



Appendix C –Parliamentary Budget Office,  
Response to Budget Analysis Request:  
Personal Income Tax Deductions,  
7 April 2016



Parliament of Australia  
Parliamentary Budget Office

## RESPONSE TO BUDGET ANALYSIS REQUEST – OUTSIDE THE CARETAKER PERIOD

Name of request:	Personal income tax deductions
Summary of request:	<p>The request sought information on personal income tax deductions including:</p> <ul style="list-style-type: none"> <li>• <b>Request 1</b> – the total value of selected personal income tax deductions (<u>Attachment A</u>) and estimates of the revenue forgone from these personal income tax deductions (<u>Attachment B</u>), in each year of the 2015-16 Budget forward estimates period. <ul style="list-style-type: none"> <li>- The revenue forgone estimates are presented as both their dollar value and as a proportion of total forecast personal income tax collections in the year.</li> <li>- Attachment B also includes estimates of the average effective marginal tax rate for each category of deduction.</li> </ul> </li> <li>• <b>Request 2</b> - a breakdown of total work related expenses for 2012-13 by occupation (<u>Attachment C</u>) and by state and territory (<u>Attachment D</u>).</li> </ul>
Person/party requesting analysis:	Mr David Coleman MP, Member for Banks
Date request received:	22 March 2016
Date response provided:	7 April 2016
Did the applicant ask for the request to be confidential?	Yes
Expiry date for the analysis:	Release of the next economic and fiscal outlook report

### Overview

For request 1, this analysis is considered to be of **medium reliability** as it is based on detailed administrative data from 2012-13 and estimated for the 2015-16 Budget forward estimates period. The estimates are sensitive to assumptions around growth in taxpayers, income, and deductions over the 2015-16 Budget forward estimates period.

For request 2, this analysis is considered to be of **medium to high reliability** as it is based on a weighted 16 per cent sample of detailed administrative data from 2012-13. The analysis may differ to analysis based on a 100 per cent file of the same data, particularly for categories and deduction items based on a relatively small sample size.

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### Methodology

#### *Request 1*

- The value of deductions, number of taxpayers and revenue forgone<sup>1</sup> was estimated based on a 16 per cent sample of de-identified personal income tax returns for 2012-13 based on current policy settings, assumptions, forecasts and projections consistent with the 2015-16 Mid-Year Economic and Fiscal Outlook (MYEFO).
- The average effective marginal tax rate for each deduction was calculated by dividing the revenue forgone associated with the deduction by the value of the deduction.
- Estimates have been rounded to the nearest \$10 million and 1,000 taxpayers.

#### *Request 2*

- The values were estimated based on a 16 per cent sample of de-identified personal income tax returns for 2012-13.
- Estimates have been rounded to the nearest \$1 million.

### Data sources

- De-identified 16 per cent sample of personal income tax returns from the 2012-13 tax year, Australian Taxation Office (extracted on 2 February 2015<sup>2</sup>).
- 2015-16 MYEFO, Australian Government.

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<sup>1</sup> For a detailed discussion of revenue forgone estimates, refer to the 2015 Tax Expenditures Statement.

<sup>2</sup> The data for the 2012-13 income year used in this analysis may differ from that published in the ATO's *Taxation Statistics 2012-13* publication as the PBO analysis uses more recent data (taking account of additional tax returns and/or amendments). Sample weights may also affect population estimates.

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**ATTACHMENT A – REQUEST 1 – PERSONAL INCOME TAX DEDUCTIONS**

Table A1 presents selected personal income tax deductions in each year of the 2015-16 Budget forward estimates period, by financial year assessed.

