



Parliament of Australia
Parliamentary Budget Office

Jenny Wilkinson
Parliamentary Budget Officer

Mr Mark Fitt
Committee Secretary
Senate Economics Legislation & References Committees
Parliament House
CANBERRA ACT 2600

Dear Mr Fitt

Please find attached a partial response to the request for budget analysis, *Personal Income Tax Plan* (letter of 1 June 2018, PBO reference PR18/00280) from Senator Ketter. This response addresses the year-by-year financial implications of the 2018-19 Budget measure, *Personal Income Tax Plan*, as well as the breakdown of the financial implications of each component by gender. The remaining components of the request will be addressed in a further response.

As requested, this response has not been prepared on a confidential basis and will therefore be posted on the PBO website (www.pbo.gov.au).

If you have any queries about this response, please do not hesitate to contact David Tellis, Assistant Parliamentary Budget Officer on [REDACTED] or Cameron Chisholm, Director on [REDACTED].

Yours sincerely

Jenny Wilkinson

5 June 2018



Request for budget analysis

Personal Income Tax Plan	
Person/party requesting the analysis:	Senator Chris Ketter, Australian Labor Party
Date analysis completed:	5 June 2018
Expiry date of the analysis:	Release of the next economic and fiscal outlook report.
Status at time of request:	<input type="checkbox"/> Confidential <input checked="" type="checkbox"/> Not confidential
<p>Summary of request:</p> <p>The request sought the financial implications of the 2018-19 Budget measure <i>Personal Income Tax Plan</i>. The information was requested over the period to 2028-29, and disaggregated into the components of the measure which start on 1 July 2018 (Components 1 and 2), 1 July 2022 (Components 3, 4 and 5), and 1 July 2024 (Components 6 and 7).</p> <p>The request also sought the financial implications of each component by gender.</p> <p>Component 1 introduces the Low and Middle Income Tax Offset of up to \$530 for individuals with taxable income up to \$125,333 for the 2018-19, 2019-20, 2020-21 and 2021-22 financial years.</p> <p>Component 2 increases the upper threshold for the 32.5 per cent marginal tax rate from \$87,000 to \$90,000 from 1 July 2018.</p> <p>Component 3 increases the upper threshold for the 32.5 per cent marginal tax rate from \$90,000 to \$120,000 from 1 July 2022.</p> <p>Component 4 increases the upper threshold for the 19 per cent marginal tax rate from \$37,000 to \$41,000 from 1 July 2022.</p> <p>Component 5 increases the Low Income Tax Offset to up to \$645 for taxable incomes up to \$66,667 from 1 July 2022.</p> <p>Component 6 increases the lower threshold for the 45 per cent marginal tax rate from \$180,001 to \$200,001 from 1 July 2024.</p> <p>Component 7 removes the 37 per cent marginal tax rate, so that all income from \$41,001 to \$200,000 is taxed at a marginal rate of 32.5 per cent from 1 July 2024.</p>	

Overview

The financial implications of the 2018-19 Budget measure *Personal Income Tax Plan* are provided at [Attachment A](#). The financial implications of the proposal over the period 2022-23 to 2028-29 are Parliamentary Budget Office (PBO) estimates. All estimates by gender are PBO estimates.

Key assumptions

The PBO has made the following assumptions.

- The financial implications of the proposal over the 2018-19 Budget forward estimates are assumed to be equal to those published in the 2018-19 Budget and the further information provided by the Treasury Secretary, John Fraser, at Senate Estimates on 29 May 2018, and are entirely attributable to Components 1 and 2.
- The components have been costed in the order presented. The costings have been undertaken after incorporating all other relevant 2018-19 Budget measures, including the 2018-19 Budget measure *Personal Income Tax – retaining the Medicare levy rate at 2 per cent*.
- The estimates do not consider the implications of the Government's announced policy to constrain the tax to Gross Domestic Product (GDP) ratio at or below 23.9 per cent. As shown in Chart 2 in Box 2 in Statement 3 of 2018-19 Budget Paper No. 1, tax receipts are projected to be below 23.9 per cent of GDP until 2026-27 after taking into account the 2018-19 Budget measure *Personal Income Tax Plan*, while without the *Personal Income Tax Plan* measure receipts would exceed 23.9 per cent of GDP from 2021-22.
- The PBO has assumed that the timing of tax collections would not differ by gender.

