

01 May 2026

Director
Legal Policy Unit
The Treasury
Langton Crescent
Parkes ACT 2600

By email: deductions@treasury.gov.au

Dear Director,

Instant tax deduction – exposure draft

Chartered Accountants Australia and New Zealand, CPA Australia and The Tax Institute (together, the **Joint Bodies**) welcome the opportunity to comment on the:

- exposure draft, Treasury Laws Amendment Bill 2026: standard deduction for work-related expenses (**draft Bill**); and
- accompanying explanatory memorandum (**draft EM**).

The standard deduction will be included under the new section 25-130 of the *Income Tax Assessment Act 1997 (ITAA 1997)*. Our submission focuses on how the new law is intended to operate.

The simplicity of claiming a \$1,000 tax deduction instead of substantiating every expense is a worthy aspiration to enable significant administrative savings for both taxpayers and the Australian Taxation Office (**ATO**). However, the drafting of the proposed the \$1,000 standard deduction for work-related expenses and its interactions with other provisions contain features that complicate the claiming of the deduction and make it more difficult for those who do not apply the standard deduction to claim deductions under other provisions.

Consultation timeframe

We are concerned that the two-week consultation window for these changes does not provide sufficient time for stakeholders to properly analyse the proposals, assess their practical impacts, or engage meaningfully with the reform process. Fulsome consultation is particularly important where, as in this case, the measure introduces new interactions across the income tax and fringe benefits tax (**FBT**) systems, and affects a wide range of taxpayers and employers.

Short consultation periods reduce the effectiveness of consultation, increase the risk of unintended consequences, and may undermine confidence in the tax system. The Office of Impact Analysis states in its March 2023 [Australian Government Guide to Policy Impact Analysis](#) report (**OIA Report**) that consultation periods should generally be at least 30 days, and longer where proposals are complex or sensitive, to allow stakeholders time to properly consider and respond.

We encourage Treasury to consider the OIA Report when planning future consultations to ensure stakeholders can effectively contribute to and support the Government in designing and implementing changes to the tax system for the benefit of all Australians and our economy.

Summary of key concerns and recommendations

The design of the \$1,000 standard deduction raises several issues that require further consideration:

- **Lack of indexation**

The \$1,000 standard deduction is not indexed. Over time, inflation will reduce its real value, meaning fewer taxpayers will benefit and the simplification purpose of the measure will be weakened.

We recommend that this amount be periodically indexed.

- **Lack of a clear choice for taxpayers**

The legislation does not clearly allow taxpayers to choose the \$1,000 standard deduction instead of claiming and substantiating work-related expenses, even though the draft EM indicates that this choice is intended. This reduces the effectiveness of the measure as a compliance-saving option.

We recommend that subsection 25-130(2) be amended to expressly recognise a taxpayer's ability to choose whether to claim work-related expense deductions or rely on the standard deduction.

- **Removal of existing simplified substantiation rules**

Existing simplification measures, such as the \$150 laundry expense concession, are proposed to be removed. These concessions are still needed by taxpayers who choose not to use the \$1,000 standard deduction and instead continue to substantiate their work-related expenses.

We recommend that such compliance savings measures be retained.

- **Treatment of education expenses**

Education expenses can fully reduce the \$1,000 standard deduction. This means taxpayers undertaking education may lose access to a key simplification measure, despite the important role education plays in developing skills and productivity.

We recommend that tuition expenses be included in subsection 25-130(3).

- **Low value pooling and balancing adjustment complexity**

The proposed restrictions on low-value pooling and the new 50 per cent balancing adjustment rule add technical complexity and are difficult for individual taxpayers to understand and apply. Without clear explanation of the policy rationale and examples, these changes may reduce the intended compliance savings of the standard deduction.

- **Interaction with FBT**

The proposed FBT change switches off the otherwise deductible rule for all salary packaged work-related expenses, rather than just the \$1,000 standard deduction amount. This may lead to unfair FBT outcomes and disrupt existing salary-sacrifice arrangements for both employers and employees.

- **FBT transition and timing issues**

The interaction between the standard deduction and the *Fringe Benefits Tax Assessment Act 1986* (Cth) (**FBTAA**) raises transition issues. As drafted, there is a gap between the commencement of the income tax changes and the start of the FBT year on 1 April 2027. This gap may create uncertainty for employers, even if it is intended to avoid part-year FBT calculations.

- **Removal of FBT exemption for work-related items**

The draft Bill contains an unexpected amendment to the FBT treatment of work-related items, such as portable electronic devices, computer software, protective clothing, briefcases and tools of trade. Removing the FBT exemption for items provided under salary packaging arrangements represents a significant policy change.

