

Gender distribution of the Government's 2019 tax plan

The first stage of the government's tax plan will see men and women receive an almost even split of the tax cuts. But men will receive almost double the amount women do from the later stages of the government's tax plan.

Author: Matt Grudnoff

June 2019

This paper will look at the gender distribution of the stage 3(a) tax cuts and compares that to the distribution of stage 1(a). It builds on a previous paper where The Australia Institute did an income distributional analysis of stage 3(a) of the tax cuts.¹ This paper finds that stage 3(a) of the tax cuts favours males by a ratio of almost two to one. That is, for every dollar of tax cuts females get, males will get about two dollars. By comparison, stage 1(a) has an almost even split between males and females.

THE COMBINED TAX PLAN

The Government is hoping to expand the tax cuts it legislated last year. Just like last year's tax cut plan, this latest plan has three stages. Each stage in this new plan expands a stage in the currently legislated tax cut plan.

The Government's tax plan has been put forward in the 2018 budget (2018 tax plan) and expanded on in the 2019 budget (2019 tax plan). The 2018 tax plan has already been legislated. None of the additional tax cuts in the 2019 tax plan have yet been legislated. The 2018 tax plan had three stages.

¹ Grudnoff M (2019) *The distribution of the Government's stage 3(a) tax cuts*, The Australia Institute, 31 May, available at <<http://www.tai.org.au/content/new-analysis-over-50-stage-3a-tax-cuts-benefit-go-highest-income-earners>>

Stage 1: This part of the plan comes into effect in 2018-19. It introduces a Low- and Middle-Income Tax Offset (LMITO) for a four-year period from 2018-19 to 2021-22. It also increases the threshold for the 32.5 per cent personal income tax bracket from \$87,000 to \$90,000.

Stage 2: This stage comes into effect in 2022-23, the year that the LMITO ends. It increases the Low-Income Tax Offset (LITO) which increases the maximum rate from \$445 to \$645. Stage 2 also increases the 19 per cent personal income tax bracket from \$37,000 to \$41,000. It also increases the 32.5 per cent personal income tax bracket from \$90,000 to \$120,000.

Stage 3: This stage comes into effect in 2024-25. It increases the upper bound of the 32.5 per cent personal income tax bracket from \$120,000 to \$200,000, which eliminates the 37 per cent personal income tax bracket and increases the threshold at which the top tax bracket of 45 per cent begins (previously it started at \$180,001, now it starts at \$200,001).

The 2019 tax plan expands the 2018 tax plan. It changes all three stages of the tax plan. For simplicity we will call these unlegislated stages 1(a), 2(a) and 3(a) to differentiate them from stages 1, 2 and 3 in the 2018 tax plan.

Stage 1(a): This would increase the amount of money available through the LMITO, increasing the maximum payment from \$530 to \$1080. The period that the LMITO has been legislated for (the four years 2018-19 to 2021-22) would be unchanged.

Stage 2(a): This stage would still come into effect in 2022-23. It would increase the LITO further, so the maximum rate would be \$700 (stage 2 increased it to \$645). It would add to the increase in the 19 per cent personal income tax bracket by increasing it to \$45,000 (stage 2 increased it to \$41,000).

