



Request for budget analysis

Distributional analysis of the Stage 3 tax cuts	
Person/party requesting the analysis:	Mr Adam Bandt MP, Australian Greens
Date analysis completed:	28 July 2021
Expiry date of the analysis:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period
	<input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
<p>Summary of request:</p> <p>This request sought estimated financial implications and distributional analysis of Stage 3 of the personal income tax plan as set out in the 2018-19 Budget measure <i>Personal income tax plan</i> and the 2019-20 Budget measure <i>Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan</i> over the period to 2031-32.</p> <p>The stage 3 tax cuts involve:</p> <ul style="list-style-type: none"> removing the \$120,000 to \$180,000 tax bracket increasing the top tax bracket threshold from \$180,000 to \$200,000 reducing the marginal tax rate faced by the \$45,000 to \$200,000 tax bracket from 32.5 per cent to 30 per cent. <p>The Stage 3 tax cuts take effect from 1 July 2024.</p> <p>The distributional analyses sought are the aggregate change in tax paid for taxpayers affected by the Stage 3 tax cuts split by:</p> <ul style="list-style-type: none"> taxable income quintiles gender the following taxable income brackets: <ul style="list-style-type: none"> Less than \$45,000 \$45,001 to \$60,000 \$60,001 to \$90,000 \$90,001 to \$120,000 \$120,001 to \$150,000 \$150,001 to \$180,000 Greater than \$180,000. taxable income for the top 1 percentile of taxpayers. <p>In addition, the request sought the average change in tax paid by taxable income quintile and by gender.</p>	

Overview

The estimated financial implications of the Stage 3 tax cuts over the period to 2031-32 are at [Attachment A](#).

The distributional analyses are at [Attachment B](#).

The income tax quintiles and percentiles used in the distributional analysis are at [Attachment C](#).

Key assumptions

The Parliamentary Budget Office (PBO) made the following assumption in completing this response.

- There would be no significant behavioural response associated with the changes to tax rates and thresholds associated with the Stage 3 tax cuts, including to the labour supply.
 - High-income earners can often adjust their taxable income in response to changes in their marginal tax rate. The proposal would not change the marginal tax rate for those with a taxable incomes greater than \$200,000, therefore suggesting any adjustment to taxable incomes are likely to be small.
 - Studies indicate that some people would choose to work more in response to a lower marginal tax rate, while others would work less. There is considerable uncertainty regarding the direction, magnitude and timing of these effects on labour supply.

Methodology

The financial implications of the Stage 3 tax cuts were estimated using a 16 per cent sample of deidentified personal income tax and superannuation data for the 2018-19 income year, provided by the Australian Taxation Office (ATO). The Stage 3 tax cut measures were reversed from the current baseline such that the taxation system would revert to the policy settings that were in place prior to the Stage 3 tax cuts.

The financial implications and the associated distributional analyses of the Stage 3 tax cuts account for the timing of tax collections.

The financial implications and distributional analyses have been rounded to the nearest \$100 million.

Data sources

The ATO provided a de-identified 16 per cent sample of personal income tax return for the 2018-19 income year.

Commonwealth of Australia, 2020. *2020-21 Budget*, Canberra: Commonwealth of Australia.

Attachment A – Distributional analysis of the Stage 3 tax cuts – financial implications

Table A1: Distributional analysis of the Stage 3 tax cuts – Fiscal and underlying cash balances (\$m)^(a)

	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	Total to 2024–25	Total to 2031–32
Revenue													
<i>Stage 3 tax cuts</i>	-	-	-	-15,700	-18,300	-20,100	-22,100	-23,800	-25,700	-28,000	-30,500	-15,700	-184,200
Total	-	-	-	-15,700	-18,300	-20,100	-22,100	-23,800	-25,700	-28,000	-30,500	-15,700	-184,200

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

- Indicates nil.

Attachment B – Distributional analysis of the Stage 3 tax cuts

Table B1: Distributional analysis of the Stage 3 tax cuts – Total cost by income quintile – Fiscal and underlying cash balances (\$m)^{(a)(b)(c)}

	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	Total to 2031–32
Total change in net tax of Stage 3 tax cuts by income quintile												
<i>Quintile 1</i>	-	-	-
<i>Quintile 2</i>	-	-	-	-100	-100	-200	-400	-800
<i>Quintile 3</i>	-	-	-	-700	-900	-1,100	-1,300	-1,500	-1,700	-2,100	-2,600	-11,900
<i>Quintile 4</i>	-	-	-	-2,700	-3,200	-3,500	-3,900	-4,200	-4,600	-5,200	-5,800	-33,100
<i>Quintile 5</i>	-	-	-	-12,200	-14,200	-15,500	-16,900	-18,000	-19,300	-20,500	-21,600	-138,200
Total	-	-	-	-15,700	-18,300	-20,100	-22,100	-23,800	-25,700	-28,000	-30,500	-184,200

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Quintiles are based on all individuals who have lodged a personal income tax return, irrespective of their net tax amount. The taxable income threshold for the quintiles is reported in [Attachment C](#).

