

The Government's tax cuts: Who gains? What do they cost?

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About ACOSS

The [Australian Council of Social Service \(ACOSS\)](http://www.acoss.org.au) is a national advocate for action to reduce poverty and inequality and the peak body for the community services sector in Australia. Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

Summary

This briefing explains the government's tax cut package announced in the 2018 and 2019 budgets, and provides estimates of the cost and impact on households of each of the three stages of the tax cuts.

Stage 1 commenced in 2018 and the government proposes to extend it from July 2019 although the extension is not yet legislated. It costs \$8 billion in 2019-20, of which \$3.5 billion is not yet legislated.

It mainly comprises a Low and Middle Income Tax Offset worth up to \$1,080 a year for taxpayers on \$30,000 to \$126,000 (including an increase of \$550 p.a. not yet legislated).

High income-earners (the top 20% of taxpayers on \$90,000 or more) have already gained up to \$135 p.a. from an increase in the upper threshold of the 32.5% tax rate to \$90,000 in 2018.

Overall, Stage 1 *mainly goes to middle income-earners* on \$30,000 to \$90,000.¹

Stage 2 commences in 2022. It costs approximately \$16.4 billion in 2023, of which approximately \$6 billion is not yet legislated.

At this stage, the Low and Middle Income Tax Offset is abolished and replaced by an increased lower threshold (to \$45,000) for the 32.5% tax rate and an increase in the Low Income Tax Offset.

Some middle income-earners receive a modest tax cut at this time. For example an individual on \$40,000 gains an extra \$165p.a. from the already-legislated changes.

¹ The median (middle) taxable income for taxpayers is approx. \$45,000 and the lowest income of the top 20% of taxpayers is around \$90,000.

High income-earners are the main winners from the replacement of the income-tested tax offset with a higher 32.5% tax threshold, with those on \$100,000 and above gaining up to \$1,080p.a. (\$550 from the unlegislated changes)

High income-earners are also the main winners from an increase in the top threshold of the 32.5% tax rate from \$90,000 to \$120,000, which is already legislated. Those earning \$90,000 or more gain up to an extra \$1,350p.a. from this change.

Stage 3 commences in 2024, and costs approximately \$18 billion in 2024, of which approximately \$12 billion is not yet legislated.

Stage 3 would dramatically ‘flatten’ the tax scales by abolishing the 37% tax rate and lifting the upper threshold of the 32.5% rate to \$200,000. This is already legislated.

The government now proposes to reduce the 32.5% tax rate (which would apply to incomes from \$45,000 to \$200,000) to 30%.

High income-earners are the main winners from Stage 3, with gains of \$1,125p.a for an individual on \$90,000, rising to \$9,075p.a for a person on \$200,000 or more. This includes an unlegislated increase worth \$1,125p.a for a person on \$90,000, rising to \$3,875p.a for someone on \$200,000 or more.

The overall package costs approximately \$35.7 billion in 2024 when fully implemented, though the government has not yet released annual costs for Stages 2 or 3.

Including all stages, the tax cuts disproportionately benefit high-income individuals and households:

- Most individuals on \$30,000 or less, and the lowest 30% of households, do not benefit from the tax cuts because their taxable incomes are too low to pay income tax.
- A middle income-earner on \$50,000 gains \$1,205.
- A high income-earner on \$200,000 gains \$11,640.

1. The government's tax cuts explained

The government's tax cuts come in three stages (commencing in 2019, 2022 and 2024) and are being brought to the Parliament following two budgets (the 2018 Budget tax cuts, which are already legislated and the 2019 Budget tax cuts which are not).

They consist of changes to tax rates and thresholds, and the introduction and subsequent replacement of a Low and Middle Income Tax Offset (a rebate paid at the end of the financial year to individuals with taxable incomes up to \$126,000).

Tables 1 to 3 break the tax cuts down into the three stages, with the 2018 and 2019 Budget announcements shown in separate columns.

