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Exploring the personal income tax regime: Figures for personal income tax modelling

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Removal of tax free threshold

Arrangements modelled

- A single scenario has been analysed to show how the tax free threshold could be removed with a revenue neutral result.
- The scenario is compared to the 2018-19 tax year assuming all relevant Budget proposals are enacted.
- This scenario is not the only way the tax free threshold could be removed.
- The schedule of rates under the modelled scenario are shown in Table 1.
- The medicare levy and SAPTO are both assumed to be unchanged in the new scenario.
- A single new low income offset replaces both LITO and LMITO and gives back the benefits of the tax free threshold to lower income earners.
- The new offset is $2,603 available for income earners under $37,000, reducing at 8.8 cents per dollar of income up to $66,667.

Table 1: Modelled schedule of rates

Band of income	Rate applied
$0-$20,000	9.5%
$20,001-$40,000	17%
$40,001-$60,000	26%
$60,001-$98,000	32.5%
$98,001-$180,000	39%
$180,001+	45%

Removal of tax free threshold

Revenue results

- Revenue results examine only major individual collections of personal income tax, medicare levy, LITO, SAPTO and LMITO and includes an adjustment for other personal arrangements.
- These revenue results, compared to base 2018-19 tax year, are shown in Table 2.
- Removing the threshold has increased collections, but this is returned in the new offset, essentially allowing the same policy of the tax free threshold, but to be targeted to a particular cohort.

Table 2: Individual revenue collections ($ millions)

Collection	2018-19 Budget estimate	2018-19 modelled result
Personal income rate	205,032	210,323
Medicare	17,987	17,987
LITO	(2,771)	-
SAPTO	(4,988)	(611)
LMITO	(3,640)	-
New offset	-	(16,010)
Adjustment for other arrangements	6,380	6,382
Total	**218,000**	**218,072**

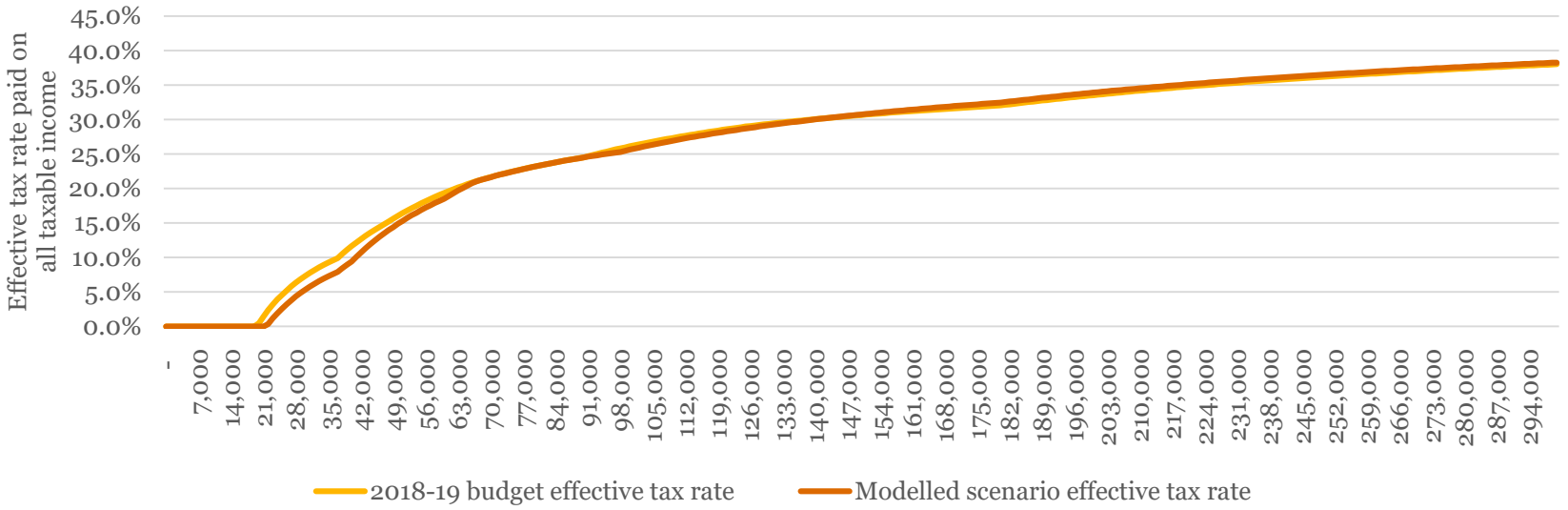
Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19

Removal of tax free threshold

Individual results

- Figure 1 below shows the change to the effective tax rate (tax paid as a proportion of total taxable income) for any individual income under $300,000.
- This shows a very similar outcome for most taxpayers, with a slight benefits for those individuals with incomes under $70,000 where the new offset targets the revenue gains from the removal of the tax free threshold to the cohort that the policy is aimed at.

