

# NATSSEM

## *Structure and distributive effects of the Australian taxation system*

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**Presentation to  
the Senate Economics References Committee**

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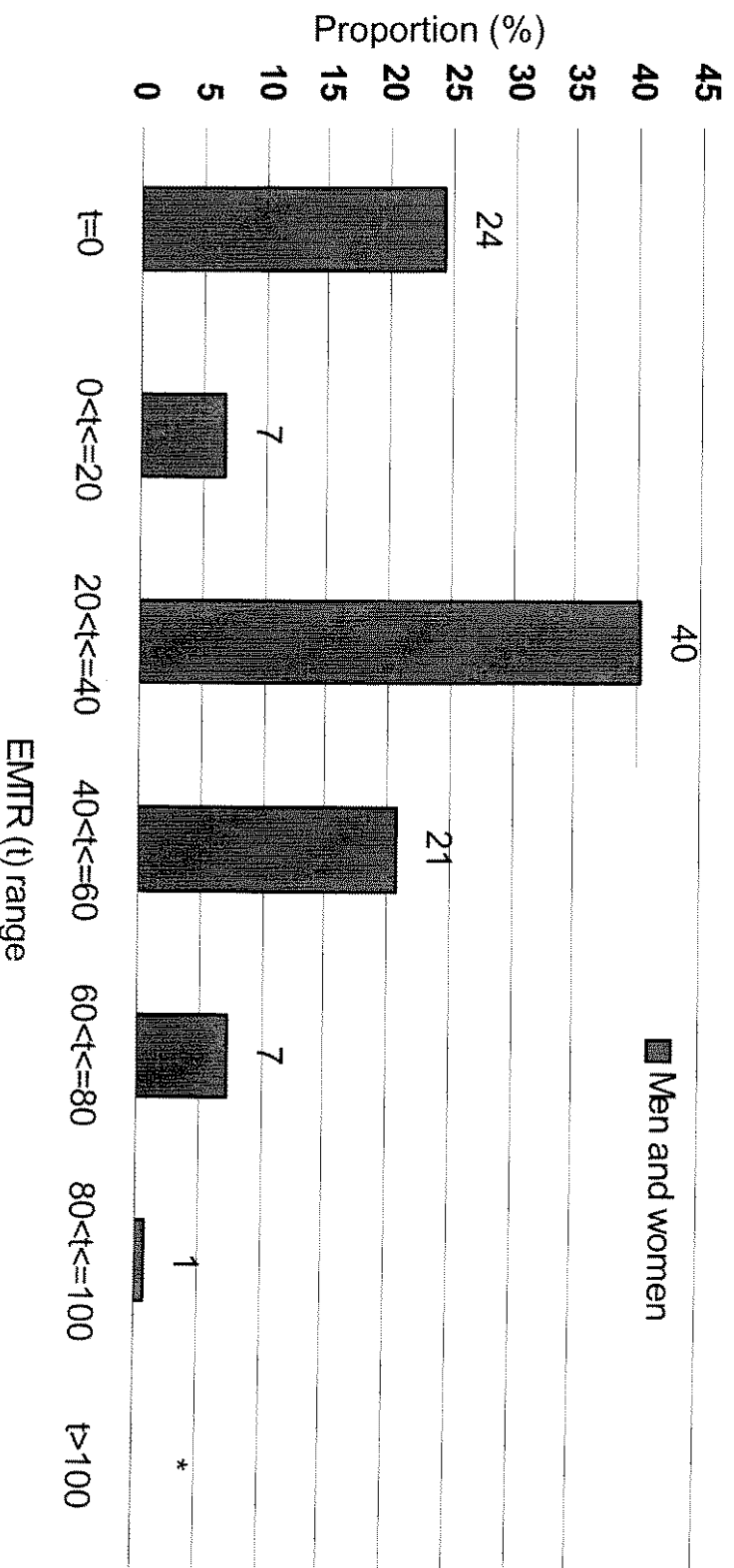
# EMTRs

