



Request for budget analysis

Tax cuts package	
Person/party requesting the analysis:	Senator Richard Di Natale, Australian Greens
Date analysis completed:	26 June 2019
Expiry date of the analysis:	Release of the next economic and fiscal outlook report.
Status at time of request:	<input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
Summary of request: The request sought the financial implications, by stage and component, of the 2019-20 Budget measure <i>Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan</i> . The request also sought the annual aggregate cost of the third stage of the 2019-20 Budget measure <i>Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan</i> (reducing the 32.5 per cent marginal tax rate to 30 per cent from 1 July 2024) for individuals with taxable incomes greater than \$180,000 in each year.	

Overview

The detailed financial implications of each component of the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* is provided at [Attachment A](#).

The aggregate cost of the third stage of the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* for individuals with taxable incomes greater than \$180,000 is provided at [Attachment B](#).

The estimates are subject to uncertainties around income and population growth. This is particularly the case for estimates of the budget impact for individuals with taxable incomes above \$180,000, as income growth increases the proportion of taxpayers earning above \$180,000 over time (this is shown in a memorandum item in [Attachment B](#)).

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in assessing the financial implications of the third stage of the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*.

- There would be no significant behavioural response associated with the measure, including to the supply of labour.

- High income earners can often adjust their taxable income in response to changes in the marginal tax rates.¹ The budget measure does not change the marginal tax rate for those with a taxable income greater than \$200,000, therefore suggesting that any adjustment to taxable income is likely to be small.
- Studies indicate that some people will choose to work more in response to a lower marginal tax rate, while others will work less.² There is considerable uncertainty regarding the direction, magnitude and timing of the effect this proposal would have on labour supply.
- Income from salary and wages, dividends, gross interest, net capital gains and other forms of income would grow in line with the 2019 Pre-election Economic and Fiscal Outlook (PEFO) parameters.
 - Wages and salaries would grow at the same rate across the income distribution.

Methodology

- The financial implications, by component, of the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* were estimated using a 16 per cent sample of de-identified personal income tax and superannuation data for 2016-17 provided by the Australian Taxation Office (ATO).
 - The 16 per cent sample was used to estimate the number of individuals and their respective taxable incomes over the 2019-20 Budget forward estimates period and the medium term.
 - The sample is benchmarked to PEFO projections of the number of personal income tax filers over the 2019-20 Budget forward estimates period and the medium term.
 - These data were used to estimate the change in tax payable for each component.
- The estimate of the financial implications of the third stage of the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* by taxable income above \$180,000, presented in [Attachment B](#), is based on the distribution underpinning the analysis of the financial implications of the budget measure in [Attachment A](#).
 - The taxable income range up to and above \$180,000 has been expressed in nominal terms each year. As nominal income increases over time, more individuals would be expected to have a taxable income above \$180,000, increasing the proportion of the budgetary cost related to those with taxable incomes greater than \$180,000.³

¹ See for instance, HM Revenue and Customs, 2012. *The Exchequer effect of the 50 per cent additional rate of income tax*, London: HM Revenue and Customs.

² Ibid.

³ For example, in the analysis, if a taxpayer had a taxable income of \$180,000 in 2023-24 their tax cut would not count towards the aggregate cost of the Budget measures for those with taxable incomes over \$180,000. However, if the same taxpayer had a taxable income of over \$180,000 in the next year (due a wage rise), the full value of the tax cut they receive in 2024-25 would count towards the aggregate cost of the Budget measures for those with taxable incomes over \$180,000.

- The 2019-20 Budget estimates of the *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* measure included a provision for the impact of a decision taken in the 2018-19 Mid-Year Economic and Fiscal Outlook (MYEFO), which has the effect of reducing the budget cost by \$13.8 billion over the 2019-20 Budget forward estimates period.⁴ The estimates presented in [Attachment A](#) represent the PBO's estimate of the total cost of implementing this commitment, and hence include the 2019-20 Budget measure and the 2018-19 MYEFO provision.
- The modelling of the impact of the measure has taken account of the timing of tax collections.
- Estimates of the low and middle income tax offset have been rounded to the nearest \$50 million. Estimates of the low income tax offset and the breakdown of the financial implications for individuals with taxable incomes below and above \$180,000 have been rounded to the nearest \$10 million. All other estimates have been rounded to the nearest \$100 million.

