



Policy costing

Allow income splitting for couples with at least 1 dependent child	
Person/party requesting the costing:	Senator Gerard Rennick, Gerard Rennick People First
Date costing completed:	11 March 2025
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 type="checkbox"/> Confidential <input checked="" type="checkbox"/> Not confidential
Summary of proposal: The proposal would allow couples with a dependent to split their income for personal income tax purposes, so that it appears on their tax returns that they both earn the same amount. All couples with at least one dependent would be eligible for income splitting. A dependent would be defined as a child aged 18 or younger, or a dependent of any age with a severe disability which requires them to live at home permanently. The policy would commence from 1 July 2025.	

Overview

The proposal would be expected to decrease the fiscal and underlying cash balances by around \$12.4 billion over the 2024-25 Budget forward estimates period (see Table 1). This impact reflects a decrease in personal income tax revenue.

The proposal would be expected to have an impact beyond the 2024-25 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2034-35 is provided at Attachment A.

Table 1: Allow income splitting for couples with at least 1 dependent child – Financial implications (\$m)^{(a)(b)}

	2024-25	2025-26	2026-27	2027-28	Total to 2027-28
Fiscal balance	-	-	-5,900.0	-6,500.0	-12,400.0
Underlying cash balance	-	-	-5,900.0	-6,500.0	-12,400.0

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) PDI impacts are not included in the totals.

- Indicates nil.

Key uncertainties

The financial impacts of this proposal are uncertain and sensitive to assumptions around the number of families eligible for the proposal, behavioural responses by impacted individuals (including their

uptake of the policy and their labour supply decisions under the proposal), and the projected growth in taxable incomes.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal:

- Around 26% of tax filers would engage in income splitting, in line with the share of the national adult population that is both part of a couple and has a dependent child aged 18 or under or a dependent with a severe disability (DSS 2024).
- There would be no significant behavioural impact on labour supply or resultant impact on taxable income under the proposal, including no reduction in work associated with higher effective marginal tax rates for secondary earners.
- Tax refunds for income splitting would be reconciled when both members of a couple lodge their tax return. 95% would be lodged in the next financial year and 5% in the year after that.

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 2022-23 income year, provided by the ATO and grown over the medium-term using parameters as at the 2024-25 MYEFO.

The eligible population was identified using the 2022-23 personal income tax returns data.

Financial implications were rounded consistent with the PBO's rounding rules.¹

Data sources

The ATO provided the de-identified personal income tax returns data for the 2022-23 income year.

Commonwealth of Australia (2024) *2024-25 Mid-Year Economic and Fiscal Outlook*, Commonwealth of Australia.

DSS (Department of Social Services); Melbourne Institute of Applied Economic and Social Research (2024) [Household, Income and Labour Dynamics in Australia Survey](#), accessed 18 July 2024.

¹ <https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules>

Attachment A – Allow income splitting for couples with at least 1 dependent child – Financial implications

Table A1: Allow income splitting for couples with at least 1 dependent child – Fiscal and underlying cash balances (\$m)^(a)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	Total to 2027-28	Total to 2034-35
Tax receipts													
<i>Personal income tax</i>	-	-	-5,900.0	-6,500.0	-6,900.0	-7,200.0	-7,600.0	-8,000.0	-8,500.0	-8,900.0	-9,400.0	-12,400.0	-68,900.0
Total (excluding PDI)	-	-	-5,900.0	-6,500.0	-6,900.0	-7,200.0	-7,600.0	-8,000.0	-8,500.0	-8,900.0	-9,400.0	-12,400.0	-68,900.0

(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 A2: Allow income splitting for couples with at least 1 dependent child – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	Total to 2027-28	Total to 2034-35
Fiscal balance	-	-	-130.0	-420.0	-740.0	-1,100.0	-1,480.0	-1,910.0	-2,370.0	-2,880.0	-3,440.0	-550.0	-14,470.0
Underlying cash balance	-	-	-100.0	-350.0	-660.0	-1,010.0	-1,390.0	-1,800.0	-2,260.0	-2,760.0	-3,300.0	-450.0	-13,630.0

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the table above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary².

(b) 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.

² https://www.aph.gov.au/about_parliament/parliamentary_departments/parliamentary_budget_office/online_budget_glossary