



ANNUAL WAGE REVIEW 2021-22

RESPONSES TO ADDITIONAL QUESTIONS ON NOTICE

Information Note – LMITO and Fuel Excise

In a Statement issued on 16 May 2022 by the Expert Panel of the Fair Work Commission (FWC), all parties were invited to comment on the accuracy of the FWC's *Information Note – Low and middle income tax offset (LMITO) and fuel excise* and respond to the questions in the Information Note.

Ai Group response

The Information Note includes the following question:

Question for Treasury:

The announcement of the LMITO noted that it would operate in conjunction with the low income tax offset (LITO), for incomes up to \$37 000. Can you provide further information on the LITO amount and how or whether it still operates in the same way?

The reference above to “the same way” refers to the only mention of the Low Income Tax Offset (LITO) in the Information Note (on page 2).

The low and middle income tax offset (LMITO) was introduced for the 2018–19 financial year and was paid as a lump sum after the lodging of income tax returns (i.e. from 1 July 2019). The LMITO worked in conjunction with the low income tax offset (LITO).¹

The footnote to this quote contained the following:

*The LITO applied to incomes of \$37 000 or less. The maximum LITO was \$445. See Fair Work Commission (2019), *Information note—Changes to the tax-transfer system, additional material for the 2018–19 Review*, 3 April.*

While no further mention of the LITO is contained the Information Note despite the Note's coverage of developments since 2019, the LITO ceased to operate in the way set out in material prepared for the 2018-19 Review with effect from 1 July 2020. From this date the LITO was made available at a higher rate and the parameters of its availability were changed from the manner summarised in the Information Note.

1 July 2020 was the date of effect of the earlier application of Stage 2 of its Personal Income Tax Plan (which was originally set out in the 2018-19 Budget). While initially intended to take effect from 1 July 2022, the timetable of some of the Government's Personal Income Tax Plan was given earlier effect as part of the COVID-related stimulus delivered in the 2020-21 Budget.

This change was included in Ai Group's detailed analysis of the impact of changes to income taxes as set out in our Submission to the Annual Wage Review 2020-21¹ (Section 6.2, pp.42-47). In our Submission, the change to the operation of the LITO was put in the following terms:

The low income tax offset (LITO) will increase from \$445 to \$700. The increased LITO will be withdrawn at a rate of 5 cents per dollar between taxable incomes of \$37,500 and \$45,000. The LITO will then be withdrawn at a rate of 1.5 cents per dollar between taxable incomes of \$45,000 and \$66,667.

The LITO has been available under these changed circumstances since 1 July 2020 and continues to be available with respect to income earned in the 2021-22 year.

Our Submission to the 2020-21 Review put the case that the change to the LITO, alongside other changes to income tax arrangements, should be taken into account in the 2020-21 Wage Case. The increase in LITO was \$275 for a person with a maximum entitlement and was clearly relevant to the needs of many low paid people.

Flow on impact of increases to minimum wage rates

At the public consultations on 18 May, Commissioner Hampton asked the Ai Group representatives a question about the flow on impact of minimum wage increases to other employees who are not paid minimum rates. Ai Group took the question on notice.

Ai Group response

Chart 7.1 – Methods of Setting Pay, in the FWC's statistical report for this year's Annual Wage Review shows that 23% of employees are paid the award rate and will be directly entitled to award wage increases.

However, a large number of employers pass on the minimum wage increase awarded in the Annual Wage Review to employees who are paid above the relevant award rate. For example, research conducted by the FWC for the Annual Wage Review 2013-14 found that *"among award-reliant organisations, around 30 per cent of their employees that were covered by over-award arrangements received the minimum wage increase"*.²

¹ Ai Group Submission, Annual Wage Review 2020-21, 26 March 2021.

² *Research Report 7/2013: Minimum wages and their role in the process and incentives to bargain*, page 34.

It has been many years since Ai Group did its own research on this issue. In 2002, Ai Group surveyed our members on the impact of the *2002 Safety Net Review Decision*. One of the key results in Ai Group's survey was referred to in the *2003 Safety Net Review Decision* as follows:

[126] According to the AiG survey, 29.5 per cent of respondents passed on the 2002 safety net increase to employees receiving overaward increases. The proportion was higher for small firms. AiG frankly conceded, however, that there were some methodological limitations in its survey.

There is clearly a need for more research to be carried out in this area, given that the economic impacts of wage increases awarded during Annual Wage Reviews extend far beyond the impacts associated with the 23 per cent of employees who are award-reliant.

It would be very worthwhile for the FWC to commission research for next year's Annual Wage Review on:

- The extent to which employers pass on Annual Wage Review increases to employees who receive over-award rates of pay.
- The extent to which employees receive increases equivalent to Annual Wage Review increases as a result of the provisions of enterprise agreements.