Stage 1 (2019-20)

In Stage 1, which commenced in July 2018, the upper threshold for the 32.5% tax rate was increased from \$87,000 to \$90,000 (Table 1a) and the Low and Middle Income Tax Offset (LMITO) was introduced (Table 1b). This is already legislated.

The 2019 Budget announced an increase, roughly a doubling, of the LMITO. This is due to be implemented in July 2019 but is not yet legislated.

Table 1 (a) Tax rates scale changes (changes in bold)

Rates	Previous thresholds	18-19 Budget Thresholds	19-20 Budget Thresholds
Nil	Up to \$18,200	Up to \$18,200	Up to \$18,200
19%	\$18,201 to \$37,000	\$18,201 to \$37,000	\$18,201 to \$37,000
32.5%	\$37,001 to \$87,000	\$37,001 to \$90,000	\$37,001 to \$90,000
37%	\$87,001 to \$180,000	\$90,001 to \$180,000	\$90,001 to \$180,000
45%	Above \$180,000	Above \$180,000	Above \$180,000

Source: Parliamentary Library: [Budget Review 2019-20 Index](#)

(b) Low and Middle Income Tax Offset (LMITO)

	18-19 Budget	19-20 Budget
LMITO Payment Base	\$200 for taxable income of \$37,000 or less	\$255 for taxable income of \$37,000 or less
Increase	3c per dollar increase between \$37,001 and \$48,000	7.5c per dollar increase between \$37,001 and \$48,000
LMITO Payment Maximum	\$530	\$1,080
LMITO phase out	1.5c reduction for every dollar between \$90,000 and \$125,333	3c per dollar reduction for every dollar between \$90,000 and \$126,000

Stage 2: 2022-23

In Stage 2, which commences in July 2022, the upper threshold for the 32.5% tax rate is increased from \$90,000 to \$120,000 (Table 2a). This is already legislated.

The Low and Middle Income Tax Offset (LMITO) is abolished, and replaced by an increase in the Low Income Tax Offset (LITO) (Table 2b). In addition, to ensure that low and middle income earners are not disadvantaged by abolition of the LMITO, the lower threshold of the 32.5% rate is increased from \$37,000 to \$41,000 (Table 2a). This is already legislated.

In the 2019 Budget the LITO is increased slightly and the lower threshold of the 32.5% rate is increased further to \$45,000 (Table 2a). This is not yet legislated.

Table 2 (a): Tax rates scale changes (changes in bold)

Rates	Previous thresholds	18-19 Budget Thresholds	19-20 Budget Thresholds
Nil	Up to \$18,200	Up to \$18,200	Up to \$18,200
19%	\$18,201 to \$37,000	\$18,201 to \$41,000	\$18,201 to \$45,000
32.5%	\$37,001 to \$87,000	\$41,001 to \$120,000	\$45,001 to \$120,000
37%	\$87,001 to \$180,000	\$120,001 to \$200,000	\$120,001 to \$200,000
45%	Above \$180,000	Above \$200,000	Above \$200,000

Table 2 (b): Abolition of Low and Middle Income Tax Offset; increase in Low Income Tax Offset

	Previous rates & income test	18-19 Budget	19-20 Budget
LITO Payment	\$445	\$645	\$700
Withdrawal stage 1	1.5c from \$37,000 to \$66,667.	6.5c for every dollar from \$37,500 to \$41,000	5c for every dollar from \$37,500 to \$45,000
Withdrawal stage 2		1.5c from \$41,000 to \$66,667.	1.5c from \$45,000 to \$66,667.

Stage 3: 2024-25

In Stage 3, commencing in July 2024, the 37% tax bracket is abolished, and the 32.5% rate is dramatically extended up to \$200,000, flattening out the upper end of the tax scale. This is already legislated.

In the 2019 Budget announcement, the tax rate for this enlarged tax bracket is reduced from 32.5% to 30%. This would create a single 30% tax rate for individuals earning between \$45,001 and \$200,000. This is not yet legislated.

