



Request for budget analysis

Distributional analysis of the Stage 3 tax cuts	
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens
Date costing completed:	16 May 2023
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period
	<input checked="" type="checkbox"/> Confidential – <i>Authorised for public release on 17 May 2023</i> <input type="checkbox"/> Not confidential
<p>Summary of the request:</p> <p>The 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 medium-term. The Stage 3 tax cuts take effect from 1 July 2024 and 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% to 30%. <p>The distributional analyses sought 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. 	

Overview

The estimated financial implications of the Stage 3 tax cuts over the period to 2033-34 are at Attachment A.

The requested distributional analyses are at Attachment B.

The income tax quintiles used in the distributional analysis are at Attachment C.

Key assumptions

The Parliamentary Budget Office (PBO) has assumed that there would be no significant behavioural response associated with the Stage 3 tax cuts, including to the labour supply.

- While high-income earners can often adjust their taxable income in response to changes in their marginal tax rate, Stage 3 would not change the marginal tax rate for those with a taxable income greater than \$200,000, suggesting any adjustment to taxable incomes is 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 were estimated using a microsimulation model built from a representative sample of all tax filers. This was generated from the full set of de-identified personal income tax returns data for the 2018-19 income year, provided by the Australian Taxation Office (ATO), and grown over the medium-term using parameters from the 2023-24 Budget.

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

Economic parameters for this analysis were derived solely from information in the 2023-24 Budget papers. While amounts are expected to be of high quality over the forward estimates and medium term, there may be some minor differences regarding the timing of expected changes between individual years, compared to a costing calculated on a more detailed set of economic parameters. Some forms of volatile income (e.g. capital gains) are more likely than others to result in on-assessment tax liabilities – impacting the year of lodgement – rather than within the year the income is earned. If, for example, a greater share of income on average is from wages rather than capital gains, then this would result in a bring-forward in the impacts, with the first year of the costing (2024-25) likely to be affected the most.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.¹

Data sources

The ATO provided the de-identified personal income tax returns data for the 2018-19 income year.

Commonwealth of Australia, 2023. *2023-24 Budget*, Canberra: Commonwealth of Australia.

¹ https://www.apf.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

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

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

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33	2033–34	Total to 2026–27	Total to 2033–34
Revenue													
<i>Stage 3 tax cuts</i>	-	-20,400	-23,500	-25,300	-27,600	-29,700	-32,000	-34,500	-37,200	-40,000	-42,900	-69,200	-313,100
Total	-	-20,400	-23,500	-25,300	-27,600	-29,700	-32,000	-34,500	-37,200	-40,000	-42,900	-69,200	-313,100

(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)}

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33	2033–34	Total to 2026–27	Total to 2033–34
Total change in net tax of Stage 3 tax cuts by income quintile													
<i>Quintile 1</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Quintile 2</i>	-	-100	-100	-200	-300	-400	-500	-600	-100	-2,100
<i>Quintile 3</i>	-	-1,100	-1,200	-1,400	-1,900	-2,200	-2,400	-2,700	-3,000	-3,400	-3,700	-3,700	-23,100
<i>Quintile 4</i>	-	-3,700	-4,400	-4,800	-4,800	-5,300	-5,900	-6,600	-7,300	-8,200	-9,200	-12,900	-60,300
<i>Quintile 5</i>	-	-15,600	-17,800	-19,100	-20,800	-22,000	-23,500	-25,000	-26,500	-28,000	-29,400	-52,500	-227,600
Total	-	-20,400	-23,500	-25,300	-27,600	-29,700	-32,000	-34,500	-37,200	-40,000	-42,900	-69,200	-313,100

(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.

- Indicates nil.

.. Not zero but rounded to zero.

