



## Request for budget analysis

Distributional analysis of the Stage 3 tax cuts	
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens
Date costing completed:	18/01/2024
Expiry date of the costing:	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 request on 23/01/2024) <input type="checkbox"/> Not confidential
<p>Summary of the 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> </ul>	

## Overview

The estimated financial implications of the Stage 3 tax cuts over the period to 2033-34 are at Attachment A.

The requested distributional analyses are at Attachment B.

The income tax quintiles used in the distributional analysis are at Attachment C.

The financial implications provided below have changed from those estimated following the 2023-24 Budget due to the use of updated economic parameters and tax return data. Our recent publication [Why do costings change?](#) provides more information on why PBO costings may change over time.

## Key assumptions

The Parliamentary Budget Office (PBO) has assumed that there would be no 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 were estimated using a microsimulation model built from the full set of de-identified personal income tax returns data for the 2021-22 income year, provided by the Australian Taxation Office (ATO). These were grown over the medium-term using parameters from the 2023-24 Mid-Year Economic and Fiscal Outlook (MYEFO).

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 the de-identified personal income tax returns data for the 2021-22 income year.

The Treasury provided economic parameters as at the 2023-24 MYEFO.

Commonwealth of Australia, 2023, *2023-24 Mid-Year Economic and Fiscal Outlook*, Canberra

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<sup>1</sup> <https://www.pbo.gov.au/for-parliamentarians>

## Attachment A – Distributional analysis of the Stage 3 tax cuts – 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>**

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
<b>Revenue</b>													
<i>Stage 3 tax cuts</i>	-	-20,700	-23,900	-26,100	-28,500	-30,800	-33,300	-35,900	-38,600	-41,400	-44,400	-70,700	-323,600
	-	-20,700	-23,900	-26,100	-28,500	-30,800	-33,300	-35,900	-38,600	-41,400	-44,400	-70,700	-323,600

(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.

- 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>**

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
<b>Total change in net tax due to Stage 3 tax cuts by income quintile</b>													
<i>Quintile 1</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Quintile 2</i>	-	..	..	-100	-100	-200	-200	-300	-400	-500	-700	-100	-2,500
<i>Quintile 3</i>	-	-1,200	-1,500	-1,700	-2,000	-2,200	-2,500	-2,800	-3,100	-3,400	-3,700	-4,400	-24,100
<i>Quintile 4</i>	-	-3,600	-4,200	-4,600	-5,100	-5,600	-6,200	-6,900	-7,700	-8,600	-9,600	-12,400	-62,100
<i>Quintile 5</i>	-	-15,900	-18,200	-19,700	-21,300	-22,800	-24,400	-25,900	-27,400	-28,900	-30,400	-53,800	-234,900
<b>Total</b>	-	<b>-20,700</b>	<b>-23,900</b>	<b>-26,100</b>	<b>-28,500</b>	<b>-30,800</b>	<b>-33,300</b>	<b>-35,900</b>	<b>-38,600</b>	<b>-41,400</b>	<b>-44,400</b>	<b>-70,700</b>	<b>-323,600</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) 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.

.. Not zero but rounded to zero.

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

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
<b>Total change in net tax due to Stage 3 tax cuts by gender</b>													
<i>Female</i>	-	-7,300	-8,500	-9,300	-10,200	-11,100	-12,100	-13,200	-14,300	-15,500	-16,700	-25,100	-118,200
<i>Male</i>	-	-13,400	-15,400	-16,800	-18,300	-19,700	-21,200	-22,700	-24,300	-25,900	-27,700	-45,600	-205,400
<b>Total</b>	-	-20,700	-23,900	-26,100	-28,500	-30,800	-33,300	-35,900	-38,600	-41,400	-44,400	-70,700	-323,600

(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) 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>**

