



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.

- **Components 1 and 2** would not proceed with Stage 3 of the Personal income tax plan in 2024-25, and would introduce a new tax bracket for those earning more than \$1 million from 1 July 2022.

The personal income tax schedule would be as follows:

Taxable income	Tax rate
0 – \$18,200	Nil
\$18,201 – \$45,000	19 cents for each \$1 over \$18,200
\$45,001 – \$120,000	\$5,092 plus 32.5 cents for each \$1 over \$45,000
\$120,001 – \$180,000	\$29,467 plus 37 cents for each \$1 over \$120,000
\$180,001 – \$1,000,000	\$51,667 plus 45 cents for each \$1 over \$180,000
\$1,000,000 and over	\$420,667 plus 60 cents for each \$1 over \$1,000,000

- **Component 3** would amend the Low-Income Tax Offset (LITO) as follows.
 - A maximum offset of \$2,250 for individuals earning \$30,000 or less.
 - The maximum offset would reduce by 10 cents for every \$1 above \$30,000 up to \$45,000.
 - The offset would reduce by a further 3 cents for every \$1 above \$45,000, phasing out at \$70,000.
- **Component 4** would introduce a ‘Buffet rule’ which would limit tax deductions to \$5,000 for individuals earning \$360,000 or more (around the top 1% of earners).
- **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.

Components 3, 4 and 5 would be implemented on 1 July 2022.

Costing overview

The proposal would be expected to increase the fiscal and underlying cash balances by around \$48.2 billion over the 2022-23 Budget forward estimates period. This impact primarily reflects an increase in revenue, but also includes an increase in departmental expenses of \$21 million.

The proposal would have an impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2032-33 is provided at Attachment A. Distributional analysis of Stage 3 of the Personal income tax plan is provided at Attachment B.

The estimates provided in this response are uncertain, and sensitive to the following factors:

- Future growth in income and workforce participation. The continued impacts of COVID-19 on income growth and workforce participation are highly uncertain in both magnitude and duration.
- Behavioural responses to the proposal, particularly in response to Component 2 (60% marginal tax rate above \$1 million), Component 4 (Buffet rule) and Component 5 (Minimum tax rate on discretionary trust distributions).
 - 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.
 - 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.

Table 1: Financial implications (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	Total to 2025-26
Fiscal balance	3,255.0	1,679.0	19,885.0	23,406.0	48,225.0
Underlying cash balance	3,255.0	1,679.0	19,885.0	23,406.0	48,225.0

(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.

Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal.

Component 2

- 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.

Component 4

- Taxpayers affected by the 'Buffet rule' would be able to shift some denied deductions to other individuals (such as family members) or to a company who are able to utilise the deductions. This reduces the revenue impact by around 30% in aggregate.

Component 5

- Some affected individuals with a marginal tax rate below 30% would bring forward trust distributions from 2022-23 to before the start date of 1 July 2022, 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 paying wages to working family members instead of using trust distributions
 - trustees allocating trust income to a company and distributing franked dividends to beneficiaries with low taxable incomes, on which the minimum tax rate would not apply
 - individuals winding up a discretionary trust to invest in alternative tax-effective investments, such as superannuation.
- 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 distributions, with the other 50% collected in the year of assessment.
 - This is because the additional tax is expected to be factored into the existing withholding schedules for trust distributions.

Methodology

The financial implications were based on a microsimulation model of a 16% sample of de-identified personal income tax and superannuation data for 2018-19 provided by the ATO. The model estimated the changes to tax paid under each component, factoring in behavioural assumptions listed above. Income deciles in 2024-25 were based on projections from the same model.

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

This costing takes account of the timing of tax collections.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.¹

Data sources

The ATO provided a 16% sample of de-identified personal income tax return and superannuation data for the 2018-19 financial year and the 2018-19 de-identified partnership and trust unit record files.

¹ https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

The Treasury provided the economic and policy parameters as at the 2022-23 Budget.

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

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)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
<i>Component 1: Reverse Stage 3 tax cuts</i>	-	-	17,700.0	20,800.0	22,700.0	24,500.0	26,500.0	28,900.0	31,400.0	34,100.0	36,900.0	38,500.0	243,500.0
<i>Component 2: 60% marginal tax rate above \$1 million</i>	1,800.0	2,150.0	2,410.0	2,660.0	2,930.0	3,270.0	3,620.0	3,990.0	4,400.0	4,880.0	5,180.0	9,020.0	37,290.0
<i>Component 3: Amend the LITO</i>	-680.0	-3,740.0	-3,630.0	-3,580.0	-3,550.0	-3,530.0	-3,480.0	-3,420.0	-3,340.0	-3,250.0	-3,160.0	-11,630.0	-35,360.0
<i>Component 4: Introduce a 'Buffet rule'</i>	1,110.0	1,270.0	1,400.0	1,530.0	1,660.0	1,840.0	2,030.0	2,280.0	2,530.0	2,820.0	3,140.0	5,310.0	21,610.0
<i>Component 5: Minimum tax rate of 30% on non-primary production discretionary trust distributions</i>	960.0	1,910.0	2,290.0	2,660.0	2,630.0	2,600.0	2,560.0	2,520.0	2,470.0	2,430.0	2,360.0	7,820.0	25,390.0
<i>Interactions between Components</i>	80.0	91.0	-283.0	-662.0	-659.0	-654.0	-646.0	-633.0	-617.0	-601.0	-579.0	-774.0	-5,163.0
Total – revenue	3,270.0	1,681.0	19,887.0	23,408.0	25,711.0	28,026.0	30,584.0	33,637.0	36,843.0	40,379.0	43,841.0	48,246.0	287,267.0
Expenses													
Departmental													
<i>Component 5 - ATO</i>	-15.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-21.0	-35.0
Total – expenses	-15.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-21.0	-35.0
Total (excluding PDI)	3,255.0	1,679.0	19,885.0	23,406.0	25,709.0	28,024.0	30,582.0	33,635.0	36,841.0	40,377.0	43,839.0	48,225.0	287,232.0

(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: A Fair and Progressive Income Tax System – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
<i>Fiscal balance</i>	40.0	90.0	340.0	840.0	1,440.0	2,170.0	3,040.0	4,080.0	5,330.0	6,810.0	8,570.0	1,310.0	32,750.0
<i>Underlying cash balance</i>	30.0	90.0	310.0	780.0	1,370.0	2,080.0	2,940.0	3,960.0	5,180.0	6,630.0	8,360.0	1,210.0	31,730.0

- (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.

² [Online budget glossary – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)

Attachment B – A Fair and Progressive Income Tax System – distributional analysis

Table B1: A Fair and Progressive Income Tax System – Distribution of expenditure (in fiscal terms) for Stage 3 tax cuts by income deciles – 2024-25 estimates (\$m)^{(a)(b)}

Income deciles	Stage 3 tax cuts
<i>Decile 1</i>	-
<i>Decile 2</i>	-
<i>Decile 3</i>	-
<i>Decile 4</i>	-
<i>Decile 5</i>	-100
<i>Decile 6</i>	-600
<i>Decile 7</i>	-1,200
<i>Decile 8</i>	-1,900
<i>Decile 9</i>	-3,200
<i>Decile 10</i>	-10,700
Total cost of policies	-17,700

(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.

(b) Figures may not sum due to rounding.

- Indicates nil.