Parliamentary Budget Office

Costing interactions

Budget analysis of interactions between the Australian Labor Party's election commitments	
Party:	Australian Labor Party
Summary of analysis: This analysis provides estimates of the material interactions between the Australian Labor Party's election commitments. This analysis should be read in conjunction with the costings of each of the policy proposals identified as having a material interaction.	

Overview

The Parliamentary Budget Office (PBO) has examined all of the revenue and expense policy proposals of the Australian Labor Party included in the 2019 Post-election report to identify proposals that interact with each other in terms of their impact on the budget. An interaction arises when two or more proposals would have different budgetary implications when implemented together compared to the sum of the budgetary implications of implementing the proposals in isolation.

This analysis has specifically identified interactions between different policy proposals, rather than interactions within proposals. Proposals that include multiple components have had any interactions between components quantified within the costing of the proposal. See, for example, *Negative gearing and capital gains tax (CGT) reform* (PER414).

The PBO has assessed that seven of the Australian Labor Party's policy proposals materially interact with each other. All of these are revenue proposals. No expenditure proposals were identified as having material interactions, although the proposals relating to childcare and preschools could have interactions, depending on the final implementation details.

The seven policy proposals with material interactions are as follows.

- *Discretionary trust reform* (PER404)
- *Labor's fairer income tax cuts* (PER411)
- *Negative gearing and capital gains tax (CGT) reform* (PER414)
- *Reforming dividend imputation* (PER419)
- *Superannuation reforms* (PER420)
- *Budget repair levy* (PER422)
- *Not support Stages 2 and 3 of the Government's unfair tax plan* (PER425)

Financial implications

Interactions between the identified policy proposals would be expected to decrease the fiscal and underlying cash balances by $300 million over the 2019-20 Budget forward estimates period. These interactions entirely reflect a net decrease in revenue.

Table 1: Financial implications ($m)[a][b]

	2019–20	2020–21	2021–22	2022–23	**Total to 2022–23**
Fiscal balance	..	-200	-100	..	**-300**
Underlying cash balance	..	-200	-100	..	**-300**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) Figures may not sum to totals due to rounding.
.. Not zero but rounded to zero.

These interactions would have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. The financial implications of the interactions between the policy proposals over the period to 2029-30 are included at Attachment A, and Attachment B provides a detailed breakdown of the interactions.

Over the period to 2029-30, the interactions would be expected to increase the fiscal and underlying cash balances by $600 million. This means that over the period to 2029-30, the expected revenue gain of the seven policy proposals taken together is greater than the sum of the expected revenue gain from each proposal.

The superannuation reforms, the partial removal of negative gearing, and the halving of the capital gains tax discount all increase the taxable income of affected individuals. These proposals would, therefore, raise additional revenue after the proposed personal income tax changes (including the budget repair levy) have been applied, as these increase marginal tax rates for a majority of affected individuals.

Applying a minimum tax rate on trust distributions would raise less revenue after franking credits have been made non-refundable. With more tax paid on trust distributions, individuals would be able to make greater use of non-refundable franking credits as a tax offset. In net terms, both of these proposals would raise less revenue after the personal income tax changes have been applied, as these measures primarily increase the tax liability of affected individuals, reducing their balance of excess franking credits and increasing the rate of tax paid on trust distributions before the minimum tax rate is applied.

In addition to the uncertainty associated with each individual policy proposal, this analysis is subject to uncertainty surrounding economic parameter projections and whether there would be additional behavioural responses by affected entities to the combination of proposals being implemented together.

Key assumptions

The PBO has assumed that the behavioural response of affected entities to each policy proposal does not change when these proposals are implemented together.

- The overall package involves both a considerable broadening of the tax base and an increase in the tax-to-gross domestic product ratio. The broader tax base may lead to fewer opportunities for affected entities to make more favourable arrangements to reduce the tax they pay, providing a positive revenue interaction. Conversely, the higher overall tax burden provides a stronger incentive for affected entities to make greater use of alternative avoidance and evasion strategies, resulting in a negative revenue interaction.
- These two effects have been assumed to broadly offset each other.

Methodology

Interactions between the policy proposals have been estimated using the same models as the separate costings, calculating the financial implications of each proposal in isolation, and the financial implications associated with implementing all proposals together. The financial implications of the interactions between the proposals are the difference between the calculated change in revenue of all proposals implemented together and the sum of the change in revenue from each proposal implemented separately.

Interactions have been rounded to the nearest $100 million, and have been modelled to take into account the timing of tax collections.

Data sources

All data sources are consistent with the costing of each individual proposal.

Attachment A – Budget analysis of interactions between the Australian Labor Party's election commitments – financial implications

Table A1: Budget analysis of interactions between the Australian Labor Party's election commitments – Fiscal and underlying balances ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	**Total to 2022–23**	**Total to 2029–30**
Revenue	..	*-200*	*-100*	..	..	*100*	*100*	*100*	*200*	*200*	*300*	***-300***	***600***
Total – revenue	**..**	**-200**	**-100**	**..**	**..**	**100**	**100**	**100**	**200**	**200**	**300**	**-300**	**600**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms.
A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.
A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms.
A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

Attachment B – Budget analysis of interactions between the Australian Labor Party's election commitments – Detailed breakdown

This attachment provides further details on the estimated material interactions between policy proposals. The magnitude of the interaction between any pair of proposals depends on the order in which these are examined, however the aggregated impact of the interactions is invariant to the order in which these are examined.

