Parliamentary Budget Office

| Budget analysis of interactions between the Australian Greens' election commitments | |
|---|---|
| Party: | Australian Greens |
| Summary of analysis:<br><br>This analysis provides estimates of the material interactions between the Australian Greens' 2022 election commitments. It should be read in conjunction with the costings for each of the commitments identified as having material interactions. | |

## Overview

The Parliamentary Budget Office (PBO) has examined all of the revenue and expense policy proposals of the Australian Greens included in the 2022 Election commitments report to identify proposals that interact with each other in terms of their impact on the budget. An interaction arises when 2 or more proposals would have different budgetary implications when implemented together compared to the sum of the budgetary implications of implementing the proposals in isolation (see Box 1 for an example of a policy interaction).

Consistent with standard costing practice, each election commitment in the 2022 Election commitments report has been costed against the 'baseline' of the 2022 Pre-election Economic and Fiscal Outlook (PEFO), as though each exists as a standalone policy rather than as part of a broader policy platform. Estimating the budget impact of a party's election platform as a whole requires not only costing each commitment but considering how commitments will interact with each other.

The analysis presented here identifies interactions *between* commitments rather than interactions within commitments. Interactions between multiple components within a single commitment have already been accounted for in the policy costing. See, for example, the election commitment costing *A Fair and Progressive Income Tax System (ECR539)*, which includes several components.

The PBO determined that 12 of the Australian Greens' commitments have material interactions with other commitments in their platform. These are:

- *A Fair and Progressive Income Tax System (ECR539)*
- *Banking for People, Not Profit (ECR537)*
- *Billionaires Tax (ECR533)*
- *Coal Export Levies (ECR504)*
- *End handouts for coal, oil and gas companies (ECR502)*
- *End Tax Breaks for Property Investors (ECR525)*
- *Make Gas Exporters Pay Taxes and Royalties (ECR503)*
- *Make Polluters Pay for the Damage they are doing (ECR506)*
- *Mining Super Profits Tax (ECR535)*
- *No one in Poverty (ECR558)*
- *Paid Parental Leave (ECR581)*
- *"Tycoon" Super Profits Tax (ECR534)*

**Box 1: Example of a policy interaction**

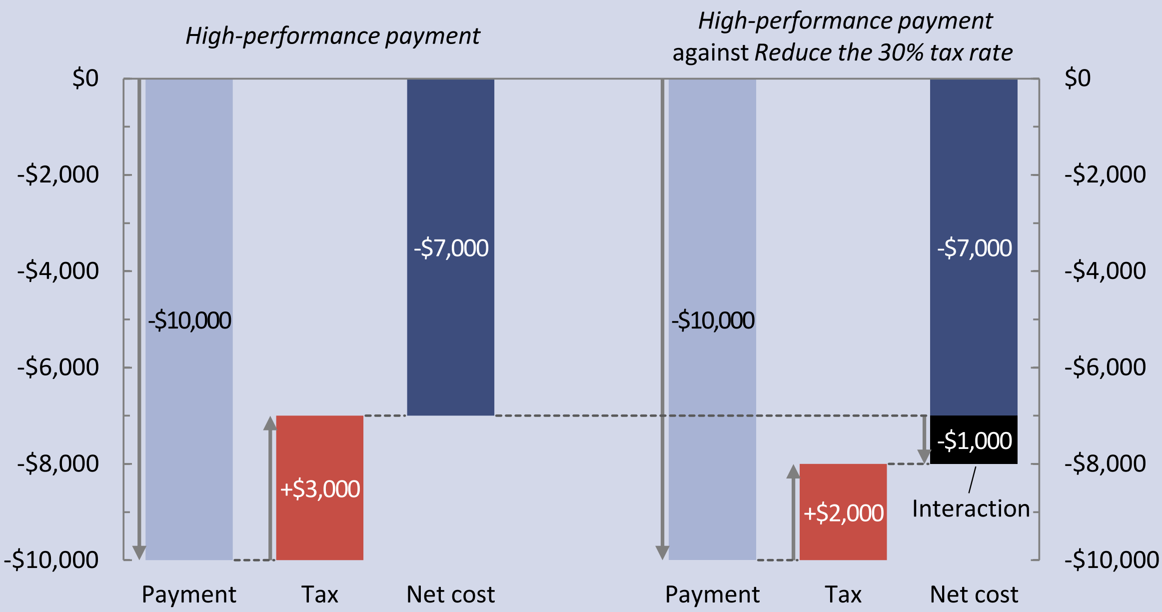
Consider a hypothetical policy, *High-performance payment*, which would provide a taxable, one-off payment of $10,000 to eligible athletes. Because recipients must pay tax on the payment, the net budget cost of each $10,000 payment will typically be less than $10,000.

