Request for budget analysis

|  |
| --- |
| Personal Income Tax Plan |
| Person/party requesting the analysis: | Senator Chris Ketter, Chair – Senate Economics References Committee |
| Date analysis completed: | 26 June 2019 |
| Expiry date of the analysis: | Release of the next economic and fiscal outlook report. |
| Status at time of request: | [x]  Confidential | [ ]  Not confidential |
| Summary of request:The request sought the financial implications of 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*, by component and start date. The components of the 2018-19 Budget measure are as follows:* Introduce the low and middle income tax offset (LMITO) of up to $530 for individuals with taxable incomes up to $125,333 for the 2018-19, 2019-20, 2020-21 and 2021-22 income years.
* Increase the upper threshold for the 32.5 per cent marginal tax rate from $87,000 to $90,000 from 1 July 2018.
* Increase the upper threshold for the 32.5 per cent marginal tax rate from $90,000 to $120,000 from 1 July 2022.
* Increase the upper threshold for the 19 per cent marginal tax rate from $37,000 to $41,000 from 1 July 2022.
* Increase the low income tax offset (LITO) from $445 to $645 for taxable incomes up to $66,667 from 1 July 2022.
* Remove the 37 per cent marginal tax rate, and increase the lower threshold for the 45 per cent tax bracket from $180,000 to $200,000 from 1 July 2024.

The components of the 2019-20 Budget measure are as follows:* Increase the LMITO maximum amount from $530 to $1,080 and increase the base amount from $200 to $255 per annum for the 2018-19, 2019-20, 2020-21 and 2021-22 income years.
* Increase the upper threshold for the 19 per cent marginal tax rate from $41,000 to $45,000 from 1 July 2022.
* Increase LITO from $645 to $700 from 1 July 2022.
* Decrease the 32.5 per cent marginal tax rate to 30 per cent from 1 July 2024.

The request also sought the annual aggregate cost for each Budget measure relating to individuals with taxable incomes greater than $180,000 in each year.  |

# Overview

The detailed financial implications of each component of 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* are provided at Attachment A. The 2019 Pre‑election Economic and Fiscal Outlook (PEFO) baseline assumes that the immediate relief to low- and middle-income earners component of the *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* measure can be passed prior to 1 July 2019. The Parliamentary Budget Office (PBO) has not reassessed the cost for any delay, consistent with the PEFO baseline.

The aggregate cost of the budget measures relating to individuals with taxable incomes greater than $180,000 is provided at Attachment B.

The estimates are subject to uncertainties around income and population growth. This is particularly the case for estimates of the budget impact relating to individuals with taxable incomes above $180,000, as income growth increases the proportion of taxpayers earning above $180,000 over time (this is shown in a memorandum item in Attachment B).

# Key assumptions

The PBO has made the following assumptions in assessing the financial implications of the budget measures:

* There would be no significant behavioural response associated with the measures, 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]](#footnote-1) The budget measures do not change the marginal tax rate for those with a taxable income greater than $200,000, therefore suggesting that any adjustment to taxable income is likely to be small.
	+ Studies indicate that some people will choose to work more in response to a lower marginal tax rate, while others will work less.[[2]](#footnote-2) There is considerable uncertainty regarding the direction, magnitude and timing of the effect this proposal would have on labour supply.
* Income from salary and wages, dividends, gross interest, net capital gains and other forms of income would grow in line with the 2019 Pre‑election Economic and Fiscal Outlook (PEFO) parameters.
	+ Wages and salaries would grow at the same rate across the income distribution.