Figure 1: Effective rates paid on individual incomes in 2018-19 on budget proposals compared to scenario of removal of tax free threshold



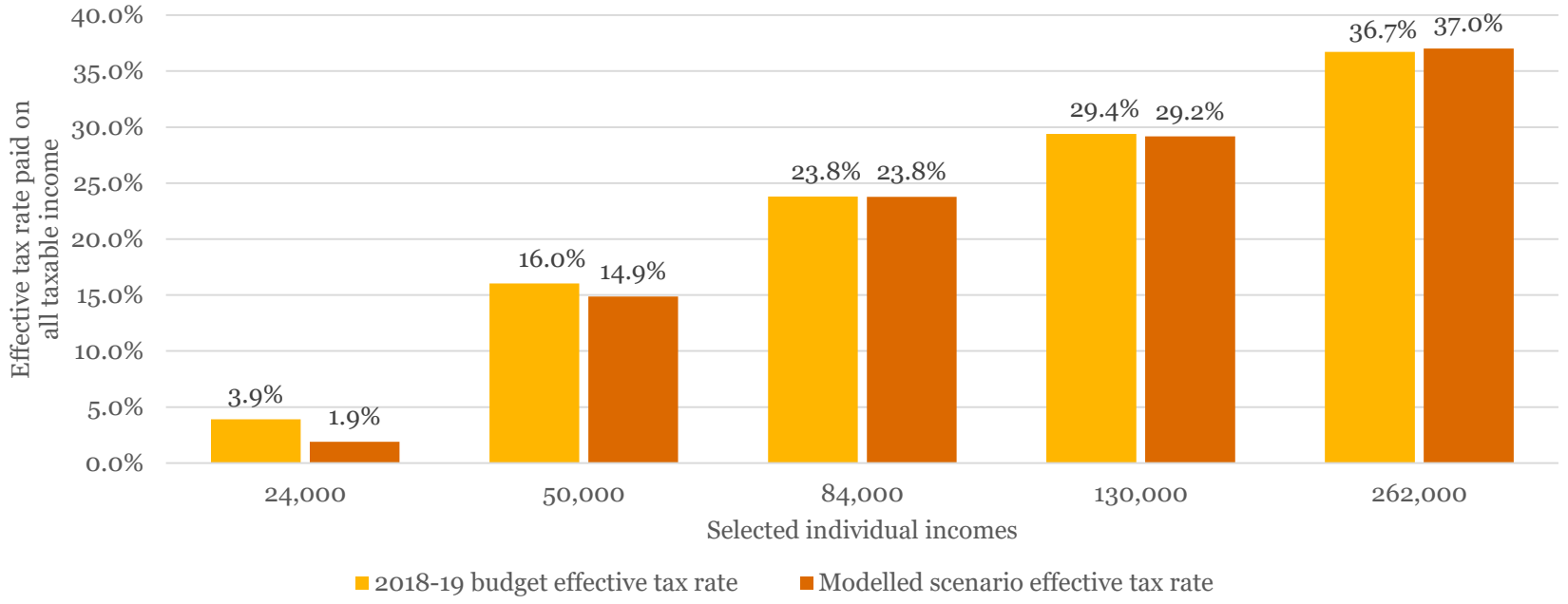
Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Effective tax rate is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset

Removal of tax free threshold

Individual results

- Figure 2 below shows the change to the effective tax rate (tax paid as a proportion of total taxable income) for individuals at selected incomes (that represent quintiles of household incomes).

Figure 2: Effective rates paid on selected individual incomes in 2018-19 on Budget proposals compared to scenario of removal of tax free threshold



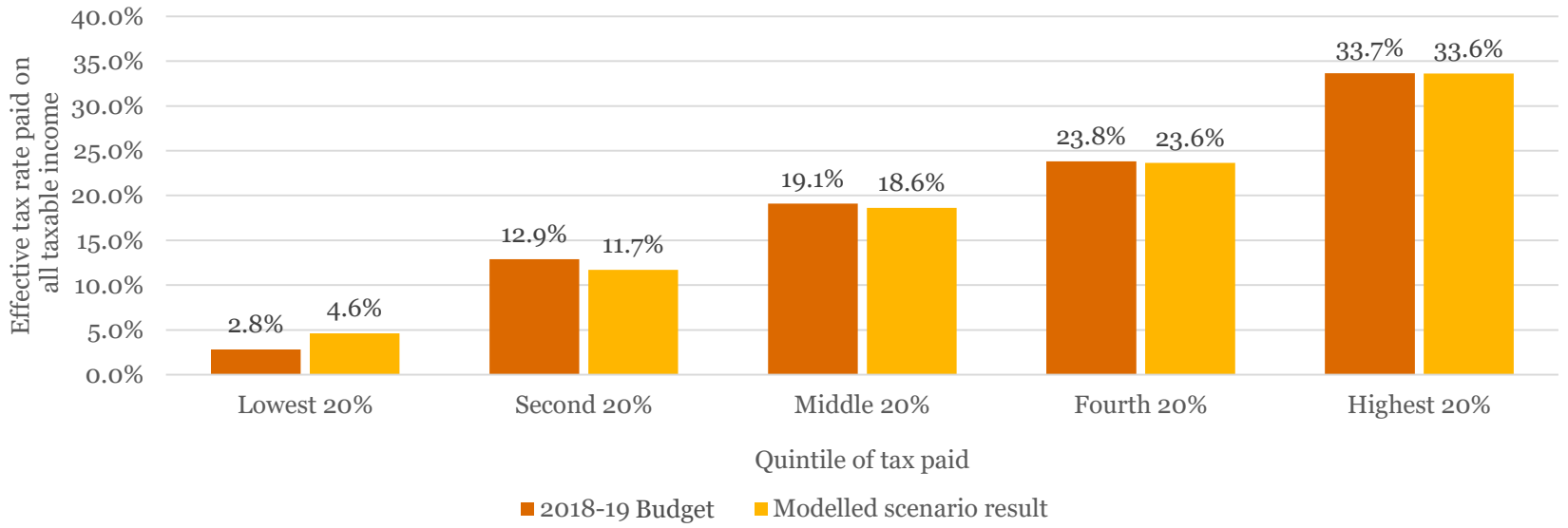
Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Effective tax rate is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset

Removal of tax free threshold

Distributional results

- Figure 3 below shows the change to the effective tax rate (tax paid as a proportion of total taxable income) for each quintile of tax payers. This excludes individuals that pay net no tax after offsets.
- Minor differences in offsets mean there is a 1% increase in taxpayers that paid greater than zero tax after offsets.