Morgan is an athlete who is eligible to receive the one-off payment (for simplicity, assume Morgan is the only athlete eligible). Under the current policy baseline, Morgan pays income tax at a rate of 30% on the payment. In this case, Morgan pays $3,000 in tax ($10,000 x 30%), and the proposal would cost $7,000 ($10,000 – $3,000).

Now consider another hypothetical policy, *Reduce the 30% tax rate*, which would reduce the rate of tax from 30% to 20%. In contrast to when *High-performance payment* was costed as a standalone policy, taking this additional policy into account means that Morgan would be required to pay only 20% tax on the payment instead of 30%. In this case, Morgan pays $2,000 in tax ($10,000 x 20%), and the proposal would cost $8,000 ($10,000 – $2,000).

The difference between the two scenarios is called a *policy interaction*, which occurs when the budget impact of 2 or more proposals implemented together is different to the sum of the budgetary implications of each proposal in isolation. In this example, there is a revenue interaction of –$1,000 ($2,000 – $3,000). This means that *High-performance payment* is *more* expensive when it is implemented with *Reduce the 30% tax rate* than when it is implemented as a standalone policy. This is illustrated in Figure 1, which shows the financial impacts on the budget balance of these policies.

**Figure 1: Interaction between** *High-performance payment* **and** *Reduce the 30% tax rate*




## Financial implications

Interactions between the identified proposals would be expected to decrease the fiscal and underlying cash balances by around $10.3 billion over the 2022-23 Budget forward estimates. The decrease in the budget balances reflects net decreases in personal income tax, company tax, and revenue from the levy on net wealth proposed in *Billionaires Tax (ECR533)*.

The interactions would have an impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications over the period to 2032-33 is provided at Attachment A.

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

| | 2022-23 | 2023-24 | 2024-25 | 2025-26 | **Total to 2025-26** |
|---|---|---|---|---|---|
| Fiscal balance | -1,500.0 | -2,960.0 | -3,200.0 | -2,680.0 | **-10,340.0** |
| Underlying cash balance | -1,500.0 | -2,960.0 | -3,200.0 | -2,680.0 | **-10,340.0** |

(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.

*No one in Poverty (ECR558)* and *A Fair and Progressive Income Tax System (ECR539)* would be expected to have the largest interaction of the commitments identified. *ECR558* would increase social security payments, which would be expected to increase personal income tax revenue for those social security payments that are considered taxable income. However, when implemented in conjunction with *ECR539*, the estimated increase in personal income tax revenue would be partially offset by the Greens' proposed increase in the low income tax offset (LITO).

*Billionaires Tax (ECR533)* would be expected to have significant interactions with the commitments related to company tax, most notably *"Tycoon" Super Profits Tax (ECR534)* and *Mining Super Profits Tax (ECR535)*. Because these commitments would increase the effective company tax rate, the post-tax income for owners, and subsequently their cumulative wealth, would be lower. Consequently, the wealth of those affected by *ECR533* would also be expected to decrease, meaning that the proposed levy on net wealth would be expected to raise less revenue than if it were implemented in isolation.

