

Budget at a glance

Taxation

May 2018



Key points

- + Budget revenues are projected to rise by \$32B over the next four years, underpinned by growth in wages and profits (which many warn will not occur). The Government proposes to give away about half of this (\$15B) through personal tax cuts and abandonment of the 0.5% Medicare Levy increase.
- + Beyond that, against the backdrop of an arbitrary 23.9% of GDP "cap" on tax revenue, it proposes another \$127B in personal tax cuts from 2022, on top of the \$65B in company tax cuts.
- + This is not responsible budgeting, given no actual surplus has been delivered, and social spending falls well short of need for poverty-alleviation (no increase in NSA!), affordable housing, health, education and community services.¹
- + After 2022, they go almost exclusively to the top 20% on \$85,000 and above, reaching a cumulative value of \$227pw for those earning \$200,000 or more.
- + There is modest but welcome action to curb tax avoidance by tightening the tax treatment of multinationals, trusts, and the "black economy", though the Opposition has taken stronger action.
- + Average real growth in budget spending from 2014-17 was just 1.9%, the lowest for 50 years. It is projected to drop to 1.6% over the next four years (below population growth!). This is clearly unsustainable if essential services are to be 'guaranteed' for all as the government claims.
- + In its Budget reply, the Opposition outbid the Government on its first round of tax cuts, increasing them by 75% for those earning less than \$125,000, but has not committed to later rounds.
- + This could be the start of race to the bottom on income tax cuts that jeopardises future essential services and is little or no benefit to the lowest 40% of households, including most people who rely mainly on social security, and most part-time workers. They are the ones with most to lose.

What's in the Budget

In addition to last year's cuts in company tax for small and medium sized companies and personal income tax for people earning over \$80,000, the Government proposes two sets of income tax cuts:

- + *Extending the company tax cut* (from 30% to 25%) to those with turnover above \$5 million [costing \$1.8 billion in 2019, rising to \$14 billion in 2026 and at least \$65 billion over 10 years], with some tightening of tax treatment of multinationals, trusts, and the "black economy" to curb avoidance.
- + *Three rounds of personal tax cuts* over the next seven years:
 - (1) From 2018: A Low and Middle Income Tax Offset (on top of the existing Low Income Tax Offset) worth up to \$10pw for people earning \$21,000-\$125,000, plus a further increase in the lower threshold for the 37% rate from \$87,000 to \$90,000, worth \$3pw for those earning over \$90,000 (Cost: \$13B over four years);
 - (2) From July 2022: The new tax offset is removed, the lower threshold of the 32% bracket is lifted from \$37,000 to \$41,000, the LITO is increased from \$445 to \$645 p.a., and the lower threshold for the 37% rate is lifted from \$90,000 to \$120,000;
 - (3) From July 2024: The 37% tax bracket is abolished altogether, so that people earning \$41,000-\$200,000 all share a marginal tax rate of 32% (Table 1)

¹ Even if these service gaps aren't addressed, governments will need an extra \$20B a year by the mid 2020s, just to continue existing programs. See PBO (2017) Medium-term budget projections.

- + The overall cost of the package is \$140B over seven years (and \$25B per year from 2024).
- + The Medicare Levy increase for NDIS has been abandoned (costing another \$13B over 4 years).

Table 1: Existing and proposed 2024 personal income tax rates

Tax Rate	Thresholds in 2017 18	New thresholds in 2024 25
Nil	Up to \$18,200	Up to \$18,200
19 per cent	\$18,201 - \$37,000	\$18,201 - \$41,000
32.5 per cent	\$37,001 - \$87,000	\$41,001 - \$200,000
37 per cent	\$87,001 - \$180,000	-
45 per cent	Above \$180,000	Above \$200,000

Labor's Budget reply

Labor opposes the extension of last year's cuts in company tax to larger companies, proposes to increase the Government's Low and Middle Income Tax Offset (LMITO) by 75%, and reserves its position on the later rounds of the Government's tax cuts:²

- + From 2018: A 'Working Australians Tax Refund' is proposed in lieu of the LMITO, worth up to \$18pw for people earning \$21,000-\$125,000 (Cost: \$19B over four years).

