Parliament of Australia
Parliamentary Budget Office

Phil Bowen PSM FCPA
Parliamentary Budget Officer

Senator Christine Milne
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Milne

Please find attached a response to your costing request, *Millionaires tax* (letter of 14 August 2013).

The responses to this request will be released on the PBO website (www.aph.gov.au/pbo).

If you have any queries about this costing, please do not hesitate to contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen
20 August 2013

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COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	**Millionaires tax**
Summary of proposal:	The proposal would introduce an additional 5 per cent tax on incomes over $1 million. Income for the purpose of the additional tax would be defined as taxable income plus reportable fringe benefits. The proposal would have effect from 1 July 2014.
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	20 August 2013
Date of public release of policy	14 July 2013
Agencies from which information was obtained:	Australian Taxation Office (ATO)

Costing overview

This proposal is expected to increase both the underlying cash and fiscal balances by $526.9 million over the 2013-14 Budget forward estimates period. This impact reflects an increase in expenses of $3.1 million and an increase in revenue of $530 million over this period. A detailed breakdown of the components of the costing is included at Attachment A.

The costing profile matures in 2016-17 and the proposal will have an ongoing impact that extends beyond the forward estimates period.

Departmental expenses associated with this proposal have been estimated in consultation with the ATO. These estimates have been included in the costing.

This costing is considered to be of medium reliability. It was estimated using a model based on a de-identified sample of 2010-11 personal income tax and superannuation data from the ATO.

The estimates in this costing include allowances for behavioural responses. The modelling includes an allowance for high income individuals to bring forward a small amount of income in excess of $1 million from 2014-15 to 2013-14 to take advantage of lower tax rates before the new tax takes effect. In addition, the modelling assumes that individuals will reduce their taxable incomes from 2014-15 in response to the additional tax.

The estimates in this costing differ from those in the applicant's costing request due to the PBO using more recent personal income tax and superannuation data. In addition, the PBO was able to access de-identified taxpayer information from the ATO as a result of recent amendments to the *Taxation Administration Act 1953*, which allowed the PBO to refine its assumptions surrounding the timing of personal income tax receipts for very high income earners.

Table 1: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	119.0	-51.4	149.6	309.7
Fiscal balance ($m)	119.0	-51.4	149.6	309.7

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

Key assumptions

- The costing assumes that high income individuals have a taxable income elasticity of 0.35, in line with estimates used in the United Kingdom.
- Affected individuals bring forward a small amount of income from the 2014-15 income year to the 2013-14 income year to avoid the additional tax.
- The additional tax revenue is collected via a levy in quarterly instalments.

Methodology

The costing was estimated using a microsimulation model based on a de-identified 16 per cent sample of 2010-11 personal income tax and superannuation data from the ATO.

A small proportion of taxable income in excess of $1 million in 2014-15 is assumed to be brought forward to 2013-14 to account for individuals rearranging their income in the short-term to avoid the levy. This results in an increase in tax collections in 2013-14 as the income brought forward is subject to income tax withholding and the Pay As You Go instalment system, with a reduction in taxable income, mainly in 2014-15.

A taxable income elasticity of 0.35 was applied to individuals with incomes in excess of $1 million from 2014-15 to account for longer-term responses by individuals to the introduction of the levy. This resulted in decreased personal income tax and Medicare Levy revenue.

The levy revenue was calculated by multiplying the sum of taxable income and reportable fringe benefits in excess of $1 million, after incorporating behavioural impacts, by the rate of the levy.

Data sources

- *The Exchequer effect of the 50 per cent additional rate of income tax*, HM Revenue and Customs.
- 16 per cent samples of de-identified personal income tax and superannuation records from 2006-07 to 2010-11, ATO.
- Taxation Statistics – 2005-06 to 2010-11, ATO.

ATTACHMENT A: DETAILED FINANCIAL IMPLICATIONS

The detailed financial implications over the 2013-14 Budget forward estimates are summarised in the table below.

Table A1: Impact on underlying cash and fiscal balances[(a)]

	2013-14 ($m)	2014-15 ($m)	2015-16 ($m)	2016-17 ($m)	**Total ($m)**
Levy revenue impact (b)	-	300	680	840	**1,820**
Individual tax revenue impact (c)	120	-350	-530	-530	**-1,290**
Departmental expense impact (d)	1.0	1.4	0.4	0.3	**3.1**
Net impact (e)	**119.0**	**-51.4**	**149.6**	**309.7**	**526.9**

Notes

(a) Revenue estimates are rounded to the nearest $10 million. Expense and capital estimates are rounded to the nearest $100,000.

(b) The levy revenue impact refers to the impact of the additional 5 per cent tax on incomes over $1 million.

(c) The individual tax revenue impact refers to the change in ordinary income tax collections as a result of behavioural responses altering incomes.

(d) A minus sign before the estimate indicates a reduction in expenses, no sign before an estimate indicates increased expenses.

(e) The net impact is equal to the levy revenue impact, plus the individual tax revenue impact, minus the departmental expense impact, minus the departmental capital impact.