(c) Numbers may not sum due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table B2: Distributional analysis of the Stage 3 tax cuts – Total cost by gender – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	Total to 2031–32
Total change in net tax of Stage 3 tax cuts by gender												
<i>Female</i>	-	-	-	-5,100	-6,000	-6,700	-7,400	-8,100	-8,800	-9,700	-10,600	-62,400
<i>Indeterminate</i>	-	-	-
<i>Male</i>	-	-	-	-10,500	-12,200	-13,400	-14,700	-15,700	-16,900	-18,400	-19,900	-121,700
Total	-	-	-	-15,700	-18,300	-20,100	-22,100	-23,800	-25,700	-28,000	-30,500	-184,200

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Numbers may not sum due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table B3: Distributional analysis of the stage 3 tax cuts – Total cost by specified taxable income brackets – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	Total to 2031–32
Total change in net tax of Stage 3 tax cuts by taxable income bracket												
<i>Up to \$45,000</i>	-	-	-
<i>\$45,001 to \$60,000</i>	-	-	-	-400	-400	-400	-400	-400	-400	-300	-400	-3,100
<i>\$60,001 to \$90,000</i>	-	-	-	-2,100	-2,300	-2,300	-2,400	-2,400	-2,400	-2,400	-2,600	-18,900
<i>\$90,001 to \$120,000</i>	-	-	-	-2,500	-2,800	-2,900	-3,100	-3,200	-3,300	-3,400	-3,700	-24,900
<i>\$120,001 to \$150,000</i>	-	-	-	-2,300	-2,700	-3,100	-3,400	-3,600	-3,900	-4,200	-4,600	-27,800
<i>\$150,001 to \$180,000</i>	-	-	-	-2,200	-2,500	-2,800	-3,100	-3,400	-3,700	-4,200	-4,600	-26,500
<i>\$180,001 and above</i>	-	-	-	-6,300	-7,500	-8,600	-9,800	-10,800	-12,000	-13,500	-14,700	-83,200
Total	-	-	-	-15,700	-18,300	-20,100	-22,100	-23,800	-25,700	-28,000	-30,500	-184,200

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Numbers may not sum due to rounding.

- Indicates nil.

Table B4: Distributional analysis of the Stage 3 tax cuts – Total cost by income percentile – Fiscal and underlying cash balances (\$m)^{(a)(b)(c)}

	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	Total to 2031–32
Total change in net tax of Stage 3 tax cuts by percentile												
<i>Bottom 99 percentile</i>	-	-	-	-14,400	-16,900	-18,600	-20,600	-22,300	-24,200	-26,500	-28,900	-172,400
<i>Top 1 percentile</i>	-	-	-	-1,300	-1,400	-1,500	-1,500	-1,500	-1,500	-1,500	-1,600	-11,800
Total	-	-	-	-15,700	-18,300	-20,100	-22,100	-23,800	-25,700	-28,000	-30,500	-184,200

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Percentiles are based on all individuals who have lodged a personal income tax return, irrespective of their net tax amount. The taxable income threshold for the top 1 percentile is reported in [Attachment C](#).

(c) Numbers may not sum due to rounding.

- Indicates nil.

Table B5: Distributional analysis of the Stage 3 tax cuts – Average cost by gender (\$) ^(a)

	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32
Average change in net tax of stage 3 tax cuts by gender.											
<i>Female</i>	-	-	-	-730	-780	-850	-930	-990	-1,070	-1,130	-1,180
<i>Indeterminate</i>	-	-	-	-90	-100	-110	-120	-130	-150	-160	-170
<i>Male</i>	-	-	-	-1,430	-1,520	-1,630	-1,770	-1,860	-1,980	-2,080	-2,150

(a) A positive number indicates an increase in tax paid and a negative number indicates a decrease in tax paid.

- Indicates nil.