ACOSS Commentary

First round of personal tax cuts (2018-22): Government and Labor packages

This round mainly benefits "upper-middle" income-earners, especially fulltime male workers (Table 2):

- + people earning less than \$21,000 (roughly the lowest 20%) get nothing;
- + those on \$21-37,000 (the 2nd 20%) get up to \$4pw (\$7pw in Labor's package);
- + those on \$37-48,000 (the 3rd 20%) get \$4-10pw (\$7-\$18pw in Labor's package);
- + those on \$48-\$90,000 (the 3rd & 4th 20%) get \$10pw (\$18pw in Labor's package)
- + those on \$90,000-\$125,000 (the top 20%) get \$10-\$3pw (\$18-\$3pw in Labor's package);
- + those on \$125,000+ (top 10%) get \$3pw³

² Labor supports the proposed increase in the lower threshold for the 37% rate from \$80,000 to \$90,000 from July 2018.

³ These figures include people out of paid work, who generally don't benefit from income tax cuts. We understand Labor proposes to increase the LMITO rates by 75% and tighten the personal income test so that it is reduced by 2.6 cents instead of 1.5 cents for every dollar earned over \$90,000.

Table 2: Tax cuts by income level in the first round (Government and Labor) 2018-22

Taxable income range	Position in personal income distribution	Government tax cuts (2018) (\$pw)	Labor tax cuts (2018) (\$pw)
Up to \$21,000	lowest 20%	0	0
\$21,000 to \$37,000	2nd 20%	0-4	0-7
\$37,000 to \$48,000	3rd 20%	4-10	7-18
\$48,000 to \$90,000	3rd + 4th 20%	10	18
\$90,000-\$125,000	top 20%	10-3	18-3
\$125,000+	top 10%	3	3

Sources: Budget paper No1; Shorten (2018) Budget reply speech;
 Distributional data: Parliamentary Budget Office (2017), Changes in average personal income tax rates: distributional impact, Report No 03/2017; 2018 Budget Papers at <https://www.budget.gov.au/2018-19/content/jobs.html>
 Note: First round only: after 2022 the Government's tax cuts are much higher for high-earners

Later rounds: Government package (2022-25) – impact on individuals

Table 3 shows the impact of the later rounds of the Government's tax cuts on individuals.

- + Both rounds (2022 and 2024) mainly benefit the *top 20% of individuals* by income, those earning over \$85,000.⁴
- + *The 2022 round* limits tax cuts for those earning less than \$90,000 to \$10pw at most, because the rise in the \$37,000 threshold and increase in the LITO is offset by removal of the LMITO.
- + Those earning over \$90,000 get an *extra* tax cut as the \$90,000 threshold is lifted to \$120,000.
- + *The 2024 round* (abolition of the 37% tax bracket) mainly benefits those earning over \$120,000. Those earning \$200,000 or more get an *extra* \$139pw (and \$227pw from all rounds)
- + People earning from \$41,000 to \$200,000 would all share the same 32.5% marginal tax rate.

⁴ Note that we were not able to model changes in the distribution of incomes from 2018 to 2024. For example, if wages grow by a uniform 2.5% p.a., these thresholds would each be 17% higher so that \$85,000 becomes \$100,000.

Table 3: Tax cuts by income level in later rounds (Government package) 2022-25

Individuals by income group (2017-18)	Taxable income range (2017-18) (\$pa)	Before and after-tax income of average earner in each group (\$pa)*	Second round: Extra cuts in 2022		Third round: Extra tax cuts in 2024		Cumulative tax cuts 2018-2024* (\$pw)
			Extra tax cuts in 2022 (\$pw)	As a % of after-tax income (%)	Extra tax cuts in 2024 (\$pw)	As a % of after-tax income (%)	
Lowest 20%	Up to \$20,000	\$8,000	\$0	0%	\$0	0%	\$0
2nd 20%	\$20,000 to \$37,000	\$28,000 (\$26,000)	\$0	0%	\$0	0%	\$27
3rd 20%	\$37,000 to \$56,000	\$46,000 (\$39,000)	\$0	0%	\$0	0%	\$61
4th 20%	\$56,000 to \$85,000	\$69,000 (\$54,000)	\$0	0%	\$0	0%	\$72
Highest 20%	\$85,000 and above	\$156,000 (\$106,000)	\$39	1.9%	\$69	2.3%	\$160
Highest 3%	\$200,000 and above	>\$200,000 (>\$133,000)	\$39	up to 1.5%	\$139	up to 5.4%	\$227

