

Policy costing

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|  | **Impact of accelerating Stage 2 personal income tax cuts** | | |
| Person/party requesting the costing: | | Mr Adam Bandt MP, Australian Greens | |
| Date costing completed: | | 20 July 2020 | |
| Expiry date of the costing: | | Release of the next economic and fiscal outlook report. | |
| Status at time of request: | | Submitted outside the caretaker period | |
| ☒ Confidential | * Not confidential |
| Summary of proposal:  This request involves four options.   * Option 1: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2021, without adjusting the end date of the low and middle income tax offset. * Option 2: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2020, without adjusting the end date of the low and middle income tax offset. * Option 3: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2021, and remove the low and middle income tax offset for the 2021-22 income year. * Option 4: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2020, and remove the low and middle income tax offset for the 2020-21 and 2021-22 income years. | | | |

# Costing overview

The 2018-19 Budget measure *Personal income tax plan* and the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* include four components that are scheduled to begin on 1 July 2022.

* Increase the upper threshold for the 32.5 per cent marginal tax rate from $90,000 to $120,000.
* Increase the upper threshold for the 19 per cent marginal tax rate from $37,000 to $45,000.
* Increase the low income tax offset from $445 to $700.
* Remove the low and middle income tax offset.

The four options would involve bringing forward the start date of some or all of these four components. All options would be expected to decrease the fiscal and underlying cash balances over the 2019-20 Budget forward estimates period. The impacts are entirely due to increases in personal income tax revenue. The proposal would not have ongoing financial implications beyond 2024-25. A breakdown of the financial implications over the period to 2029-30 is at Attachment A.

Bringing forward the scheduled income tax cuts would not be expected to involve any change in departmental expenses as it would not change the administrative complexity of the tax system.

The estimates are subject to significant uncertainties around income and growth in the workforce, particularly around the ongoing impact of the COVID-19 pandemic. Uncertainty about the implications of the COVID-19 pandemic for the future fiscal position is likely to persist for some time. This costing has been undertaken against the budget baseline as at the 2019-20 Mid-Year Economic and Fiscal Outlook, which does not take account of the likely effects of the COVID-19 pandemic or associated policy response.

The Parliamentary Budget Office (PBO) has not made an assessment on the feasibility of bringing forward personal income tax cuts to the income year 2020-21 under Options 2 and 4, given the changes would apply retrospectively from 1 July 2020.

## Table 1: Financial implications ($m)(a)(b)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2019–20 | 2020–21 | 2021–22 | 2022–23 | **Total to 2022–23** |
| **Option 1: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2021, without adjusting the end date of the low and middle income tax offset** | | | | | |
| Fiscal balance | - | - | -12,810 | -1,320 | **-14,140** |
| Underlying cash balance | - | - | -12,810 | -1,320 | **-14,140** |
| **Option 2: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2020, without adjusting the end date of the low and middle income tax offset** | | | | | |
| Fiscal balance | - | -12,280 | -14,130 | -1,460 | **-27,770** |
| Underlying cash balance | - | -12,280 | -14,130 | -1,460 | **-27,770** |
| **Option 3: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2021, and remove the low and middle income tax offset for the 2021-22 income year** | | | | | |
| Fiscal balance | - | - | -12,810 | 6,230 | **-6,590** |
| Underlying cash balance | - | - | -12,810 | 6,230 | **-6,590** |
| **Option 4: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2020, and remove the low and middle income tax offset for the 2020-21 and 2021-22 income years** | | | | | |
| Fiscal balance | - | -12,280 | -6,710 | 6,480 | **-12,410** |
| Underlying cash balance | - | -12,280 | -6,710 | 6,480 | **-12,410** |

1. A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
2. Figures may not sum to totals due to rounding.

- Indicates nil.