Table B6: Distributional analysis of the Stage 3 tax cuts – Average cost by quintile (\$) ^{(a)(b)}

	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32
Average change in net tax of Stage 3 tax cuts by income quintile											
<i>Quintile 1</i>	-	-	-	-10	-10	-10	-10	-10	-10	-10	-10
<i>Quintile 2</i>	-	-	-	-10	-10	-10	-10	-20	-30	-40	-60
<i>Quintile 3</i>	-	-	-	-250	-290	-340	-410	-460	-520	-580	-630
<i>Quintile 4</i>	-	-	-	-940	-1,000	-1,090	-1,190	-1,270	-1,360	-1,430	-1,490
<i>Quintile 5</i>	-	-	-	-4,230	-4,480	-4,790	-5,160	-5,430	-5,760	-6,020	-6,220

(a) A positive number indicates an increase in tax paid and a negative number indicates a decrease in tax paid.

(b) Quintiles are based on all individuals who have lodged a personal income tax return, irrespective of their net tax amount. The taxable income threshold for the quintiles is reported in [Attachment C](#).

- Indicates nil.

Attachment C – Distributional analysis of the Stage 3 tax cuts - taxable income quintiles and percentiles

Table C1: Distributional analysis of the Stage 3 tax cuts – taxable income range by quintile^(a)

Financial year	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
2021–22	<i>Less than \$20,200</i>	<i>\$20,201 to \$38,900</i>	<i>\$38,901 to \$59,600</i>	<i>\$59,601 to \$90,700</i>	<i>Greater than \$90,700</i>
2022–23	<i>Less than \$20,800</i>	<i>\$20,801 to \$40,200</i>	<i>\$40,201 to \$61,700</i>	<i>\$61,701 to \$93,900</i>	<i>Greater than \$93,900</i>
2023–24	<i>Less than \$21,500</i>	<i>\$21,501 to \$41,600</i>	<i>\$41,601 to \$64,100</i>	<i>\$64,101 to \$97,700</i>	<i>Greater than \$97,700</i>
2024–25	<i>Less than \$22,200</i>	<i>\$22,201 to \$43,200</i>	<i>\$43,201 to \$66,600</i>	<i>\$66,601 to \$101,700</i>	<i>Greater than \$101,700</i>
2025–26	<i>Less than \$22,700</i>	<i>\$22,701 to \$44,500</i>	<i>\$44,501 to \$68,700</i>	<i>\$68,701 to \$105,100</i>	<i>Greater than \$105,100</i>
2026–27	<i>Less than \$23,600</i>	<i>\$23,601 to \$46,200</i>	<i>\$46,201 to \$71,500</i>	<i>\$71,501 to \$109,500</i>	<i>Greater than \$109,500</i>
2027–28	<i>Less than \$24,500</i>	<i>\$24,501 to \$48,200</i>	<i>\$48,201 to \$74,700</i>	<i>\$74,701 to \$114,600</i>	<i>Greater than \$114,600</i>
2028–29	<i>Less than \$25,300</i>	<i>\$25,301 to \$49,700</i>	<i>\$49,701 to \$77,100</i>	<i>\$77,101 to \$118,200</i>	<i>Greater than \$118,200</i>
2029–30	<i>Less than \$26,200</i>	<i>\$26,201 to \$51,600</i>	<i>\$51,601 to \$80,000</i>	<i>\$80,001 to \$122,700</i>	<i>Greater than \$122,700</i>
2030–31	<i>Less than \$28,100</i>	<i>\$28,101 to \$56,200</i>	<i>\$56,201 to \$86,400</i>	<i>\$86,401 to \$130,900</i>	<i>Greater than \$130,900</i>
2031–32	<i>Less than \$30,300</i>	<i>\$30,301 to \$61,200</i>	<i>\$61,201 to \$93,400</i>	<i>\$93,401 to \$139,700</i>	<i>Greater than \$139,700</i>

(a) Quintiles are based on all individuals who have lodged a personal income tax return, irrespective of their net tax amount.

Table C2: Distributional analysis of the Stage 3 tax cuts – taxable income range of top 1 percentile^(a)

	Threshold for top 1 percentile
2021–22	<i>Greater than \$309,000</i>
2022–23	<i>Greater than \$320,000</i>
2023–24	<i>Greater than \$333,000</i>
2024–25	<i>Greater than \$347,000</i>
2025–26	<i>Greater than \$358,000</i>
2026–27	<i>Greater than \$373,000</i>
2027–28	<i>Greater than \$390,000</i>
2028–29	<i>Greater than \$403,000</i>
2029–30	<i>Greater than \$419,000</i>
2030–31	<i>Greater than \$443,000</i>
2031–32	<i>Greater than \$462,000</i>

(a) Percentiles are based on all individuals who have lodged a personal income tax return, irrespective of their net tax amount.