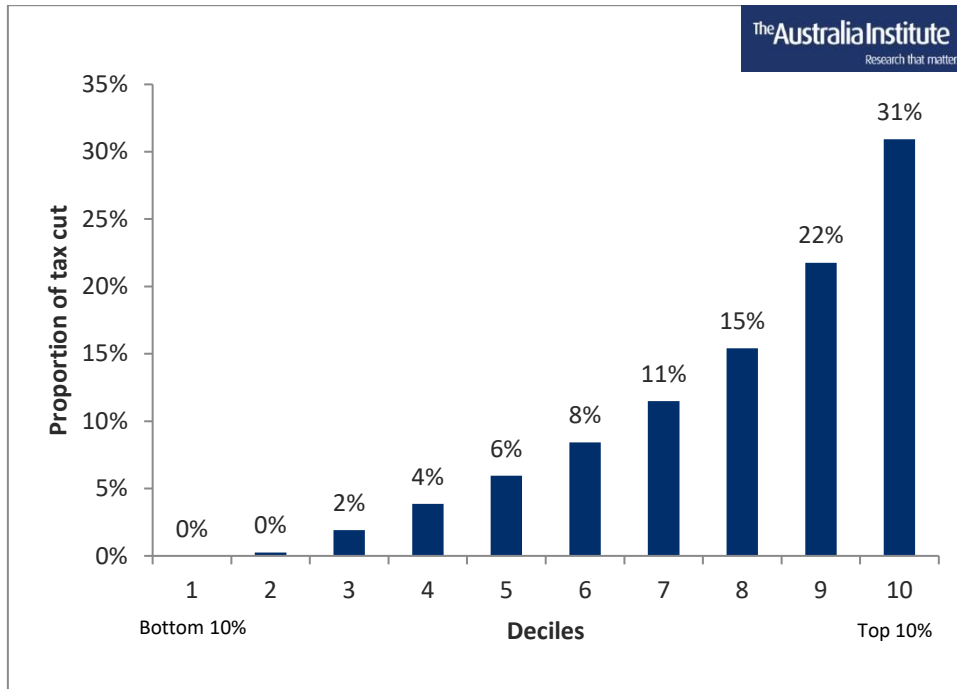
Stage 3(a): This stage would decrease the 32.5 per cent personal income tax rate to 30 per cent.

GENDER DISTRIBUTION OF STAGE 3(A)

Previous analysis shows that stage 3(a) flowed mainly to high income earners with almost a third going to the top 10 per cent of taxpayers and more than half going to

the top 20 per cent.² The bottom 10 per cent got none of the benefit and the bottom 20 per cent got 0.2 per cent. This is shown in Figure 1.

Figure 1 – Income distribution of stage 3(a) of the tax cuts in 20-24-25



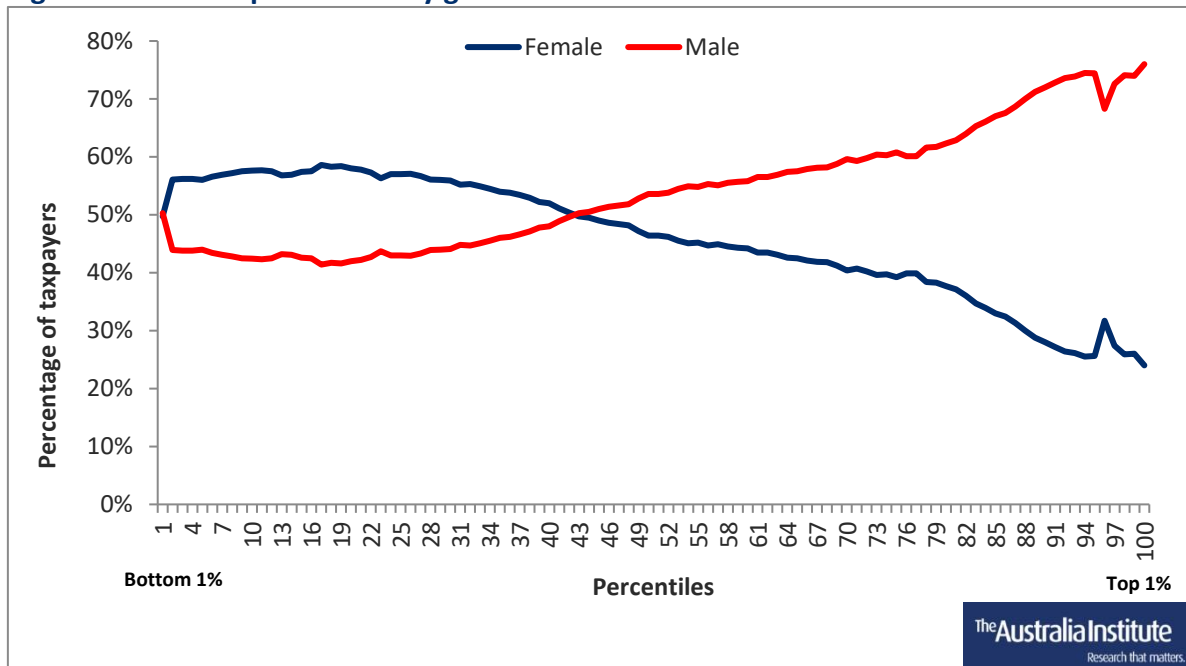
Source: Grudnoff M (2019) *The distribution of the Government’s stage 3(a) tax cuts*, The Australia Institute, 31 May, available at <<http://www.tai.org.au/content/new-analysis-over-50-stage-3a-tax-cuts-benefit-go-highest-income-earners>>