# Key assumptions

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

* There would be no significant behavioural response associated with the proposed changes to tax rates and thresholds, including to the supply of labour.
  + High income earners can often adjust their taxable income in response to changes in the marginal tax rates.[1](#_bookmark0) The analyses presented are for proposals that would not change the marginal tax rate for those with a taxable income greater than $200,000, therefore suggesting any adjustment to taxable income is likely to be small.
  + Studies indicate that some people will chose to work less in response to a higher marginal tax rate, while others will work more.[2](#_bookmark1) There is considerable uncertainty regarding the direction, magnitude and timing of these effects on labour supply.
* The Commissioner of the Australian Taxation Office would be able to deliver the proposed 2020-21 personal income tax cuts during the year by amending the pay-as-you-go withholding tables.
  + The implication of this assumption is that most of the change in tax revenue resulting from the proposed tax changes in the 2020-21 income year would occur in the same year. If the

pay-as-you-go withholding tables were not amended until the following year, most of the change in tax revenue resulting from the tax changes in the 2020-21 income year would not occur until the following income year, upon lodgement of 2020-21 tax returns.

# Methodology

The financial implications of this proposal were estimated using a 16 per cent sample of de-identified personal income tax and superannuation data for 2017-18 provided by the Australian Taxation Office (ATO). The data were used to estimate the change in tax payable for each component.

This modelling takes into account the timing of tax collections. All estimates were rounded to the nearest $10 million.

# Data sources

The ATO provided a 16 per cent sample of de-identified personal income tax and superannuation returns for the 2017-18 financial year.

The Treasury provided:

* economic forecasts as at the 2019-20 Mid-Year Economic and Fiscal Outlook
* the models underpinning the *Personal Income Tax Plan* of the 2018-19 Budget and *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* of the 2019-20 Budget.

HM Revenue and Customs, 2012. *The Exchequer effect of the 50 per cent additional rate of income tax*, London: HM Revenue and Customs.

1 See for instance, HM Revenue and Customs, 2012. The Exchequer effect of the 50 per cent additional rate of income tax, London: HM revenue and Customs.

2 Ibid.

# Attachment A – Impact of accelerating Stage 2 personal income tax cuts – financial implications

## Table A1: Impact of accelerating Stage 2 personal income tax cuts – Option 1: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2021, without adjusting the end date of the low and middle income tax offset – Fiscal and underlying cash balances ($m)(a)(b)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2019–  20 | 2020–  21 | 2021–  22 | 2022–  23 | 2023–  24 | 2024–  25 | 2025–  26 | 2026–  27 | 2027–  28 | 2028–  29 | 2029–  30 | **Total to 2022–23** | **Total to 2029–30** |
| **Tax revenue** | | | | | | | | | | | | | |
| *Administered tax* | | | | | | | | | | | | | |
| *Increase the tax threshold from*  *$90,000 to $120,000* | *-* | *-* | *-3,350* | *-290* | *-40* | *..* | *-* | *-* | *-* | *-* | *-* | ***-3,650*** | ***-3,690*** |
| *Increase the tax threshold from*  *$37,000 to $45,000* | *-* | *-* | *-9,390* | *-800* | *-100* | *..* | *-* | *-* | *-* | *-* | *-* | ***-10,190*** | ***-10,290*** |
| *Increase low income tax offset from*  *$445 to $700* | *-* | *-* | *-70* | *-230* | *..* | *..* | *-* | *-* | *-* | *-* | *-* | ***-300*** | ***-300*** |
| **Total revenue** | **-** | **-** | **-12,810** | **-1,320** | **-140** | **-** | **-** | **-** | **-** | **-** | **-** | **-14,140** | **-14,280** |

1. 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.

1. Figures may not sum to totals due to rounding.

* Indicates nil.

## Table A2: Impact of accelerating Stage 2 personal income tax cuts – Option 2: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2020, without adjusting the end date of the low and middle income tax offset – Fiscal and underlying cash balances ($m)(a)(b)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2019–  20 | 2020–  21 | 2021–  22 | 2022–  23 | 2023–  24 | 2024–  25 | 2025–  26 | 2026–  27 | 2027–  28 | 2028–  29 | 2029–  30 | **Total to 2022–23** | **Total to 2029–30** |
| **Tax revenue** | | | | | | | | | | | | | |
| *Administered tax* | | | | | | | | | | | | | |
| *Increase the tax threshold from*  *$90,000 to $120,000* | *-* | *-3,110* | *-3,630* | *-330* | *-40* | *..* | *-* | *-* | *-* | *-* | *-* | ***-7,070*** | ***-7,100*** |
| *Increase the tax threshold from*  *$37,000 to $45,000* | *-* | *-9,100* | *-10,200* | *-900* | *-100* | *..* | *-* | *-* | *-* | *-* | *-* | ***-20,100*** | ***-20,200*** |
| *Increase low income tax offset from*  *$445 to $700* | *-* | *-70* | *-300* | *-230* | *..* | *..* | *-* | *-* | *-* | *-* | *-* | ***-600*** | ***-600*** |
| **Total revenue** | **-** | **-12,280** | **-14,130** | **-1,460** | **-140** | **-** | **-** | **-** | **-** | **-** | **-** | **-27,770** | **-27,900** |

1. 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.

