

Request for budget analysis

Underlying cash balance impact of Stage 3 tax cuts						
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens					
Date costing completed:	19/01/2024					
Expiry date of the costing:	Release of the next economic and fiscal outlook report.					
Status at time of request:	Submitted outside the caretaker period					
	⊠ Confidential (Public release requested on 23/01/2024)	☐ Not confidential				
Summary of request: The request sought the underlying cash estimates period, with the share of the chart.		_				

Overview

A table and chart showing the underlying cash balance and the impact of the Stage 3 tax cuts are provided at Attachment A.

The financial implications provided below have changed from those estimated following the 2023-24 Budget due to the use of updated economic parameters and tax return data. Our recent publication *Why do costings change?* provides more information on why PBO costings may change over time.

Key assumptions

The Parliamentary Budget Office (PBO) has assumed that there would be no behavioural response associated with the Stage 3 tax cuts, including to the labour supply.

- While high-income earners can often adjust their taxable income in response to changes in their
 marginal tax rate, Stage 3 would not change the marginal tax rate for those with a taxable income
 greater than \$200,000, suggesting any adjustment to taxable incomes is likely to be small.
- Studies indicate that some people would choose to work more in response to a lower marginal tax rate, while others would work less. There is considerable uncertainty regarding the direction, magnitude, and timing of these effects on labour supply.

Methodology

The financial implications of the Stage 3 tax cuts were estimated using a microsimulation model built from the full set of de-identified personal income tax returns data for the 2021-22 income year, provided by the Australian Taxation Office (ATO), and grown over the medium-term using parameters from the 2023-24 Mid-Year Economic and Fiscal Outlook (MYEFO).

The financial implications of the Stage 3 tax cuts account for the timing of tax collections.

The underlying cash balance estimates were taken directly from the 2023-24 MYEFO.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.¹

Data sources

The ATO provided the de-identified personal income tax returns data for the 2021-22 income year.

The Treasury provided economic parameters as at the 2023-24 MYEFO.

Commonwealth of Australia, 2023, 2023-24 Mid-Year Economic and Fiscal Outlook, Canberra

^{1 &}lt;u>https://www.pbo.gov.au/for-parliamentarians</u>

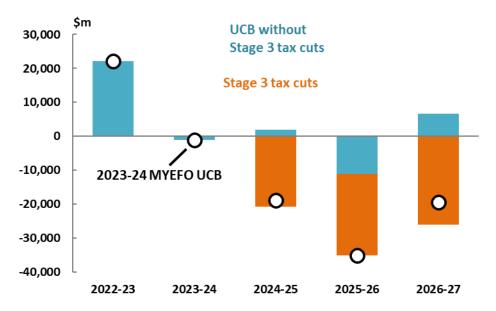
Attachment A – Underlying cash balance impact of Stage 3 tax cuts

Table A1: Underlying cash balance impact of Stage 3 tax cuts – Underlying Cash Balance over the 2023-24 Budget forward estimates (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	2026-27	Total to 2026-27
Stage 3 tax cuts	-	-	-20,700	-23,900	-26,100	-70,700
Underlying cash balance excluding Stage 3 tax cuts	22,100	-1,100	1,900	-11,200	6,600	18,300
Total underlying cash balance	22,100	-1,100	-18,800	-35,100	-19,500	-52,400
Stage 3 tax cuts % of total UCB	-	-	110%	68%	134%	135%

⁽a) 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. Figures do not include the impact of Stage 3 tax cuts on public debt interest payments.

Figure A1: Underlying cash balance impact of Stage 3 tax cuts – Underlying Cash Balance (UCB) over the 2023-24 Budget forward estimates



⁽b) Totals to 2026-27 include the 2022-23 financial year.

Indicates nil.