The seven policy proposals identified as having material interactions have been grouped as follows.

A – Personal income tax changes: includes *Not support Stages 2 and 3 of the Government's unfair tax plan* (PER425), *Labor's fairer income tax cuts* (PER411), and *Budget repair levy* (PER422)

B – *Negative gearing and capital gains tax (CGT) reform* (PER414)

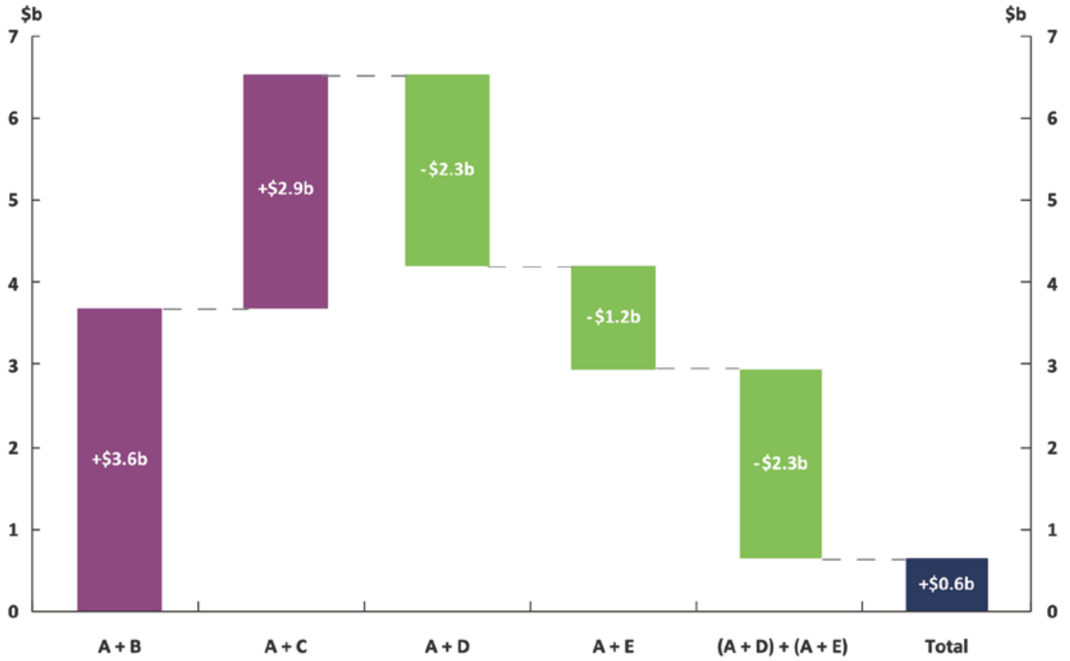
C – *Superannuation reforms* (PER420)

D – *Discretionary trust reform* (PER404)

E – *Reforming dividend imputation* (PER419)

Figure B1 below shows the key interactions between the identified proposals over the period to 2029-30. For example, the first column shows that implementing the personal income tax changes and the negative gearing and CGT reform together increases the expected revenue gain from implementing each proposal on its own. The final column shows the net interactions impact of implementing all seven policy proposals together.

Figure B1: Aggregate impact on the fiscal and underlying cash balances of key interactions over period to 2029-30



Note: Figures may not sum to totals due to rounding.

The key drivers of these interactions are as follows.

- The negative gearing and capital gains tax reform would interact positively with the personal income tax changes by $3,600 million.
  - This is because the negative gearing and capital gains tax reforms would increase the taxable income reported by affected individuals, which would be taxed at higher marginal tax rates (on average) under the personal income tax changes.
  - This interaction is small over the period to 2021-22, but would increase significantly over time as the proposal matures, and after the proposed personal income tax changes in both 2022-23 and 2024-25.
- The superannuation reforms would interact positively with the personal income tax changes by $2,900 million.
  - This is because the superannuation package would reduce the limits on concessional contributions, which would increase income taxed outside of superannuation. This income would be taxed at higher marginal tax rates (on average) under the personal income tax changes.
  - This interaction is small over the period to 2021-22, but would increase significantly after the proposed personal income tax changes in both 2022-23 and 2024-25.
- The minimum tax rate on trust distributions would interact negatively with the personal income tax changes by $2,300 million.
  - This is because the personal income tax changes would increase both marginal and average tax rates (in net terms), which would increase the tax liability on trust distributions before the minimum tax rate is applied.
- The franking credits reform would interact negatively with the personal income tax changes by $1,200 million.
  - This is because the personal income tax changes would, on average, increase the tax liability of individuals, which would increase the amount of tax that can be offset by non-refundable franking credits.
- The minimum tax rate on trust distributions and the personal income tax changes (taken together) would interact negatively with the franking credit reform and the personal income tax changes (taken together) by $2,300 million.
  - This is because the minimum tax rate on trust distributions would increase the amount of tax that can be offset by non-refundable franking credits.
- The net fiscal impact of the interactions between these seven policy proposals is to increase the revenue raised by $600 million, compared with the sum of the fiscal impacts of the individual proposals. This implies that the total net impact of these seven proposals is to raise $381,560 million in revenue over the period from 2019-20 to 2029-30.