Figure 3: Effective rates paid on by quintile of tax payers in 2018-19 on Budget proposals compared to scenario of removal of tax free threshold



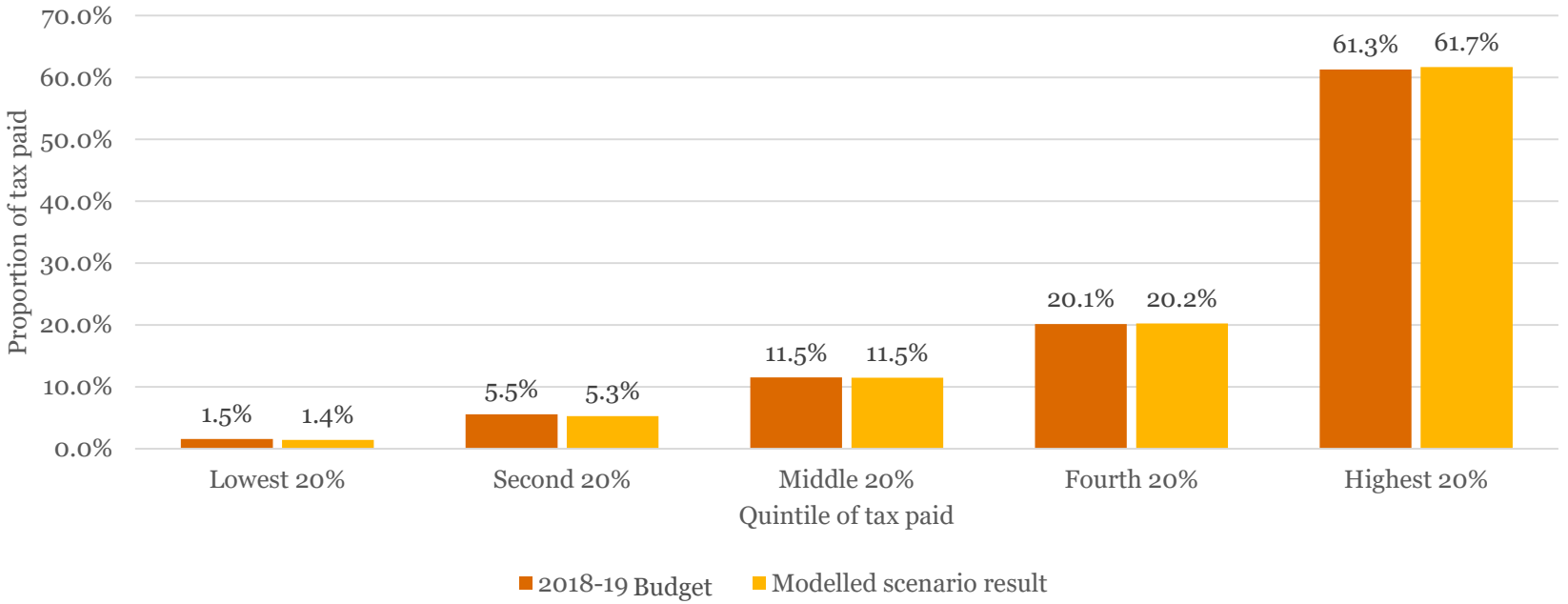
Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Effective tax rate is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset. Quintiles are calculated by tax paid, including only individuals that pay some tax after offsets.

Removal of tax free threshold

Distributional results

- Figure 4 below shows the change to the proportion of total tax paid for each quintile of tax payers. This excludes individuals that pay net zero tax after offsets.

Figure 4: Proportion of tax paid by quintile of tax payers in 2018-19 on Budget proposals compared to scenario of removal of tax free threshold



Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Tax paid is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset. Quintiles are calculated by tax paid, including only individuals that pay some tax after offsets.

Dynamic tax rates

Arrangements modelled

- A single scenario has been analysed to show how dynamic tax rates (DTRs) could be implemented with a revenue neutral result.
- The scenario is compared to the 2024-25 tax year with all relevant Budget proposals enacted and operative. This year is chosen as relevant Budget proposals and the DTR scenario are trying to achieve the same policy purpose of avoiding negative effects of bracket creep.
- The schedule of rates under the modelled scenario are shown in Table 3.
- The medicare levy is assumed to be unchanged.
- SAPTO has been removed.
- LITO has been adjusted so that the full benefit of offsetting all tax is felt by the same taxpayer (income of $21,595 in 2024-25) as current arrangements. The modelled LITO is $1,258 available for income earners under $37,000, reducing at 4.3 cents per dollar of income up to $66,667.

Table 3: Modelled schedule of rates

Income	Rate applied
$0-$8,000	Tax rate increases by 0.221% for each extra $1k of income
$8,001-$18,000	Tax rate increases by 0.275% for each extra $1k of income
$18,001-$25,000	Tax rate increases by 0.327% for each extra $1k of income
$25,001-$37,000	Tax rate increases by 0.304% for each extra $1k of income
$37,001-$50,000	Tax rate increases by 0.263% for each extra $1k of income
$50,001-$67,000	Tax rate increases by 0.197% for each extra $1k of income
$67,001-$90,000	Tax rate increases by 0.157% for each extra $1k of income
$90,001-$130,000	Tax rate increases by 0.108% for each extra $1k of income
$130,001-$200,000	Tax rate increases by 0.072% for each extra $1k of income
$200,001+	For incomes above $200,000 the tax rate increases so that every dollar of income is taxed at 45%

Dynamic tax rates

Revenue results

- Revenue results examine only major individual collections of personal income tax, medicare levy, LITO and SAPTO and includes an adjustment for other personal arrangements.
- These revenue results, compared to base 2024-25 tax year, are shown in Table 4.
- There are no major revenue changes from this modelled scenario, as the main aim is to smooth marginal rates rather than fundamentally change collections.
- The removal of SAPTO (to create a single marginal tax rate curve) is replaced by a larger draw on a single low income tax offset (LITO).