Table 3

Rates	Previous rates & threshold	18-19 Budget Thresholds	19-20 Budget	
			Rates	Thresholds
Nil	Up to \$18,200	Up to \$18,200	Nil	Up to \$18,200
19%	\$18,201 to \$37,000	\$18,201 to \$41,000	19%	\$18,201 to \$45,000
32.5%	\$37,001 to \$87,000	\$41,001 to \$200,000	30%	\$45,001 to \$200,000
37%	\$87,001 to \$180,00			
45%	Above \$180,000	Above \$200,000	45%	Above \$200,000

2. What do they cost?

The government's legislated and proposed tax cuts and their estimated *annual* cost are detailed in Table 4. The tax cuts come in three stages commencing in 2019, 2022 and 2024, but the impact of the second stage on the budget - as shown in the table - is not fully felt until 2023, so we estimate the cost of Stage 2 in that year.

The overall cost over 10 years from 2018-19 is around \$152 billion for the legislated package announced in 2018 and \$158 billion for the unlegislated one announced in 2019, adding up to a total of \$300 billion. Since ten-year estimates can be confusing or misleading, we present estimates of the annual cost of the tax cuts in the year each stage is introduced. This allows us to compare the cost of the tax cuts with budget expenditures and surpluses in each year (important to assess the *affordability* of the tax cuts). The overall cost of all three stages in 2024 (when all three are implemented) is \$35.7 billion.

The upper five rows of Table 4 show the *already legislated tax cuts*, the middle five rows the *unlegislated cuts*, and the bottom three rows shows their estimated *total cost*. The cost estimates are divided into the *annual cost of each Stage*, followed by the *cumulative annual cost* of all stages added together.

Since the government has not yet published estimates for the annual cost of unlegislated tax cuts in Stages 2 and 3, these are shown with question marks.

These cost estimates are divided into tax cuts which predominantly go to *middle income-earners* (the first row of each set described above) and those which predominantly go to *high income-earners* (the second row of each set). High income-earners are defined here as the top 20% of taxpayers earning \$90,000-\$110,000 and above.² Note that some of the 'middle-income' tax cuts also flow through to higher income-earners.

Table 4 shows that:

- The estimated cost of each stage of the *unlegislated* tax cuts is \$3.5B for Stage 1 in 2019, \$6B for Stage 2 in 2023, and \$12B for stage 3 in 2024 (plus another \$6B in 2024 when the impact of Stage 2 in that year is included);
- The overall cost of each stage of the *legislated and unlegislated* tax cuts is \$8B for stage 1 in 2019, \$16.4B for stage 2 in 2023, and \$18B for stage 3 in 2024 (plus another \$17.7B in 2024 when the impact of stage 2 in that year is included).
- The overall cost of all three stages in 2024 is \$35.7B.

² Broadly speaking, we describe those with incomes below \$40,000 (around the minimum fulltime wage) as low income-earners, those between \$40,000 and \$90,000 (the top 20% of taxpayers) as middle income-earners, and those above \$90,000 as high income-earners. The thresholds for the top 20% increase from 2019 to 2024, due to increases in wages and other incomes over this period. Most low income-households do not benefit from tax cuts, since few of the lowest 30% of households by income pay income tax.

Table 4: The three stages of the Government's tax cuts

	Stage 1 2019-20	Stage 2 2023-24	Stage 3 2024-25
Already legislated: announced in 2018 Budget			
Already legislated (middle earners)	Low & Middle income Tax Offset (LMITO), up to \$530pa for taxpayers <\$126,000 [\$3.7B]		
Already legislated (high earners)	Lift top threshold for 32.5% rate to \$90,000 [\$0.8B]	Replace LMITO with a higher LITO (\$645pa); lift bottom threshold for 32.5% rate to \$41,000 [\$6.0B] ³ Lift top threshold for 32.5% rate to \$120,000 [\$4.4B]	Lift top threshold for 32.5% rate to \$200,000 (removing 37% tax rate & lifting 47% threshold) [\$6.0B]
Annual cost of each Stage	\$4.5B	\$10.4B	\$6.0B
Cumulative annual Cost (all Stages)	\$4.5B	\$11.2B	\$17.7B
Unlegislated: announced in 2019 Budget			
Announced in 2019 Budget (middle earners)	Increase Low & Middle income Tax Offset (LMITO) to \$1,080pa [\$3.5B]		
Announced in 2019 Budget (high earners)		Increase LITO to \$700pa; lift bottom threshold for 32.5% rate to \$45,000 [\$6B?]	Reduce 32.5% rate to 30% [\$12B?]
Annual cost of each Stage	\$3.5B	\$6B?	\$12B?
Cumulative annual Cost (all Stages)	\$3.5B	\$6B?	\$18B?
Total			
Annual cost of each Stage	\$8.0B	\$16.4B?	\$18B?
Cumulative annual Cost (all Stages)	\$8.0B	\$17.2B?	\$35.7B?