# Methodology

* The financial implications, by component, of the 2019-20 Budget measure *Lower taxes for hard‑working Australians: Building on the Personal Income Tax Plan* and the 2018-19 Budget measure *Personal Income Tax Plan* were estimated using a 16 per cent sample of de-identified personal income tax and superannuation data for 2016-17 provided by the Australian Taxation Office (ATO).
	+ The 16 per cent sample was used to estimate the number of individuals and their respective taxable incomes over the 2019-20 Budget forward estimates period and the period to 2029‑30.[[3]](#footnote-3)
	+ The sample is benchmarked to PEFO projections of the number of personal income tax filers over the 2019-20 Budget forward estimates period and the medium term.
	+ These data were used to estimate the change in tax payable for each component.
* The estimate of the financial implications by taxable income above $180,000, presented in Attachment B, is based on the distribution underpinning the analysis of the financial implications of the budget measures in Attachment A.
	+ The taxable income range up to and above $180,000 has been expressed in nominal terms each year. As nominal income increases over time, more individuals would be expected to have a taxable income above $180,000, increasing the proportion of the budgetary cost going to those with taxable incomes greater than $180,000.[[4]](#footnote-4)
* The 2019-20 Budget estimates of the *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* measure included a provision for the impact of a decision taken in the 2018‑19 Mid‑Year Economic and Fiscal Outlook (MYEFO), which has the effect of reducing the budget cost by $13.8 billion over the 2019‑20 Budget forward estimates period.[[5]](#footnote-5) The estimates presented in Attachment A represent the PBO’s estimates of the total cost of implementing this commitment and hence include the 2019-20 Budget measure and the 2018‑19 MYEFO provision.
* The modelling of the impact of the measures has taken account of the timing of tax collections.
* Estimates of the LMITO have been rounded to the nearest $50 million. Estimates of the LITO and the breakdown of the financial implications for individuals with taxable incomes below and above $180,000 have been rounded to the nearest $10 million. All other estimates have been rounded to the nearest $100 million.

# Data sources

The ATO provided a 16 per cent sample of de-identified personal income tax and superannuation returns for the 2016-17 year.

Treasury provided:

* the model underpinning the 2018-19 Budget measure *Personal Income Tax Plan*
* the model underpinning the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*
* economic forecasts for personal income and superannuation tax as at the 2019 Pre‑election Economic and Fiscal Outlook.

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

1. – Personal Income Tax Plan – financial implications

Table : Personal Income Tax Plan – 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 |
| **2018-19 Budget – Personal Income Tax Plan** |
| 1 July 2018 start date |
| *Increase the tax threshold from $87,000 to $90,000(c)* | -500 | -500 | -500 | -600 | -600 | -600 | -700 | -700 | -800 | -800 | -900 | **-2,400** | **-7,500** |
| *Introduce LMITO* | -3,750 | -4,000 | -4,050 | -4,100 | -200 | - | - | - | - | - | - | **-15,850** | **-16,050** |