Sources: Budget paper No1; Shorten (2018) Budget reply speech;

Distributional data: Parliamentary Budget Office (2017), Changes in average personal income tax rates: distributional impact, Report No 03/2017; 2018 Budget Papers at <https://www.budget.gov.au/2018-19/content/jobs.html>

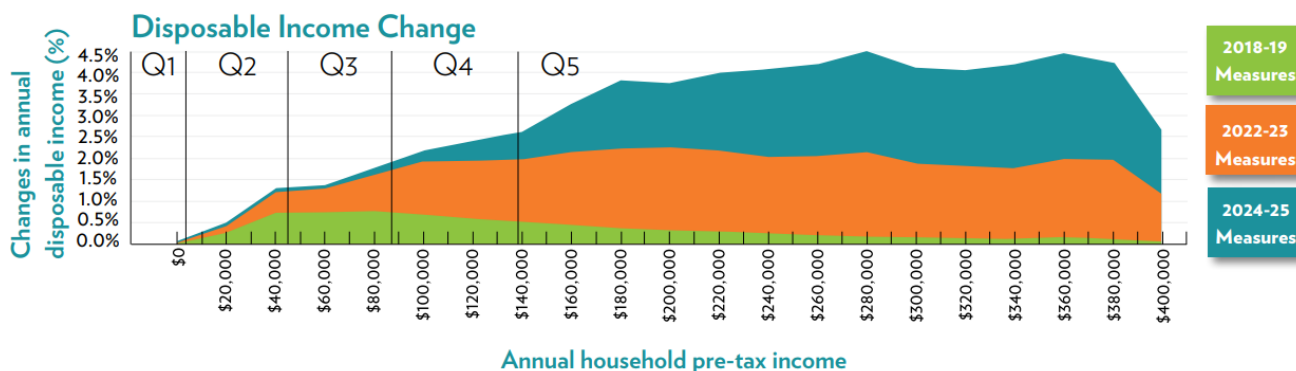
Note: Individuals are divided into five equal groups by taxable income, so thresholds are not the same as tax brackets. Tax cuts are then modelled for individuals on the average *pre-tax* income for each of the five groups.

* Cumulative impact of all tax cuts over 6 years, expressed in 2018 dollars. These income gains would be partly offset by bracket creep over the period.

Later rounds: Government package (2022-25) – impact on households

The average impact of the whole package on each 20% of *households* is also regressive, rising from a 0% increase in disposable income for the lowest 20% to up to 4.6% for the top 20% (Figure 1 next page).⁵ This is mainly due to the 2022 and 2024 rounds, both of which predominantly benefit the top 20%.

Figure 1: Who gets the Government’s tax cuts? Percentage change in disposable income by household income level



Source: NATSEM 2018, How does the Budget affect us?

Note: Q2, Q3 etc. refers to each 20% of households by pre-tax income. Lowest 20% receives \$0.

Missing in Action

- + The tightening of tax loopholes for multinational companies, trusts, and the black economy in the Budget is welcome though modest.
- + Much more action is needed on trusts, capital gains, negative gearing, and superannuation.
- + The Government’s arbitrary 23.9% of GDP cap on tax revenue would put a straightjacket on future budget spending, making it harder to guarantee essential services, reduce poverty and improve housing affordability, and harder to build a budget surplus that’s adequate to respond to the next economic down-turn.
- + The Opposition has committed to more thorough-going reform of the taxation of trusts, capital gains and dividend imputation to strengthen the income tax base, but there is a risk that the revenue benefits are lost in a tax cut war between the parties.

Sector Views

- + Per Capita: [Budget takes the axe to progressive taxation](#)
- + St Vincent de Paul Society: [Budget locks in future spending cuts and leaves people on low incomes worse off](#)

⁵ The impact on households is different to individuals since many households have more than one income earner. The graph also adjusts household incomes for the size of households.