- Significant tax and welfare changes over the last few years, many aimed at improving work incentives
- *Effective Marginal Tax Rates* (EMTRs) measure the financial incentive to work
- Gillian Beer has used STINMOD to estimate
  - Distribution of EMTRs in 2002
  - How distribution changed since 1997
- Toohy and Beer - hypothetical analysis including child care

## *What is an EMTR?*

- Proportion of a \$1 increase in private income lost to income tax and income tests on government cash payments.
- Income tests on government cash benefits and income tax can influence a family's EMTR.
- High EMTRs often result from income test stacking
- Not just high EMTRs but over a broad range of income creates work disincentives

# Proportion of population facing different ranges of EMTRs in 2002



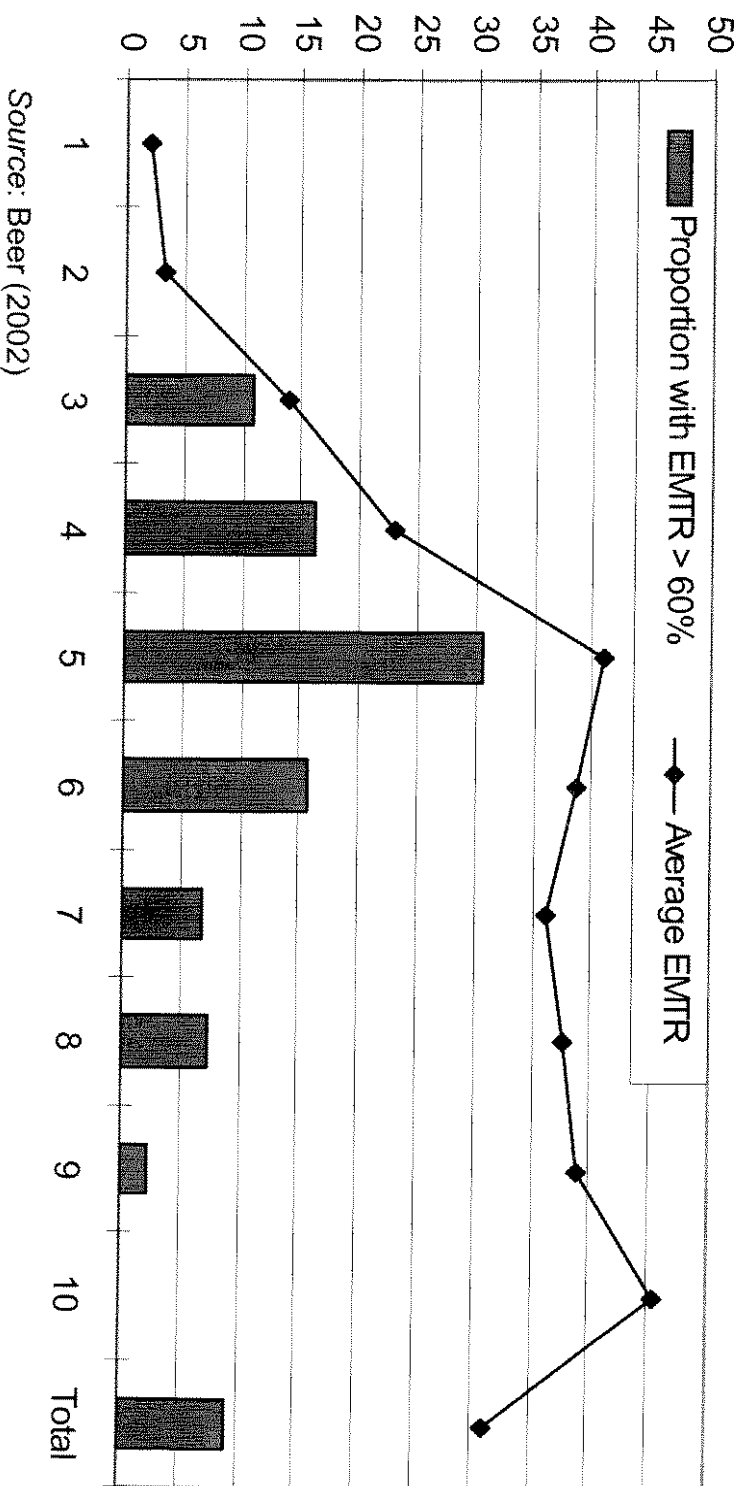
Source: Beer (2002)