**Table A1: Personal income tax deductions - total, 2015-16 to 2018-19**

	2015-16		2016-17		2017-18		2018-19	
	Number	\$m	Number	\$m	Number	\$m	Number	\$m
Work-related expenses <sup>(a)</sup>	9,358,000	23,270	9,471,000	24,170	9,591,000	25,190	9,717,000	26,330
Personal superannuation contributions	216,000	3,410	219,000	3,480	222,000	3,550	226,000	3,620
Cost of managing tax affairs	6,915,000	2,860	7,011,000	3,030	7,111,000	3,240	7,216,000	3,450
Gifts or donations	5,042,000	2,780	5,112,000	2,960	5,187,000	3,170	5,263,000	3,400
Dividends deductions	298,000	1,450	303,000	1,560	308,000	1,630	314,000	1,710
Interest deductions	410,000	830	417,000	830	423,000	870	431,000	910
Other deductions <sup>(b)</sup>	1,082,000	2,260	1,097,000	2,400	1,112,000	2,550	1,128,000	2,720
<b>Total deductions<sup>(c)</sup></b>	<b>11,525,000</b>	<b>36,860</b>	<b>11,678,000</b>	<b>38,420</b>	<b>11,841,000</b>	<b>40,200</b>	<b>12,011,000</b>	<b>42,140</b>

(a) Work related expenses include car-related expenses, travel expenses, clothing expenses, self-education expenses and other work related expenses.

(b) Low value pool deduction, deductible amount of undeducted purchase price of a foreign pension or annuity, deduction for project pool, forestry managed investment scheme deductions, election expenses and other deductions.

(c) The total number of taxpayers claiming deductions in each year does not equal the sum of the number claiming individual types of deduction, due to some taxpayers claiming more than one type of deduction.

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**ATTACHMENT B – REQUEST 1 – PERSONAL INCOME TAX DEDUCTIONS, REVENUE FORGONE ESTIMATES**

Table B1 presents estimates of the revenue forgone from selected personal income tax deductions in each year of the 2015-16 Budget forward estimates period, by year of collection. These estimates do not correspond to the values in table A1, which are based on the financial year assessed. In the context of tax deductions, collection is assumed to occur in the year following the financial year assessed.

The revenue forgone estimates represent the expected amount by which these deductions reduce personal income tax collections in the financial year (as such it shows existing utilisation). They are not an estimate of the financial impact of removing these personal income tax deductions. A costing of such a proposal would require consideration of the potential behavioural response of taxpayers to the removal of these deductions.

The revenue forgone estimate for 'all selected deductions' does not equal the sum of the revenue forgone estimates for all individual deductions. This is due to the interaction of the deductions and individuals' effective marginal tax rates.

**Table B1: Revenue forgone from selected personal income tax deductions, 2015-16 to 2018-19**

(\$m)	2015-16	2016-17	2017-18	2018-19
Work-related expenses <sup>(a)</sup>	8,400	8,370	8,740	9,050
Personal superannuation contributions	1,320	1,340	1,370	1,380
Cost of managing tax affairs	940	970	1,040	1,090
Gifts or donations	1,030	1,070	1,140	1,200
Dividends deductions	600	570	620	640
Interest deductions	350	300	300	310
Other deductions <sup>(b)</sup>	810	840	900	940
<b>All selected deductions</b>	<b>13,490</b>	<b>13,510</b>	<b>14,160</b>	<b>14,670</b>

(a) Work related expenses include car-related expenses, travel expenses, clothing expenses, self-education expenses and other work related expenses.

(b) Low value pool deduction, deductible amount of undeducted purchase price of a foreign pension or annuity, deduction for project pool, forestry managed investment scheme deductions, election expenses and other deductions.

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Table B2 presents the estimates of the revenue forgone from selected personal income tax deductions as a proportion of total forecast personal income tax collections<sup>3</sup> from the 2015-16 MYEFO.

**Table B2: Revenue forgone from selected personal income tax deductions as a percentage of total individuals and other withholding tax revenue, 2015-16 to 2018-19**

	2015-16	2016-17	2017-18	2018-19
Total personal income tax revenue (\$m)	193,360	204,790	218,750	234,750
Proportion of individuals and other withholding tax revenue (%)				
<i>Work-related expenses<sup>(a)</sup></i>	4.34	4.09	4.00	3.86
<i>Personal superannuation contributions</i>	0.68	0.65	0.63	0.59
<i>Cost of managing tax affairs</i>	0.49	0.48	0.47	0.47
<i>Gifts or donations</i>	0.53	0.52	0.52	0.51
<i>Dividends deductions</i>	0.31	0.28	0.28	0.27
<i>Interest deductions</i>	0.18	0.15	0.14	0.13
<i>Other deductions<sup>(b)</sup></i>	0.42	0.41	0.41	0.40
<b>All selected deductions</b>	<b>6.97</b>	<b>6.60</b>	<b>6.47</b>	<b>6.25</b>

(a) Work related expenses include car-related expenses, travel expenses, clothing expenses, self-education expenses and other work related expenses.