Table 4: Individual revenue collections ($ millions)

Collection	2024-25 Budget proposal estimate	2024-25 modelled result
Personal income rate	282,440	280,161
Medicare	23,823	23,823
LITO	(3,043)	(6,848)
SAPTO	(6,123)	-
Total	**297,098**	**297,136**

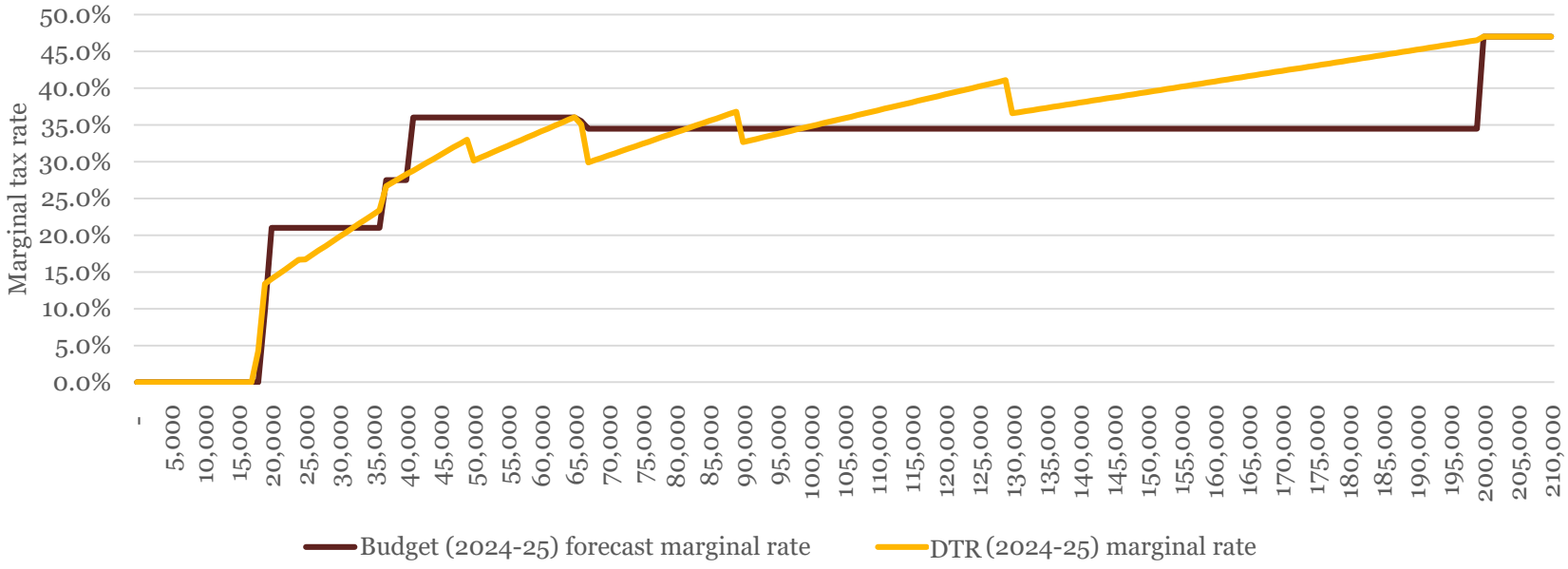
Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19

Dynamic tax rates

Marginal rates

- Figure 5 below shows the change to the marginal tax rate (i.e. the rate of tax paid on the next dollar earned) for any individual income under $300,000.
- This shows the purpose of the DTRs to smooth increases in marginal rates.

Figure 5: Effective rates paid on individual incomes in 2024-25 on budget proposals compared to scenario of dynamic tax rates

