

Early tax cuts as stimulus - gender analysis

The benefit from bringing forward personal income tax cuts would mostly go to high income men. Despite recession job losses affecting women more than men, \$2.19–\$2.28 of the tax cut will go to men for every \$1 that goes to women.

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INTRODUCTION

The pandemic has caused the biggest contraction in the Australian economy since the Australian Bureau of Statistics started estimating quarterly Gross Domestic Product in the 1950s.¹ As the economy contracted, hundreds of thousands of people have lost their jobs. This is the time when the government needs prompt well targeted stimulus to reduce the economic damage.

Well targeted stimulus would focus on those most disadvantaged by the pandemic recession. A larger proportion of women than men have lost their jobs. Total employment in March and April fell 3.9 percent for men and 5.3 per cent for women.² Women also lost hours of work faster than men. Hours worked by men fell 7.5 per cent, while hours worked by women fell 11.5 per cent.

¹ Australian Bureau of Statistics (2020) *5206.0 - Australian National Accounts: National Income, Expenditure and Product, Jun 2020*, 2 September, available at <<https://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/52AFA5FD696482CACA25768D0021E2C7?OpenDocument>>

² Richardson D (2020) *Gender experiences during the COVID-19 lockdown*, The Australia Institute, 1 July, available at <<https://www.tai.org.au/content/gender-experiences-during-covid-19-lockdown>>

One of the support measures Treasurer Josh Frydenberg is considering is to bring forward the later stages of the Government's tax cut plan.³ The Treasurer has argued that bringing forward the tax cuts could stimulate the economy by increasing household spending.

Australia Institute research has already shown that bringing forward the tax cuts would be very ineffective stimulus.⁴ The tax cuts go mainly to high income earners who are more likely to save the tax cut or spend it on imports or paying off debt than other income earners.

This paper will look at how much of the benefit of bringing forward the tax cut goes to women and how much goes to men, based on two options for how the Federal Government might bring forward the tax cuts.

OPTIONS FOR BRINGING FORWARD TAX CUTS

Despite the discussion about bringing forward the tax cuts, there are no firm proposals for when the tax cuts should be brought forward to or what stages of the cuts should be brought forward. With the Federal Budget delayed until October, the earliest the Government could feasibly bring the tax cuts forward to would be the 1st of July 2021 (for the 2021-22 financial year).

This paper will model two options:

1. The Government brings forward stage 2 of the tax cuts by one year from 2022-23 to 2021-22.
2. The Government combines stage 2 and stage 3 of the tax cuts and brings them both forward to 2021-22.

The Government could bring forward the stage 3 tax cuts to 2022-23 or later instead of bringing them forward to the next financial year. The Australia Institute has not modelled this possibility as we consider it too far in the future to be plausibly considered stimulus for the current recession.

An important consideration when modelling these options is what is done with the end date of the Low and Middle Income Tax Offset (LMITO). The LMITO is a tax refund paid

³ Crowe D (2020) *'Trickle-down fantasy': Stimulus tax cuts face fresh attack as \$28b cost revealed*, SMH, 27 July, available at <<https://www.smh.com.au/politics/federal/trickle-down-fantasy-stimulus-tax-cuts-face-fresh-attack-as-28b-cost-revealed-20200726-p55fiz.html>>

⁴ Grudnoff M (2020) *Early tax cuts as stimulus*, The Australia Institute, 7 September, available at <<https://www.tai.org.au/content/early-tax-cuts-stimulus>>

to eligible taxpayers after they submit their tax return and was introduced as part of stage 1 of the tax cut plan. The LMITO is currently legislated to end in 2021-22, to coincide with the stage 2 tax cuts, which begin the following year. Part of the stage 2 tax cuts is designed to compensate some taxpayers for the loss of the LMITO. Under the current legislated arrangements, no taxpayers are worse off when the LMITO is removed because of the changes made in stage 2.

If the tax cuts were brought forward, the LMITO would need to end one year earlier so that the two parts of the tax cut continue to work as planned. Alternatively, the LMITO could continue to its currently legislated end date so that in 2021-22 taxpayers receive both the LMITO and the stage 2 tax cuts.

