



Policy costing

Not support Stages 2 and 3 of the Government's unfair tax plan

Party: Australian Labor Party

Summary of proposal:

This proposal involves the following components.

- Component 1: Do not proceed with the scheduled decrease in the marginal tax rate from 32.5 per cent to 30 per cent for taxable incomes between \$45,000 and \$200,000 from 1 July 2024.
- Component 2: Do not proceed with the scheduled removal of the 37 per cent tax bracket and the scheduled increase of the lower threshold for the 45 per cent tax bracket from \$180,000 to \$200,000 from 1 July 2024.
- Component 3: Do not proceed with the scheduled increase in the upper threshold for the 32.5 per cent marginal tax rate from \$90,000 to \$120,000 from 1 July 2022.
- Component 4: Do not proceed with the scheduled increase in the upper threshold for the 19 per cent marginal tax rate from \$41,000 to \$45,000 from 1 July 2022.
- Component 5: Do not proceed with the scheduled increase in the upper threshold for the 19 per cent marginal tax rate from \$37,000 to \$41,000 from 1 July 2022.
- Component 6: Do not proceed with the scheduled increase in the low income tax offset from a maximum of \$645 to a maximum of \$700 for taxable incomes up to \$66,667 from 1 July 2022.
- Component 7: Do not proceed with the scheduled increase in the low income tax offset from a maximum of \$445 to a maximum of \$645 for taxable incomes up to \$66,667 from 1 July 2022.

The financial implications of this proposal include interactions with another Australian Labor Party proposal, *Labor's fairer income tax cuts* (PER411).

Costing overview

This proposal would be expected to increase the fiscal and underlying cash balances by \$13,630 million over the 2019-20 Budget forward estimates period. This impact is entirely due to an increase in revenue.

Table 1: Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-	-	-	13,630	13,630
Underlying cash balance	-	-	-	13,630	13,630

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

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

- Indicates nil.

The proposal would not be expected to involve any change in departmental expenses as it does not change the administrative complexity of the tax system.

The impact of this proposal over the 2019-20 Budget forward estimates period is not representative of the ongoing financial implications. Financial implications over the period to 2029-30 are included at [Attachment A](#).

This costing is subject to uncertainties in income and population growth, in addition to behavioural responses to the proposal. The magnitude of the impact of the various components depends on the order in which they are presented in the costing. Presenting components in a different order would change the magnitude of individual components, but would not change the financial implications of the overall package.

Key assumptions

The Parliamentary Budget Office has assumed there would be no significant behavioural response associated with this proposal, 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 This proposal would 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 less in response to a higher marginal tax rate, while others will work more.² There is considerable uncertainty regarding the direction, magnitude and timing of the effect this proposal would have on labour supply.

Methodology

- The financial implications of this proposal have been estimated using a 16 per cent sample of de-identified personal income tax and superannuation returns for 2016-17 provided by the Australian Taxation Office (ATO). The data were used to estimate the change in tax payable for each component.
- The components have been costed and presented in reverse order by start date for comparison with the components of the 2018-19 Budget and 2019-20 Budget measures.³ The interaction between the proposal and *Labor's fairer income tax cuts* (PER411) was costed last.
- This modelling has taken account of the timing of tax collections.
- Estimates for not proceeding with increases to the low income tax offset (Components 6 and 7) and the interactions have been rounded to the nearest \$10 million. All other estimates have been rounded to the nearest \$100 million.

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 Where two similar components have the same start date, those that relate to a 2019-20 Budget measure were costed before those relating to a 2018-19 Budget measure. If the components were costed in chronological order, the financial implications of each component would not be comparable with the 2018-19 Budget and 2019-20 Budget measures, due to interactions between components.

Data sources

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

The Treasury provided 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.

Attachment A – Not support Stages 2 and 3 of the Government’s unfair tax plan – financial implications

Table A1: Not support Stages 2 and 3 of the Government’s unfair tax plan – 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
Revenue													
<i>Component 1 – Do not reduce 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
<i>Component 2 – Do not remove 37 per cent tax bracket nor increase tax threshold from \$180,000 to \$200,000</i>	-	-	-	-	-	6,000	7,000	7,900	8,800	9,600	10,600	-	49,900
<i>Component 3 – Do not increase tax threshold from \$90,000 to \$120,000</i>	-	-	-	3,700	4,300	4,700	5,000	5,500	6,000	6,400	6,800	3,700	42,400
<i>Component 4 – Do not increase tax threshold 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>Component 5 – Do not increase tax threshold from \$37,000 to \$41,000</i>	-	-	-	5,000	5,500	5,800	5,900	6,100	6,300	6,400	6,600	5,000	47,600
<i>Component 6 – Do not increase low income tax offset from \$645 to \$700</i>	-	-	-	40	210	210	200	200	200	190	190	40	1,440
<i>Component 7 – Do not increase low income tax offset from \$445 to \$645</i>	-	-	-	90	470	470	460	450	440	420	400	90	3,200
<i>Interaction between Components 1 to 7 and Labor’s fairer income tax cuts (PER411)</i>	-	-	-	-	-60	-60	-60	-50	-50	-50	-50	-	-380
Total – revenue	-	-	-	13,630	15,720	35,220	38,500	41,400	44,390	46,960	49,940	13,630	285,760

(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