- **Draft EM requires further expansion**

The draft EM needs to be significantly expanded to better explain how the standard deduction will operate in practice. This should include clearer explanations of eligibility, how the standard deduction interacts with other deductions, and additional practical examples to assist taxpayers and advisers.

- **Need for taxpayer education and guidance**

The ATO will need to deliver a comprehensive education campaign to ensure taxpayers understand that the standard deduction applies only to employment income. In particular, guidance should clearly explain that the standard deduction does not apply to self-employment income or 'side-hustle' activities.

Our detailed observations and recommendations to improve the policy design of this measure are contained in **Appendix A**.

We would be pleased to work with the Government to further discuss the points raised in our submission.

If you would like to discuss any of the above, please contact the undersigned.

Yours sincerely,



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APPENDIX A

We have set out below our detailed comments and recommendations for your consideration.

Preliminary comments

While the proposed \$1,000 standard deduction may provide compliance relief for some taxpayers, it does not address the underlying pressures in the personal income tax system.

Ongoing bracket creep continues to increase average and marginal tax rates without corresponding increases in real wages. Incremental or isolated measures that focus on deductions do not resolve this issue.

We consider that measures such as this should be part of a broader review of personal income tax rates and thresholds to improve fairness, transparency and sustainability.

Recommendation

The draft EM and future ATO guidance should consistently and clearly describe the standard deduction as:

- optional; and
- designed primarily to reduce record-keeping and compliance costs, rather than to increase the generosity of deductions.

Lack of indexation of the \$1,000 threshold

The \$1,000 standard deduction is intended to operate as an ongoing simplification and compliance-saving measure. However, the absence of any indexation mechanism means its real value will decline over time as a result of inflation. As costs associated with work-related expenses increase, fewer taxpayers will benefit meaningfully from the standard deduction, reducing its effectiveness and undermining the policy objective of simplifying tax compliance. Over time, this may result in more taxpayers being pushed back into substantiation and record-keeping, contrary to the stated intent of the measure.

Recommendation

We recommend that the \$1,000 standard deduction threshold be indexed (for example, to the Consumer Price Index (CPI)) to maintain its real value over time and ensure that it continues to operate as an effective and enduring compliance-saving measure consistent with its policy intent.

Lack of ability to choose the standard deduction

The \$1,000 standard deduction is meant to make tax returns easier. The draft EM explains that taxpayers should be able to rely on a standard amount and not keep records for work-related expenses. This is shown clearly in Example 1.2 (Nicky doesn't claim their work-related expenses), which states that the taxpayer chooses not to claim their work-related expenses and instead receives the full \$1,000 standard deduction.

However, this choice is not clear in the way section 25-130(2) is written. The section focuses on automatically reducing the standard deduction when work-related expenses are claimed. It does not clearly say that a taxpayer can choose one option or the other.

This means that if a taxpayer has more than \$1,000 in work-related expenses, the standard deduction is reduced to zero. The taxpayer must then keep receipts and substantiate their expenses if they want to claim any deduction. Section 25-130(2) does not clearly allow the taxpayer to ignore those expenses and simply claim the standard deduction to reduce compliance. This is particularly important for those taxpayers who marginally exceed the \$1,000 threshold (for example, \$1,020 of deductions) and may wish to forgo the additional deductions to which they may otherwise be entitled, for the sake of compliance saving.

This means the law does not fully reflect the intention described in the draft EM, particularly the choice shown in Example 1.2, where the standard deduction operates as a voluntary, compliance-saving option.

Recommendation

We recommend that subsection 25-130(2) be amended to expressly recognise a taxpayer's ability to choose whether to claim work-related expense deductions or rely on the standard deduction. This could be achieved by incorporating an explicit reference to amounts the taxpayer "chooses to claim", for example by amending the provision so that the standard deduction is reduced only by work-related deductions the taxpayer elects to claim.

For example, the words between paragraphs 25-130(2)(b) and (c) could be amended to read:

"reduced, but not below zero, by the sum of the following amounts (if any) you choose to claim ..."

This amendment would make it clear that taxpayers can choose to rely on the standard deduction instead of claiming and substantiating work-related expenses.

Adding in such a choice would also alleviate the concern that taxpayers have to retain documentation for every expense to determine whether they qualify for the \$1,000 standard deduction. It would also preclude the ATO from denying taxpayers a \$1,000 standard deduction because they have found more than \$1,000 of possible work-related deductions for which the taxpayer does not have documentation.

Removal of existing simplified substantiation provisions

Paragraph 1.41 of the draft EM states that the introduction of the \$1,000 standard deduction replaces the need for existing substantiation concessions, including the \$150 laundry expense concession .

