



## Request for budget analysis

Stage 3 tax cuts distributional analysis	
Person/party requesting the analysis:	Mr Adam Bandt MP, Australian Greens
Date analysis completed:	7 July 2022
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 (Public release requested on 30 August 2022) <input type="checkbox"/> Not confidential
<p>Summary of request:</p> <p>The request sought estimated financial implications and distributional analysis of Stage 3 of the personal income tax plan as set out in the 2018-19 Budget measure <i>Personal income tax plan</i> and the 2019-20 Budget measure <i>Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan</i> over the medium term. The Stage 3 tax cuts take effect from 1 July 2024 and involve:</p> <ul style="list-style-type: none"> <li>removing the \$120,000 to \$180,000 tax bracket</li> <li>increasing the top tax bracket threshold from \$180,000 to \$200,000</li> <li>reducing the marginal tax rate faced by the \$45,000 to \$200,000 tax bracket from 32.5% to 30%.</li> </ul> <p>The distributional analyses sought the aggregate change in tax paid for taxpayers affected by the Stage 3 tax cuts split by:</p> <ul style="list-style-type: none"> <li>taxable income quintiles</li> <li>gender</li> <li>the following taxable income brackets:               <ul style="list-style-type: none"> <li>Less than \$45,000</li> <li>\$45,001 to \$60,000</li> <li>\$60,001 to \$90,000</li> <li>\$90,001 to \$120,000</li> <li>\$120,001 to \$150,000</li> <li>\$150,001 to \$180,000</li> <li>Greater than \$180,000.</li> </ul> </li> <li>taxable income for the top percentile of taxpayers</li> <li>the proportion of income earners at the bottom of the distribution that receive the same aggregate dollar benefit as the top percentile.</li> </ul>	

## Overview

The estimated financial implications of the Stage 3 tax cuts over the period to 2032-33 are at [Attachment A](#).

The requested distributional analyses are at [Attachment B](#).

The income tax quintiles and percentiles used in the distributional analysis are at [Attachment C](#).

## Key assumptions

The Parliamentary Budget Office (PBO) has assumed that there would be no significant behavioural response associated with the Stage 3 tax cuts, including to the labour supply.

- While high-income earners can often adjust their taxable income in response to changes in their marginal tax rate, Stage 3 would not change the marginal tax rate for those with a taxable income greater than \$200,000, suggesting any adjustment to taxable incomes is likely to be small.
- Studies indicate that some people would choose to work more in response to a lower marginal tax rate, while others would work less. There is considerable uncertainty regarding the direction, magnitude, and timing of these effects on labour supply.

## Methodology

The financial implications of the Stage 3 tax cuts were estimated using a 16% sample of deidentified personal income tax and superannuation data for the 2018-19 income year, provided by the Australian Taxation Office (ATO).

The financial implications and the associated distributional analyses of the Stage 3 tax cuts account for the timing of tax collections.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.<sup>1</sup>

## Data sources

The ATO provided a de-identified 16% sample of personal income tax return for the 2018-19 income year.

Commonwealth of Australia, 2022. *2022-23 Budget*, Canberra: Commonwealth of Australia.

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<sup>1</sup> [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/Costings\\_and\\_budget\\_information](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information)

## Attachment A – Stage 3 tax cuts distributional analysis – financial implications

**Table A1: Distributional analysis of the Stage 3 tax cuts – Impact of Stage 3 tax cuts on the fiscal and underlying cash balances (\$m)<sup>(a)</sup>**

	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33	Total to 2025–26	Total to 2032–33
<b>Revenue</b>													
<i>Stage 3 tax cuts</i>	-	-	-17,700	-20,800	-22,700	-24,500	-26,500	-28,900	-31,400	-34,100	-36,900	-38,500	-243,500
<b>Total</b>	-	-	-17,700	-20,800	-22,700	-24,500	-26,500	-28,900	-31,400	-34,100	-36,900	-38,500	-243,500

(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.

- Indicates nil.