| ***Total – 1 July 2018 start date*** | **-4,250** | **-4,500** | **-4,550** | **-4,700** | **-800** | **-600** | **-700** | **-700** | **-800** | **-800** | **-900** | **-18,250** | **-23,550** |
| 1 July 2022 start date |
| *Increase the tax threshold from $90,000 to $120,000*  | - | - | - | -3,700 | -4,300 | -4,700 | -5,000 | -5,500 | -6,000 | -6,400 | -6,800 | **-3,700** | **-42,400** |
| *Increase the tax threshold from $37,000 to $41,000*  | - | - | - | -5,000 | -5,500 | -5,800 | -5,900 | -6,100 | -6,300 | -6,400 | -6,600 | **-5,000** | **-47,600** |
| *Increase LITO from $445 to $645* | - | - | - | -90 | -470 | -470 | -460 | -450 | -440 | -420 | -400 | **-90** | **-3,200** |
| ***Total – 1 July 2022 start date*** | **-** | **-** | **-** | **-8,790** | **-10,270** | **-10,970** | **-11,360** | **-12,050** | **-12,740** | **-13,220** | **-13,800** | **-8,790** | **-93,200** |
| 1 July 2024 start date |
| *Remove the 37 per cent tax bracket and increase the tax threshold from $180,000 to $200,000* | - | - | - | - | - | -6,000 | -7,000 | -7,900 | -8,800 | -9,600 | -10,600 | **-** | **-49,900** |
| ***Total – 1 July 2024 start date*** | **-** | **-** | **-** | **-** | **-** | **-6,000** | **-7,000** | **-7,900** | **-8,800** | **-9,600** | **-10,600** | **-** | **-49,900** |
| **Total – 2018-19 Budget**  | **-4,250** | **-4,500** | **-4,550** | **-13,490** | **-11,070** | **-17,570** | **-19,060** | **-20,650** | **-22,340** | **-23,620** | **-25,300** | **-27,040** | **-166,650** |
| **2019-20 Budget – Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan** |
| 1 July 2018 start date |
| *Increase the LMITO maximum amount from $530 to $1,080 and the base amount from $200 to $255* | -3,450 | -3,700 | -3,750 | -3,800 | -200 | - | - | - | - | - | - | **-14,700** | **-14,900** |
| ***Total – 1 July 2018 start date*** | **-3,450** | **-3,700** | **-3,750** | **-3,800** | **-200** | **-** | **-** | **-** | **-** | **-** | **-** | **-14,700** | **-14,900** |
| 1 July 2022 start date |
| *Increase the tax threshold from $41,000 to $45,000*  | - | - | - | -4,800 | -5,300 | -5,600 | -5,700 | -5,900 | -6,100 | -6,300 | -6,500 | **-4,800** | **-46,200** |
| *Increase LITO from $645 to $700* | - | - | - | -40 | -210 | -210 | -200 | -200 | -200 | -190 | -190 | **-40** | **-1,440** |
| ***Total – 1 July 2022 start date*** | **-** | **-** | **-** | **-4,840** | **-5,510** | **-5,810** | **-5,900** | **-6,100** | **-6,300** | **-6,490** | **-6,690** | **-4,840** | **-47,640** |
| 1 July 2024 start date |
| *Decrease the marginal tax rate from 32.5 per cent to 30 per cent* | - | - | - | - | - | -12,500 | -14,300 | -15,400 | -16,600 | -17,700 | -18,900 | **-** | **-95,400** |
| ***Total – 1 July 2024 start date*** | **-** | **-** | **-** | **-** | **-** | **-12,500** | **-14,300** | **-15,400** | **-16,600** | **-17,700** | **-18,900** | **-** | **-95,400** |
| **Total – 2019-20 Budget** | **-3,450** | **-3,700** | **-3,750** | **-8,640** | **-5,710** | **-18,310** | **-20,200** | **-21,500** | **-22,900** | **-24,190** | **-25,590** | **-19,540** | **-157,940** |
| **Total**  | **-7,700** | **-8,200** | **-8,300** | **-22,130** | **-16,780** | **-35,880** | **-39,260** | **-42,150** | **-45,240** | **-47,810** | **-50,890** | **-46,580** | **-324,590** |