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
<b>Total change in net tax due to Stage 3 tax cuts by taxable income bracket</b>													
<i>Up to \$45,000</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>\$45,001 to \$60,000</i>	-	-400	-400	-400	-400	-400	-400	-300	-300	-300	-300	-1,200	-3,600
<i>\$60,001 to \$90,000</i>	-	-2,300	-2,500	-2,600	-2,600	-2,600	-2,700	-2,700	-2,700	-2,600	-2,600	-7,400	-25,900
<i>\$90,001 to \$120,000</i>	-	-2,800	-3,200	-3,400	-3,500	-3,600	-3,700	-3,800	-3,900	-4,000	-4,100	-9,400	-36,000
<i>\$120,001 to \$150,000</i>	-	-3,200	-3,700	-4,000	-4,200	-4,400	-4,700	-4,900	-5,200	-5,400	-5,600	-10,900	-45,300
<i>\$150,001 to \$180,000</i>	-	-2,900	-3,300	-3,700	-4,200	-4,600	-5,100	-5,600	-5,900	-6,300	-6,600	-9,900	-48,200
<i>\$180,001 and above</i>	-	-9,100	-10,800	-12,000	-13,600	-15,200	-16,700	-18,600	-20,600	-22,800	-25,200	-31,900	-164,600
<b>Total</b>	-	-20,700	-23,900	-26,100	-28,500	-30,800	-33,300	-35,900	-38,600	-41,400	-44,400	-70,700	-323,600

(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.

- 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>**

Year	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
2023-24	<i>Less than \$23,800</i>	<i>\$23,801 to \$46,900</i>	<i>\$46,901 to \$71,500</i>	<i>\$71,501 to \$110,200</i>	<i>Greater than \$110,200</i>
2024-25	<i>Less than \$24,600</i>	<i>\$24,601 to \$48,100</i>	<i>\$48,101 to \$73,200</i>	<i>\$73,201 to \$112,800</i>	<i>Greater than \$112,800</i>
2025-26	<i>Less than \$25,300</i>	<i>\$25,301 to \$49,400</i>	<i>\$49,401 to \$75,200</i>	<i>\$75,201 to \$115,900</i>	<i>Greater than \$115,900</i>
2026-27	<i>Less than \$26,300</i>	<i>\$26,301 to \$51,300</i>	<i>\$51,301 to \$78,100</i>	<i>\$78,101 to \$120,400</i>	<i>Greater than \$120,400</i>
2027-28	<i>Less than \$27,400</i>	<i>\$27,401 to \$53,600</i>	<i>\$53,601 to \$81,500</i>	<i>\$81,501 to \$125,700</i>	<i>Greater than \$125,700</i>
2028-29	<i>Less than \$28,500</i>	<i>\$28,501 to \$55,600</i>	<i>\$55,601 to \$84,500</i>	<i>\$84,501 to \$130,300</i>	<i>Greater than \$130,300</i>
2029-30	<i>Less than \$29,600</i>	<i>\$29,601 to \$57,800</i>	<i>\$57,801 to \$87,900</i>	<i>\$87,901 to \$135,400</i>	<i>Greater than \$135,400</i>
2030-31	<i>Less than \$30,800</i>	<i>\$30,801 to \$60,000</i>	<i>\$60,001 to \$91,200</i>	<i>\$91,201 to \$140,600</i>	<i>Greater than \$140,600</i>
2031-32	<i>Less than \$32,000</i>	<i>\$32,001 to \$62,300</i>	<i>\$62,301 to \$94,800</i>	<i>\$94,801 to \$146,100</i>	<i>Greater than \$146,100</i>
2032-33	<i>Less than \$33,200</i>	<i>\$33,201 to \$64,600</i>	<i>\$64,601 to \$98,400</i>	<i>\$98,401 to \$151,600</i>	<i>Greater than \$151,600</i>
2033-34	<i>Less than \$34,400</i>	<i>\$34,401 to \$67,100</i>	<i>\$67,101 to \$102,100</i>	<i>\$102,101 to \$157,400</i>	<i>Greater than \$157,400</i>

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