

A HOUSEHOLD ANALYSIS OF THE TAX CHANGES

PROPOSED IN THE 2005 BUDGET

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The purpose of this analysis is to provide a picture of the distributional effect of the tax cuts proposed in the 2005 Budget. Australia's tax system operates at an individual level. But since inequality and poverty analysis is typically done at a household level, it is more informative to see how the benefits are distributed across households than across individuals. This will depend on two factors: household composition, and the distribution of the tax cuts by income level. The notes below contain further information on how this exercise was carried out. The main findings are:

- The share of the tax cuts going to the richest 1% of households will be 3% in 2005-06 and 4% in 2006-07.
- A greater share of the 2006-07 tax cuts will go to the richest 5% of households (19%) than to the poorest 50% (11%).
- Middle-income households get substantially less than an even share of the tax cuts.

Proposed 2005-06 Tax Cuts

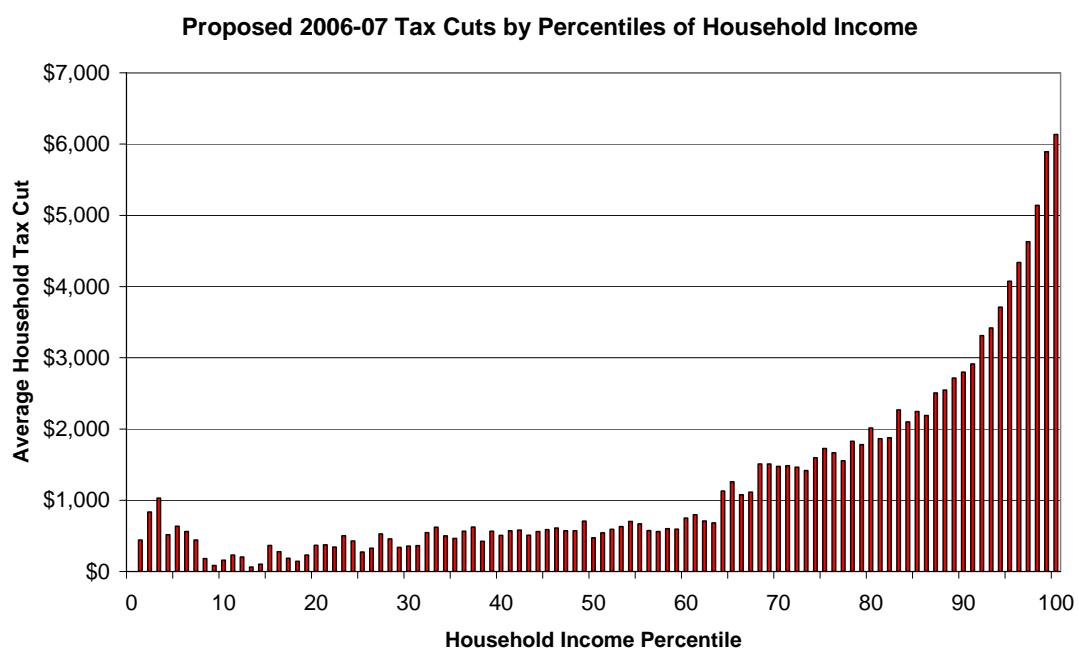
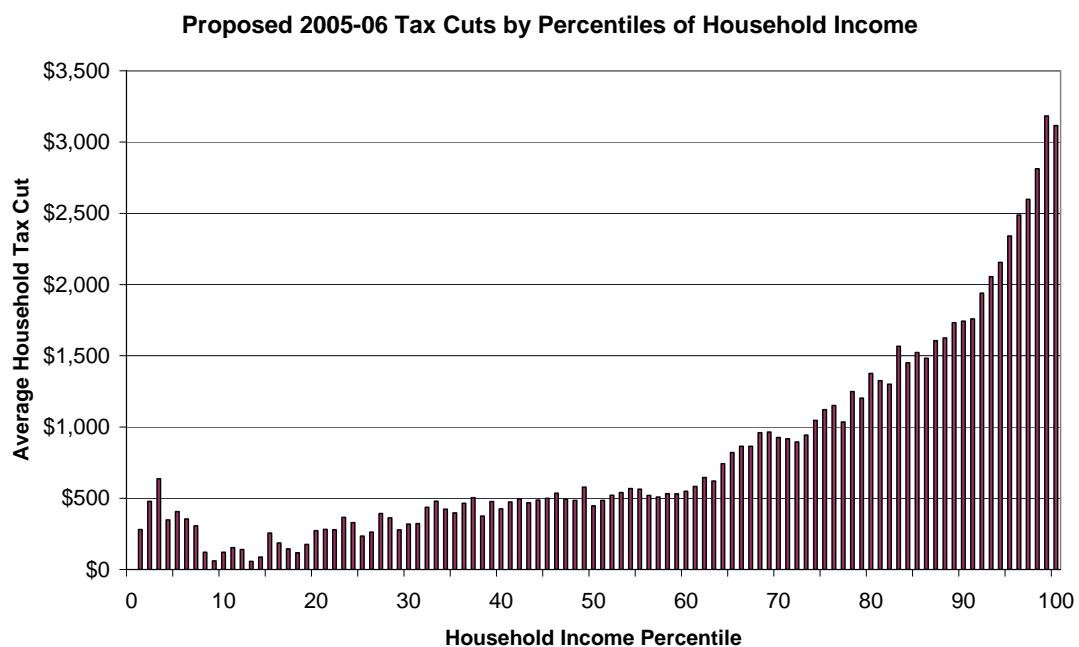
	Average household income	Average tax cut for these households	Share of total tax cuts going to these households
Richest 1% of households	\$433,135	\$3,115	3.4%
Richest 5% of households	\$230,682	\$2,838	15.2%
Richest 10% of households	\$178,894	\$2,443	26.7%
Middle 20% of households	\$42,226	\$508	12.8%
Poorest 50% of households	\$21,311	\$342	16.7%

