



Request for budget analysis

Loss of public revenue and a distributional analysis of the tax cuts packages	
Person/party requesting the analysis:	Mr Adam Bandt MP, Australian Greens
Date analysis completed:	5 November 2020
Expiry date of the analysis:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period <input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
Summary of proposal: <p>The request sought the estimated cost to the budget, from 2017-18 to 2030-31, of the Government's Personal income tax plan. The baseline for this analysis is keeping the personal income tax rates, thresholds and offsets the same as they were in 2017-18 over the period to 2030-31.</p> <p>The tax plan was announced in the 2018-19 Budget measure <i>Personal Income Tax Plan</i>, the 2019-20 Budget measure <i>Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan</i> and the 2020-21 Budget measure <i>JobMaker Plan – bringing forward the Personal Income Tax Plan and retaining the low and middle income tax offset</i>.</p> <p>The request also sought the estimated total cost and percentage of total cost attributed to each quintile by taxable income for individuals lodging a tax return.</p>	

Overview

Results of the analyses requested are provided at [Attachment A](#). For the distributional analyses, the quintiles are based on the taxable income of all individuals who have lodged a tax return, irrespective of their net tax amounts. The taxable income range for each quintile is provided at [Attachment B](#).

The estimates are subject to significant uncertainties around income and growth in the workforce, particularly around the ongoing impact of the COVID-19 pandemic on taxable incomes and workforce participation.

Uncertainty about the implications of the COVID-19 pandemic for the future fiscal position is likely to persist for some time. The analysis is in line with the parameters released as part of the 2020-21 Budget.

Key assumptions

The Parliamentary Budget Office has made the following assumptions in preparing the analyses.

- There would be no significant behavioural response associated with the proposed changes to tax rates and thresholds, 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 The Personal income tax plan 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 choose to work more in response to a lower marginal tax rate, while others will work less.² There is considerable uncertainty regarding the direction, magnitude and timing of these effects on labour supply.
- For the 2020-21 Budget measure *JobMaker Plan – bringing forward the Personal Income Tax Plan and retaining the low and middle income tax offset*, the income tax withholding schedules were implemented by the Australian Taxation Office (ATO) in October 2020 and would be operationalised by businesses in November 2020.³
 - This means that a considerable proportion of the tax cuts for the 2020-21 year would not be realised until assessment of individuals' tax returns in 2021-22.

Methodology

The financial implications for each piece of analysis were estimated using a 16 per cent sample of de-identified personal income tax and superannuation data for 2017-18 provided by the ATO. The data were used to estimate the difference in tax payable under current policy (as at the 2020-21 Budget) and a policy to keep tax rates, thresholds and offsets the same as they were in 2017-18 over the period to 2030-31.

The modelling of the financial impact, including distribution by taxable income quintiles, takes into account the timing of tax collections.

All estimates have been rounded to the nearest \$10 million.

Data sources

The ATO provided a 16 per cent sample of de-identified personal income tax and superannuation returns for the 2017-18 financial year.

The Treasury provided:

- economic forecasts as at the 2020-21 Budget
- models underpinning the 2018-19 Budget measure *Personal Income Tax Plan* and 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.

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 See <https://www.ato.gov.au/Rates/Tax-tables/#Importantinformationforthisyear>.

Attachment A – Loss of public revenue and a distributional analysis of the tax cut packages – financial implications

Table A1: Loss of public revenue and a distributional analysis of the tax cuts packages – Cost by component – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total to 2030–31
Revenue															
Stage 1															
<i>Low and Middle Income Tax Offset</i>	-	-	-7,250	-7,690	-7,630	-380	..	-	-	-	-	-	-	-	-22,950
<i>Increase the tax threshold from \$87,000 to \$90,000</i>	-	-370	-410	-400	-400	-420	-440	-480	-510	-550	-610	-650	-700	-750	-6,690
Total – Stage 1	-	-370	-7,660	-8,090	-8,030	-800	-440	-480	-510	-550	-610	-650	-700	-750	-29,640
Stage 2															
<i>Increase Low Income Tax Offset from \$445 to \$700</i>	-	-	-	-140	-700	-750	-750	-740	-720	-710	-690	-670	-650	-630	-7,150
<i>Increase the tax threshold from \$37,000 to \$45,000</i>	-	-	-	-4,870	-12,560	-9,380	-9,670	-10,000	-10,310	-10,680	-11,080	-11,410	-11,760	-12,120	-113,840
<i>Increase the tax threshold from \$90,000 to \$120,000</i>	-	-	-	-1,450	-3,760	-2,890	-3,110	-3,390	-3,650	-4,020	-4,470	-4,850	-5,280	-5,750	-42,620
Total – Stage 2	-	-	-	-6,460	-17,020	-13,020	-13,530	-14,130	-14,680	-15,410	-16,240	-16,930	-17,690	-18,500	-163,610
Stage 3															
<i>Decrease the marginal tax rate from 32.5 per cent to 30 per cent</i>	-	-	-	-	-	-	-	-9,450	-10,840	-11,790	-12,810	-13,690	-14,680	-15,740	-89,000
<i>Remove the 37 per cent tax bracket and increase the tax threshold from \$180,000 to \$200,000</i>	-	-	-	-	-	-	-	-4,140	-4,860	-5,450	-6,140	-6,760	-7,500	-8,320	-43,170
Total – Stage 3	-	-	-	-	-	-	-	-13,590	-15,700	-17,240	-18,950	-20,450	-22,180	-24,060	-132,170
Total revenue	-	-370	-7,660	-14,550	-25,050	-13,820	-13,970	-28,200	-30,890	-33,200	-35,800	-38,030	-40,570	-43,310	-325,420

(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.