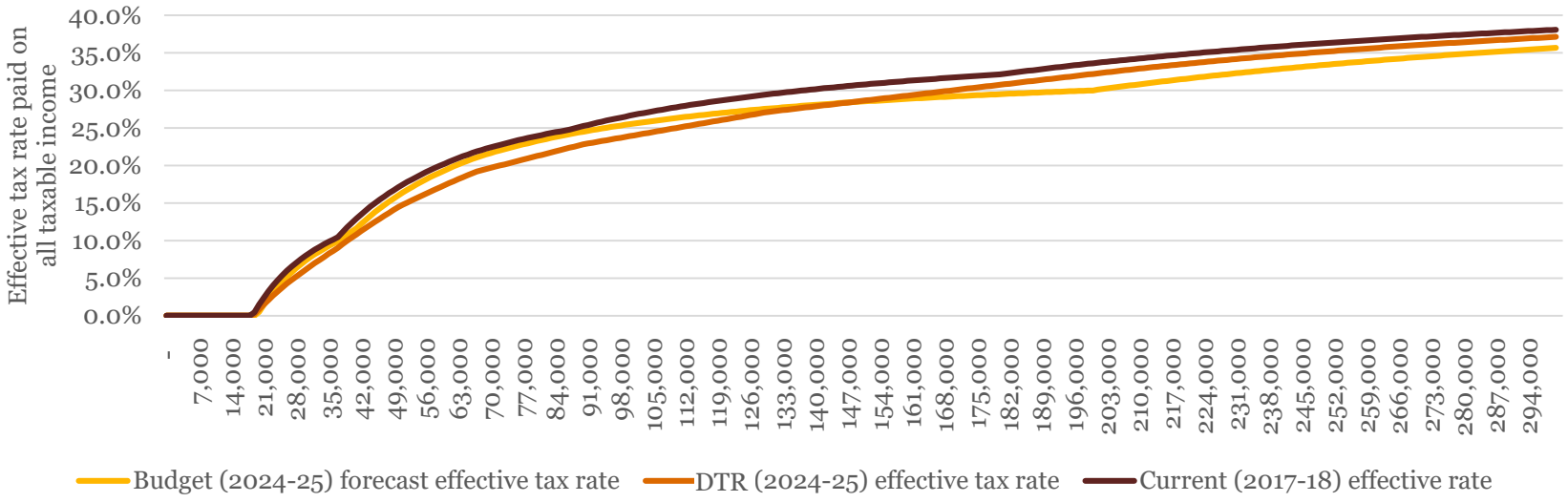


Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Effective tax rate is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset

Dynamic tax rates
Individual results

- Figure 6 below shows the change to the effective tax rate (tax paid as a proportion of total taxable income) for any individual income under $300,000.
- This shows a smooth effective rate curve under DTRs than either current or forecast Budget arrangements. As per the similar intended policy outcomes of both 2024-25 Budget proposal and DTRs, the outcomes are similar at higher incomes, but smoothed at the lower end.

Figure 6: Effective rates paid on individual incomes in 2024-25 on Budget proposals compared to scenario of schedular tax rates

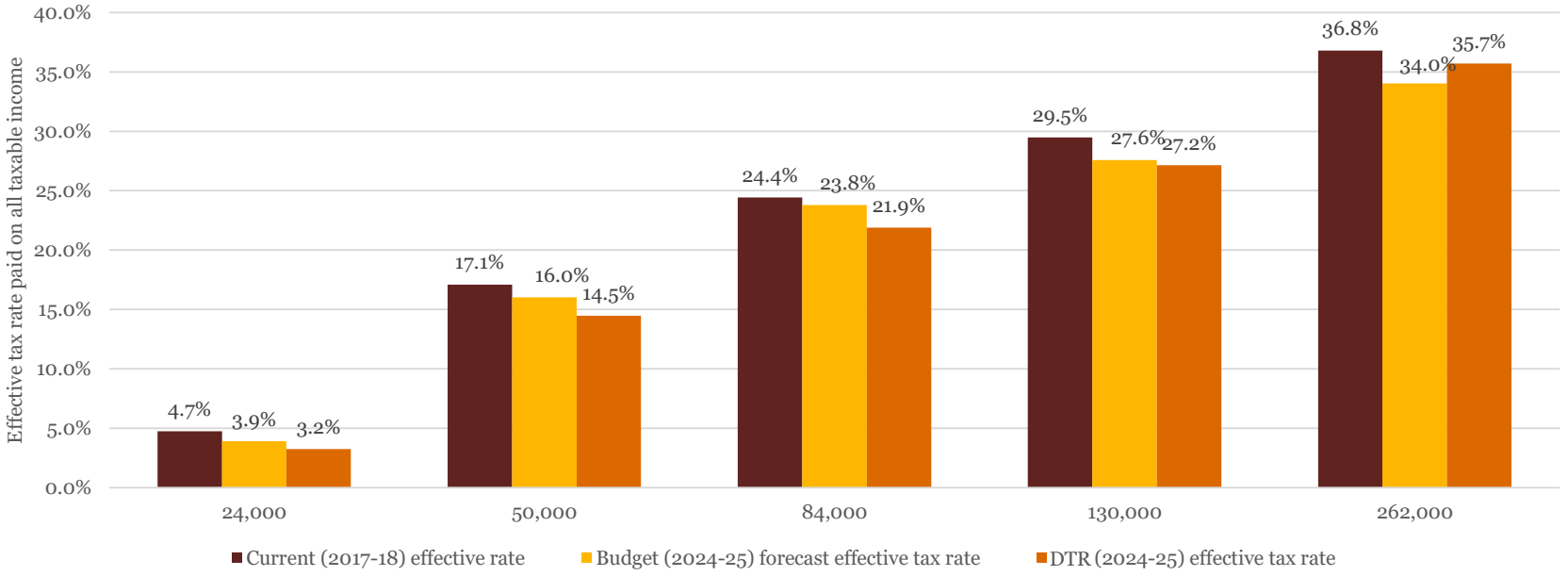


Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Effective tax rate is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset

Dynamic tax rates
Individual results

- Figure 7 below shows the change to the effective tax rate (tax paid as a proportion of total taxable income) for individuals at selected incomes (that represent quintiles of household incomes).

Figure 7: Effective rates paid on selected individual incomes in 2024-25 on Budget proposals compared to scenario of dynamic tax rates

