

Taxpayers in the top tax bracket

Introduction

Currently there is much debate about income tax rates and whether further income tax cuts should be made. One aspect of the debate has focused around the upper end of the tax rates scale and whether the taxpayers in the top tax bracket should have their marginal tax rate—the rate at which each extra dollar of taxable income is taxed—reduced and/or the income threshold (level) at which this marginal rate takes effect increased.

A recent survey conducted by Newspoll found that half the respondents thought the top rate was too high.⁽¹⁾ Also, CPA Australia, the Institute of Chartered Accountants and the Australian Industry Group have all put forward proposals that include changes to the top tax bracket.⁽²⁾

This Research Note provides current and historical statistics on taxpayers in the top tax bracket.⁽³⁾

Taxpayers

This information in this note relates to taxable individuals: those taxpayers who, at the end of the financial year, have to pay tax, i.e. have (net) tax greater than zero dollars.⁽⁴⁾ Table 1 shows the total number of taxable individuals and the number and proportion who pay tax at the top marginal tax rate. The information is only shown from 1969–70 because taxables by grade of

taxable income were not published prior to that date.

In 1969–70—when there were 29 tax rates (brackets) in the income tax scale and the top rate of 68.3675 per cent⁽⁵⁾ cut in at the high income level of \$32 000—only 0.05 per cent, or five in every 10 000, of taxables were in the top tax bracket. By 1999–2000, this proportion had increased to over 17 per cent. The following year, income tax cuts in the ANTS package⁽⁶⁾ saw this proportion fall below 12 per cent—still an historically high level.

Graph 1 plots the proportion of taxables in the top tax bracket and compares this with their proportional contribution to the individuals' income tax paid (discussed below). The large drop in the proportion of taxpayers (and tax paid) between 1988–89 and 1989–90 was the result of the almost 43 per cent increase in the income threshold from \$35 000 to \$50 000. In comparison, the next income threshold increase (to \$60 000) 10 years later in 2000–01 was only 20 per cent.

Income threshold

In 1959–60, the top tax rate applied to taxable incomes of more than \$32 000. This income threshold remained unchanged until 1969–70. Although the top bracket income threshold has generally increased since then to the current level of \$62 500, as a multiple of average earnings⁽⁷⁾ it has fallen dramatically.

Graph 2 shows that in 1959–60 the taxable income level of the top tax bracket was almost 15 times average earnings; in 1960–70 it was nearly 9 times; and by 2002–03 it has fallen to a mere 1.3 times.

This point is further illustrated in Table 1, if the top income threshold had been indexed from 1969–70 for inflation (as measured by the CPI in the previous financial year), then the top marginal tax rate would now apply when taxable income is over \$268 647.

Marginal tax rate

Currently, an individual with taxable income greater than \$62 500 per annum has a marginal tax rate at a nominal 47 per cent; the actual marginal rate is 48.5 cents per dollar when the Medicare levy is included (and is 49.5 per cent if a taxpayer pays the Medicare levy surcharge because they do not have private hospital cover).

Graph 3 shows the nominal and actual marginal tax rates for the top tax bracket since 1969–70. The major overhaul of the income tax rates scales that occurred in the mid to late 1970s, when the number of tax rates fell from 29 to three (see Table 1), saw the start of the gradual reduction in the top tax rate from over 68 cents in the dollar to today's 48.5 cents.

Tax paid

Even though income thresholds have increased over time and the

top tax rate has been reduced, Graph 1 shows that because an increasing proportion of individuals are moving into the top tax bracket they are contributing a larger proportion of the total (net) tax paid.

In 1976–77, 9 per cent of individuals' tax was paid by the top taxpayers, but by 1989–90 they were paying 42 per cent. This proportion fell to under 25 per cent the following year, due mainly to the large increase in the income threshold (mentioned earlier), but 8 years later, by 1997–98, bracket creep had the proportion above that in 1988–89 and in 1999–2000 the top taxpayers were paying over 50 per cent of the individuals' income tax bill.

Conclusion

The major structural changes to the income tax rates scales in the mid to late 1970s were an attempt at simplification. Annual indexation of the income thresholds, introduced in 1976–77, was to maintain fairness and reduce the effect of bracket creep but was relatively short-

lived.⁽⁸⁾ The combination of reducing the number of tax rates and the lack of indexation (after 1981–82) produced the rapidly increasing proportions of taxpayers entering the top tax bracket.

The late 1980s saw reductions firstly in the top tax rate and subsequently in the top income threshold. This eased the situation but, after a decade of inactivity to either the top rate or income threshold, the result for the top taxpayers was worse than in the late 1980s.