Sources: Parliamentary Budget Office; Budget Papers; ACOSS estimates (the latter shown with question marks)

³ This change mainly benefits high income-earners (above \$100,000) since the LMITO is restricted to individuals on less than \$126,000 but the increase in the 32.5% threshold flows through to people with higher incomes.

3. Who gains?

The best way to show how the tax cuts are distributed across individuals and households is to divide them into groups according to individual or household income, and calculate the average tax cut for each group in each year of the package. This can be done as a 'hypothetical' or cameo analysis (as is done in the 2019 Budget papers) showing the impact on particular households, or a full distributional analysis showing the average impact on equal-sized groups of individuals or households (for example each 10% or 20% of households) ranked by income.

Impact of the tax cuts on hypothetical individuals by taxable income

The Grattan Institute has estimated the impact of the government's legislated and unlegislated tax cuts on *hypothetical individual tax-payers* ranked by taxable income (as a % of their disposable incomes).⁴

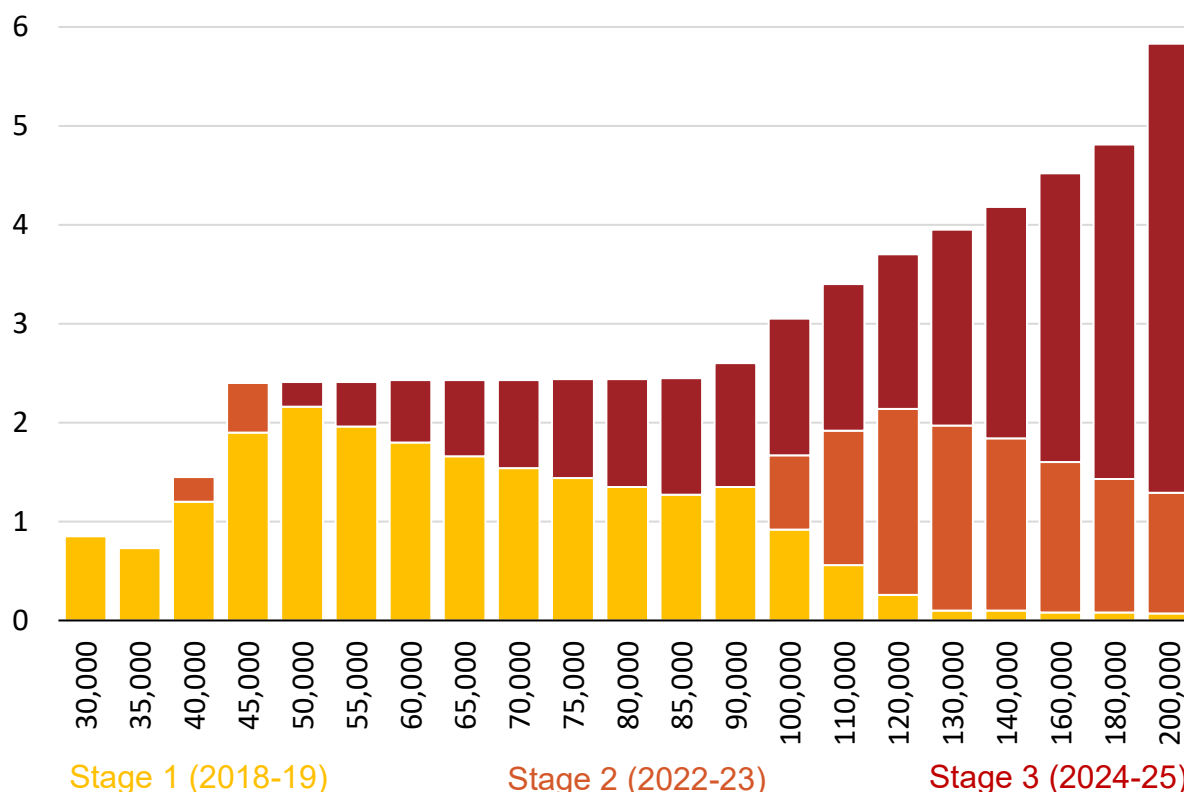
This is the conventional approach to assess whether a tax change is *progressive* or not. If the average percentage gain for low income-earners is greater than that for middle income-earners, and that in turn is higher than for high income-earners, the policy is likely to have a progressive impact overall.

