	\$1,080
Plumbers	\$80,030	\$876	\$1,080
Accountants	\$79,201	\$855	\$1,080
Midwives	\$78,784	\$845	\$1,080
TAFE Teachers	\$77,047	\$801	\$1,080
Registered Nurses	\$72,235	\$681	\$1,080
Primary School Teachers	\$68,752	\$594	\$1,080
Carpenters	\$66,348	\$534	\$1,080
Panelbeaters	\$65,425	\$511	\$1,080
Bus Drivers	\$63,423	\$461	\$1,080
Early Childhood Teachers	\$61,963	\$424	\$1,080
Chefs	\$57,860	\$321	\$1,080
Couriers and Postal Delivers	\$55,753	\$269	\$1,080
Bank Workers	\$53,099	\$202	\$1,080

There are also many occupations that will pay more tax if the LMITO is removed and will get no benefit from the stage 3 tax cuts. Occupations like aged care workers, hairdressers, café workers and sales assistants will be considerably worse off. Table 4 shows a selection of occupations that currently receive the LMITO but will get no benefit from the stage 3 tax cuts.

Table 4 – Selected occupations that get some LMITO but no benefit from the stage 3 tax cuts

Occupation	Average Salary	Amount of stage 3 tax cut (annual)	Amount of LMITO (annual)
Secretaries	\$44,694	\$0	\$832
Cooks	\$40,706	\$0	\$533
Delivery Drivers	\$40,190	\$0	\$494
Aged and Disability Carers	\$39,074	\$0	\$410
Bakers and Pastrycooks	\$38,839	\$0	\$393
Receptionists	\$37,077	\$0	\$261
Hairdressers	\$36,519	\$0	\$255
Bar attendants and Baristas	\$32,994	\$0	\$255
Commercial Cleaners	\$32,311	\$0	\$255
Café Workers	\$29,068	\$0	\$255
Sales Assistants	\$27,712	\$0	\$255
Kitchenhands	\$26,080	\$0	\$255
Waiters	\$25,559	\$0	\$255
Checkout Operators	\$22,566	\$0	\$178

CONCLUSION

The LMITO and stage 3 tax cuts go to people working in very different occupations. The stage 3 tax cuts go to occupations that have high average incomes like CEOs of large corporations, surgeons, and barristers. While the LMITO goes to middle- and low-income occupations like teachers, registered nurses, and aged and disability carers.

The LMITO offers tax relief for a broad range of occupations and if the government doesn't extend it at the next budget, then many occupations will face an increase in tax. Occupations like midwives, chefs, hairdressers, and waiters. Even after the stage 3 tax cuts come into effect, these occupations will continue to be worse off.