1. Figures may not sum to totals due to rounding.

* Indicates nil.

## Table A3: Impact of accelerating Stage 2 personal income tax cuts – Option 3: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2021, and remove the low and Middle Income Tax Offset for the 2021-22 income year – Fiscal and underlying cash balances ($m)(a)(b)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2019–  20 | 2020–  21 | 2021–  22 | 2022–  23 | 2023–  24 | 2024–  25 | 2025–  26 | 2026–  27 | 2027–  28 | 2028–  29 | 2029–  30 | **Total to 2022–23** | **Total to 2029–30** |
| **Tax revenue** | | | | | | | | | | | | | |
| *Administered tax* | | | | | | | | | | | | | |
| *Increase the tax threshold from*  *$90,000 to $120,000* | *-* | *-* | *-3,350* | *-290* | *-40* | *..* | *-* | *-* | *-* | *-* | *-* | ***-3,650*** | ***-3,690*** |
| *Increase the tax threshold from*  *$37,000 to $45,000* | *-* | *-* | *-9,390* | *-800* | *-100* | *..* | *-* | *-* | *-* | *-* | *-* | ***-10,190*** | ***-10,290*** |
| *Increase low income tax offset from*  *$445 to $700* | *-* | *-* | *-70* | *-230* | *..* | *..* | *-* | *-* | *-* | *-* | *-* | ***-300*** | ***-300*** |
| *Low and middle income tax offset* | *-* | *-* | *-* | *7,550* | *400* | *..* | *-* | *-* | *-* | *-* | *-* | ***7,550*** | ***7,950*** |
| **Total revenue** | **-** | **-** | **-12,810** | **6,230** | **260** | **-** | **-** | **-** | **-** | **-** | **-** | **-6,590** | **-6,330** |

1. 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.

1. Figures may not sum to totals due to rounding.

* Indicates nil.

## Table A4: Impact of accelerating Stage 2 personal income tax cuts – Option 4: Bring forward the scheduled personal income tax cuts beginning on 1 July 2022 to 1 July 2020, and remove the low and Middle Income Tax Offset for the 2020-21 and 2021-22 income years – Fiscal and underlying cash balances ($m)(a)(b)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2019–  20 | 2020–  21 | 2021–  22 | 2022–  23 | 2023–  24 | 2024–  25 | 2025–  26 | 2026–  27 | 2027–  28 | 2028–  29 | 2029–  30 | **Total to 2022–23** | **Total to 2029–30** |
| **Tax revenue** | | | | | | | | | | | | | |
| *Administered tax* | | | | | | | | | | | | | |
| *Increase the tax threshold from*  *$90,000 to $120,000* | *-* | *-3,110* | *-3,630* | *-330* | *-40* | *..* | *-* | *-* | *-* | *-* | *-* | ***-7,070*** | ***-7,100*** |
| *Increase the tax threshold from*  *$37,000 to $45,000* | *-* | *-9,100* | *-10,200* | *-900* | *-100* | *..* | *-* | *-* | *-* | *-* | *-* | ***-20,100*** | ***-20,200*** |
| *Increase low income tax offset from*  *$445 to $700* | *-* | *-70* | *-300* | *-230* | *..* | *..* | *-* | *-* | *-* | *-* | *-* | ***-600*** | ***-600*** |
| *Low and middle income tax offset* | *-* | *-* | *7,420* | *7,940* | *400* | *..* | *-* | *-* | *-* | *-* | *-* | ***15,360*** | ***15,760*** |
| **Total revenue** | **-** | **-12,280** | **-6,710** | **6,480** | **260** | **-** | **-** | **-** | **-** | **-** | **-** | **-12,410** | **-12,140** |

1. 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.

1. Figures may not sum to totals due to rounding.

* Indicates nil.