*Make Polluters Pay for the Damage they are doing (ECR506)* would be expected to have significant interactions with the commitments related to company tax, most notably *"Tycoon" Super Profits Tax (ECR534)* and *Mining Super Profits Tax (ECR535)*. *ECR506* would introduce a tax-deductable carbon levy on each tonne of CO2-equivalent emissions above a certain threshold. Because *ECR534* and *ECR535* would increase the effective company tax rate, the foregone company tax revenue from deductions for the carbon levy would be more than under the current corporate tax system. Consequently, the net revenue raised from *ECR506* would be partially offset when implemented in conjunction with *ECR534* and *ECR535.*

*A Fair and Progressive Income Tax System (ECR539)* would also be expected to interact with:

- *"Tycoon" Super Profits Tax (ECR534)* and *Mining Super Profits Tax (ECR535)* because total franked dividends distributed to domestic shareholders would be expected to decrease, partially offsetting the expected increase in personal income tax revenue from *ECR539*.
- *End Tax Breaks for Property Investors (ECR525)* because the proposed increase in marginal tax rates would increase the amount of revenue raised from abolishing both negative gearing and the capital gains tax (CGT) discount. This is a positive interaction, partially offsetting the negative interactions outlined above.
- *Paid Parental Leave (ECR581)* because the proposed increase in marginal tax rates would increase the amount of personal income tax revenue raised from expanded parental leave payments, which are considered taxable income. This is also a positive interaction.

Other interactions between the commitments related to company tax would be expected to have a relatively small, negative revenue impact. The aggregate effect of these interactions is largely attributable to an increase in deductions, which would otherwise be taxed at higher effective rates.

## Key assumptions

The PBO has assumed that the behavioural responses of those individuals and companies affected by each proposal would not materially change if the proposals were to be implemented as a package. Most of the identified commitments would be expected to broaden the tax base and increase the tax-to-GDP ratio. The broader tax base may lead to fewer opportunities for those affected to arrange their financial affairs to minimise their tax liabilities. However, the higher overall tax burden could provide a strong incentive to utilise different tax minimisation strategies. These 2 behavioural responses are assumed to broadly offset.

## Methodology

Interactions between the policy proposals were estimated with the same models as the proposal costings. The financial implications of each interaction were estimated as the difference between the sum of the budget impacts of the interacting proposals in isolation less the budget impact if the proposals were to be implemented in conjunction.

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

## Data sources

Data sources are consistent with the costings for each of the identified proposals.

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

# Attachment A – Budget analysis of interactions between the Australian Greens' election commitments – Financial implications

### Table A1: Budget analysis of interactions between the Australian Greens' election commitments – 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** | | | | | | | | | | | | | |
| *Commitment Interactions* | *-1,500.0* | *-2,960.0* | *-3,200.0* | *-2,680.0* | *-2,510.0* | *-2,430.0* | *-2,580.0* | *-2,580.0* | *-2,630.0* | *-2,400.0* | *-1,880.0* | ***-10,340.0*** | ***-27,350.0*** |
| **Total (excluding PDI)** | **-1,500.0** | **-2,960.0** | **-3,200.0** | **-2,680.0** | **-2,510.0** | **-2,430.0** | **-2,580.0** | **-2,580.0** | **-2,630.0** | **-2,400.0** | **-1,880.0** | **-10,340.0** | **-27,350.0** |

(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.

### Table A2: Budget analysis of interactions between the Australian Greens' election commitments – 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Fiscal balance* | *-17.0* | *-68.0* | *-139.0* | *-209.0* | *-276.0* | *-346.0* | *-425.0* | *-514.0* | *-613.0* | *-718.0* | *-830.0* | ***-433.0*** | ***-4,155.0*** |
| *Underlying cash balance* | *-15.0* | *-62.0* | *-131.0* | *-201.0* | *-268.0* | *-338.0* | *-416.0* | *-504.0* | *-601.0* | *-706.0* | *-817.0* | ***-409.0*** | ***-4,059.0*** |

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables 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 – Parliament of Australia (aph.gov.au)