

## ADIA Policy Statement –

<b>Policy</b>	<b>B2 – Australian Government Finances (Personal Taxation)</b>
<b>Statement</b>	Reduce the personal income tax burden through annual indexation of income thresholds and gradual reduction in marginal tax rates.
<b>Principle/s</b>	Tax revenue should be adequate to meet elected governments' reasonable expenditure needs, consistent with the exercise of fiscal responsibility principles; however, high personal rates distort efficient decision making including workers choosing not to enter the workforce or encouraging income to be spent on consumption rather than saving and investment.
<b>Background</b>	<ul style="list-style-type: none"> <li>▪ Much of the so called personal 'tax cuts' over the last ten years have been the discretionary increases in the income thresholds at which the different marginal rates cut in. However, in the absence of automatic indexation of thresholds, the real benefits of these 'tax cuts' have eroded over time due to inflation.</li> <li>▪ At face value, individual tax-free threshold was tripled from \$6,000 to \$18,000 from 1 July 2012. However, after accounting for the Low Income Tax Offset (LITO), this change merely increases the effective tax-free threshold by around \$4,000 from \$16,000 to \$20,542. Moreover, the Government partially offset the higher tax-free threshold by imposing a higher initial marginal tax rate of 19 per cent, rather than the previous rate of 15 per cent. The second marginal tax rate also increased from the previous 30 per cent to 32.5 per cent.</li> <li>▪ Thus, personal income tax remains a priority area of reform. High personal rates distort efficient decision making including workers choosing not to enter the workforce or encouraging income to be spent on consumption rather than saving and investment. Personal income tax is not just a tax on wages and salaries. Personal income also includes individual income from unincorporated businesses which can be particularly responsive to the level of tax in their decision making and preparedness to undertake entrepreneurial activity.</li> </ul>
<b>Framework Documents</b>	<ul style="list-style-type: none"> <li>▪ ADIA Advocacy Agenda</li> <li>▪ ADIA Stakeholder Engagement Strategy</li> </ul>
<b>Engagement &amp; Advocacy Partner/s</b>	<ul style="list-style-type: none"> <li>▪ <u>Internal:</u> ADIA—BAC Business Affairs Committee</li> <li>▪ <u>External:</u> ACCI Australian Chamber of Commerce &amp; Industry</li> </ul>
<b>Currency</b>	ADIA-BAC Endorsement: 9/2/2015      ADIA Board Approval: 18/2/2015 (Reference 1.9.1)



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