While this would increase the stimulus from the tax cuts for one year, it would mean that after the LMITO ends in June 2022 some taxpayers would face an effective tax increase of up to \$1,080. In this modeling exercise, the LMITO is removed a year early to maintain the original transition from the LMITO to the stage 2 tax cut.

STAGE 2 AND 3 OF THE GOVERNMENT'S INCOME TAX PLAN

The Federal Government's income tax plan involves the stages. Stage 1 began two years ago in 2018-19. Stage 2 of the income tax plan is currently due to come into effect in 2022-23. Stage 3 of the income tax plan is due to come into effect in 2024-25.

Stage 2 of the tax plan would:

- Increase the threshold of the 32.5 cent bracket from \$37,000 to \$45,000
- Increase the threshold of the 37 cent bracket from \$90,000 to \$120,000
- Remove the LMITO, which was introduced in stage 1
- Increase the maximum rate and phase out rates for the LITO (Low Income Tax Offset)

Stage 3 of the tax plan would see:

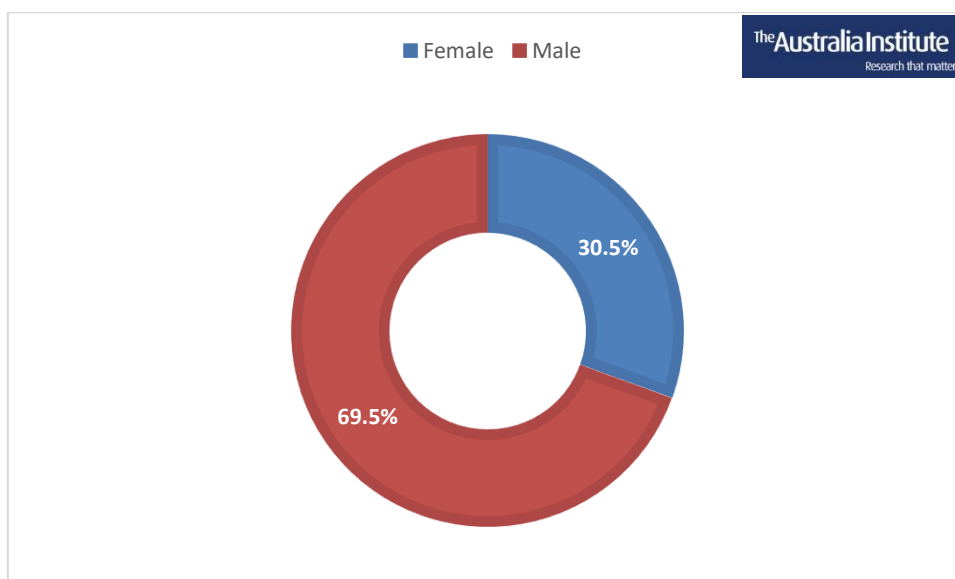
- Reduce the rate of the 32.5 cent rate to 30 cents
- Increase the new 30 cent threshold from \$45,000 to \$200,000 (this eliminates the 37 cent bracket)
- Increase the 45 cent threshold from \$180,000 to \$200,000

BRINGING FORWARD STAGE 2 TO 2021-22

Previous Australia Institute modeling showed that the benefits of bringing forward stage 2 to 2021-22 would mainly flow to high income taxpayers.⁵ The top 10 per cent of taxpayers would get 52 per cent of the benefit while the top 20 per cent would get 91 per cent of the benefit. Those on low incomes get little to no benefit. The bottom 20 per cent of taxpayers will get no benefit. The bottom 30 per cent will get three per cent of the benefit and the bottom half get only four per cent of the benefit.

The modelling results for this paper show that men get most of the benefit of the tax cut.⁶ For every dollar of tax cut that women get, men get \$2.28. This means men get more than twice the tax cut that women get. In total Men get 70 per cent of the tax cut and women get 30 per cent of the tax cut. This is shown in Figure 1.

