Parliamentary
Budget Office

ECR-2025-3602

A fair and progressive income tax system	
Party:	Australian Greens

Summary of proposal:

The proposal has 5 components that would modify the Australian personal income tax system.

- **Component 1** would reverse the Government's revised Stage 3 tax cuts to the rates and thresholds used in the 2023-24 financial year.
- **Component 2** would convert the revised stage 3 tax cuts into a low- and middle-income tax offset (LMITO) as per the following arrangements:

Taxable income	Offset
$18,200 – $45,000	3 cents for every dollar of income above $18,200
$45,001 – $120,000	$804 plus 2.5 cents for every dollar above $45,000, up to a maximum of $2,679
$120,001 – $135,000	$2,679 plus 7 cents for every dollar above $120,000, up to a maximum of $3,729
$135,001 – $180,000	$3,729
$180,001 – $204,860	$3,729 minus 15 cents for every dollar above $180,000

The proposed LMITO would commence from 2024-25 and be payable on assessment.

- **Component 3** would introduce a new tax bracket for individuals earning more than $1 million. This new bracket would charge 60c for every dollar over $1 million.
- **Component 4** would introduce a 'Buffett rule' which would limit tax deductions to $5,000 for individuals earning $360,000 or more.
- **Component 5** would implement a minimum tax rate of 30% on non-primary production discretionary trust distributions to mature beneficiaries.
  - The minimum tax rate would be applied to the total trust distribution, rather than on a marginal basis. Non-trust income would continue to be taxed at marginal rates, with an individual's tax liability on this income assessed exclusive of discretionary trust income.
  - The minimum tax rate would not apply to distributions from discretionary charitable trusts, deceased estate trusts, or testamentary trusts.

The proposal would start on 1 July 2025.

Costing overview

The proposal would be expected to increase the fiscal and underlying cash balances by around $69.8 billion over the 2025-26 Budget forward estimates period (see Table 1). This impact reflects an increase in revenue, partially offset by an increase in departmental expenses.

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

The financial implications provided below may be different from those estimated using different economic parameters or tax return data. Our publication *Why do costings change?* provides more information on why costings may change due to changed parameters or data.

Table 1: A fair and progressive income tax system – Financial implications ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	**Total to 2028-29**
Fiscal balance	8,034.0	16,433.7	21,754.6	23,562.6	**69,784.9**
Underlying cash balance	8,034.0	16,433.7	21,754.6	23,562.6	**69,784.9**

(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.

Uncertainties

The proposal represents a significant divergence from current taxation policy in Australia. It is highly likely that populations of taxpayers who would be affected by Components 3, 4 and 5 would employ a range of sophisticated strategies to restructure their taxation affairs to minimise the additional burden imposed by the proposal.

The magnitude of the effect of this behavioural response is uncertain, though it is likely to reduce the magnitude of any revenue that these components may raise. An allowance for the behavioural response to each of the components of the proposal has been made (outlined in *Key assumptions*).

There is uncertainty about the labour supply response to changes in post-tax income. Studies indicate that some individuals would increase their hours worked after a decrease in their disposable income (due to an increase in their tax rate) whereas some individuals would decrease their hours of work. There is considerable uncertainty regarding the direction, magnitude, and timing of these effects on labour supply.

Individuals' tax deductions above the value of $5,000 can be associated with a broad range of expenditure such as gifts or donations to charities, necessary work-related expenses (for example, insurances required for performance of a role) or personal contributions to superannuation accounts.

In the 2022-23 financial year, for individuals who lodged tax returns with deductions greater than $100,000 in total value, around 80% of these deductions were in the "D9 Gifts or donations" category. This proposal may result in changes to the pathways through which money is donated to charities and may also result in a change in the amount of money that is donated.