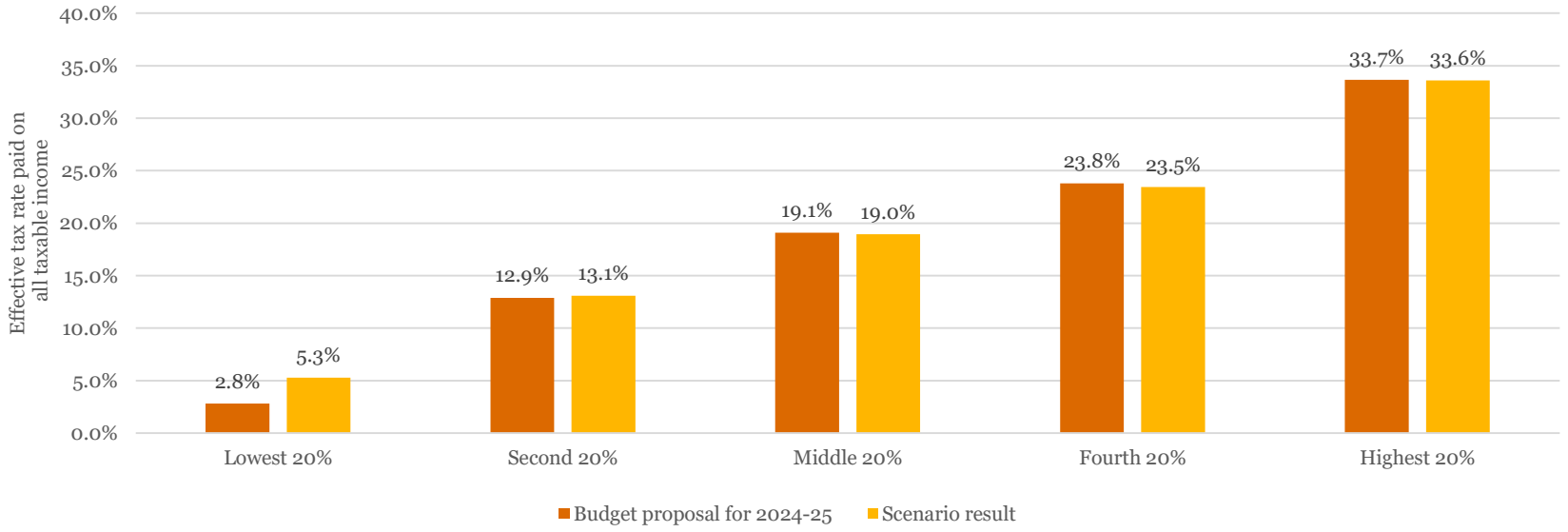


Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Effective tax rate is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset

Dynamic tax rates
Distributional results

- Figure 8 below shows the change to the effective tax rate (tax paid as a proportion of total taxable income) for each quintile of tax payers. This excludes individuals that pay net zero tax after offsets.
- Differences in offsets means there are more taxpayers that paid greater than zero tax after offsets changes.

Figure 8: Effective rates paid by quintile of tax payers in 2024-25 on Budget proposals compared to scenario of dynamic tax rates

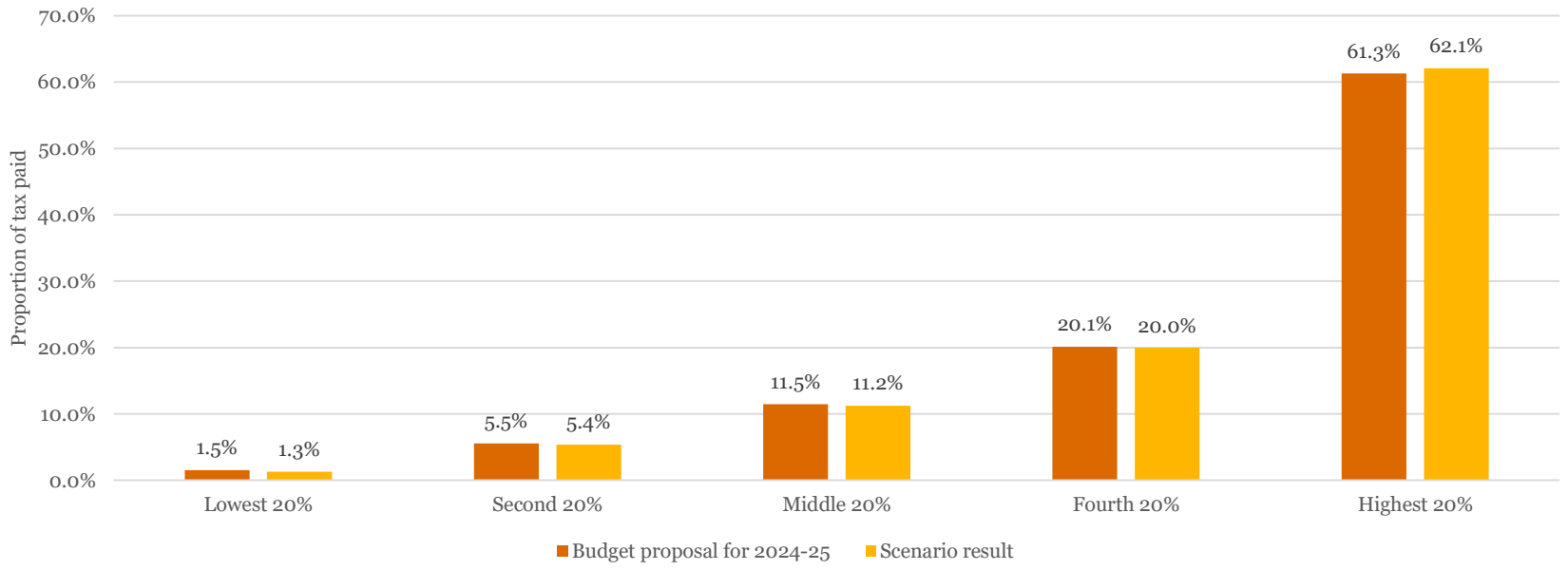


Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Effective tax rate is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset. Quintiles are calculated by tax paid, including only individuals that pay some tax after offsets.

Dynamic tax rates
Distributional results

- Figure 9 below shows the change to the proportion of total tax paid for each quintile of tax payers. This excludes individuals that pay net no tax after offsets.

Figure 9: Proportion of tax paid by quintile of tax payers in 2024-25 on Budget proposals compared to scenario of dynamic tax rates



Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Tax paid is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset. Quintiles are calculated by tax paid, including only individuals that pay some tax after offsets.

