Parliamentary Budget Office

Policy costing

Budget repair levy	
Party:	Australian Labor Party
Summary of proposal: This proposal would reinstate the budget repair levy at 2 per cent for taxable incomes greater than $180,000 for a period of four years. The proposal would take effect from 1 July 2019 and expire on 1 July 2023. The fringe benefits tax rate would also increase to 49 per cent from 1 April 2019 and would be reduced to 47 per cent on 1 April 2023.	

Costing overview

The proposal would be expected to increase the fiscal and underlying cash balances by $3,800 million over the 2019-20 Budget forward estimates period.

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

Table 1: Financial implications ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	**Total to 2022–23**
Fiscal balance	1,100	1,500	1,700	-500	**3,800**
Underlying cash balance	1,100	1,500	1,700	-500	**3,800**

(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.

The proposal would have an impact that extends beyond the 2019-20 Budget forward estimates period. Detailed financial implications for the proposal over the period to 2029-30 are provided in Attachment A.

Taxpayers who would be affected by this proposal are likely to have some form of discretionary income. While the proposal has a 1 July 2019 start date, some individuals affected by the proposal in 2019-20 would be expected to anticipate the re-introduction of the budget repair levy and would bring forward some of their taxable income from the 2019-20 income year into the 2018-19 income year to reduce the impact of the levy. Similarly, some individuals who would be affected by the levy in 2022-23 would be expected to defer the realisation of some of their taxable income to the following income year.

This costing is subject to uncertainties surrounding income and population growth rates, as well as behavioural responses to the proposal. International studies of changes in tax rates for high-income earners have found that when changes are announced before implementation, some individuals make one-off adjustments to the timing of their income in order to minimise exposure to the higher rate of tax.[1]

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- The first quarter of fringe benefits tax revenue in 2019-20 would not be collected, as 1 April 2019 has passed. As such, the fringe benefits tax rate is assumed to be increased from 1 July 2019.
- Some high-income earners would respond to the proposal by adjusting their taxable income in order to reduce the impact of the budget repair levy.
  - Individuals with incomes in excess of $180,000 are assumed to have a taxable income elasticity of 0.2.[2] In the absence of this behavioural response, the estimated financial implications would be around 60 per cent higher over the period to 2029-30.
  - Individuals subject to the budget repair levy in 2019-20 would bring forward 5 per cent of their taxable income from 2019-20 to 2018-19. Similarly, individuals subject to the budget repair levy in 2022-23 would defer 5 per cent of their taxable income to the following income year. In the absence of this behavioural response, the estimated financial implications would be around $150 million higher over the period to 2029-30.
  - Discretionary income that individuals are able to bring forward from 2019-20 to 2018-19 is unlikely to be withheld in the 2018-19 year. As such, the revenue impact from the income brought forward would not arise until individuals lodge their 2018-19 personal income tax returns, which occurs from the 2019-20 financial year.

Methodology

- The financial implications of the proposal were 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 as a result of this proposal.
- Behavioural responses were incorporated, reflecting the assumption above.
- The modelling has taken into account the timing of tax collections.
- Revenue estimates have been rounded to the nearest $100 million.

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[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] Taxable income elasticity is a measure of the responsiveness of taxable income to changes in tax rates. It measures the proportional change in declared taxable income resulting from a proportional change in the net-of-tax (one minus the marginal tax rate). An elasticity of 0.2 means that if an increase in marginal tax rate leads to a 1 per cent decrease in the net-of-tax, there will be a 0.2 per cent decrease in taxable income. The value is consistent with the wider empirical literature across advanced economies, where the average estimate of taxable income elasticities is close to 0.2, see for instance, Klemm., Liu, L., Mylonas, V. and Wingender, P., 2018, *Are Elasticities of Taxable Income Rising?,* International Monetary Fund.

Data sources

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

The Treasury provided economic forecasts for personal income tax and superannuation 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.

Klemm, A., Liu L., Mylonas, V. and Wingender, P., 2018. *Are Elasticities of Taxable Income Rising?,* International Monetary Fund.

Attachment A – Budget repair levy – financial implications

Table A1: Budget repair levy – 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													
Individuals tax	*1,100*	*1,500*	*1,700*	*-500*	*1,900*	*600*	..	-	-	-	-	***3,800***	***6,300***
Total	**1,100**	**1,500**	**1,700**	**-500**	**1,900**	**600**	..	**-**	**-**	**-**	**-**	**3,800**	**6,300**

(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.

.. Not zero but rounded to zero.

- Indicates nil.