Figure 1 – Total benefit by gender if stage 2 is brought forward to 2021-22



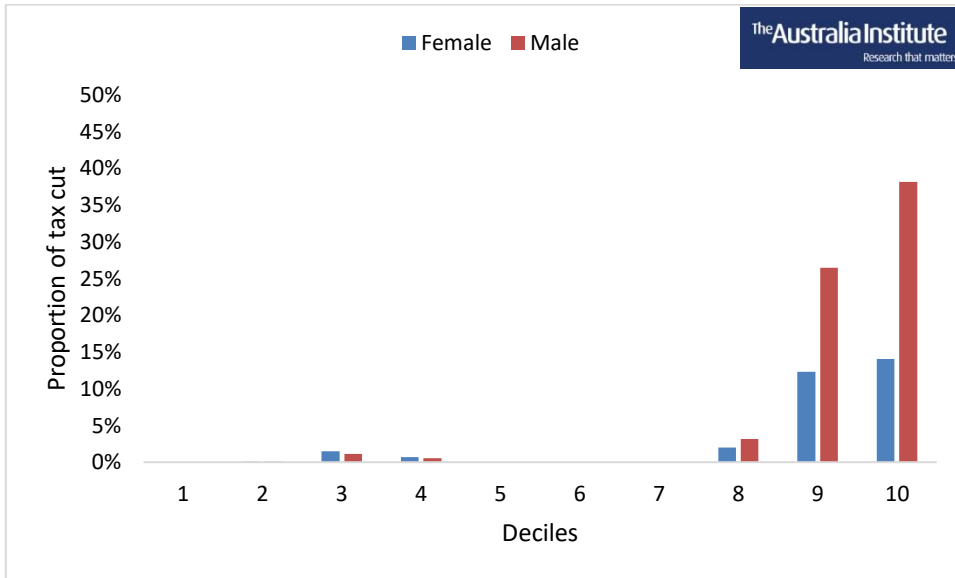
Source: Calculations by model described in Appendix A

Figure 2 shows the gender split of the tax cut by income deciles. It shows that men in the top 10 per cent get almost 40 per cent of the tax cut (38 per cent), while women in the top 10 per cent get 14 per cent of the tax cut.

⁵ Grudnoff M (2020) *Early tax cuts as stimulus*

⁶ For information on how the modelling was done see Appendix A.

Figure 2 – Benefit by decile, split by gender, if stage 2 is brought forward to 2021-22

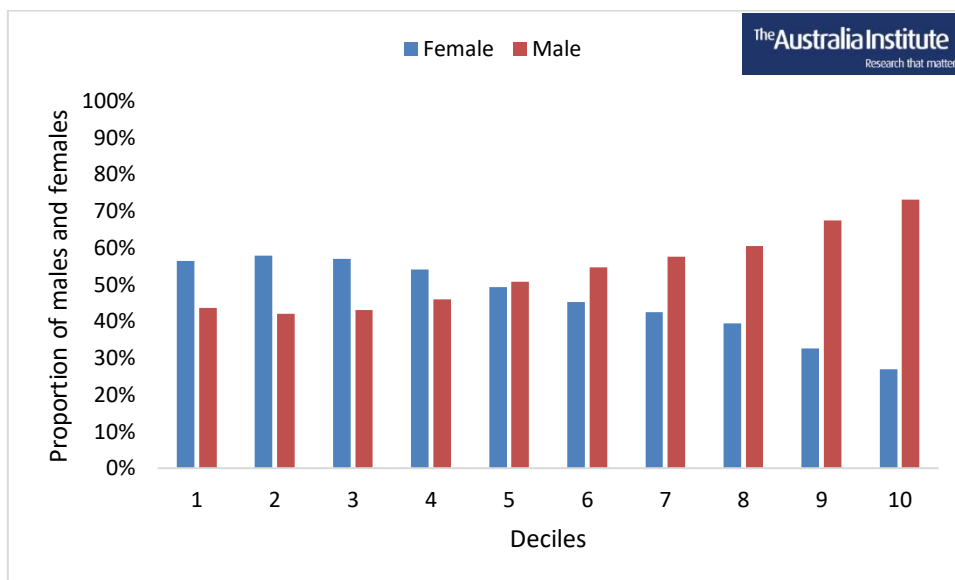


Source: Calculations by model described in Appendix A

The benefit flowing to high income men is so large that men in the ninth decile (those from the 81st to 90th percentile) receive more than twice the benefit from the tax cut (27 per cent of the total tax cut) than women in the top decile (12 per cent), even though the average income of men in the ninth decile is lower than the average income than women in the top decile.