The proposal to limit the amount of deductions which could be claimed against income tax liability is likely to prompt significant restructuring of tax affairs to reduce the effect of the proposal. There are a variety of mechanisms that individuals could employ to this end, including utilising fringe benefits, business structures or trusts. The Parliamentary Budget Office (PBO) has not costed any resultant impacts on collections of fringe benefits tax, company tax, or trust changes resulting from components 3 and 4.

There are possible longer term behavioural responses which are not factored into the figures provided in this response. For example, that high wealth individuals may elect to change their investment patterns if they are unable to claim deductions greater than $5,000 against their investment gains and face a 60% marginal tax rate for their income above $1 million. This combination of tax settings may also deter foreign investors from seeking to invest and pay tax in Australia.

The extent to which Component 5 would create an incentive for individuals to divert their investments away from discretionary trusts is highly uncertain. Individuals hold discretionary trusts for significant reasons other than the potential tax benefits, such as estate planning, income and asset protection, and control over the size and timing of distributions. There would also be transaction costs and capital gains tax associated with moving assets out of a trust. These factors, and existing compliance work by the Australian Taxation Office (ATO), may limit the extent of any behavioural responses.

Key assumptions

The PBO has made the following assumptions in costing this proposal:

- 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 exception to this is for LMITO payments and deductions. 95% of LMITO payments would be made in the income year after they are accrued, with the remaining 5% paid in the following year.
- The estimates provided are based on 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.
- The fringe benefits tax rate will stay at 47% and would not move to be equal to the new 60% tax rate. Additionally, all other rates in the tax system that are linked to the current 47% rate would not move to the 60% rate; including No-TFN and no-ABN withholding tax, superannuation non-arm's length income and Division 293 tax.

Component 3

- High-income earners would adjust their taxable income to reduce their tax liability under a higher marginal tax rate. This adjustment would reflect an assumed taxable income elasticity of 0.35 for individuals with a taxable income greater than $1 million and 0.5 for individuals with taxable incomes greater than $10 million.

Component 4

- Taxpayers with total deductions in excess of $25,000 who would be affected by the 'Buffett rule' would respond to this proposal by seeking to minimise their taxation liability via mechanisms other than trusts. We assume a taxable income elasticity of 0.35 for taxpayers with $25,000 in deductions, growing to 0.8 for taxpayers with deductions in excess of $500,000.
- Tax deductions in scope for this component of the proposal are those that fall under the "Total Deductions" label on the personal income tax return (note, this does not include deductions associated with rental income such as interest deductions, nor does it include business deductions for sole traders).

Component 5

- Some affected individuals with a marginal tax rate below 30%, and who have some sway over the operation of the trust, might seek to have the trust realise some capital gains earlier than planned by selling some assets in the 2024-25 year, rather than in the 2025-26 year. However, this would not have a material impact on the financial implications.
- Some individuals and trustees affected by the proposal would seek to reduce their tax liability by rearranging their tax affairs, reducing the revenue impact by around 25% in aggregate. Examples of these behavioural responses may include:
  - small businesses (operated as a trust) paying wages to working family members or contracting for services and goods via another intermediary entity such as a company or unit trust, instead of using trust distributions.
  - individuals winding up a discretionary trust to utilise other business or investment structures that are now more tax advantaged.
- Allowing an exemption from the proposal for charitable trusts, deceased estate trusts, or testamentary trusts would not have a material impact on the financial implications.
- The alternative minimum tax would be collected in the same financial year as the distribution for 50% of all affected trust recipients, with the other 50% collected in the year of assessment.
  - This is because the additional tax is expected to be factored into the existing quarterly income tax instalments for trust beneficiaries.

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 from the 2025-26 Budget and the PBO's *Build Your Own Budget* tool.

Interactions between components were calculated as the difference in financial implications of implementing all components together less the sum of implementing each component separately.

The financial implications account for the timing of tax collections.

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

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

Data sources

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

The Treasury provided economic parameters as at the 2025-26 Budget.

Australian Taxation Office (2024) *Taxation Statistics 2021-22*, Australian Government.

