



## Request for budget analysis

Labor's revised stage 3 tax cuts: distributional analysis		
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens	
Date completed:	25 January 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 Approved for release on 31 January 2024.	<input type="checkbox"/> Not confidential
<p>Summary of the request:</p> <p>The request sought estimated financial implications and distributional analysis of the Government's revised Stage 3 tax cut changes announced on 25 January 2024, relative to 2023-24 tax settings. The revised Stage 3 tax cuts take effect from 1 July 2024.</p>		
Pre stage 3	Stage 3	Revised Stage 3
Tax free threshold \$18,200	Tax free threshold \$18,200	Tax free threshold \$18,200
\$18,200 to \$45,000 at 19%	\$18,200 to \$45,000 at 19%	\$18,200 to \$45,000 at 16%
\$45,000 to \$120,000 at 32.5%	\$45,000 to \$200,000 at 30%	\$45,000 to \$135,000 at 30%
\$120,000 to \$180,000 at 37%	—	\$135,000 to \$190,000 at 37%
\$180,000 + at 45%	\$200,000 + at 45%	\$190,000 + at 45%
<p>The distributional analyses sought the aggregate change in tax paid for taxpayers affected by the revised 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 proposal 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 may be different from those estimated using different economic parameters or tax return data. Our recent publication [Why do costings change?](#) provides more information on why costings may change due to changed parameters or data.

## Key assumptions

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

- While high-income earners can often adjust their taxable income in response to changes in their marginal tax rate, the proposal 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.
- Not including levies and offsets, around 91% of tax liabilities would be paid in the income year they are accrued, 8% in the first year after, and 1% in the second year after.
- The estimates provided are based upon the simplifying assumption that the timing of tax collections is broadly consistent across all taxpayers. In reality, the gap between when tax liabilities are accrued and when revenue is raised will vary depending on taxpayers' individual circumstances. For instance, taxpayers whose income is primarily derived from salary and wages will have tax withheld throughout the income year, whereas taxpayers whose income is derived from capital gains or small business income are more likely to pay tax on assessment in the following income year. Changes to timing assumptions will alter the estimated financial impact of the proposal, especially in the initial years of the proposal. The impact of tax timing on different policy options will also vary depending on the affected populations.

## 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 period using parameters from the 2023-24 Mid-Year Economic and Fiscal Outlook (MYEFO).

The financial implications and the associated distributional analyses account for the timing of tax collections, as per the assumptions listed above.

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

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

## 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

## Attachment A – Labor's revised stage 3 tax cuts: distributional analysis – financial implications

**Table A1: Labor’s revised stage 3 tax cuts: distributional analysis – Impact 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>Original 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
<i>Revised Stage 3 tax cuts</i>	-	-2,600	-2,400	-1,900	-1,100	-300	600	1,600	2,700	3,800	5,100	-6,900	5,500
<b>Total</b>	-	<b>-23,300</b>	<b>-26,300</b>	<b>-28,000</b>	<b>-29,600</b>	<b>-31,100</b>	<b>-32,700</b>	<b>-34,300</b>	<b>-35,900</b>	<b>-37,600</b>	<b>-39,300</b>	<b>-77,600</b>	<b>-318,100</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.

## Attachment B – Labor’s revised stage 3 tax cuts: distributional analysis

**Table B1: Labor’s revised stage 3 tax cuts: distributional analysis – 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 by income quintile</b>													
<i>Quintile 1</i>	-	-100	-100	-100	-100	-200	-200	-300	-300	-400	-400	-300	-2,200
<i>Quintile 2</i>	-	-1,700	-1,900	-2,100	-2,300	-2,500	-2,700	-2,900	-3,100	-3,300	-3,600	-5,700	-26,100
<i>Quintile 3</i>	-	-3,700	-4,200	-4,500	-4,800	-5,100	-5,500	-5,800	-6,100	-6,500	-6,900	-12,400	-53,100
<i>Quintile 4</i>	-	-6,100	-6,900	-7,400	-7,900	-8,500	-9,100	-9,800	-10,500	-11,200	-11,800	-20,400	-89,200
<i>Quintile 5</i>	-	-11,700	-13,200	-13,900	-14,500	-14,800	-15,200	-15,500	-15,900	-16,200	-16,600	-38,800	-147,500
<b>Total</b>	-	<b>-23,300</b>	<b>-26,300</b>	<b>-28,000</b>	<b>-29,600</b>	<b>-31,100</b>	<b>-32,700</b>	<b>-34,300</b>	<b>-35,900</b>	<b>-37,600</b>	<b>-39,300</b>	<b>-77,600</b>	<b>-318,100</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: Labor’s revised stage 3 tax cuts: distributional analysis – 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 by gender</b>													
<i>Female</i>	-	-9,600	-10,900	-11,700	-12,400	-13,100	-13,800	-14,500	-15,300	-16,100	-16,900	-32,200	-134,300
<i>Male</i>	-	-13,700	-15,400	-16,300	-17,200	-18,000	-18,900	-19,800	-20,600	-21,500	-22,400	-45,400	-183,800
<b>Total</b>	-	-23,300	-26,300	-28,000	-29,600	-31,100	-32,700	-34,300	-35,900	-37,600	-39,300	-77,600	-318,100

(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: Labor’s revised stage 3 tax cuts: distributional analysis – 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 by taxable income bracket</b>													
<i>Up to \$45,000</i>	-	-1,400	-1,500	-1,500	-1,500	-1,400	-1,400	-1,400	-1,400	-1,300	-1,300	-4,400	-14,100
<i>\$45,001 to \$60,000</i>	-	-2,000	-2,100	-2,100	-2,000	-1,900	-1,900	-1,800	-1,800	-1,700	-1,700	-6,200	-19,000
<i>\$60,001 to \$90,000</i>	-	-4,800	-5,300	-5,400	-5,500	-5,500	-5,600	-5,600	-5,500	-5,500	-5,400	-15,500	-54,100
<i>\$90,001 to \$120,000</i>	-	-4,400	-4,900	-5,200	-5,400	-5,600	-5,800	-5,900	-6,100	-6,200	-6,300	-14,500	-55,800
<i>\$120,001 to \$150,000</i>	-	-3,800	-4,400	-4,800	-5,000	-5,300	-5,600	-5,900	-6,200	-6,500	-6,700	-13,000	-54,200
<i>\$150,001 to \$180,000</i>	-	-2,200	-2,500	-2,800	-3,200	-3,500	-3,900	-4,200	-4,500	-4,700	-5,000	-7,500	-36,500
<i>\$180,001 and above</i>	-	-4,700	-5,600	-6,200	-7,000	-7,900	-8,500	-9,500	-10,400	-11,700	-12,900	-16,500	-84,400
<b>Total</b>	-	-23,300	-26,300	-28,000	-29,600	-31,100	-32,700	-34,300	-35,900	-37,600	-39,300	-77,600	-318,100

(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 – Labor’s revised stage 3 tax cuts: distributional analysis – taxable income quintiles and percentiles

**Table C1: Labor’s revised stage 3 tax cuts: distributional analysis – 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.