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

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33	2033–34	Total to 2026-27	Total to 2033-34
Total change in net tax of Stage 3 tax cuts by gender													
<i>Female</i>	-	-6,900	-7,900	-8,600	-9,500	-10,300	-11,100	-12,100	-13,200	-14,300	-15,500	-23,400	-109,400
<i>Male</i>	-	-13,500	-15,500	-16,700	-18,200	-19,400	-20,800	-22,400	-24,000	-25,700	-27,400	-45,800	-203,700
Total	-	-20,400	-23,500	-25,300	-27,600	-29,700	-32,000	-34,500	-37,200	-40,000	-42,900	-69,200	-313,100

(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) The impact for individuals whose gender cannot be determined from their tax return is small and has been 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)

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33	2033–34	Total to 2026-27	Total to 2033-34
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	-300	-400	-500	-300	-400	-500	-400	-300	-400	-1,100	-3,700
<i>\$60,001 to \$90,000</i>	-	-2,100	-2,700	-2,500	-2,600	-2,600	-2,400	-2,500	-2,500	-2,400	-2,700	-7,200	-25,000
<i>\$90,001 to \$120,000</i>	-	-3,000	-3,100	-3,500	-3,300	-3,600	-4,100	-3,900	-3,900	-3,800	-4,100	-9,500	-36,200
<i>\$120,001 to \$150,000</i>	-	-3,200	-3,700	-3,700	-4,300	-4,200	-4,900	-5,000	-5,600	-5,400	-5,100	-10,600	-45,100
<i>\$150,001 to \$180,000</i>	-	-2,600	-3,400	-3,700	-3,900	-4,600	-4,200	-4,900	-5,300	-6,500	-6,500	-9,700	-45,600
<i>\$180,001 and above</i>	-	-9,100	-10,400	-11,600	-13,000	-14,400	-15,900	-17,700	-19,600	-21,600	-24,200	-31,000	-157,500
Total	-	-20,400	-23,500	-25,300	-27,600	-29,700	-32,000	-34,500	-37,200	-40,000	-42,900	-69,200	-313,100

(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 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)

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
2023–24	<i>Less than \$21,700</i>	<i>\$21,701 to \$47,100</i>	<i>\$47,101 to \$71,100</i>	<i>\$71,101 to \$109,200</i>	<i>Greater than \$109,200</i>
2024–25	<i>Less than \$23,100</i>	<i>\$23,101 to \$48,200</i>	<i>\$48,201 to \$72,600</i>	<i>\$72,601 to \$111,100</i>	<i>Greater than \$111,100</i>
2025–26	<i>Less than \$23,300</i>	<i>\$23,301 to \$49,300</i>	<i>\$49,301 to \$74,300</i>	<i>\$74,301 to \$114,100</i>	<i>Greater than \$114,100</i>
2026–27	<i>Less than \$23,700</i>	<i>\$23,701 to \$51,000</i>	<i>\$51,001 to \$76,700</i>	<i>\$76,701 to \$117,900</i>	<i>Greater than \$117,900</i>
2027–28	<i>Less than \$24,500</i>	<i>\$24,501 to \$53,400</i>	<i>\$53,401 to \$79,900</i>	<i>\$79,901 to \$123,300</i>	<i>Greater than \$123,300</i>
2028–29	<i>Less than \$24,900</i>	<i>\$24,901 to \$55,400</i>	<i>\$55,401 to \$82,700</i>	<i>\$82,701 to \$129,000</i>	<i>Greater than \$129,000</i>
2029–30	<i>Less than \$27,300</i>	<i>\$27,301 to \$56,700</i>	<i>\$56,701 to \$85,400</i>	<i>\$85,401 to \$133,900</i>	<i>Greater than \$133,900</i>
2030–31	<i>Less than \$27,600</i>	<i>\$27,601 to \$59,300</i>	<i>\$59,301 to \$89,000</i>	<i>\$89,001 to \$139,200</i>	<i>Greater than \$139,200</i>
2031–32	<i>Less than \$28,800</i>	<i>\$28,801 to \$61,600</i>	<i>\$61,601 to \$93,500</i>	<i>\$93,501 to \$144,900</i>	<i>Greater than \$144,900</i>
2032–33	<i>Less than \$31,300</i>	<i>\$31,301 to \$64,100</i>	<i>\$64,101 to \$97,300</i>	<i>\$97,301 to \$150,100</i>	<i>Greater than \$150,100</i>
2033–34	<i>Less than \$32,500</i>	<i>\$32,501 to \$66,500</i>	<i>\$66,501 to \$100,900</i>	<i>\$100,901 to \$155,600</i>	<i>Greater than \$155,600</i>

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