Parliamentary
Budget Office

Policy costing

Reverse income tax cuts that will turbocharge inequality	
Party:	Australian Greens

Summary of proposal:

This proposal consists of seven 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 $37,000 to $45,000 from 1 July 2022.
- Component 5: Do not proceed with the scheduled increase in the low income tax offset from a maximum of $445 to a maximum of $700 for taxable incomes up to $66,667 from 1 July 2022.
- Component 6: Decrease the upper threshold of the 32.5 per cent tax bracket from $90,000 to $87,000, to apply from 1 July 2018.
- Component 7: Remove the low and middle income tax offset, to apply from 1 July 2018.

Costing overview

This proposal would be expected to increase the fiscal and underlying cash balances by $46,530 million over the 2019-20 Budget forward estimates period. This impact is entirely due to an increase in revenue.

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 around 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 the components in a different order would change the magnitude of individual components, but would not change the financial implications of the overall package.

There are some revenue risks related to Component 6 (decreasing the tax threshold from $90,000 to $87,000) as it would mean that some taxpayers would have debts in their 2018-19 income tax returns. This may have implications regarding the quantum and timing for the collection of revenue in 2019-20 for this component.

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

	2019–20	2020–21	2021–22	2022–23	**Total to 2022–23**
Fiscal balance	8,000	8,200	8,300	22,030	**46,530**
Underlying cash balance	8,000	8,200	8,300	22,030	**46,530**

(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.

Key assumptions

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

- Decreasing the upper threshold of the 32.5 per cent tax bracket from $90,000 to $87,000 and backdating this to 1 July 2018 would not have any revenue impact in 2018-19.
  - This is because the additional revenue would not be withheld through the pay-as-you-go withholding system in 2018-19, as it is not currently legislated. The revenue derived from this change would be received in the following year (2019-20) upon lodgement of individuals' 2018-19 tax return. Revenue would be withheld as usual from the 2019-20 income year.
  - Any tax debts would be paid in 2019-20.
- There would be no significant behavioural response in relation to 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 any adjustment to taxable income is likely to be small.
  - Studies indicate that some people will chose 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.

[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.

Methodology

- The financial implications of the 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). These 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 for the 2018-19 Budget and 2019-20 Budget measures.[3]
- This modelling takes into account the timing of tax collections.
- Estimates for not proceeding with increases to the low income tax offset (Component 5) 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 financial year.
- Treasury provided:
  - economic forecasts as at the 2019-20 Pre-election Economic and Fiscal Outlook
  - the model underpinning the 2018-19 Budget measure *Personal Income Tax Plan*
  - the model underpinning the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*.
- HM Revenue and Customs, 2012. *The Exchequer effect of the 50 per cent additional rate of income tax*, London: HM Revenue and Customs.

[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 the 2019-20 Budget measures, due to interaction between components.

Attachment A – Reverse income tax cuts that will turbocharge inequality – financial implications

Table A1: Reverse income tax cuts that will turbocharge inequality – 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													
Component 1: Do not reduce marginal tax rate from 32.5 per cent to 30 per cent	*-*	*-*	*-*	*-*	*-*	*12,500*	*14,300*	*15,400*	*16,600*	*17,700*	*18,900*	***-***	***95,400***
Component 2: Do not remove 37 per cent tax bracket nor increase tax threshold from $180,000 to $200,000	*-*	*-*	*-*	*-*	*-*	*6,000*	*7,000*	*7,900*	*8,800*	*9,600*	*10,600*	***-***	***49,900***
Component 3: Do not increase tax threshold from $90,000 to $120,000	*-*	*-*	*-*	*3,700*	*4,300*	*4,700*	*5,000*	*5,500*	*6,000*	*6,400*	*6,800*	***3,700***	***42,400***
Component 4: Do not increase tax threshold from $37,000 to $45,000	*-*	*-*	*-*	*9,700*	*10,900*	*11,300*	*11,600*	*12,000*	*12,400*	*12,700*	*13,100*	***9,700***	***93,800***
Component 5: Do not increase low income tax offset from $445 to $700	*-*	*-*	*-*	*130*	*680*	*670*	*660*	*650*	*630*	*610*	*590*	***130***	***4,620***
Component 6: Decrease the tax threshold from $90,000 to $87,000	*800*	*500*	*500*	*600*	*600*	*600*	*700*	*700*	*800*	*800*	*900*	***2,400***	***7,500***
Component 7: Remove the low and middle income tax offset	*7,200*	*7,700*	*7,800*	*7,900*	*400*	*-*	*-*	*-*	*-*	*-*	*-*	***30,600***	***30,900***
Total	**8,000**	**8,200**	**8,300**	**22,030**	**16,880**	**35,770**	**39,260**	**42,150**	**45,230**	**47,810**	**50,890**	**46,530**	**324,520**

(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.