



Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *High Income Tax Guarantee (The Buffett Rule)* (letter of 23 June 2016).

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

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

25 June 2016



Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	High Income Tax Guarantee (The Buffett Rule)
Summary of proposal:	<p>The proposal would impose a minimum income tax liability of 35 per cent of total income for individuals with total income above \$300,000.</p> <p>The proposal would take effect from 1 September 2016.</p> <p>The request noted that this proposal would interact with the <i>Top Marginal Tax Rates</i> (GRN005) proposal.</p>
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	26 April 2016 - http://greens.org.au/buffett-rule
Date costing request received:	23 June 2016
Date costing completed	25 June 2016
Additional information received (including date):	<p>On 23 June 2016, Senator Di Natale's office advised that:</p> <ul style="list-style-type: none">total income would consist of assessable income, net investment losses, exempt foreign employment income, reportable superannuation contributions and reportable fringe benefitsnet (rather than gross) business and investment income would be included in the calculation of total incomethe benchmark measure of tax for the calculation of the additional tax payable under the proposal would be gross tax, including the Medicare levy where applicablerefundable tax credits and non-refundable tax offsets could not be used to reduce the minimum tax liability under the proposalthe \$300,000 threshold would be indexed each two years from the date of implementation in line with the growth in Male Total Average Weekly Earnings.
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

This proposal would be expected to increase both the fiscal and underlying cash balances by \$8,388 million over the 2016-17 Budget forward estimates period. This reflects an increase in revenue of \$8,400 million, partly offset by an increase in departmental expenditure of \$12 million for the Australian Taxation Office (ATO) over this period.

The financial implications of this proposal include the impact of interactions between this proposal and the *Top Marginal Tax Rates* (GRN005) proposal. This would reduce the revenue that would be expected from this proposal by \$1,100 million over the 2016-17 Budget forward estimates period, as fewer taxpayers above the relevant income thresholds would have a tax liability below 35 per cent of total income.

The proposal would have ongoing financial implications beyond the 2016-17 Budget forward estimates period. Detailed financial implications are provided at [Attachment A](#).

This costing is considered to be of low reliability. The results were estimated based on a large representative sample of administrative tax data. However, the estimates would be sensitive to behavioural responses by individuals affected by this proposal and to variations in population and income growth.

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	-306.0	2,196.0	3,299.0	3,199.0	8,388.0
Underlying cash balance	-306.0	2,196.0	3,299.0	3,199.0	8,388.0

(a) A positive number represents an increase in the relevant budget balance, a negative number represents a decrease.

(b) Figures may not sum due to rounding.

Key assumptions

- The costing assumes that the enabling legislation would be in place by 1 September 2016.
- There are a number of potential behavioural responses associated with changes to personal income tax rates, including changes to labour supply and investment decisions.
 - The Parliamentary Budget Office (PBO) has included a behavioural response to account for changes in investment decisions and tax planning arrangements by affected individuals, which results in decreased total income for these individuals. This may include reducing or redirecting income distributed to individuals from partnerships, trusts or companies, so that this income is taxed at lower rates than 35 per cent.

- ♦ The PBO has assumed that individuals with incomes in excess of the threshold have a total income elasticity of 0.2.¹
 - The costing does not account for changes in labour supply as a result of this proposal. While studies indicate that labour supply, particularly by secondary earners, decreases in response to increases in tax rates, there is considerable uncertainty surrounding the magnitude and timing of the effect on employment.
- It has been assumed that the additional tax payable under the proposal would be collected on assessment when individuals lodge their tax returns. There would be no change to 'pay as you go' arrangements.
- The proposal effectively removes tax deductibility of certain expenses for affected individuals, which increases the after-tax cost of these goods or services. This may result in reduced expenditure on these goods or services. The budgetary impacts of these broader macroeconomic implications have not been estimated.
- The PBO expects that some individuals would bring forward income and/or deductions prior to the proposal's implementation date of 1 September 2016. However this impact is expected to be small and has been rounded to zero.

Methodology

- A weighted sample of de-identified personal income tax returns for 2012-13 from the ATO has been used to estimate the revenue impact of the proposal. For each individual in the data, future tax liabilities have been estimated under both current and proposed policy settings after accounting for behavioural responses. The difference between current policy and the proposal gives the costing.
- Revenue estimates were adjusted to account for the interactions between this proposal and the *Top Marginal Tax Rates* proposal.
- The modelling takes account of the timing of tax collections and the part-year effect of the proposal.
- The PBO's estimate of departmental expenses is based on analysis of previous policies with similar administrative complexity. This reflects both the initial implementation and ongoing administration costs of the proposal.
- Revenue estimates have been rounded to the nearest \$50 million. Departmental expenses have been rounded to the nearest \$1 million.

¹ A taxable income elasticity is a measure of the responsiveness of taxable income to changes in after tax income. An increase in tax would result in a decrease in after tax income. An elasticity of 0.2 means that a 1 per cent decrease in the net-of-tax rate (the proportion of each additional dollar kept as take-home income) results in a 0.2 per cent decrease in taxable income.

Data sources

- 16 per cent sample of de-identified personal income tax and superannuation records for the 2012-13 financial year from the ATO.

Attachment A: *High Income Tax Guarantee (The Buffett Rule)*—financial implications

Table A1: High Income Tax Guarantee (The Buffett Rule)—financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Total revenue	-300.0	2,200.0	3,300.0	3,200.0	8,400.0
<i>High Income Tax Guarantee</i>	-300.0	2,450.0	3,700.0	3,650.0	9,500.0
<i>Interactions with Top Marginal Tax Rates (GRN005) proposal</i>	..	-250.0	-400.0	-450.0	-1,100.0
Departmental expense (ATO)	-6.0	-4.0	-1.0	-1.0	-12.0
Total	-306.0	2,196.0	3,299.0	3,199.0	8,388.0

(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 outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms.

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

.. Not zero, but rounded to zero.