(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) Figures may not sum to totals due to rounding.

(c) This measure also includes a cost of $300 million in 2018-19 which is included in the totals to 2022-23 and 2029-30.

* Indicates nil.
1. – Personal Income Tax Plan – financial implications by taxable income

Table B: Personal Income Tax Plan – Fiscal and underlying cash balances ($m)(a)(b)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Cost of measures attributable to individuals with nominal taxable income per annum | 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 |
| **2018-19 Budget – Personal Income Tax Plan** |
| *Equal to or below $180,000* | *-4,160* | *-4,410* | *-4,450* | *-11,980* | *-9,270* | *-11,090* | *-11,630* | *-12,330* | *-13,010* | *-13,460* | *-14,140* | ***-25,230*** | ***-110,100*** |
| *(percentage of subtotal cost)* | (97.9%) | (98.0%) | (97.8%) | (88.8%) | (83.7%) | (63.1%) | (61.0%) | (59.7%) | (58.2%) | (57.0%) | (55.9%) | **(93.3%)** | **(66.1%)** |
| *Greater than $180,000* | *-90* | *-90* | *-100* | *-1,510* | *-1,800* | *-6,480* | *-7,430* | *-8,320* | *-9,330* | *-10,160* | *-11,160* | ***-1,810*** | ***-56,550*** |
| *(percentage of subtotal cost)* | (2.1%) | (2.0%) | (2.2%) | (11.2%) | (16.3%) | (36.9%) | (39.0%) | (40.3%) | (41.8%) | (43.0%) | (44.1%) | **(6.7%)** | **(33.9%)** |
| ***Subtotal – 2018-19 Budget*** | **-4,250** | **-4,500** | **-4,550** | **-13,490** | **-11,070** | **-17,570** | **-19,060** | **-20,650** | **-22,340** | **-23,620** | **-25,300** | **-27,040** | **-166,650** |
| **2019-20 Budget – Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan** |
| *Equal to or below $180,000* | *-3,450* | *-3,700* | *-3,750* | *-8,240* | *-5,230* | *-14,210* | *-15,450* | *-16,200* | *-16,960* | *-17,640* | *-18,410* | ***-19,140*** | ***-123,240*** |
| *(percentage of subtotal cost)* | (100%) | (100%) | (100%) | (95.4%) | (91.6%) | (77.6%) | (76.5%) | (75.3%) | (74.1%) | (72.9%) | (71.9%) | **(98.0%)** | **(78.0%)** |
| *Greater than $180,000* | *-* | *-* | *-* | *-400* | *-480* | *-4,100* | *-4,750* | *-5,300* | *-5,940* | *-6,550* | *-7,180* | ***-400*** | ***-34,700*** |
| *(percentage of subtotal cost)* | (-) | (-) | (-) | (4.6%) | (8.4%) | (22.4%) | (23.5%) | (24.7%) | (25.9%) | (27.1%) | (28.1%) | **(2.0%)** | **(22.0%)** |
| ***Subtotal – 2019-20 Budget*** | **-3,450** | **-3,700** | **-3,750** | **-8,640** | **-5,710** | **-18,310** | **-20,200** | **-21,500** | **-22,900** | **-24,190** | **-25,590** | **-19,540** | **-157,940** |
| **Aggregate impact – 2018‑19 Budget and 2019‑20 Budget measures** |
| Equal to or below $180,000 | -7,610 | -8,110 | -8,200 | -20,210 | -14,500 | -25,280 | -27,050 | -28,510 | -29,940 | -31,050 | -32,510 | **-44,370** | **-233,340** |
| (percentage of total cost) | (98.8%) | (98.8%) | (98.8%) | (91.3%) | (86.4%) | (70.5%) | (68.9%) | (67.6%) | (66.2%) | (64.9%) | (63.9%) | **(95.3%)** | **(71.8%)** |
| Greater than $180,000 | -90 | -90 | -100 | -1,920 | -2,280 | -10,600 | -12,210 | -13,640 | -15,300 | -16,760 | -18,380 | **-2,210** | **-91,250** |
| (percentage of total cost) | (1.2%) | (1.1%) | (1.2%) | (8.7%) | (13.6%) | (29.5%) | (31.1%) | (32.4%) | (33.8%) | (35.1%) | (36.1%) | **(4.7%)** | **(28.2%)** |
| **Total**  | **-7,700** | **-8,200** | **-8,300** | **-22,130** | **-16,780** | **-35,880** | **-39,260** | **-42,150** | **-45,240** | **-47,810** | **-50,890** | **-46,580** | **-324,590** |

(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) Figures may not sum to totals due to rounding.

* Indicates nil.

Memorandum item: Personal Income Tax Plan – Estimated proportion of taxpayers(a)(b)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Individuals with nominal taxable income per annum | 2019–20 | 2020–21 | 2021–22 | 2022–23 | 2023–24 | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 |
| Equal to or below $180,000 | 95% | 94% | 94% | 93% | 93% | 92% | 92% | 91% | 90% | 90% | 89% |
| Greater than $180,000 | 5% | 6% | 6% | 7% | 7% | 8% | 8% | 9% | 10% | 10% | 11% |

(a) Figures may not sum to totals due to rounding.

(b) A taxpayer is an individual with a positive net tax liability prior to the implementation of the Government’s Personal Income Tax Plan.

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. [↑](#footnote-ref-1)
2. Ibid. [↑](#footnote-ref-2)
3. While estimates have been presented over the 2019-20 Budget forward estimates period and the period to 2029-30, increasing the tax threshold from $87,000 to $90,000 has a cost of $300 million in 2018-19. This impact is included in the totals to 2022-23 and 2029-30. [↑](#footnote-ref-3)
4. For example, in the analysis, if a taxpayer had a taxable income of $180,000 in 2023‑24 their tax cut would not count towards the aggregate cost of the Budget measures for those with taxable incomes over $180,000. However, if the same taxpayer had a taxable income of over $180,000 in the next year (due a wage rise), the full value of the tax cut they receive in 2024‑25 would count towards the aggregate cost of the Budget measures for those with taxable incomes over $180,000. [↑](#footnote-ref-4)
5. Refer to the 2019-20 Budget, page 17. [↑](#footnote-ref-5)