The reason that men at the top end of the income distribution get much more of the benefit is that there are far more men on high incomes than women on high incomes. The proportion of men and women in each decile is shown in Figure 3. It shows that men outnumber women two to one in the top two deciles while women outnumber men in the bottom deciles.

Figure 3 – Proportion of women and men in each income decile



Source: Australian Tax Office (2020) *Taxation Statistics 2017-18: Individuals Table 16*, 17 July, available at <<https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2017-18/?anchor=Individualsdetailedtables#Individualsdetailedtables>>

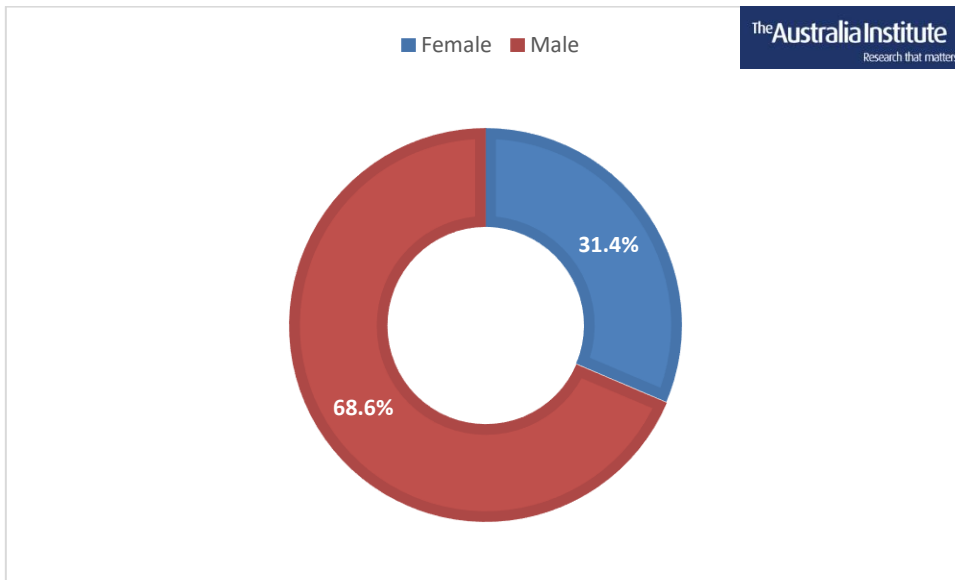
BRINGING FORWARD STAGE 2 AND 3 TO 2021-22

Previous Australia Institute modelling has shown that most of the benefit of bringing forward both stage 2 and stage 3 of the tax cut goes to high income taxpayers.⁷ The top 10 per cent of taxpayers would get 56 per cent of the benefit while the top 20 per cent would get 79 per cent of the benefit. Those on low incomes get little to no benefit. The bottom 20 per cent of taxpayers get no benefit. The bottom 30 per cent get one per cent of the benefit and the bottom half get only three per cent of the benefit.

The modelling results by gender for bringing forward both stage 2 and 3 show a similar result to just bringing forward stage 2. Men get more than twice the benefit of women. For every dollar of the tax cut women get, men get \$2.19. In total Men get 69 per cent of the tax cut and women get 31 per cent of the tax cut. This is shown in Figure 4.