# *Individuals facing high EMTRs*

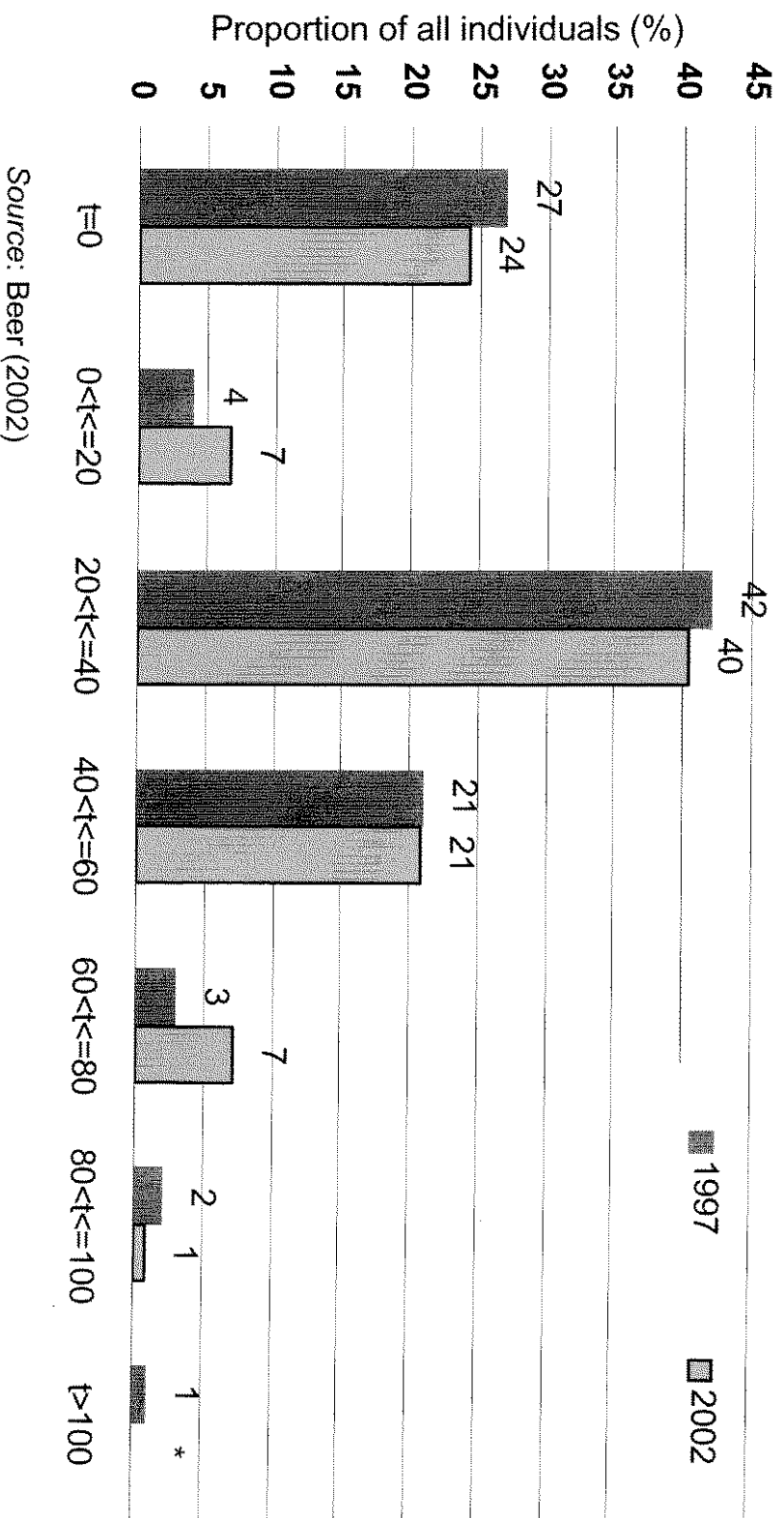
- **74% are in families with children**
  - 57% with high EMTRs have reduction of Family Tax Benefit (A) as a contributing factor
- **Income test stacking**
  - 85% with high EMTRs have 3 or more factors impacting on their EMTR