Data sources

The ATO provided a 16 per cent sample of de-identified personal income tax and superannuation returns for the 2016-17 year.

Treasury provided:

- the model underpinning the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*
- economic forecasts for personal income and superannuation tax as at the 2019 Pre-election Economic and Fiscal Outlook.

HM Revenue and Customs, 2012. *The Exchequer effect of the 50 per cent additional rate of income tax*, London: HM Revenue and Customs.

⁴ Refer to the 2019-20 Budget, page 17.

Attachment A – Tax cuts package – financial implications

Table A1: Tax cuts package – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Stage 1 – Immediate relief to low- and middle-income earners													
<i>Increase the low and middle income tax offset maximum amount to \$1,080 and the base amount to \$255</i>	-3,450	-3,700	-3,750	-3,800	-200	-	-	-	-	-	-	-14,700	-14,900
Total – Stage 1	-3,450	-3,700	-3,750	-3,800	-200	-	-	-	-	-	-	-14,700	-14,900
Stage 2 – Locking in the benefits of lower taxes													
<i>Increase the top tax threshold of the 19 per cent bracket from \$41,000 to \$45,000</i>	-	-	-	-4,800	-5,300	-5,600	-5,700	-5,900	-6,100	-6,300	-6,500	-4,800	-46,200
<i>Increase the low income tax offset from \$645 to \$700</i>	-	-	-	-40	-210	-210	-200	-200	-200	-190	-190	-40	-1,440
Total – Stage 2	-	-	-	-4,840	-5,510	-5,810	-5,900	-6,100	-6,300	-6,490	-6,690	-4,840	-47,640
Stage 3 – Further structural changes to the tax system to deliver lower taxes													
<i>Decrease the marginal tax rate from 32.5 per cent to 30 per cent</i>	-	-	-	-	-	-12,500	-14,300	-15,400	-16,600	-17,700	-18,900	-	-95,400
Total – Stage 3	-	-	-	-	-	-12,500	-14,300	-15,400	-16,600	-17,700	-18,900	-	-95,400
Total	-3,450	-3,700	-3,750	-8,640	-5,710	-18,310	-20,200	-21,500	-22,900	-24,190	-25,590	-19,540	-157,940

- (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) Figures may not sum to totals due to rounding.
- Indicates nil.

Attachment B – Tax cuts package – financial implications by taxable income

Table B1: Tax cuts package – Estimated cost of the third stage of the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the personal income tax plan* by taxable income – Fiscal and underlying cash balance (\$m)^{(a)(b)}

Cost of measure attributable to individuals with nominal taxable income per annum	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2029-30
<i>Equal to or below \$180,000 (percentage of total cost)</i>	-8,900 (71.6%)	-10,100 (70.8%)	-10,800 (69.7%)	-11,400 (68.5%)	-11,900 (67.5%)	-12,600 (66.5%)	-65,700 (68.9%)
<i>Greater than \$180,000 (percentage of total cost)</i>	-3,500 (28.4%)	-4,200 (29.2%)	-4,700 (30.3%)	-5,200 (31.5%)	-5,800 (32.5%)	-6,300 (33.5%)	-29,700 (31.1%)
Total	-12,500	-14,300	-15,400	-16,600	-17,700	-18,900	-95,400

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

Memorandum item: Tax cuts package – Estimated proportion of taxpayers^{(a)(b)}

Individuals with nominal taxable income per annum	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30
<i>Equal to or below \$180,000</i>	92%	92%	91%	90%	90%	89%
<i>Greater than \$180,000</i>	8%	8%	9%	10%	10%	11%

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

(b) A taxpayer is an individual with a net tax liability prior to the implementation of the Government's Personal Income Tax Plan.