This may be true for taxpayers who choose to rely on the \$1,000 standard deduction. However, it is not true for taxpayers who choose not to use the standard deduction and instead continue to claim more than \$1,000 of work-related expenses.

These taxpayers will still be required to fully substantiate their work-related expenses and will continue to rely on existing concessional substantiation rules, such as the \$150 laundry expense concession. Removing substantiation concessions increases compliance costs for taxpayers who do not use the standard deduction and removes long-standing simplification measures that remain relevant.

Recommendation

It is recommended that existing compliance saving substantiation concessions be retained for taxpayers who do not rely on the \$1,000 standard deduction. These measures should not be repealed, as they continue to serve a practical purpose for taxpayers who choose to substantiate their work-related expenses.

Reduction of the standard deduction for education expenses

Education expenses can be significant, and undertaking a course of education may, by itself, result in a taxpayer losing access to the \$1,000 standard deduction.

The [Henry Review](#) recognised this issue and recommended that tuition fees should not be included within a standard deduction. Instead, tuition fees should remain deductible with full substantiation, while still allowing taxpayers to claim a standard deduction. This approach recognised the important role of education in improving skills, productivity and human capital.

Under the current draft, tuition fees reduce the standard deduction, which may discourage education or increase compliance burdens.

Recommendation

Consideration should be given to excluding tuition fees from reducing the standard deduction. This could be achieved by including tuition fees as a specific item in section 25-130(3), alongside trade union and professional association memberships and income protection insurance premiums.

Low-value pooling and balancing adjustment complexity

The draft Bill introduces restrictions on the use of low-value pooling for depreciating assets that are mainly used to earn employment income. It also introduces a fixed 50 per cent reduction for certain balancing adjustment calculations where a taxpayer has relied on the standard deduction.

While the draft EM explains these rules at a technical level, it does not include worked examples showing how they apply in practice. In particular, there is no explanation or examples demonstrating:

- when an asset can or cannot be allocated to a low-value pool,
- how the 50 per cent balancing adjustment reduction operates when an asset is disposed of, or
- how these rules apply over multiple income years.

These rules are complex and may be difficult for individual taxpayers to understand and apply without professional advice. This complexity risks offsetting the intended compliance savings of the standard deduction, particularly for taxpayers with common work-related assets such as laptops, tools or other equipment.

Recommendation

The draft EM should be expanded to include clear explanation and simple worked examples illustrating when the low-value pooling restrictions and the fixed 50 per cent balancing adjustment reduction are likely to apply in practice. Practical examples would help taxpayers understand their obligations and support the intended simplification outcomes of the measure.

Interaction with Fringe Benefits Tax

Proposed section 24(1A) of the FBTAA switches off the otherwise deductible rule for salary packaged expense payment benefits to prevent abuse of the \$1,000 standard deduction. The policy logic is sound in a narrow case: an employee who salary packages \$1,000 of work expenses and also claims the \$1,000 standard deduction would receive a \$2,000 reduction in taxable income from a single \$1,000 expense (\$1,000 less salary and \$1,000 standard deduction), with no FBT. The new rule addresses this by imposing FBT on the packaged amount, clawing back the double benefit at the employer level.

While the policy underpinning these changes is understandable, this approach may disrupt existing salary sacrifice arrangements and require renegotiation between employers and employees.

Further, as drafted, the provision goes significantly beyond resolving the mischief it is designed to address. Where a salary packaged expense payment benefit exceeds \$1,000, switching off the otherwise deductible rule entirely produces a disproportionate outcome. For example, a \$20,000 salary packaged benefit would result in FBT being payable on the full \$20,000, yet the only additional benefit the employee has obtained through salary packaging, compared to simply receiving the \$20,000 as salary and claiming a \$20,000 deduction, is the \$1,000 standard deduction. The FBT exposure should therefore be limited to \$1,000, not \$20,000. The current drafting overcorrects and effectively penalises legitimate salary packaging arrangements that have nothing to do with the standard deduction.

Recommendation:

We recommend that proposed section 24(1A) of the FBTA be amended so that the amount of the reduction under the otherwise deductible rule is reduced by up to \$1,000 per employee per year, rather than switching off the otherwise deductible rule entirely for the full value of the packaged benefit.

Also, the ATO should provide clear transitional guidance, and early communication to employers and employees so that affected arrangements can be reviewed before the changes take effect.

Transition issues between the income tax commencement and the FBT year

The interaction between the standard deduction and the FBTA creates transitional issues for employers. As drafted, the income tax changes commence before the start of the FBT year on 1 April 2027. This creates a gap where the standard deduction applies for income tax purposes, but the corresponding FBT changes do not yet apply.