Figure 1 shows that:

- Stage 1 disproportionately benefits middle income-earners (the middle 50% of taxpayers), with those on \$45,000 to \$90,000 gaining 1.25% to 2.16% of disposable income;
- Stage 2 disproportionately benefits high income-earners (the top 20% of taxpayers), with those on \$90,000 to \$200,000 gaining 0.75% to 1.87% of disposable income.
- Stage 2 disproportionately benefits very high income-earners (the top 5% of taxpayers), with those on \$180,000 to \$200,000 gaining 3.38% to 4.54% of disposable income.

⁴ See also Grudnoff M (2019), '[The Government's unlegislated tax cut proposed for 2024-25 will see \\$33 billion over five years flow to those earning over \\$180,000 and \\$26 billion flow to those earning over \\$200,000.](#)' The Australia Institute.

Figure 1: The impact of the three stages of the Government's tax cuts on personal incomes (% of taxable income)



Source: Wood D (2018) 'A decade of budget surpluses?' WEN Treasury post-budget event, Canberra, 8 April 2019. Grattan Institute

The share of the tax cuts going to high income-earners and to men

The Australia Institute estimates that:

- More than half the \$300 billion cost of Stages 2 and 3 of the package over 10 years goes to individuals earning \$90,000 or more (the top 20% of taxpayers).⁵
- Overall, \$77 billion (26%) out of the \$300 billion cost of the package over 10 years goes to individuals earning \$180,000 or more (the top 5%).
- The additional Stage 3 tax cuts announced in 2019 would cost \$95 billion over 5 years from 2024, of which \$33 billion (35%) would go to those earning more than \$180,000 and \$26 billion (26%) would go to those earning more than \$200,000.⁶

⁵ Grudnoff M (2019): [The benefit of the final stage of the Government's income tax plan will flow overwhelmingly to high income earners with almost a third going to the top 10% and more than half going to the top 20%](#). Australia Institute.

