

The Treasury

Budget 2023 Tax Initiatives Information Release

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Illustrative options for personal tax relief



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Illustrative tax relief packages

Options for personal tax relief could be based on one or more changes.

The following slides provide illustrative examples of options at an indicative fiscal cost of \$2bn, \$3bn or \$4bn.* Examples are based on a tax-free threshold and/or a change to the \$14k threshold. Other options based on these variables are possible within the indicative cost range.

These indicative costs do not include any accompanying increase to main benefit rates.

At a higher fiscal cost (e.g. over \$2bn), there is considerable opportunity and rationale for providing relief through a combination of changes. Phasing options could be considered to support your fiscal objectives.

Examples of packages with an additional change to the \$48k threshold are included on slide 6.

* Costings and impacts are illustrative. Final modelling and analysis will be needed for the preferred approach.

\$2b package examples

| Tax Free Zone | \$0 | \$2,000 | \$3,000 | \$5,000 |
|--|-----------------|-----------------|-------------------|----------------|
| Current \$14k threshold | \$22,000 | \$19,000 | \$17,500 | \$14,000 |
| Start gaining from... | \$14,000 | \$0 | \$0 | \$0 |
| Maximum gain | \$560 at \$22k+ | \$560 at \$19k+ | \$560 at \$17.5k+ | \$525 at \$5k+ |
| Estimated number who gain / who gain the full amount | 3.5m / 2.7m | 4.1m / 3m | 4.1m / 3.1m | 4.1m / 3.4m |

\$5k p.a. corresponds to around 4.2 hours per week on the 2023/24 minimum wage for a non-beneficiary.

\$14k p.a. corresponds to around 11.9 hours per week for a non-beneficiary.

An individual would have income of at least \$14k if they received main benefits for a year. However, they would not be immediately assisted by these options if their only income is from the main benefit, as tax changes will not impact the take-home amount.

A tax-free threshold enables the greatest proportion of taxpayers to benefit and provides a maximum gain at a very low income level (\$2k - \$5k in the examples above) but the expected efficiency benefits are lower.

Increasing the \$14k threshold is more targeted to active income. There would likely be some positive impacts on work incentives for part-time workers and for those working while receiving a main benefit.

Combined options could provide a gain to all taxpayers, while also increasing the maximum gain at an income level more consistent with active employment. However, for the same fiscal cost:

- there would be a lower gain at the lowest income range than with a tax-free threshold only
- there would be lower efficiency benefits than with an increase in the \$14k threshold only

\$3b package examples

| Tax Free Zone | \$0 | \$3,000 | \$5,000 | \$8,000 |
|--|-----------------|-----------------|-------------------|----------------|
| Current \$14k threshold | \$28,000 | \$22,000 | \$18,500 | \$14,000 |
| Start gaining from... | \$14,000 | \$0 | \$0 | \$0 |
| Maximum gain | \$980 at \$28k+ | \$875 at \$22k+ | \$840 at \$18.5k+ | \$840 at \$8k+ |
| Estimated number who gain / who gain the full amount | 3.5m / 2.4m | 4.1m / 2.7m | 4.1m / 3m | 4.1m / 3.3m |

\$8k p.a. corresponds to around 6.8 hours per week on the 2023/24 minimum wage for a non-beneficiary.

\$28k p.a. corresponds to around 23.7 hours per week for a non-beneficiary.

As with any tax changes, **those receiving main benefit income only** would not be immediately assisted by these options.

At this higher fiscal cost, there is greater opportunity for a combined option to achieve multiple objectives: for example, providing some gain to all taxpayers, while helping to smooth the main benefits interface, subject to the increase in the bottom threshold being sufficiently high.

Higher tax-free thresholds have higher integrity and efficiency costs: for example, they may provide opportunities for income splitting behaviour.

\$4b package examples

| Tax Free Zone | \$0 | \$2,500 | \$5,000 | \$7,500 | \$10,000 |
|--|-------------------|---------------------|-------------------|---------------------|-------------------|
| Current \$14k threshold | \$32,000 | \$27,000 | \$22,000 | \$18,000 | \$14,000 |
| Start gaining from... | \$14,000 | \$0 | \$0 | \$0 | \$0 |
| Maximum gain | \$1,260 at \$32k+ | \$1,172.5 at \$27k+ | \$1,085 at \$22k+ | \$1,067.5 at \$18k+ | \$1,050 at \$10k+ |
| Estimated number who gain / who gain the full amount | 3.5m / 2.2m | 4.1m / 2.4m | 4.1m / 2.7m | 4.1m / 3m | 4.1m / 3.2m |

\$10k p.a. corresponds to around 8.5 hours per week on the 2023/24 minimum wage for a non-beneficiary.

\$32k p.a. corresponds to around 27.1 hours per week. As context, an individual who works 30 hours on the minimum wage can no longer be eligible for most main benefit types.

As with any tax changes, **those receiving main benefit income only** would not be immediately assisted by these options.

At a fiscal cost of \$4b p.a., there is significant opportunity and rationale for combined options.

This is expected to have greater benefits than a single change for the same cost. A single change would also have implications for the integrity of the system and is likely to reduce future flexibility.

A change to the \$48k threshold could also be considered (slide 6).

Illustrative packages with additional option

A change to the \$48k threshold (which will soon be crossed by full-time workers earning the minimum wage) could be considered in combination with the other measures as part of a package.

As a guide, a \$2k increase in the \$48k threshold has an indicative fiscal cost of around \$0.6 billion. The examples below illustrate how including an increase to the \$48k threshold impacts the extent of other changes you could make within a given package.

| | \$2b package | \$3b package | | \$4b package | | |
|---|-----------------|-------------------|-------------------|-------------------|---------------------|-------------------|
| Tax Free Zone | \$0 | \$0 | \$2,500 | \$0 | \$2,500 | \$5,000 |
| Current \$14k threshold | \$20,000 | \$22,000 | \$20,000 | \$26,000 | \$24,000 | \$20,000 |
| Current \$48k threshold | \$50,000 | \$52,000 | \$50,000 | \$52,000 | \$50,000 | \$50,000 |
| Start gaining from... | \$14,000 | \$14,000 | \$0 | \$14,000 | \$0 | \$0 |
| Gain from changes below the \$48k threshold | \$420 at \$20k+ | \$560 at \$22k+ | \$682.5 at \$20k+ | \$840 at \$26k+ | \$962.5 at \$24k+ | \$945 at \$20k+ |
| Maximum gain including change to \$48k threshold | \$670 at \$50k+ | \$1,060 at \$52k+ | \$932.5 at \$50k+ | \$1,340 at \$52k+ | \$1,212.5 at \$50k+ | \$1,195 at \$50k+ |
| Estimated number who gain / who gain the full amount | 3.5m / 1.6m | 3.5m / 1.5m | 4.1m / 1.6m | 3.5m / 1.5m | 4.1m / 1.6m | 4.1m / 1.6m |

In the examples, the maximum gain is achieved at \$50k or \$52k, which would be the new threshold for the 30% rate.

Raising the threshold for the 30% rate would help to mitigate future impacts of fiscal drag around the steep increase to that marginal rate.