Separate taxation of labour and savings income

Arrangements modelled

- A single scenario has been analysed to show how labour and savings income can be taxed separately with a revenue neutral result.
- The scenario is compared to the 2018-19 tax year assuming all relevant Budget proposals are enacted.
- This scenario only includes income currently taxable (i.e. does not extend to family home).
- Complete separation of the two types of income might mean that an individual will now have a different total taxable income (i.e. savings losses cannot offset labour income)
- The schedule of rates under the modelled scenario are shown in Table 5.
- The medicare levy and SAPTO are both assumed to be unchanged in the new scenario.
- A single new low income offset replaces both LITO and LMITO and is assumed to be only applicable to labour income. The new offset is $725 available for labour income earners under $37,000, reducing at 2.5 cents per dollar of income up to $66,667.

Table 5: Modelled schedule of rates

Band of income	Rate applied
Taxable labour income	
$0-$15,000	0%
$15,001-$35,000	11%
$35,001-$85,000	32%
$85,001-$175,000	37.5%
$175,001+	45%
Taxable savings income	
All savings income	30%

Separate taxation of labour and savings income

Revenue results

- Revenue results examines only major individual collections of personal income tax, medicare levy, LITO, SAPTO and LMITO and includes an adjustment for other personal arrangements.
- These revenue results, compared to base 2018-19 tax year, are shown in Table 6.
- Because this scenario increases taxable (i.e. deductions/losses from one type of income cannot offset the other type of income), rates can be lower to collect the same revenue and medicare collections (at an unchanged 2%) increase.

Table 6: Individual revenue collections ($ millions)

Collection	2018-19 Budget estimate	2018-19 modelled result
Personal income rate	205,032	198,552
Medicare	17,987	18,117
LITO	(2,771)	-
SAPTO	(4,988)	(1537)
LMITO	(3,640)	-
New offset	-	(3,587)
Adjustment for other arrangements	6,380	6,377
Total	**218,000**	**217,922**

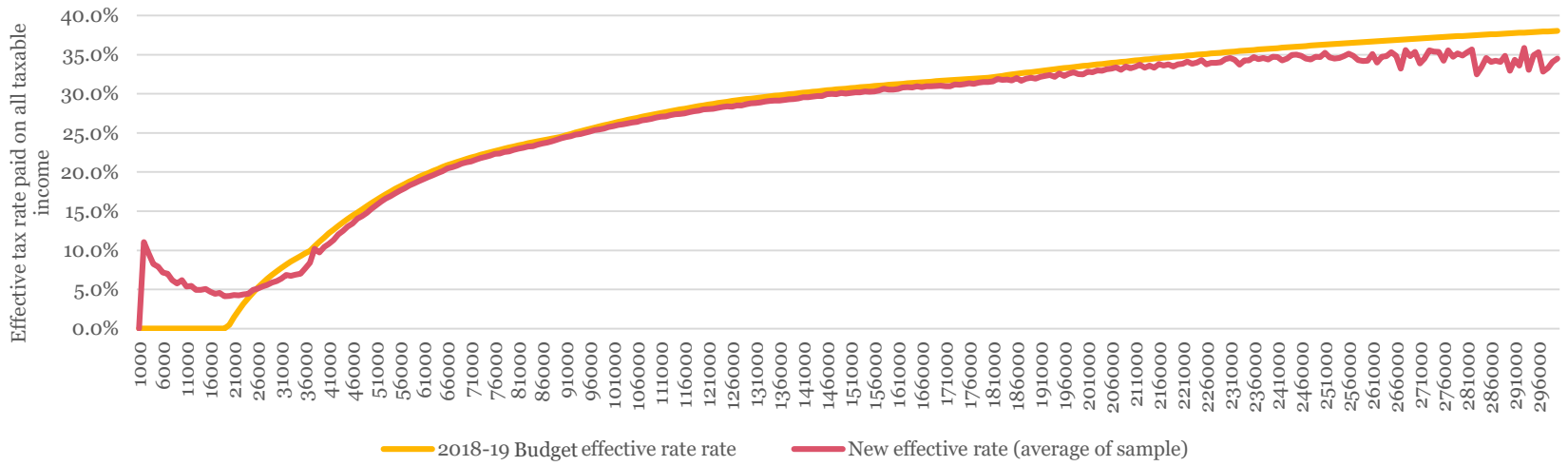
Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19

Separate taxation of labour and savings income

Individual results

- Figure 10 below shows the change to the effective tax rate (tax paid as a proportion of total taxable income) for the individual incomes under $300,000 in a sample of 2% of all tax payers
- This shows the impact of no offset or tax free threshold for savings income at the lower end, with similar outcomes through the middle incomes. At higher incomes, there is more variance in the type of income (split between labour and savings) so more variation.
- As this scenario brings more income in to the tax system, there can be lower rates with the same revenue outcome

Figure 10: Effective rates paid on individual incomes in 2018-19 on Budget proposals