Methodology

- The financial implications of the 2018-19 Budget measure *Personal Income Tax Plan* over the period from 2022-23 to 2028-29 were estimated using a 16 per cent sample of de-identified personal income tax and superannuation returns for 2014-15 provided by the Australian Taxation Office (ATO). The data was used to estimate the change in tax payable under current and proposed policy, with the difference representing the reduction in revenue under the measure.
- The financial implications of the measure over the 2018-19 Budget forward estimates period are set equal to those detailed in the 2018-19 Budget, and have not been separately modelled by the PBO. The financial implications beyond the 2018-19 Budget forward estimates period have been estimated by the PBO and benchmarked to the aggregated medium-term financial implications of the measure announced by the Treasurer in the House of Representatives on 23 May 2018 and the tabled information as part of the opening statement by John Fraser at Senate Estimates on 29 May 2018.
- The modelling takes account of the timing of tax collections.
- Estimates of revenue beyond the forward estimates have been rounded to the nearest \$50 million.

Data sources

- 16 per cent samples of de-identified personal income tax and superannuation returns for the 2014-15 financial year from the ATO.
- Treasury provided the model for the 2018-19 Budget measure *Personal Income Tax Plan* and economic and policy parameters as of the 2018-19 Budget.
- Morrison, S 2018, *House of Representatives Hansard – Wednesday, 23 May 2018*, page 81, Commonwealth of Australia.
- Fraser, J 2018, Secretary to the Treasury, *Opening statement – May 2018 Senate Estimates* (including the tabled document *Personal Income Tax Plan – further information*), 29 May 2018.

Attachment A – Personal Income Tax Plan – financial implications

Table A1: Personal Income Tax Plan – Components commencing from 1 July 2018 – Overall financial implications and distribution by gender (\$m)^{(a)(b)(c)}

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	Total to 2021–22	Total to 2028–29
Revenue													
Low and Middle Income Tax Offset of up to \$530 for individuals with taxable income up to \$125,333 for the 2018-19, 2019-20, 2020-21 and 2021-22 financial years													
<i>Males</i>	-	-1,950	-2,050	-2,050	-2,050	-100	-	-	-	-	-	-6,050	-8,200
<i>Females</i>	-	-1,750	-1,900	-1,950	-2,000	-100	-	-	-	-	-	-5,600	-7,700
Total	-	-3,700	-3,950	-4,000	-4,050	-200	-	-	-	-	-	-11,650	-15,900
Increase the upper threshold for the 32.5 per cent marginal tax rate from \$87,000 to \$90,000													
<i>Males</i>	-260	-300	-320	-350	-350	-400	-400	-450	-450	-500	-550	-1,230	-4,330
<i>Females</i>	-100	-120	-150	-150	-200	-200	-250	-200	-250	-250	-250	-520	-2,120
Total	-360	-420	-470	-500	-550	-600	-650	-650	-700	-750	-800	-1,750	-6,450
Total revenue – Components commencing from 1 July 2018													
<i>Males</i>	-260	-2,250	-2,370	-2,400	-2,400	-500	-400	-450	-450	-500	-550	-7,280	-12,530
<i>Females</i>	-100	-1,870	-2,050	-2,100	-2,200	-300	-250	-200	-250	-250	-250	-6,120	-9,820
Total	-360	-4,120	-4,420	-4,500	-4,600	-800	-650	-650	-700	-750	-800	-13,400	-22,350

- (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.
- (c) Total estimates over the 2018-19 Budget forward estimates period are set equal to those detailed in the 2018-19 Budget and information subsequently released at Senate Estimates on 29 May 2018. PBO estimates from 2022-23 to 2028-29. All estimates by gender are PBO estimates.
- Indicates nil.

Table A2: Personal Income Tax Plan – Components commencing from 1 July 2022 – Overall financial implications and distribution by gender (\$m)^{(a)(b)(c)}