Source: Beer (2002)

# High EMTRs and average tax rates, by equalised income deciles



# Change in the distribution of EMTRs 1997-2002



# Conclusions

- Majority of those facing high EMTRs have dependent children. Withdrawal of Family Tax Benefit Part A often a factor.
- Income test stacking is the major cause of high EMTRs
- It is primarily those in the middle of the income distribution facing the high EMTRs
- Distribution of EMTRs hasn't changed much between 1997 and 2002.

Source: Beer (2002)

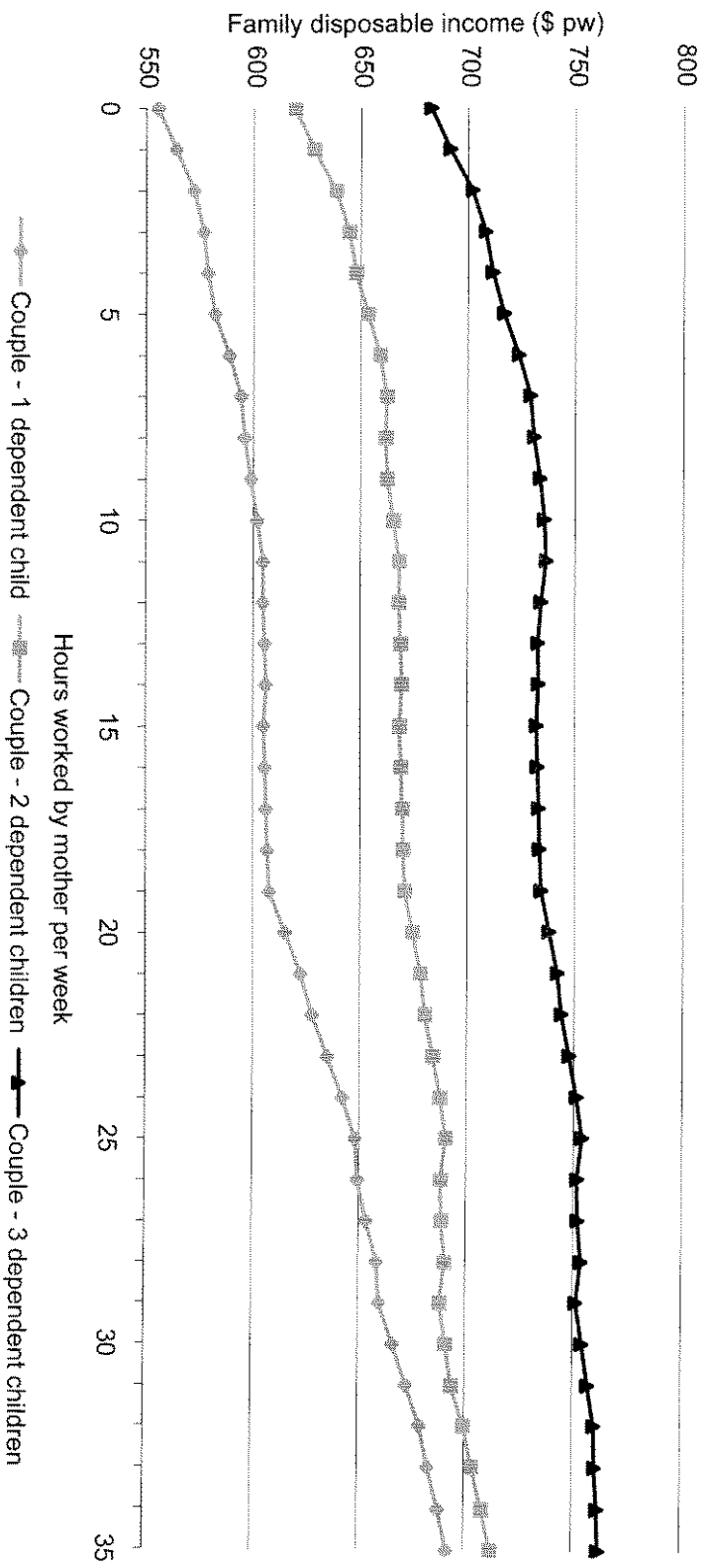


## *Financial incentives for working mothers*

- Hypothetical analysis including child care costs
- Hours of child care increase with hours worked by mother
- Mothers often face strong financial disincentives to start working or increase hours of work
- Low income families are the worst affected, although all families experience some high EATRs

# Results: Low income couples

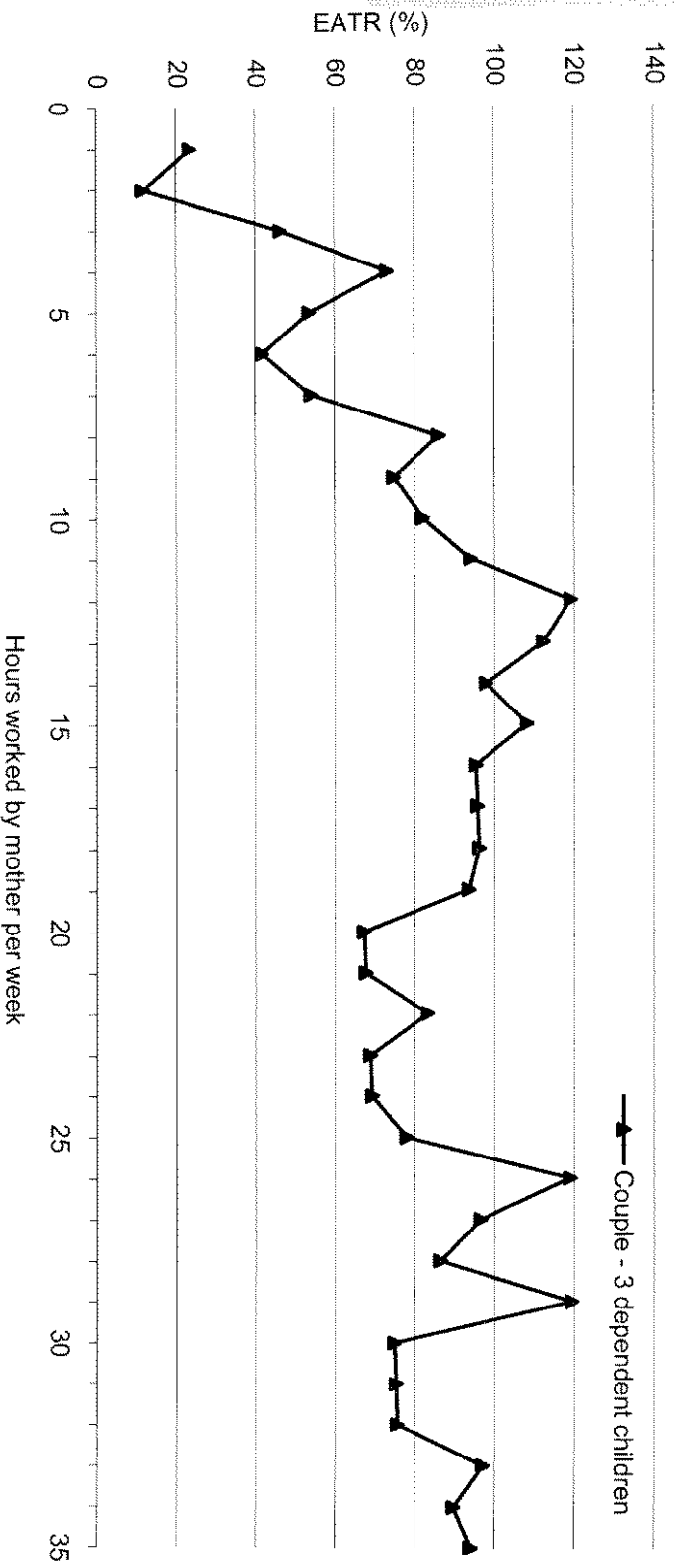
Father \$515 per week, Mother \$11.70 per hour