Table A2: Loss of public revenue and a distributional analysis of the tax cuts packages – Cost by quintile – Fiscal and underlying cash balances (\$m)^{(a)(b)(c)}

	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total to 2030–31
Cost of personal income tax plan by taxable income quintile															
Quintile 1	-	-	-20	-30	-40	-60	-80	-100	-110	-440
Quintile 2	-	-	-580	-730	-1,100	-630	-660	-780	-880	-1,030	-1,240	-1,420	-1,650	-1,760	-12,460
Quintile 3	-	-	-2,500	-4,150	-6,230	-3,030	-3,050	-3,650	-3,880	-4,160	-4,420	-4,630	-4,860	-5,190	-49,750
Quintile 4	-	..	-3,110	-5,050	-7,790	-3,480	-3,380	-5,700	-6,200	-6,680	-7,290	-7,840	-8,550	-9,130	-74,200
Quintile 5	-	-370	-1,480	-4,620	-9,920	-6,680	-6,870	-18,060	-19,920	-21,300	-22,780	-24,040	-25,400	-27,120	-188,560
Total	-	-370	-7,660	-14,550	-25,050	-13,820	-13,970	-28,200	-30,890	-33,200	-35,800	-38,030	-40,570	-43,310	-325,420

- (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) Quintiles are based on all individuals who have lodged a personal income tax return, irrespective of their net tax amount. Refer to [Attachment B](#) for the taxable income range for each quintile.
- .. Not zero but rounded to zero.
- Indicates nil.

Table A3: Loss of public revenue and a distributional analysis of the tax cuts packages – Percentage of total cost by quintile^(a)

	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total to 2030–31
Percentage of cost of total personal income tax plan by taxable income quintile (%)															
Quintile 1	-	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1
Quintile 2	-	0.0	7.5	5.0	4.4	4.5	4.7	2.8	2.8	3.1	3.5	3.7	4.1	4.1	3.8
Quintile 3	-	0.0	32.6	28.5	24.9	22.0	21.9	12.9	12.6	12.5	12.3	12.2	12.0	12.0	15.3
Quintile 4	-	0.6	40.6	34.7	31.1	25.2	24.2	20.2	20.1	20.1	20.4	20.6	21.1	21.1	22.8
Quintile 5	-	99.4	19.3	31.7	39.6	48.3	49.2	64.0	64.4	64.1	63.6	63.2	62.6	62.6	57.9
Total	-	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- (a) Quintiles are based on all individuals who have lodged a personal income tax return, irrespective of their net tax amount. Refer to [Attachment B](#) for the taxable income range for each quintile.
- Indicates nil.

Attachment B – Loss of public revenue and a distributional analysis of the tax cut packages – taxable income range by quintile^(a)

Taxable income range (\$)	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
2017-18	Less than \$19,600	\$19,600 to \$37,100	\$37,100 to \$56,400	\$56,400 to \$86,500	Greater than \$86,500
2018-19	Less than \$20,200	\$20,200 to \$38,000	\$38,000 to \$57,600	\$57,600 to \$88,200	Greater than \$88,200
2019-20	Less than \$20,300	\$20,300 to \$38,300	\$38,300 to \$58,300	\$58,300 to \$89,300	Greater than \$89,300
2020-21	Less than \$19,600	\$19,600 to \$37,100	\$37,100 to \$56,500	\$56,500 to \$86,600	Greater than \$86,600
2021-22	Less than \$19,600	\$19,600 to \$37,200	\$37,200 to \$56,600	\$56,600 to \$86,900	Greater than \$86,900
2022-23	Less than \$20,000	\$20,000 to \$38,100	\$38,100 to \$57,800	\$57,800 to \$88,900	Greater than \$88,900
2023-24	Less than \$20,500	\$20,500 to \$39,100	\$39,100 to \$59,300	\$59,300 to \$91,300	Greater than \$91,300
2024-25	Less than \$21,200	\$21,200 to \$40,400	\$40,400 to \$61,300	\$61,300 to \$94,400	Greater than \$94,400
2025-26	Less than \$21,800	\$21,800 to \$41,500	\$41,500 to \$63,000	\$63,000 to \$97,200	Greater than \$97,200
2026-27	Less than \$22,600	\$22,600 to \$43,100	\$43,100 to \$65,600	\$65,600 to \$101,200	Greater than \$101,200
2027-28	Less than \$23,500	\$23,500 to \$45,000	\$45,000 to \$68,600	\$68,600 to \$105,900	Greater than \$105,900
2028-29	Less than \$24,300	\$24,300 to \$46,500	\$46,500 to \$71,000	\$71,000 to \$109,600	Greater than \$109,600
2029-30	Less than \$25,300	\$25,300 to \$48,400	\$48,400 to \$73,800	\$73,800 to \$114,100	Greater than \$114,100
2030-31	Less than \$26,300	\$26,300 to \$50,400	\$50,400 to \$76,700	\$76,700 to \$118,800	Greater than \$118,800

(a) Quintiles are based on all individuals who have lodged a personal income tax return, irrespective of their net tax amount.