Australian Taxation Office (2019) *Current issues with trusts and the tax system*, Australian Government.

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025,* Commonwealth of Australia.

Attachment A – A fair and progressive income tax system – Financial implications

Table A1: A fair and progressive income tax system – Fiscal and underlying cash balances ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Revenue													
Component 1: Reverse the revised Stage 3 tax cuts	*24,700.0*	*31,100.0*	*36,500.0*	*38,700.0*	*40,500.0*	*42,400.0*	*44,300.0*	*46,200.0*	*48,200.0*	*50,200.0*	*52,300.0*	***131,000.0***	***455,100.0***
Component 2: Introduce a LMITO	*-20,600.0*	*-22,300.0*	*-22,900.0*	*-23,700.0*	*-24,700.0*	*-25,600.0*	*-26,500.0*	*-27,300.0*	*-28,200.0*	*-28,900.0*	*-29,600.0*	***-89,500.0***	***-280,300.0***
Component 3: 60% marginal tax rate above $1 million	*2,100.0*	*2,360.0*	*2,520.0*	*2,760.0*	*2,970.0*	*3,190.0*	*3,430.0*	*3,670.0*	*3,930.0*	*4,220.0*	*4,520.0*	***9,740.0***	***35,670.0***
Component 4: Introduce a 'Buffet rule'	-	*1,820.0*	*2,100.0*	*2,220.0*	*2,430.0*	*2,660.0*	*2,930.0*	*3,240.0*	*3,600.0*	*4,000.0*	*4,450.0*	***6,140.0***	***29,450.0***
Component 5: Minimum tax rate of 30% on non-primary production discretionary trust distributions	*1,620.0*	*3,300.0*	*3,450.0*	*3,540.0*	*3,550.0*	*3,590.0*	*3,630.0*	*3,670.0*	*3,710.0*	*3,750.0*	*3,780.0*	***11,910.0***	***37,590.0***
Interactions	*230.0*	*157.0*	*88.0*	*46.0*	*70.0*	*93.0*	*118.0*	*143.0*	*168.0*	*191.0*	*217.0*	***521.0***	***1,521.0***
Total – revenue	**8,050.0**	**16,437.0**	**21,758.0**	**23,566.0**	**24,820.0**	**26,333.0**	**27,908.0**	**29,623.0**	**31,408.0**	**33,461.0**	**35,667.0**	**69,811.0**	**279,031.0**
Expenses													
Departmental													
Component 5 - ATO	*-16.0*	*-3.3*	*-3.4*	*-3.4*	*-3.4*	*-3.5*	*-3.5*	*-3.6*	*-3.6*	*-3.7*	*-3.7*	***-26.1***	***-51.1***
Total – expenses	**-16.0**	**-3.3**	**-3.4**	**-3.4**	**-3.4**	**-3.5**	**-3.5**	**-3.6**	**-3.6**	**-3.7**	**-3.7**	**-26.1**	**-51.1**
Total (excluding PDI)	**8,034.0**	**16,433.7**	**21,754.6**	**23,562.6**	**24,816.6**	**26,329.5**	**27,904.5**	**29,619.4**	**31,404.4**	**33,457.3**	**35,663.3**	**69,784.9**	**278,979.9**

(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: A fair and progressive income tax system – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[a][b]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Fiscal balance	*200.0*	*700.0*	*1,600.0*	*2,700.0*	*3,900.0*	*5,200.0*	*6,600.0*	*8,200.0*	*10,000.0*	*11,900.0*	*14,000.0*	***5,200.0***	***65,000.0***
Underlying cash balance	*100.0*	*600.0*	*1,400.0*	*2,400.0*	*3,600.0*	*4,900.0*	*6,300.0*	*7,800.0*	*9,500.0*	*11,400.0*	*13,500.0*	***4,500.0***	***61,500.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals 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 glossary[2].

(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.

[2] Online budget glossary – Parliamentary Budget Office (pbo.gov.au)