## Attachment B – Distributional analysis of the Stage 3 tax cuts

**Table B1: Distributional analysis of the Stage 3 tax cuts – Total cost by income quintile – Fiscal and underlying cash balances (\$m)<sup>(a)(b)</sup>**

	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33	Total to 2025–26	Total to 2032–33
<b>Total change in net tax of Stage 3 tax cuts by income quintile</b>													
<i>Quintile 1</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Quintile 2</i>	-	-	-	-	..	..	..	..	-100	-100	-200	-	-400
<i>Quintile 3</i>	-	-	-700	-900	-1,100	-1,300	-1,400	-1,700	-1,900	-2,200	-2,500	-1,600	-13,700
<i>Quintile 4</i>	-	-	-2,900	-3,400	-3,700	-4,100	-4,400	-4,800	-5,300	-6,000	-6,700	-6,300	-41,300
<i>Quintile 5</i>	-	-	-14,100	-16,500	-17,900	-19,100	-20,700	-22,400	-24,100	-25,800	-27,500	-30,700	-187,900
<b>Total</b>	-	-	-17,700	-20,800	-22,700	-24,500	-26,500	-28,900	-31,400	-34,100	-36,900	-38,500	-243,500

(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) Quintiles are based on all individuals who have lodged a personal income tax return, irrespective of their net tax amount. The taxable income threshold for the quintiles is reported in Attachment C.

- Indicates nil.

**Table B2: Distributional analysis of the Stage 3 tax cuts – Total cost by gender – Fiscal and underlying cash balances (\$m)<sup>(a)(b)</sup>**

	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33	Total to 2025–26	Total to 2032–33
<b>Total change in net tax of Stage 3 tax cuts by gender</b>													
<i>Female</i>	-	-	-5,800	-6,800	-7,600	-8,200	-9,000	-9,900	-10,900	-11,900	-12,800	-12,600	-82,900
<i>Male</i>	-	-	-11,900	-14,000	-15,100	-16,300	-17,500	-19,000	-20,500	-22,200	-24,100	-25,900	-160,600
<b>Total</b>	-	-	-17,700	-20,800	-22,700	-24,500	-26,500	-28,900	-31,400	-34,100	-36,900	-38,500	-243,500

(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) The impact for individuals whose gender cannot be determined from their tax return is small and has been rounded to zero.

- Indicates nil.

**Table B3: Distributional analysis of the Stage 3 tax cuts – Total cost by specified taxable income brackets – Fiscal and underlying cash balances (\$m)<sup>(a)</sup>**

	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33	Total to 2025-26	Total to 2032-33
<b>Total change in net tax of Stage 3 tax cuts by taxable income bracket</b>													
<i>Up to \$45,000</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>\$45,001 to \$60,000</i>	-	-	-300	-300	-300	-300	-300	-300	-300	-300	-300	-600	-2,700
<i>\$60,001 to \$90,000</i>	-	-	-2,100	-2,300	-2,400	-2,400	-2,400	-2,400	-2,400	-2,400	-2,400	-4,400	-21,200
<i>\$90,001 to \$120,000</i>	-	-	-2,600	-3,000	-3,100	-3,200	-3,300	-3,400	-3,500	-3,600	-3,700	-5,600	-29,400
<i>\$120,001 to \$150,000</i>	-	-	-2,700	-3,200	-3,500	-3,800	-4,100	-4,300	-4,600	-4,800	-5,000	-5,900	-36,000
<i>\$150,001 to \$180,000</i>	-	-	-2,500	-2,900	-3,300	-3,600	-4,000	-4,400	-4,800	-5,300	-5,800	-5,400	-36,600
<i>\$180,001 and above</i>	-	-	-7,500	-9,100	-10,100	-11,200	-12,400	-14,100	-15,800	-17,700	-19,700	-16,600	-117,600
<b>Total</b>	-	-	<b>-17,700</b>	<b>-20,800</b>	<b>-22,700</b>	<b>-24,500</b>	<b>-26,500</b>	<b>-28,900</b>	<b>-31,400</b>	<b>-34,100</b>	<b>-36,900</b>	<b>-38,500</b>	<b>-243,500</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.

- Indicates nil.

**Table B4: Distributional analysis of the Stage 3 tax cuts – Total cost by income percentile – Fiscal and underlying cash balances (\$m)<sup>(a)(b)</sup>**

	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33	Total to 2025–26	Total to 2032–33
<b>Total change in net tax of Stage 3 tax cuts by percentile</b>													
<i>Bottom 99 per cent</i>	-	-	-16,300	-19,300	-21,100	-22,900	-24,900	-27,200	-29,800	-32,500	-35,200	-35,600	-229,200
<i>Top 1 per cent</i>	-	-	-1,400	-1,500	-1,600	-1,600	-1,600	-1,700	-1,600	-1,600	-1,700	-2,900	-14,300
<i>Proportion receiving same benefit as top percentile<sup>(c)</sup></i>	-	-	65.1%	63.3%	62.0%	60.4%	58.7%	57.0%	55.3%	53.6%	52.1%		
<b>Total</b>	-	-	-17,700	-20,800	-22,700	-24,500	-26,500	-28,900	-31,400	-34,100	-36,900	-38,500	-243,500