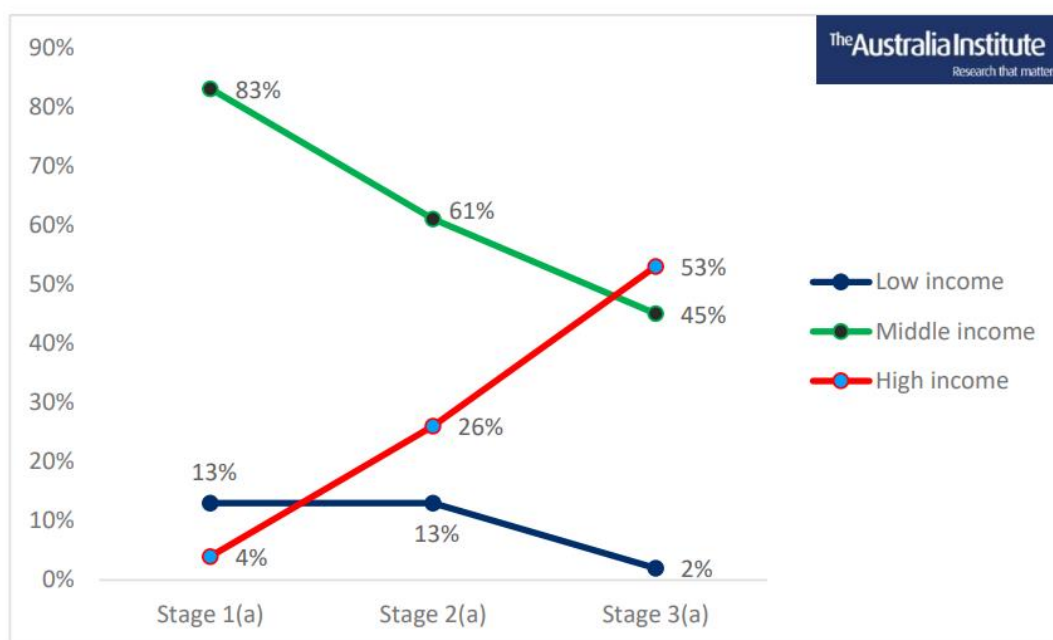
⁶ Grudnoff M (2019): [The Government's unlegislated tax cut proposed for 2024-25 will see \\$33 billion over five years flow to those earning over \\$180,000 and \\$26 billion flow to those earning over \\$200,000](#). Australia Institute.

They also estimate that while half (47%) the value of the first Stage of the tax cuts goes to women, two thirds (69%) of the value of the Stage 2 and 3 tax cuts go to men, who generally have higher incomes.⁷

Figure 2 shows the cumulative share of the *unlegislated* tax cuts going to low, middle and high income-earners as the proposed tax cuts are implemented:

- The share going to the lowest 30% of taxpayers by income is low throughout, declining from 13% to 2%;
- The share going to the middle 50% of taxpayers declines over time from 83% to 45%;
- The share going to the highest 20% of taxpayers rises from 4% to 53%.

Figure 2: Share of the tax cuts going to low, middle and high income-earners in each Stage of the additional (unlegislated) tax cuts announced in 2019



Source: Grudnoff M (2019): [‘The Government’s unlegislated tax cut proposed for 2024-25 will see \\$33 billion over five years flow to those earning over \\$180,000 and \\$26 billion flow to those earning over \\$200,000.’](#) Australia Institute.

Note: ‘Low income’ refers to the lowest 30% of individual taxpayers, ‘Middle income’ refers to the next 50% and ‘high income’ refers to the highest 20%.

The impact of the tax cuts on households ranked by income

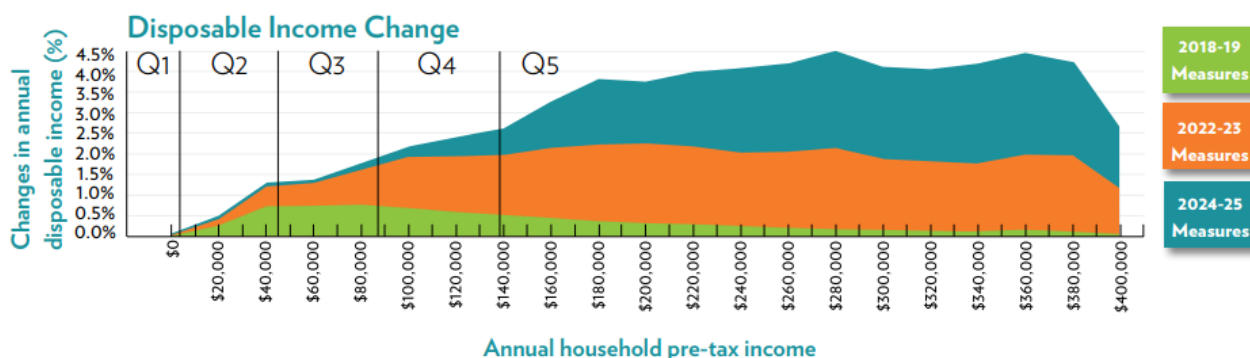
NATSEM at the University of Canberra has estimated how the tax cuts are distributed to *households* ranked by *private* (pre-tax) income (shown on the lower axis). Figure 2 divides households into equal groups of 20% ranked by household private income. Since private income does not include social