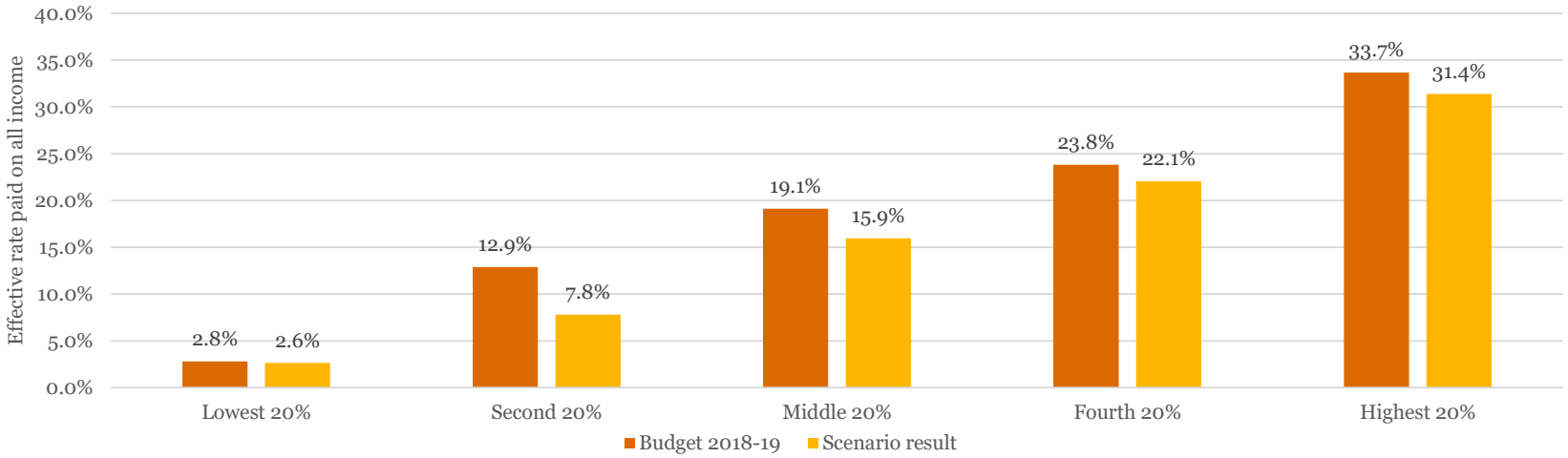
Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Effective tax rate is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset

Separate taxation of labour and savings income

Distributional results

- Figure 12 below shows the change to the effective tax rate (tax paid as a proportion of total taxable income) for each quintile of tax payers. This excludes individuals that pay net zero tax after offsets.
- Minor differences in offsets mean there is 27% more taxpayers that paid greater than zero tax after offsets (as taxing every dollar of savings income being paid essentially eliminates anyone paying net zero tax).

Figure 12: Effective rates paid on by quintile of tax payers in 2018-19 on Budget proposals compared to scenario of separate labour and savings taxation schemes



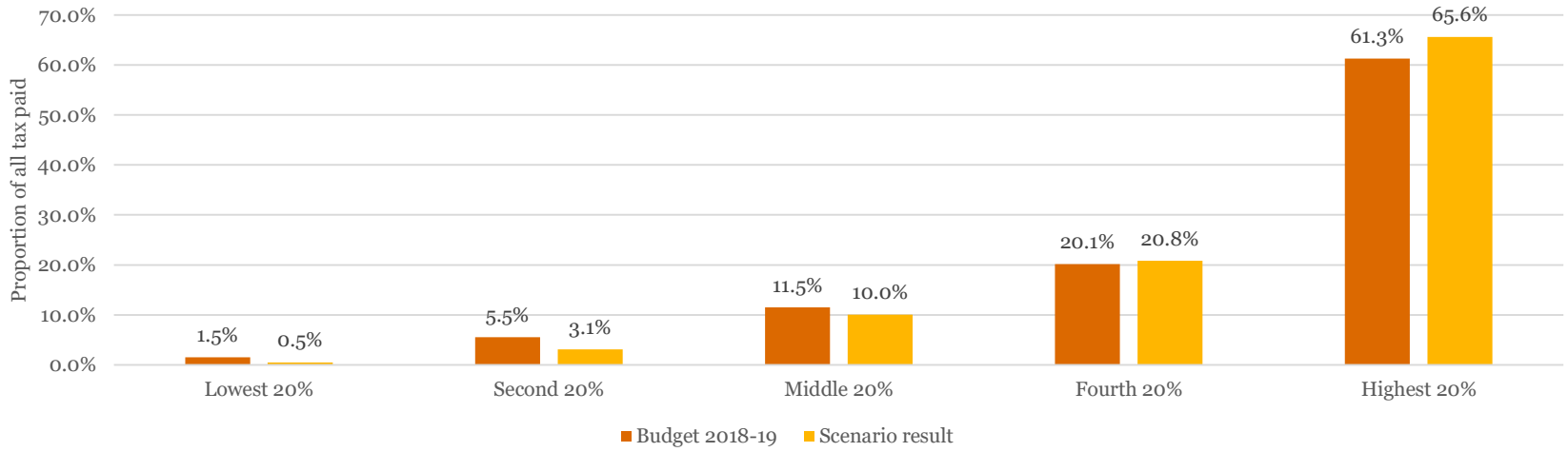
Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Effective tax rate is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset. Quintiles are calculated by tax paid, including only individuals that pay some tax after offsets.

Separate taxation of labour and savings income

Distributional results

- Figure 13 below shows the change to the proportion of total tax paid for each quintile of tax payers. This excludes individuals that pay net zero tax after offsets (which exist currently but are eliminated when every dollar of savings income attracts tax).
- Increasing the number of taxpayers by 27% means there are more people in each quintile, making this comparison very different (i.e. there are almost 600,00 more people in each quintile and over $1 billion extra income in the total quintile under the modelled scenario).

Figure 13: Proportion of tax paid by quintile of tax payers in 2018-19 on Budget proposals compared to scenario of separate taxation of labour and savings income



Source: PwC modelling using ATO data (2015-16 samples files) and parameters from Budget 2018-19.
Note: Tax paid is calculated on taxable income (after consideration of deductions) and includes income tax, medicare levy, low income tax offset and low and medium tax offset. Quintiles are calculated by tax paid, including only individuals that pay some tax after offsets.