Source: Toohey and Beer (2003)

# Results: Low income couples

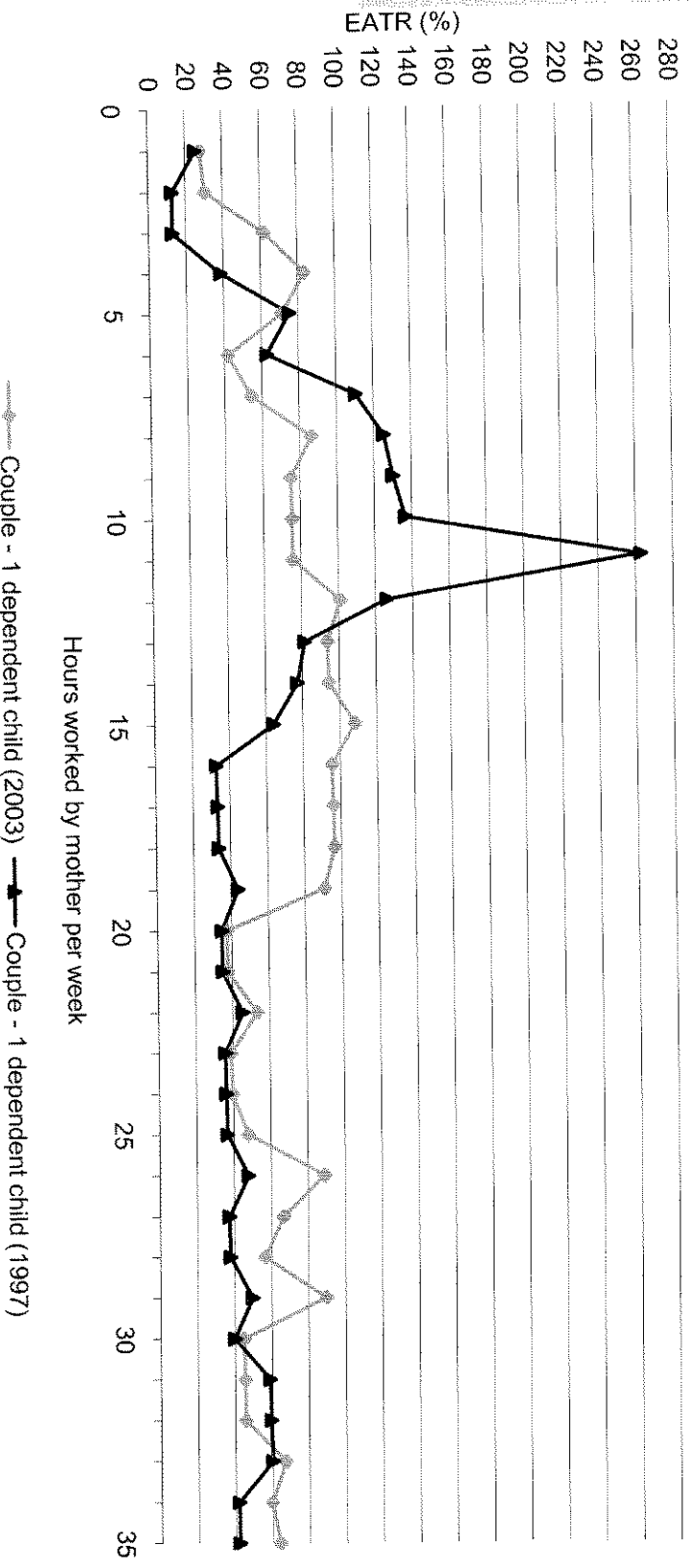
*Father \$515 per week, Mother \$11.70 per hour*



Source: Toohey and Beer (2003)

# Comparison of EATRs in 1997 and 2003

*Low income family with one child – child in care*



Source: Toohey and Beer (2003) and Beer (1998)