⁷ Grudnoff M (2019): [Gender distribution of the Government’s 2019 tax plan](#) Australia Institute.

security or taxes, the lowest 20% of households (Q1), who mainly rely on social security, is shown here with zero income. *Most of the lowest 30% of households do not benefit from income tax cuts.*

These estimates are presented in the two figures below: 3(a) for the tax cuts announced in 2018 and 3(b) for those announced in 2019. Figure 3(a) shows the average gains from the tax cuts as a percentage of disposable income and Figure 3(b) shows average gains in dollars per year.

Figure 3(a): Who gets the Government's 2018 tax cuts? Percentage change in disposable income, for households ranked by private income

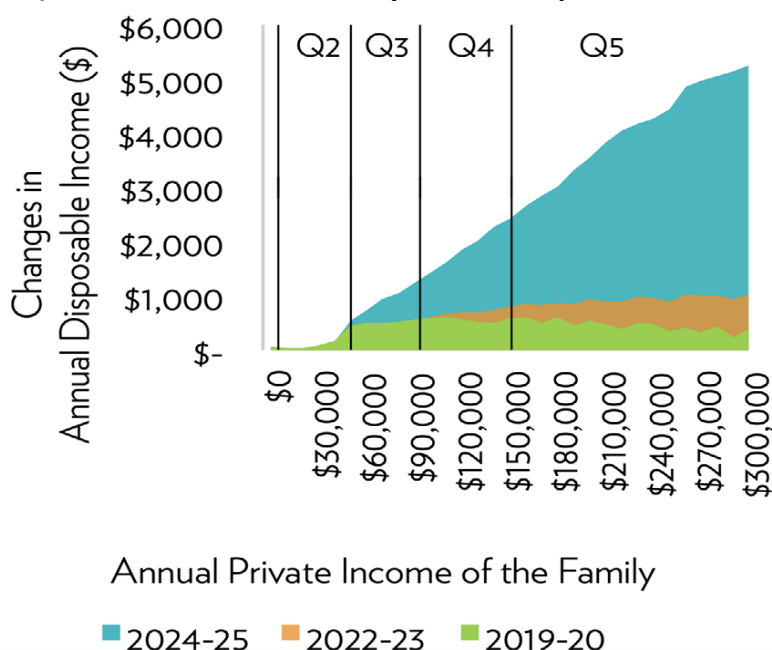


Source: NATSEM 2018, How does the Budget affect us?

Note: Q1, Q2, Q3 etc. refers to each 20% of households by pre-tax income. Lowest 20% receives \$0.

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.

Figure 2(b): Who gets the Government's 2019 tax cuts? Average gains in disposable income (\$ per year), for households ranked by household private income



Source: NATSEM (2019), 'How does the Budget affect us?' University of Canberra.

Note: includes the one-off energy payment as well as the tax cuts.

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

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

Figure 3 shows that:

- The lowest 20% of households gain virtually nothing from income tax cuts (though they do gain from the one-off energy payments announced in the 2019 budget, whose impact is also shown in Figure 3b).
- The second 20% (most of whom rely mainly on part-time earnings, a low full-time wage, and/or social security) gains little from the tax cuts, despite the introduction of the Low and Middle Income Tax Offset. Again, this is because their incomes are too low to pay much income tax.
- The middle 20% receives modest tax cuts, of around \$500-\$1,500 a year from the 2019 budget announcement. This comes mainly from the increase in the Low and Middle Income Tax Offset.⁸
- The average gains for second-highest 20% are more significant – around \$1,500 to \$2,500 a year.
- The largest gains (of \$2,500 to \$5,500 a year) go the highest 20% of households.

⁸ Note that the size of the annual tax cuts, and private household incomes, are adjusted downward (equivalised) to take account of household size.