



## Policy costing

Labor's fairer income tax cuts	
Party:	Australian Labor Party
Summary of proposal: The proposal would increase the base amount of the low and middle income tax offset from \$255 to \$350. The \$350 offset would be available to individuals with taxable incomes less than \$37,000. The base amount would increase at a rate of 6.64 cents per dollar to the maximum offset of \$1,080 for individuals with taxable incomes between \$37,000 and \$48,000. The proposal would have effect from the 2018-19 income year and would be ongoing, beyond 1 July 2022. The offset would be applied when individuals lodge their personal income tax returns.	

## Costing overview

This proposal would be expected to decrease the fiscal and underlying cash balances by \$1,051 million over the 2019-20 Budget forward estimates period. This impact reflects a decrease in revenue and an increase in departmental expenses. There is no material impact in 2018-19 as individuals would not receive the benefit of the offset until they lodge their personal income tax returns, which would be in the 2019-20 income year.

Departmental expenses of \$1 million per year for the Australian Taxation Office (ATO) reflect the estimated cost of implementation and administration of the low and middle income tax offset beyond 1 July 2022.

The proposal would be expected to have an impact which extends beyond the 2019-20 Budget forward estimates period. Detailed financial implications for the proposal over the period to 2029-30 are included in [Attachment A](#).

**Table 1: Financial implications (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	<b>Total to 2022–23</b>
Fiscal balance	-260	-270	-270	-261	<b>-1,051</b>
Underlying cash balance	-260	-270	-270	-261	<b>-1,051</b>

(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 assumed there would be no material behavioural response associated with the proposal, including to labour supply.

- High-income earners are often able to adjust their taxable income in response to changes in marginal tax rates.<sup>1</sup> This proposal would not change marginal tax rates for those with a taxable income greater than \$48,000, suggesting that any taxable income adjustment is likely to be small.
- Studies indicate that some people will choose to work less in response to lower tax rates, while others will work more.<sup>2</sup> There is considerable uncertainty in the direction, magnitude and timing of the effect of this proposal on labour supply.

## 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 ATO. The data were used to estimate the change in tax payable.
- The modelling has taken account of the timing of tax collections.
- Estimates of revenue have been rounded to the nearest \$10 million over the 2019-20 Budget forward estimates period. Estimates beyond the forward estimates period have been rounded to the nearest \$100 million. Departmental expenses have been rounded to the nearest \$1 million.

## Data sources

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

The Treasury provided economic forecasts for personal income and superannuation tax as at the 2019-20 Pre-election Economic and Fiscal Outlook.

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<sup>1</sup> 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.

<sup>2</sup> Ibid.

## Attachment A – Labor’s fairer income tax cuts – financial implications

**Table A1: Labor’s fairer income tax cuts – Fiscal and underlying cash balances (\$m)<sup>(a)(b)</sup>**

	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
<i>Revenue</i>	-260	-270	-270	-260	-7,800	-8,300	-8,400	-8,400	-8,400	-8,400	-8,400	-1,050	-59,300
<i>Departmental – ATO</i>	-	-	-	-1	-1	-1	-1	-1	-1	-1	-1	-1	-8
<b>Total</b>	<b>-260</b>	<b>-270</b>	<b>-270</b>	<b>-261</b>	<b>-7,801</b>	<b>-8,301</b>	<b>-8,401</b>	<b>-8,401</b>	<b>-8,401</b>	<b>-8,401</b>	<b>-8,401</b>	<b>-1,051</b>	<b>-59,308</b>

(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.