The tax cuts of 2000–01 did not alter the situation significantly and further tax cuts this year will probably only maintain the current situation for the top taxpayers.

1. Conducted for *The Australian* and published on 23 February 2004.
2. Reported in *Australian Financial Review*, 18 March 2004.
3. The statistics refer only to income tax paid directly by taxpayers; other items such as fringe benefits tax—paid in respect of employees—and superannuation contributions surcharge are not included.
4. The total number of taxpayers is made up of the number of *taxable* individuals and the number of *non-*

taxable individuals—those taxpayers who have a net tax of zero.

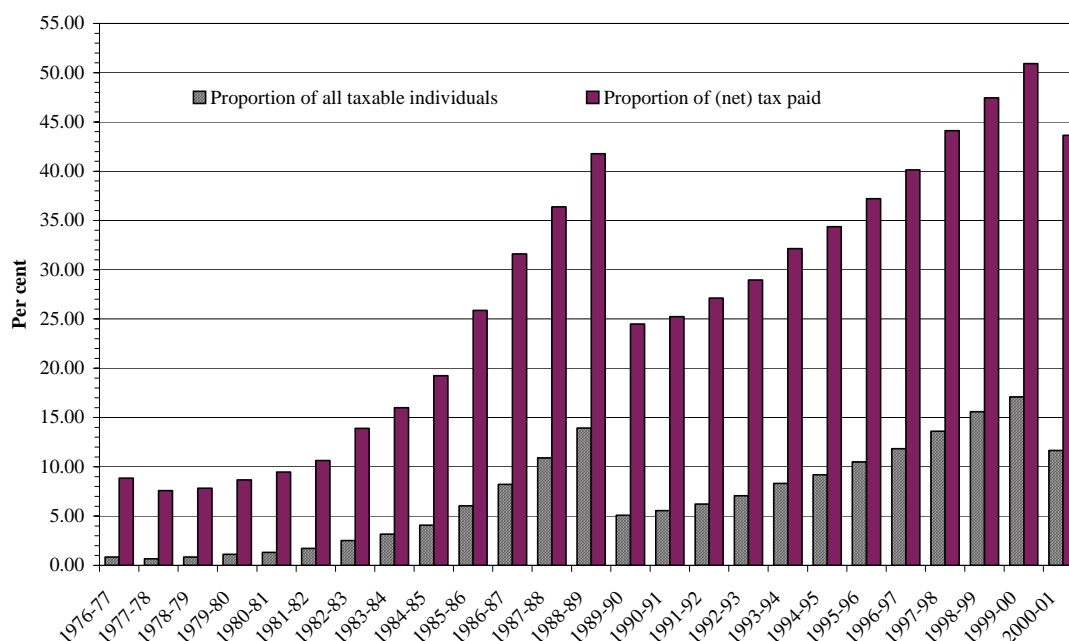
5. The actual top rate was 66.7 per cent but in that year there was also a levy of 2.5 per cent of the amount of tax calculated.
6. A New Tax System, which included the goods and services tax, was introduced from 1 July 2000.
7. Average weekly total earnings of all male employees; often referred to as MTAWE.
8. Full indexation occurred in 1976–77 and 1977–78; indexation at half the inflation rate in 1978–79, 1980–81 and 1981–82; and no indexation in 1979–80.

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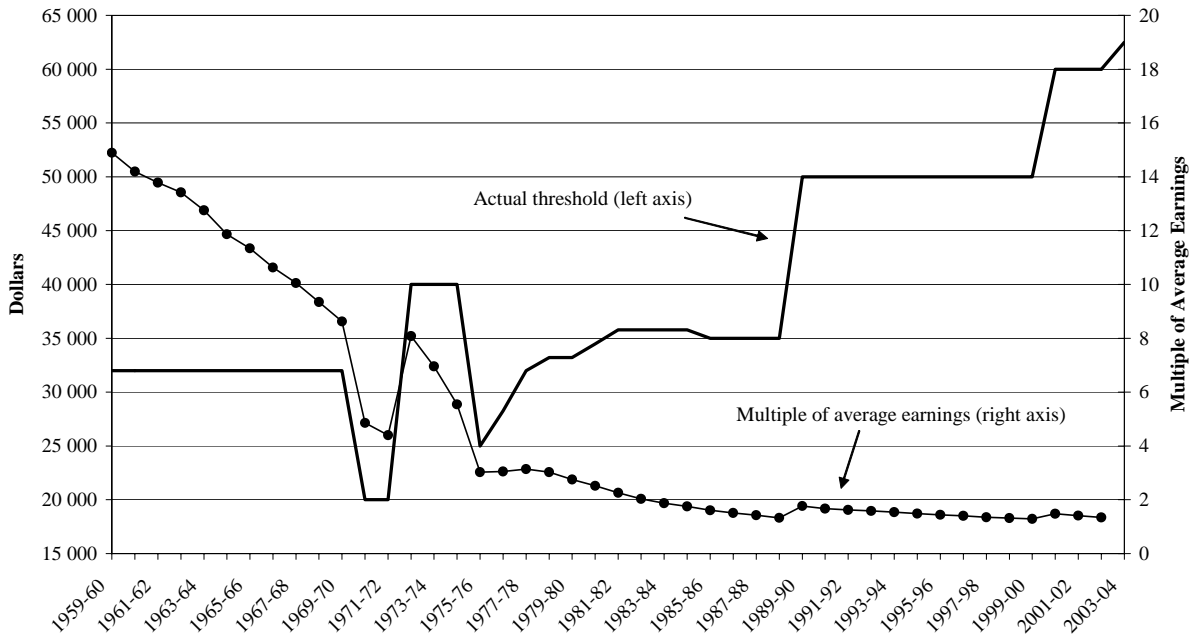
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Graph 1: Taxable individuals in the top tax bracket and the tax they pay