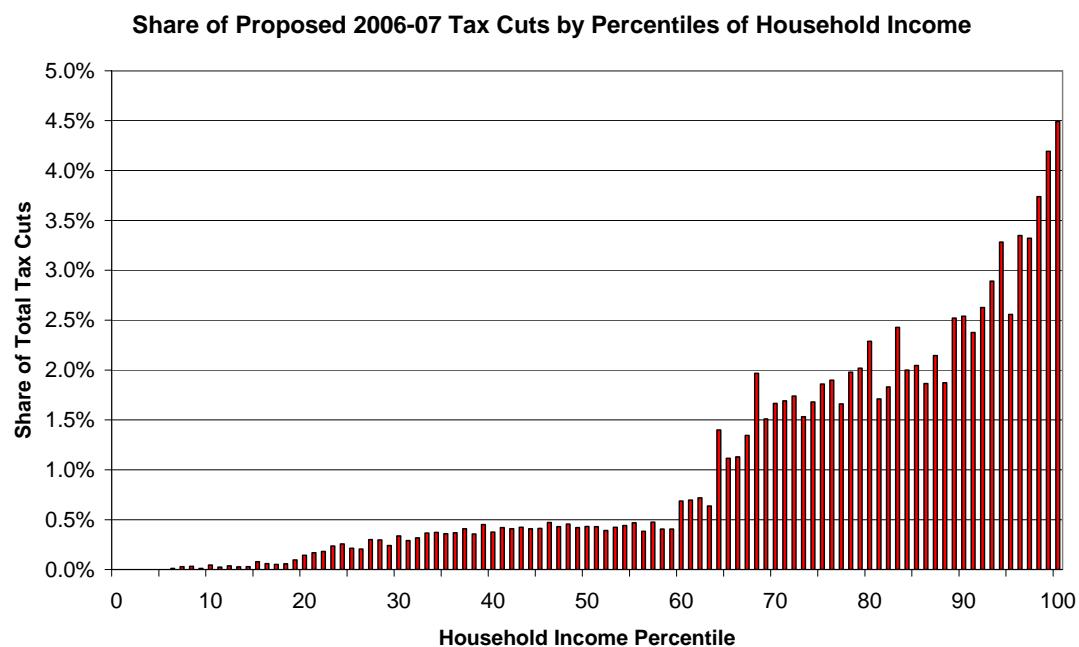
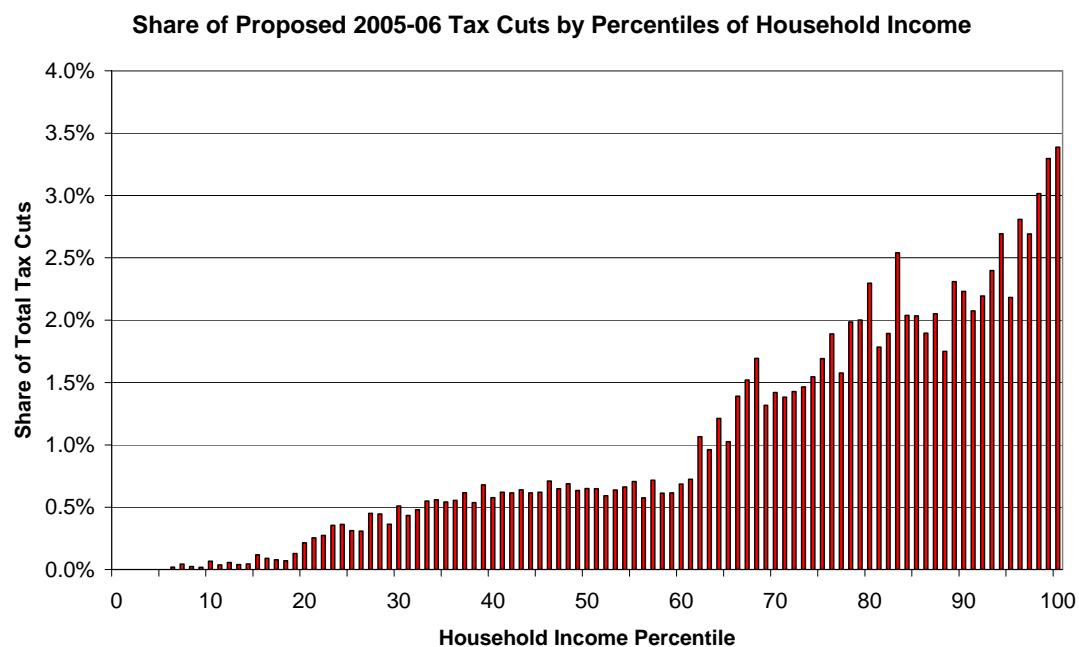
Proposed 2006-07 Tax Cuts