⁷ Grudnoff M (2020) *Early tax cuts as stimulus*

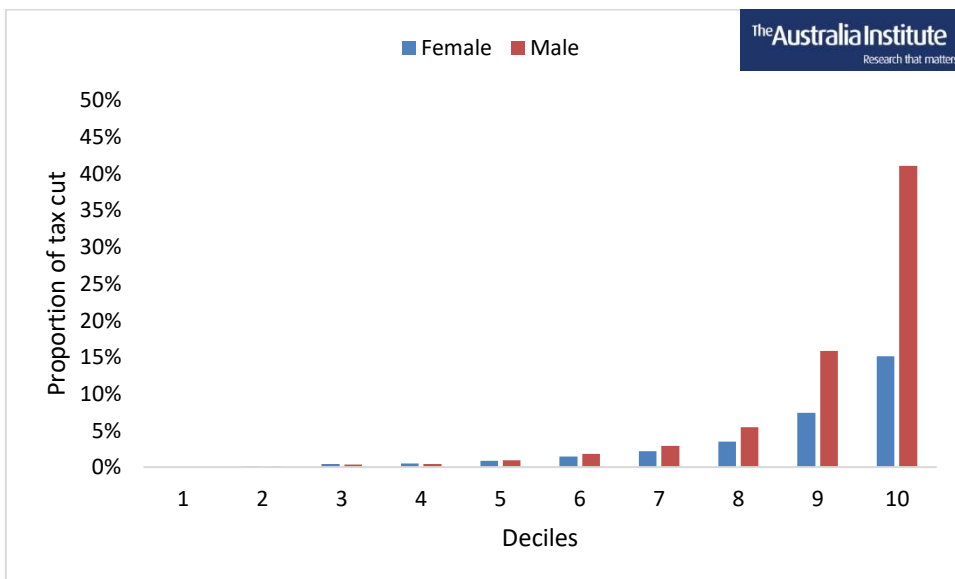
Figure 4 – Total benefit by gender if stage 2 & 3 are brought forward to 2021-22



Source: Calculations by model described in Appendix A

Figure 5 shows the gender split of the tax cut by income deciles. It shows that men in the top 10 per cent get 41 per cent of the tax cut. While women in the top 10 per cent get 15 per cent of the tax cut.

Figure 5 - Benefit by decile, split by gender, if stage 2 and 3 is brought forward to 2021-22



Source: Calculations by model described in Appendix A

The benefit flowing to high income men is so large that men in the ninth decile (those from the 81st to 90th percentile) receive more benefit from the tax cut (16 per cent)

than women in the top decile (15 per cent), even though the average income of men in the ninth decile is lower than the average income of women in the top decile.

POLICY IMPLICATIONS

Bringing forward these tax cuts will see men pay a smaller proportion of the total income tax and women pay a larger proportion. This will further exacerbate gender inequality.

Rather than spending billions of dollars bringing forward tax cuts that mainly go to high income men, the Government could better target that stimulus. This would not only make the stimulus more efficient, in that more jobs would be created for a given amount of money, but it could also benefit women.

Stimulus targeted at the unemployed would be better targeted at those most impacted by the recession. Rather than reducing unemployment benefits, as the Government is currently planning to do at the end of September, the Government could instead increase the coronavirus supplement.

Stimulating employment intensive industries like healthcare, aged care and education will be more efficient than bringing forward the tax cuts, as it will create more jobs for every million dollars of stimulus. These employment intensive industries also disproportionately employ women.

CONCLUSION

Bringing forward the tax cuts will mainly benefit high income earning men, with men getting more than twice the benefit of women. This will lead to more gender inequality.

Previous Australia Institute research has shown that bringing forward the tax cuts would be poor stimulus because it mostly benefits high income earners, who are more likely to save it than lower income earners.

Despite women facing a bigger impact from the recession, the Government's response has seemingly ignored them. The Government removed JobKeeper from early childhood workers, an industry dominated by women. At the same time, they have chosen to stimulate male dominated industries, like the construction, through the HomeBuilder scheme. Bringing forward tax cuts that mostly go to men is just another policy that will advantage men, while women are again left behind.

APPENDIX A

The Australia Institute has constructed a model of Australia's tax system using the latest taxation statistics.⁸ The model breaks down all taxpayers into 100 groups from the lowest income earners to the highest.

By inflating income by nominal GDP and calculating how much tax each group pays as each stage of the tax cut is brought forward to 2021-22, we calculated how much of the tax cut would go to each income decile.

The proportion of men and women in each percentile is then used to calculate how much of the tax cut goes to men and how much goes to women.

⁸ Australian Tax Office (2020) *Taxation Statistics 2017-18: Individuals Table 16*