Graph 2: Top income threshold



Graph 3: Top marginal tax rates

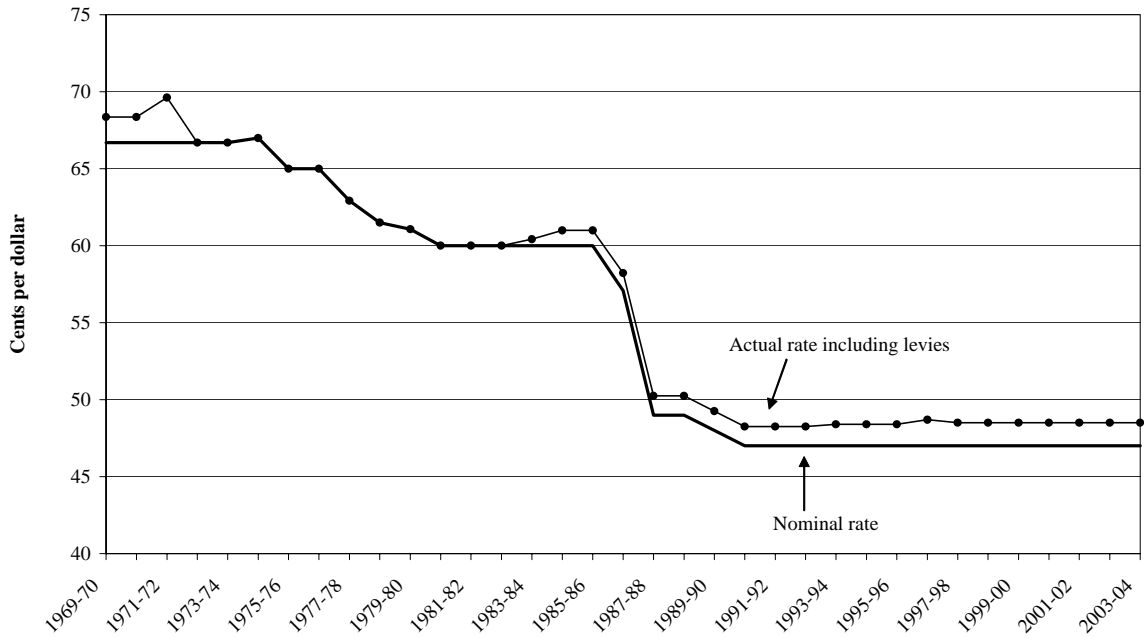


Table 1: Taxpayers at the top tax rate

Financial year	Total taxables (a)	Number of tax rates (not counting the tax-free threshold from 1977-78)	Taxables at the top tax rate			Income threshold of top rate			Nominal top tax rate (cents per \$)	Actual top tax rate incl levies (cents per \$)
			Number	Proportion of total taxables (%)	Proportion of (net) tax paid (%)	Actual (\$)	Multiple of average earnings (b)	Actual indexed by lagged CPI (\$)		
1969-70	5 372 500	29	2 626	0.05	na	32 000	8.6	32 000	66.7	68.3675
1970-71	5 570 721	28	11 771	0.21	na	20 000	4.9	32 958	66.7	68.3675
1971-72 (c)	5 651 165	28	14 291	0.25	na	20 000	4.4	34 491	66.7	69.618
1972-73 (d)	5 069 327	29	2 679	0.05	na	40 000	8.1	36 982	66.7	66.7
1973-74	5 418 461	29	4 807	0.09	na	40 000	7.0	39 090	66.7	66.7
1974-75	5 551 322	14	6 899	0.12	na	40 000	5.5	44 263	67	67
1975-76 (e)	5 334 818	7	np	na	na	25 000	3.0	51 545	65	65
1976-77 (f)	5 527 309	7	47 197	0.85	8.9	28 250	3.0	58 251	65	65 (g)
1977-78	5 568 298	9	37 376	0.67	7.6	32 000	3.1	66 299	62.915	62.915 (g)
1978-79	5 538 132	3	47 011	0.85	7.8	33 216	3.0	72 623	61.5	61.5 (g)
1979-80	5 662 971	3	62 527	1.10	8.7	33 216	2.8	78 563	61.07	61.07
1980-81	5 973 373	3	77 907	1.30	9.5	34 478	2.5	86 611	60	60
1981-82	6 199 831	3	106 326	1.71	10.6	35 788	2.3	94 659	60	60
1982-83	6 104 878	4	154 270	2.53	13.9	35 788	2.0	104 623	60	60
1983-84	6 306 340	3	199 588	3.16	16.0	35 788	1.9	116 695	60	60.416 (h)
1984-85	6 546 544	6	266 388	4.07	19.2	35 788	1.8	124 551	60	61
1985-86	6 966 074	5	419 981	6.03	25.9	35 000	1.6	129 916	60	61
1986-87	7 181 864	6	589 264	8.20	31.6	35 000	1.5	140 838	57.08	58.225
1987-88	7 629 453	4	830 418	10.88	36.4	35 000	1.4	154 060	49	50.25
1988-89	7 906 117	4	1 101 661	13.93	41.8	35 000	1.3	165 365	49	50.25
1989-90	8 033 896	5	407 959	5.08	24.5	50 000	1.8	177 437	48	49.25
1990-91	7 800 248	7	433 214	5.55	25.2	50 000	1.7	191 617	47	48.25
1991-92	7 660 356	4	475 700	6.21	27.1	50 000	1.6	201 772	47	48.25
1992-93	7 661 771	4	541 277	7.06	29.0	50 000	1.6	205 605	47	48.25
