Request for budget analysis

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| Tax cuts package |
| Person/party requesting the analysis: | Senator Richard Di Natale, Australian Greens |
| 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, by stage and component, of the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*. The request also sought the annual aggregate cost of the third stage of the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* (reducing the 32.5 per cent marginal tax rate to 30 per cent from 1 July 2024) for individuals with taxable incomes greater than $180,000 in each year.  |

# Overview

The detailed financial implications of each component of the 2019-20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* is provided at Attachment A.

The aggregate cost of the third stage of the 2019‑20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* for 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 for 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 Parliamentary Budget Office (PBO) has made the following assumptions in assessing the financial implications of the third stage of the 2019‑20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*.

* There would be no significant behavioural response associated with the measure, 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 measure does 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* 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 medium term.
	+ 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 of the third stage of the 2019‑20 Budget measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* 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 measure 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 related to those with taxable incomes greater than $180,000.[[3]](#footnote-3)
* 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.[[4]](#footnote-4) The estimates presented in Attachment A represent the PBO’s estimate 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 measure has taken account of the timing of tax collections.
* Estimates of the low and middle income tax offset have been rounded to the nearest $50 million. Estimates of the low income tax offset 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 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. – Tax cuts package – financial implications

Table A1: Tax cuts package – 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 |
| **Stage 1 – Immediate relief to low- and middle-income earners** |
| *Increase the low and middle income tax offset maximum amount to $1,080 and the base amount to $255* | -3,450 | -3,700 | -3,750 | -3,800 | -200 | - | - | - | - | - | - | **-14,700** | **-14,900** |
| **Total – Stage 1**  | **-3,450** | **-3,700** | **-3,750** | **-3,800** | **-200** | **-** | **-** | **-** | **-** | **-** | **-** | **-14,700** | **-14,900** |
| **Stage 2 – Locking in the benefits of lower taxes** |
| *Increase the top tax threshold of the 19 per cent bracket 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 the low income tax offset from $645 to $700* | - | - | - | -40 | -210 | -210 | -200 | -200 | -200 | -190 | -190 | **-40** | **-1,440** |
| **Total – Stage 2** | **-** | **-** | **-** | **-4,840** | **-5,510** | **-5,810** | **-5,900** | **-6,100** | **-6,300** | **-6,490** | **-6,690** | **-4,840** | **-47,640** |
| **Stage 3 – Further structural changes to the tax system to deliver lower taxes** |
| *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 – Stage 3** | **-** | **-** | **-** | **-** | **-** | **-12,500** | **-14,300** | **-15,400** | **-16,600** | **-17,700** | **-18,900** | **-** | **-95,400** |
| **Total**  | **-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** |

(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.
1. – Tax cuts package – financial implications by taxable income

Table B1: – Estimated cost of the third stage of the 2019‑20 Budget measure *Lower taxes for hard‑working Australians: Building on the personal income tax plan* by taxable income – Fiscal and underlying cash balance ($m)(a)(b)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Cost of measure attributable to individuals with nominal taxable income per annum | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | Total to 2029‑30 |
| *Equal to or below $180,000* | *-8,900* | *-10,100* | *-10,800* | *-11,400* | *-11,900* | *-12,600* | ***-65,700*** |
| *(percentage of total cost)*  | *(71.6%)* | *(70.8%)* | *(69.7%)* | *(68.5%)* | *(67.5%)* | *(66.5%)* | ***(68.9%)*** |
| *Greater than $180,000* | *-3,500* | *-4,200* | *-4,700* | *-5,200* | *-5,800* | *-6,300* | ***-29,700*** |
| *(percentage of total cost)* | *(28.4%)* | *(29.2%)* | *(30.3%)* | *(31.5%)* | *(32.5%)* | *(33.5%)* | ***(31.1%)*** |
| **Total**  | **-12,500** | **-14,300** | **-15,400** | **-16,600** | **-17,700** | **-18,900** | **-95,400** |

(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.

Memorandum item: Tax cuts package – Estimated proportion of taxpayers(a)(b)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Individuals with nominal taxable income per annum | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 |
| *Equal to or below $180,000* | 92% | 92% | 91% | 90% | 90% | 89% |
| *Greater than $180,000* | 8% | 8% | 9% | 10% | 10% | 11% |

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

(b) A taxpayer is an individual with a 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. 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-3)
4. Refer to the 2019-20 Budget, page 17. [↑](#footnote-ref-4)