



**Parliament of Australia**  
**Parliamentary Budget Office**

**Phil Bowen PSM FCPA**  
**Parliamentary Budget Officer**

Senator Richard Di Natale  
Leader of the Australian Greens  
Parliament House  
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Top Marginal Tax Rates* (letter of 23 June 2016).

The response to this request will be released on the PBO website ([www.pbo.gov.au](http://www.pbo.gov.au)).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

24 June 2016



## Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	Top Marginal Tax Rates
Summary of proposal:	<p>The proposal would change the personal income tax schedule to:</p> <ul style="list-style-type: none"><li>• oppose the proposed lifting of the \$80,000 threshold to \$87,000</li><li>• make the 2 per cent temporary budget repair levy permanent</li><li>• introduce a 50 per cent tax rate on taxable incomes over \$1 million.</li></ul> <p>A comparison of the current and proposed marginal tax rates is at <a href="#">Attachment A</a>.</p> <p>The proposal would have effect from 1 September 2016.</p> <p>The Fringe Benefits Tax (FBT) rate would be increased to 52 per cent from 1 September 2016, reflecting the highest marginal tax rate and the Medicare levy.</p>
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	23 March 2016 <a href="http://greens.org.au/news/vic/greens-oppose-income-tax-cuts-company-tax-cuts-big-business">http://greens.org.au/news/vic/greens-oppose-income-tax-cuts-company-tax-cuts-big-business</a>
Date costing request received:	23 June 2016
Date costing completed	24 June 2016
Expiry date for the costing:	Release of the next economic and fiscal outlook report

## Costing overview

This proposal would be expected to increase the fiscal and underlying cash balances by \$9,944 million over the 2016-17 Budget forward estimates period. This impact reflects an increase in revenue of \$9,950 million partly offset by a \$6 million increase in departmental expenditure for the Australian Taxation Office (ATO).

This proposal would have ongoing financial implications beyond the 2016-17 Budget forward estimates period. The financial implications of the proposal over the 2016-17 Budget forward estimates period are not necessarily reflective of its ongoing implications due to the operation of bracket creep, where nominal income growth leads to higher marginal and average tax rates. The financial implications of the proposal for the period to 2026-27 are included at [Attachment B](#).

The proposal would be expected to involve departmental expenses of \$6 million in 2016-17. This amount reflects the estimated cost to the ATO of implementation of the proposal, particularly with regard to the higher marginal tax rate for individuals with taxable income over \$1 million and the introduction of different FBT rates for fringe benefits that accrue during different parts of the 2016-17 FBT year.

The introduction of different FBT rates for fringe benefits that accrue during different parts of the FBT year is likely to also involve additional compliance costs on taxpayers. However, any additional compliance costs for taxpayers associated with this proposal have not been taken into account in this costing, as they do not directly impact the Budget.

This costing is considered to be of low to medium reliability. It has been estimated based on a large representative sample of administrative tax data. However, the estimates may be sensitive to behavioural responses by individuals affected by this proposal, particularly individuals at the highest marginal tax rates, and to variations in population and income growth. The reliability of the costing decreases the further into the future the estimates are projected.

**Table 1: Financial implications (outturn prices)<sup>(a)(b)</sup>**

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	794.0	2,750.0	3,100.0	3,300.0	<b>9,944.0</b>
Underlying cash balance	794.0	2,750.0	3,100.0	3,300.0	<b>9,944.0</b>

(a) A positive number indicates an increase in the relevant budget balance, a negative number a decrease.

(b) Figures may not sum to totals due to rounding.

## Key assumptions

- The costing assumes that the enabling legislation would be in place by 1 September 2016.
- Individuals with incomes in excess of \$1 million are assumed to have a taxable income elasticity of 0.35, and individuals with incomes in excess of \$180,000 have a taxable income elasticity of 0.2.<sup>1</sup>
- The costing assumes that there is no change in labour supply associated with the proposed changes to personal income tax rates and brackets.
  - While studies indicate that labour supply, particularly by secondary earners, changes in response to changes in effective marginal tax rates, there is considerable uncertainty in the magnitude and timing of the effect on employment.
- The increase in the FBT rate to the effective marginal tax rate for individuals with taxable income above \$1 million (52 per cent) is assumed to lead to some individuals substituting cash income for fringe benefits, particularly individuals with taxable income between \$180,000 and \$1 million.

## Methodology

- The costing was estimated using a 16 per cent sample of de-identified personal income tax and superannuation returns for 2012-13 provided by the ATO. The data was used to estimate the change in tax payable associated with the proposed changes in the income tax schedule.
- Behavioural responses were incorporated reflecting the above assumptions.
- A separate model was used to estimate the financial implications of increases in the FBT rate. This model separately estimated the flow-on effects of a change in the FBT rate to personal income tax, FBT and company tax collections.
- Departmental expenses were estimated based on an analysis of previous policies with similar administrative complexity.
- The modelling takes account of the timing of tax collections and the part-year effect of the proposal.
- Estimates of revenue have been rounded to the nearest \$50 million. Estimates of departmental expenses have been rounded to the nearest \$1 million.

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<sup>1</sup> A taxable income elasticity is a measure of the responsiveness of taxable income to changes in after tax income. An increase in tax would result in a decrease in after tax income. An elasticity of 0.35 means that a 1 per cent decrease in the net-of-tax rate (the proportion of each additional dollar kept as take-home income) results in a 0.35 per cent decrease in taxable income.

## Data sources

- *The Exchequer effect of the 50 per cent additional rate of income tax*, HM Revenue and Customs.
- 16 per cent sample of de-identified personal income tax and superannuation records for the 2012-13 financial year from the ATO.
- 2016-17 Budget, Australian Government.

## Attachment A: Comparison of current and proposed marginal tax rates

Taxable income (\$)	Marginal tax rate (%) <sup>(a)</sup>	
	Current	Proposed
0 – 18,200	0	0
18,201 – 37,000	19	19
37,001 – 80,000	32.5	32.5
80,001 – 87,000	32.5	37
87,001 – 180,000	37	37
180,001 – 1,000,000	47 <sup>(b)</sup>	47
1,000,000 +	47 <sup>(b)</sup>	50

- (a) Marginal tax rates do not include the Medicare levy or the Medicare levy surcharge where applicable.
- (b) Includes the 2 per cent Temporary Budget Repair Levy (TBRL), which will expire after the 2016-17 financial year under current policy settings.

## Attachment B: Top Marginal Tax Rates—financial implications

**Table A1: Top Marginal Tax Rates – Financial implications (outturn prices)<sup>(a)(b)</sup>**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
<b>Fiscal and underlying cash balances – revenue/expenses</b>													
Revenue	800.0	2,750.0	3,100.0	3,300.0	<b>9,950.0</b>	3,550.0	3,800.0	4,050.0	4,300.0	4,600.0	4,950.0	5,300.0	<b>40,500.0</b>
Departmental expenses (ATO)	-6.0	-	-	-	<b>-6.0</b>	-	-	-	-	-	-	-	<b>-6.0</b>
<b>Total</b>	<b>794.0</b>	<b>2,750.0</b>	<b>3,100.0</b>	<b>3,300.0</b>	<b>9,944.0</b>	<b>3,550.0</b>	<b>3,800.0</b>	<b>4,050.0</b>	<b>4,300.0</b>	<b>4,600.0</b>	<b>4,950.0</b>	<b>5,300.0</b>	<b>40,494.0</b>

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.