1993-94	7 609 299	5	632 330	8.31	32.2	50 000	1.5	207 713	47	48.4
1994-95	7 861 134	4	723 415	9.20	34.4	50 000	1.5	211 545	47	48.4
1995-96	8 165 622	4	857 017	10.50	37.2	50 000	1.4	218 251	47	48.4
1996-97	8 239 609	4	975 702	11.84	40.1	50 000	1.4	227 449	47	48.7
1997-98	8 251 120	4	1 123 425	13.62	44.1	50 000	1.4	230 515	47	48.5 (i)
1998-99	8 019 250	4	1 250 978	15.60	47.4	50 000	1.3	230 515	47	48.5 (i)
1999-00	8 457 392	4	1 444 521	17.08	50.9	50 000	1.3	233 389	47	48.5 (i)
2000-01	8 351 250	4	974 133	11.66	43.7	60 000	1.5	238 946	47	48.5 (i)
2001-02	nya	4	nya	nya	nya	60 000	1.4	253 317	47	48.5 (i)
2002-03	nya	4	nya	nya	nya	60 000	1.3	260 599	47	48.5 (i)
2003-04	nya	4	nya	nya	nya	62 500	nya	268 647	47	48.5 (i)

np - not published; na - not available; nya - not yet available

(a) Individuals who, after taking into consideration the amount of income, deductions, rebates/tax offsets, credits, the Medicare levy and surcharge, have a (net) tax greater than zero.

(b) Average weekly total earnings of all male employees (MTAWE).

(c) Taxable individuals numbers are incomplete; 40,266 taxable individuals were omitted from table showing taxables by grade of taxable income.

(d) Taxable individuals numbers are incomplete; 6,925 taxable individuals were omitted from table showing taxables by grade of taxable income.

(e) Information on taxable individuals was published by grade of net income (not taxable income) only.

(f) Taxable individuals with taxable income over \$28,000 (therefore, slightly overstates the number in the top bracket).

(g) Excludes the health insurance levy of 2.5% of amount of tax calculated (but with thresholds when levy becomes payable and limits on amount of levy payable) introduced on 1 October 1976 and abolished on 1 November 1978. The rates applicable were: 1.875% in 1976-77; 2.5% in 1977-78; and, 0.0833% in 1978-89.

(h) Medicare levy introduced on 1 February 1984.

(i) Excludes the Medicare levy surcharge (1% of taxable income) imposed on taxpayers without private hospital cover.

Sources: *Taxation Statistics*, ATO (various editions); *Average Weekly Earnings*, ABS (6302.0); *Consumer Price Index*, ABS (6401.0).