(b) Low value pool deduction, deductible amount of undeducted purchase price of a foreign pension or annuity, deduction for project pool, forestry managed investment scheme deductions, election expenses and other deductions.

<sup>3</sup> Individuals and other withholding tax (2015-16 MYEFO, page 50)

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Table B3 presents estimates of the average effective marginal tax rate for each category of deductions. The average effective marginal tax rates in the table represent the rate that applies to each dollar of personal income tax deduction.

**Table B3: Personal income tax deductions – average effective marginal tax rate, 2015-16 to 2018-19**

(%)	2015-16	2016-17	2017-18	2018-19
Work-related expenses <sup>(a)</sup>	36.1	34.6	34.7	34.4
Personal superannuation contributions	38.7	38.4	38.6	38.3
Cost of managing tax affairs	32.8	32.1	32.1	31.7
Gifts or donations	36.9	36.0	36.0	35.4
Dividends deductions	41.2	36.8	38.0	37.3
Interest deductions	42.6	36.8	34.9	34.3
Other deductions <sup>(b)</sup>	35.9	35.2	35.2	34.7
<b>All selected deductions</b>	<b>36.6</b>	<b>35.2</b>	<b>35.2</b>	<b>34.8</b>

(a) Work related expenses include car-related expenses, travel expenses, clothing expenses, self-education expenses and other work related expenses.

(b) Low value pool deduction, deductible amount of undeducted purchase price of a foreign pension or annuity, deduction for project pool, forestry managed investment scheme deductions, election expenses and other deductions.

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**ATTACHMENT C – REQUEST 2 – PERSONAL INCOME TAX DEDUCTIONS (BY OCCUPATION)**

Table C1 presents selected income tax deductions by type by occupation of the individual taxpayer. The occupation categories presented are based on the ATO's Salary and Wage Occupation Codes 2013 (2-digits) available at <https://www.ato.gov.au/Forms/Salary-and-wage-occupation-codes-2013/>.

**Table C1: Personal income tax deductions by occupation, 2012-13**

(\$m)	Work-related expenses <sup>(a)</sup>	Personal superannuation contributions	Cost of managing tax affairs	Gifts or donations	Dividends deductions	Interest deductions	Other deductions <sup>(b)</sup>	Total
Apprentice or trainee	326	1	11	4	1	2	4	349
Arts and media professionals	206	5	17	17	5	3	11	263
Automotive and engineering trades workers	855	2	50	25	9	6	52	999
Business, human resource and marketing professionals	1,244	26	82	126	121	65	113	1,777
Carers and aides	531	4	37	30	12	4	11	629
Chief executives, general managers and legislators	926	76	241	346	145	201	186	2,121
Cleaners and laundry workers	166	3	18	10	2	1	5	205
Clerical and office support workers	89	3	10	9	3	2	5	121
Construction and mining labourers	619	3	30	13	3	4	16	688
Construction trades workers	753	3	36	11	4	4	35	846
Consultants	170	12	17	21	16	8	26	270
Design, engineering, science and transport professionals	947	13	84	93	77	41	100	1,356
Education professionals	1,202	40	83	114	36	22	53	1,549
Electro-technology and telecommunications	603	2	33	19	12	8	35	712