- (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) Percentiles are based on all individuals who have lodged a personal income tax return, irrespective of their net tax amount. The taxable income threshold for the top 1 percentile is reported in Attachment C.
- (c) Outlines the proportion of income earners that receive the same aggregate dollar benefit from the Stage 3 tax cuts as the top 1 percentile. For instance, in 2025-26 the benefits received by the top percentile is equal to the benefits received by the bottom 63.3% of income earners.
- Indicates nil.

## Attachment C – Distributional analysis of the Stage 3 tax cuts - taxable income quintiles and percentiles

**Table C1: Distributional analysis of the Stage 3 tax cuts – taxable income range by quintile<sup>(a)</sup>**

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
2022–23	<i>Less than \$19,900</i>	<i>\$19,901 to \$40,100</i>	<i>\$40,101 to \$62,500</i>	<i>\$62,501 to \$96,200</i>	<i>Greater than \$96,200</i>
2023–24	<i>Less than \$20,200</i>	<i>\$20,201 to \$41,100</i>	<i>\$41,101 to \$64,400</i>	<i>\$64,401 to \$99,300</i>	<i>Greater than \$99,300</i>
2024–25	<i>Less than \$20,800</i>	<i>\$20,801 to \$42,500</i>	<i>\$42,501 to \$66,700</i>	<i>\$66,701 to \$102,800</i>	<i>Greater than \$102,800</i>
2025–26	<i>Less than \$21,500</i>	<i>\$21,501 to \$44,000</i>	<i>\$44,001 to \$69,200</i>	<i>\$69,201 to \$107,000</i>	<i>Greater than \$107,000</i>
2026–27	<i>Less than \$22,200</i>	<i>\$22,201 to \$45,500</i>	<i>\$45,501 to \$71,500</i>	<i>\$71,501 to \$110,600</i>	<i>Greater than \$110,600</i>
2027–28	<i>Less than \$23,100</i>	<i>\$23,101 to \$47,300</i>	<i>\$47,301 to \$74,300</i>	<i>\$74,301 to \$114,900</i>	<i>Greater than \$114,900</i>
2028–29	<i>Less than \$23,800</i>	<i>\$23,801 to \$48,800</i>	<i>\$48,801 to \$76,700</i>	<i>\$76,701 to \$118,600</i>	<i>Greater than \$118,600</i>
2029–30	<i>Less than \$24,800</i>	<i>\$24,801 to \$50,700</i>	<i>\$50,701 to \$79,800</i>	<i>\$79,801 to \$123,400</i>	<i>Greater than \$123,400</i>
2030–31	<i>Less than \$25,900</i>	<i>\$25,901 to \$53,000</i>	<i>\$53,001 to \$83,400</i>	<i>\$83,401 to \$129,000</i>	<i>Greater than \$129,000</i>
2031–32	<i>Less than \$27,100</i>	<i>\$27,101 to \$55,400</i>	<i>\$55,401 to \$87,200</i>	<i>\$87,201 to \$134,800</i>	<i>Greater than \$134,800</i>
2032–33	<i>Less than \$28,200</i>	<i>\$28,201 to \$57,700</i>	<i>\$57,701 to \$90,700</i>	<i>\$90,701 to \$140,300</i>	<i>Greater than \$140,300</i>

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

**Table C2: Distributional analysis of the Stage 3 tax cuts – taxable income range of top 1 percentile<sup>(a)</sup>**

	Threshold for top percentile
2022–23	<i>Greater than \$327,600</i>
2023–24	<i>Greater than \$340,900</i>
2024–25	<i>Greater than \$353,000</i>
2025–26	<i>Greater than \$371,000</i>
2026–27	<i>Greater than \$382,600</i>
2027–28	<i>Greater than \$397,500</i>
2028–29	<i>Greater than \$417,700</i>
2029–30	<i>Greater than \$433,300</i>
2030–31	<i>Greater than \$454,500</i>
2031–32	<i>Greater than \$475,500</i>
2032–33	<i>Greater than \$494,900</i>

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