	Average household income	Average tax cut for these households	Share of total tax cuts going to these households
Richest 1% of households	\$448,244	\$6,134	4.4%
Richest 5% of households	\$238,729	\$5,226	19.1%
Richest 10% of households	\$185,134	\$4,355	32.8%
Middle 20% of households	\$43,699	\$587	8.5%
Poorest 50% of households	\$22,055	\$439	11.1%

Notes:

1. In order to calculate the distribution of tax cuts across households, it is necessary to use microdata that includes individual incomes and a household identifier. I use the 2003 wave of the Household, Income and Labour Dynamics in Australia (HILDA) Survey.
2. HILDA 2003 wave was conducted from Aug 2003 to April 2004, covering most of the 2003-04 tax year. To index incomes to 2005-06 and 2006-07, I assume that incomes rise at the same rate as wages growth figures listed in Budget Paper 1, and therefore increase HILDA's 2003-04 incomes by 7.5% for 2005-06 and 11.25% for 2006-07.
3. Middle 20% of households are those in the 40th-59th percentiles.
4. Tax cuts are imputed using the annual tax cut figures from the table on page 4. Individuals with earnings below \$10,000 who pay any tax are assigned the tax cut for a person earning \$10,000. Individuals who pay no tax are assigned a tax cut of \$0.





TAXABLE INCOME	2005-06 TAX SAVING		2006-07 TAX SAVING		ANNUAL TAX SAVING AS A % OF TAX PAID	
	ANNUAL	WEEKLY	ANNUAL	WEEKLY	2005-06	2006-07
\$10,000	\$80	\$1.54	\$80	\$1.54	18.0	18.0
\$15,000	\$180	\$3.46	\$180	\$3.46	13.9	13.9
\$20,000	\$280	\$5.38	\$280	\$5.38	11.5	11.5
\$25,000	\$312	\$6.00	\$312	\$6.00	7.9	7.9
\$30,000	\$312	\$6.00	\$312	\$6.00	5.5	5.5
\$35,000	\$312	\$6.00	\$312	\$6.00	4.3	4.3
\$40,000	\$312	\$6.00	\$312	\$6.00	3.6	3.6
\$45,000	\$312	\$6.00	\$312	\$6.00	3.0	3.0
\$50,000	\$312	\$6.00	\$312	\$6.00	2.6	2.6
\$55,000	\$312	\$6.00	\$312	\$6.00	2.3	2.3
\$60,000	\$552	\$10.61	\$552	\$10.61	3.6	3.6
\$65,000	\$912	\$17.54	\$1,152	\$22.15	5.2	6.6
\$70,000	\$912	\$17.54	\$1,752	\$33.69	4.6	8.9
\$75,000	\$1,162	\$22.35	\$2,002	\$38.50	5.3	9.1
\$80,000	\$1,412	\$27.15	\$2,252	\$43.31	5.8	9.2
\$85,000	\$1,662	\$31.96	\$2,502	\$48.11	6.2	9.3
\$90,000	\$1,912	\$36.76	\$2,752	\$52.92	6.5	9.4
\$95,000	\$2,162	\$41.58	\$3,002	\$57.73	6.8	9.4
\$100,000	\$2,162	\$41.58	\$3,252	\$62.54	6.3	9.5
\$105,000	\$2,162	\$41.58	\$3,502	\$67.35	5.9	9.6
\$110,000	\$2,162	\$41.58	\$3,752	\$72.15	5.5	9.6
\$115,000	\$2,162	\$41.58	\$4,002	\$76.96	5.2	9.6
\$120,000	\$2,162	\$41.58	\$4,252	\$81.76	4.9	9.7
\$125,000	\$2,162	\$41.58	\$4,502	\$86.58	4.7	9.7
\$130,000	\$2,162	\$41.58	\$4,502	\$86.58	4.4	9.2

Source: *Sydney Morning Herald*, 11 May 2005