While this timing may be intended to avoid the need for part-year FBT calculations, it may nevertheless create uncertainty for employers. In particular, employers may be unclear about how salary packaging arrangements should be treated during the transition period, and whether existing arrangements need to be amended before the start of the next FBT year.

Without clear legislative alignment or guidance, there is a risk of inconsistent treatment, increased compliance costs, and confusion for both employers and employees during the transition period.

Recommendation

We recommend that the commencement and application of the income tax and FBT amendments be reviewed to ensure they operate coherently during the transition period. Alternatively, clear transitional rules and guidance should be provided to confirm how salary packaging arrangements and FBT obligations are to be treated between the commencement of the income tax changes and the start of the 2027 FBT year.

Clear and early guidance from the ATO would assist employers in reviewing existing arrangements and reduce uncertainty and compliance risk during the transition.

Removal of the work-related item exemption under the FBTAA

The draft Bill includes an amendment to section 58X of the FBTAA that removes the FBT exemption for certain work-related items where those items are provided under a salary packaging arrangement. This includes items such as portable electronic devices, computer software, protective clothing, briefcases and tools of trade.

This amendment represents a significant policy change that is separate from the operation of the otherwise deductible rule and the \$1,000 standard deduction. Unlike the otherwise deductible rule, which is directed at preventing a double tax benefit, the work-related item exemption has long applied regardless of whether an employee would otherwise be entitled to an income tax deduction. Removing the exemption in salary packaging arrangements will increase FBT costs for employers and may reduce access to commonly provided work-related items for employees.

The draft EM provides limited explanation for this change, and its connection to the standard deduction integrity objective is unclear. As a result, the amendment may have broader impacts than intended and may discourage employers from providing necessary work-related items through established remuneration arrangements.

Recommendation

We recommend that the proposed amendment to section 58X of the FBTAA be reconsidered. In particular, the existing FBT exemption for work-related items should be retained where those items are provided primarily for use in an employee's employment, including where they are provided under salary packaging arrangements.

If the exemption is to be limited, further explanation should be provided in the draft EM to clearly justify the policy rationale, and appropriate transitional arrangements should be introduced to minimise disruption to existing employer and employee arrangements.

Ongoing complexity and interaction with existing rules

The draft EM does not adequately explain how the \$1,000 standard deduction is intended to operate in practice. In particular, there is limited explanation of eligibility, how the standard deduction interacts with other deductions, and how taxpayers should apply the rules in common scenarios, such as situations where a taxpayer has multiple income sources.

This lack of detail increases the risk of confusion for taxpayers and advisers and may lead to inconsistent treatment or incorrect claims. Without clearer guidance, some taxpayers may require professional advice simply to understand whether and how the standard deduction applies, reducing the intended compliance savings.

Recommendation

The draft EM should be expanded to provide clearer explanations of how the standard deduction operates in practice. This should include additional simple explanations of eligibility, how the standard deduction interacts with other deductions, and worked examples covering common and more complex scenarios.

In addition, ATO guidance should include clear summaries or tables that distinguish between expenses that are:

- covered by the standard deduction; and
- claimable in addition to the standard deduction.

Clear summaries and practical examples would help taxpayers and advisers to quickly understand the rules and support the intended simplification outcomes of the measure.

Need for taxpayer education and guidance

The standard deduction is intended to apply from the 2026–27 income year, which starts on 1 July 2026. However, public discussion of the measure before that date may cause some taxpayers to change their record-keeping behaviour too early.

Fringe Benefits Tax operates on a different cycle, with the FBT year running from 1 April to 31 March. The FBT changes related to the standard deduction are intended to apply from 1 April 2027, creating a timing gap between the start of the income tax changes and the start of the FBT changes.

Without clear guidance, there is a risk that taxpayers may stop keeping records before the law has commenced, and that employers may be uncertain about how salary packaging arrangements should be treated during the transition period. This could lead to incorrect returns, compliance issues and increased uncertainty for both taxpayers and employers.

In addition, the standard deduction applies only to certain types of employment income. It does not apply to self-employment income, business income or 'side-hustle' activities, and may not apply to some temporary visa holders, such as Pacific Australia Labour Mobility (**PALM**) workers and working holiday visa holders. These distinctions may not be well understood without clear and practical guidance.

Recommendation

The ATO should provide clear, consistent and repeated guidance to support correct behaviour before and after commencement of the proposed measure. In particular, ATO messaging should clearly emphasise that:

- the standard deduction is not yet law; and
- current record-keeping and substantiation requirements continue to apply until the relevant start dates.

Guidance should also clearly explain the implication of the commencement date for income tax and FBT purposes, to whom the standard deduction is available, and include practical examples. Early and clear communication will reduce confusion and support voluntary compliance.