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(\$m)	Work-related expenses <sup>(a)</sup>	Personal superannuation contributions	Cost of managing tax affairs	Gifts or donations	Dividends deductions	Interest deductions	Other deductions <sup>(b)</sup>	Total
trades workers								
Engineering, IT and science technicians	418	2	35	26	14	9	36	541
Factory process workers	225	2	24	18	2	3	11	285
Farm, forestry and garden workers	139	8	11	4	1	1	6	170
Farmers and farm managers	50	9	4	3	2	2	4	74
Food preparation assistants	46	..	5	3	..	..	1	57
Food trade workers	198	..	16	8	2	1	7	232
General clerical workers	323	31	47	46	18	18	22	505
Health and welfare support workers	251	1	14	14	3	1	10	295
Health professionals	1,410	75	114	160	72	55	197	2,084
Hospitality workers	140	2	15	9	2	2	4	174
Hospitality, retail and service managers	644	7	48	35	26	25	38	824
IT professionals	346	1	28	37	29	10	33	485
Inquiry clerks and receptionists	102	3	13	12	2	4	5	141
Legal, social and welfare professionals	341	17	34	59	14	17	28	510
Machine and stationary plant operators	375	1	29	18	5	5	30	462
Mobile plant operators	250	1	18	9	1	1	12	293
Numerical clerks	305	12	30	37	20	16	25	446
Office managers and program administrators	579	19	62	61	33	25	55	835
Other clerical and administrative workers	257	8	25	23	9	6	15	344

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(S\$m)	Work-related expenses <sup>(a)</sup>	Personal superannuation contributions	Cost of managing tax affairs	Gifts or donations	Dividends deductions	Interest deductions	Other deductions <sup>(b)</sup>	Total
	Other labourers	4	22	13	3	3	11	381
	Other technicians and trades workers	2	19	12	4	4	13	310
	Personal assistants and secretaries	5	16	12	6	5	8	148
	Protective service workers	1	30	24	8	6	14	590
	Road and rail drivers	3	42	27	5	5	34	932
	Sales assistants and salespersons	8	36	21	6	6	13	436
	Sales representatives and agents	5	41	24	13	15	33	938
	Sales support workers	1	10	7	1	2	3	168
	Skilled animal and horticultural workers	3	10	5	2	1	5	183
	Specialist managers	15	135	139	92	60	165	2,403
	Sports and personal service workers	3	15	9	4	7	8	356
	Storepersons	1	13	11	1	1	6	168
	Occupation not listed	279	2,762	705	438	335	501	5,834
	<b>All occupations</b>	<b>3,205</b>	<b>2,527</b>	<b>2,430</b>	<b>1,286</b>	<b>1,021</b>	<b>2,006</b>	<b>33,487</b>

(a) Work related expenses include car-related expenses, travel expenses, clothing expenses, self-education expenses and other work related expenses.

(b) Low value pool deduction, deductible amount of undeducted purchase price of a foreign pension or annuity, deduction for project pool, forestry managed investment scheme deductions, election expenses and other deductions.

.. Not zero but rounded to zero.

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**ATTACHMENT D – REQUEST 2 – PERSONAL INCOME TAX DEDUCTIONS (BY STATE)**

Table D1 presents selected income tax deductions by state of residence of the individual taxpayer. The states have been determined from postcode data in individuals' tax returns.

**Table D1: Personal income tax deductions by state or territory, 2012-13**

(\$m)	Work-related expenses <sup>(a)</sup>	Personal superannuation contributions	Cost of managing tax affairs	Gifts or donations	Dividends deductions	Interest deductions	Other deductions <sup>(b)</sup>	Total
New South Wales	6,843	942	886	990	411	397	605	11,074
Victoria	5,580	802	579	599	357	253	443	8,613
Queensland	4,333	569	459	341	234	168	445	6,549
Western Australia	2,080	455	317	236	160	129	283	3,660
South Australia	1,273	309	138	144	73	43	138	2,119
Tasmania	333	54	42	38	15	9	33	524
Australian Capital Territory	316	62	80	65	31	17	42	613
Northern Territory	212	11	24	15	3	5	16	286
State or territory not specified	41	1	2	2	1	..	2	48
<b>Australia total</b>	<b>21,011</b>	<b>3,205</b>	<b>2,527</b>	<b>2,430</b>	<b>1,286</b>	<b>1,021</b>	<b>2,006</b>	<b>33,487</b>

(a) Work related expenses include car-related expenses, travel expenses, clothing expenses, self-education expenses and other work related expenses.

(b) Low value pool deduction, deductible amount of undeducted purchase price of a foreign pension or annuity, deduction for project pool, forestry managed investment scheme deductions, election expenses and other deductions.

.. Not zero but rounded to zero.