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	Total to 2021–22	Total to 2028–29
Revenue													
Increase the upper threshold for the 32.5 per cent marginal tax rate from \$90,000 to \$120,000													
<i>Males</i>	-	-	-	-	-2,650	-3,050	-3,300	-3,500	-3,800	-4,100	-4,400	-	-24,800
<i>Females</i>	-	-	-	-	-1,100	-1,350	-1,500	-1,650	-1,800	-2,050	-2,250	-	-11,700
Total	-	-	-	-	-3,750	-4,400	-4,800	-5,150	-5,600	-6,150	-6,650	-	-36,500
Increase the upper threshold for the 19 per cent marginal tax rate from \$37,000 to \$41,000													
<i>Males</i>	-	-	-	-	-2,800	-3,100	-3,250	-3,300	-3,400	-3,450	-3,550	-	-22,850
<i>Females</i>	-	-	-	-	-2,150	-2,400	-2,450	-2,600	-2,650	-2,800	-2,850	-	-17,900
Total	-	-	-	-	-4,950	-5,500	-5,700	-5,900	-6,050	-6,250	-6,400	-	-40,750
Increase the Low Income Tax Offset to up to \$645 for taxable incomes up to \$66,667													
<i>Males</i>	-	-	-	-	-50	-200	-200	-200	-200	-200	-200	-	-1,250
<i>Females</i>	-	-	-	-	-50	-250	-250	-250	-250	-250	-200	-	-1,500
Total	-	-	-	-	-100	-450	-450	-450	-450	-450	-400	-	-2,750
Total revenue – Components commencing from 1 July 2022													
<i>Males</i>	-	-	-	-	-5,500	-6,350	-6,750	-7,000	-7,400	-7,750	-8,150	-	-48,900
<i>Females</i>	-	-	-	-	-3,300	-4,000	-4,200	-4,500	-4,700	-5,100	-5,300	-	-31,100
Total	-	-	-	-	-8,800	-10,350	-10,950	-11,500	-12,100	-12,850	-13,450	-	-80,000

- (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.
- (c) PBO estimates from 2022-23 to 2028-29. All estimates by gender are PBO estimates.
- Indicates nil.

Table A3: Personal Income Tax Plan – Components commencing from 1 July 2024 – Overall financial implications and distribution by gender (\$m)^{(a)(b)(c)}

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	Total to 2021–22	Total to 2028–29
Revenue													
Increase the lower threshold for the 45 per cent marginal tax rate from \$180,001 to \$200,001													
<i>Males</i>	-	-	-	-	-	-	-1,000	-1,200	-1,350	-1,500	-1,700	-	-6,750
<i>Females</i>	-	-	-	-	-	-	-350	-400	-450	-550	-550	-	-2,300
Total	-	-	-	-	-	-	-1,350	-1,600	-1,800	-2,050	-2,250	-	-9,050
Remove the 37 per cent marginal tax rate, so that all income from \$41,001 to \$200,000 is taxed at a marginal rate of 32.5 per cent													
<i>Males</i>	-	-	-	-	-	-	-3,600	-4,250	-4,700	-5,250	-5,800	-	-23,600
<i>Females</i>	-	-	-	-	-	-	-1,300	-1,550	-1,800	-2,000	-2,300	-	-8,950
Total	-	-	-	-	-	-	-4,900	-5,800	-6,500	-7,250	-8,100	-	-32,550
Total revenue – Components commencing from 1 July 2024													
<i>Males</i>	-	-	-	-	-	-	-4,600	-5,450	-6,050	-6,750	-7,500	-	-30,350
<i>Females</i>	-	-	-	-	-	-	-1,650	-1,950	-2,250	-2,550	-2,850	-	-11,250
Total	-	-	-	-	-	-	-6,250	-7,400	-8,300	-9,300	-10,350	-	-41,600

- (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.
- (c) PBO estimates from 2024-25 to 2028-29. All estimates by gender are PBO estimates.
- Indicates nil.

Table A4: Personal Income Tax Plan – All components – Overall financial implications and distribution by gender
 (\$m)^{(a)(b)(c)}

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	Total to 2021–22	Total to 2028–29
Revenue													
Personal Income Tax Plan – All components													
<i>Males</i>	-260	-2,250	-2,370	-2,400	-7,900	-6,850	-11,750	-12,900	-13,900	-15,000	-16,200	-7,280	-91,780
<i>Females</i>	-100	-1,870	-2,050	-2,100	-5,500	-4,300	-6,100	-6,650	-7,200	-7,900	-8,400	-6,120	-52,170
Total	-360	-4,120	-4,420	-4,500	-13,400	-11,150	-17,850	-19,550	-21,100	-22,900	-24,600	-13,400	-143,950

- (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.
- (c) Total estimates over the 2018-19 Budget forward estimates period are set equal to those detailed in the 2018-19 Budget and information subsequently released at Senate Estimates on 29 May 2018. PBO estimates from 2022-23 to 2028-29. All estimates by gender are PBO estimates.