Males are more likely than females to earn higher incomes. Figure 2 below shows the percentage of males and females in each percentile of taxpayers. The first percentile has the lowest 1 per cent of taxpayers. The second percentile has the second lowest 1 per cent of taxpayers and so on until the 100 percentile has the top 1 per cent of taxpayers.

There are more females than males in each percentile up to the 42nd percentile, which equates to a taxable income of about \$50,000. For incomes above that, males make up most of each of the percentiles; men make up more than three quarters of the 100th percentile.

² Grudnoff M (2019) *The distribution of the Government’s stage 3(a) tax cuts*, The Australia Institute, 31 May, available at <<http://www.tai.org.au/content/new-analysis-over-50-stage-3a-tax-cuts-benefit-go-highest-income-earners>>

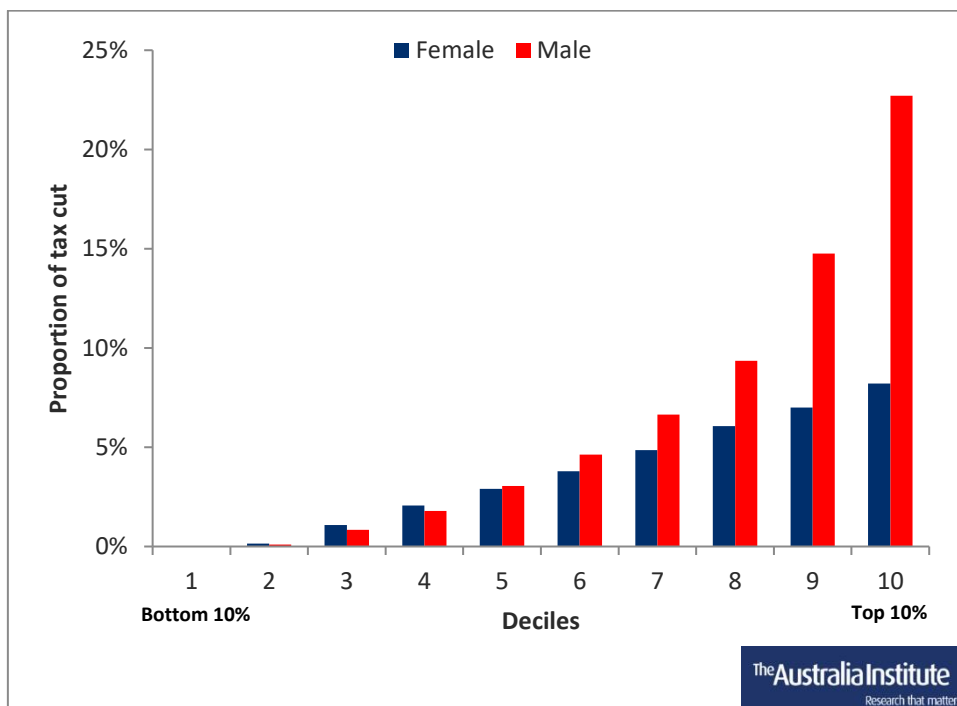
Figure 2 – Income percentiles by gender



Source: ATO (2018) *Taxation Statistics 2016-17*, Individual detailed tables, table 16, available at <https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2016-17/?anchor=Individualsdetailedtables#Individualsdetailedtables>

What this means is that income tax cuts that favour high income earners, like stage 3(a), also favour males. We can see this in Figure 3, which shows the proportion of the tax cut going to each decile by gender. For example, we know from Figure 1 that the top 10 per cent get 31 per cent of the tax cut. Of that 31 per cent, 23 per cent goes to males in the top 10 per cent and 8 per cent goes to females in the top 10 per cent.

Figure 3 - Benefit of stage 3(a) in 2024-25 by decile and gender



Source: Budget Paper 2, 2019-20 and author calculations (see Appendix 1: Method)

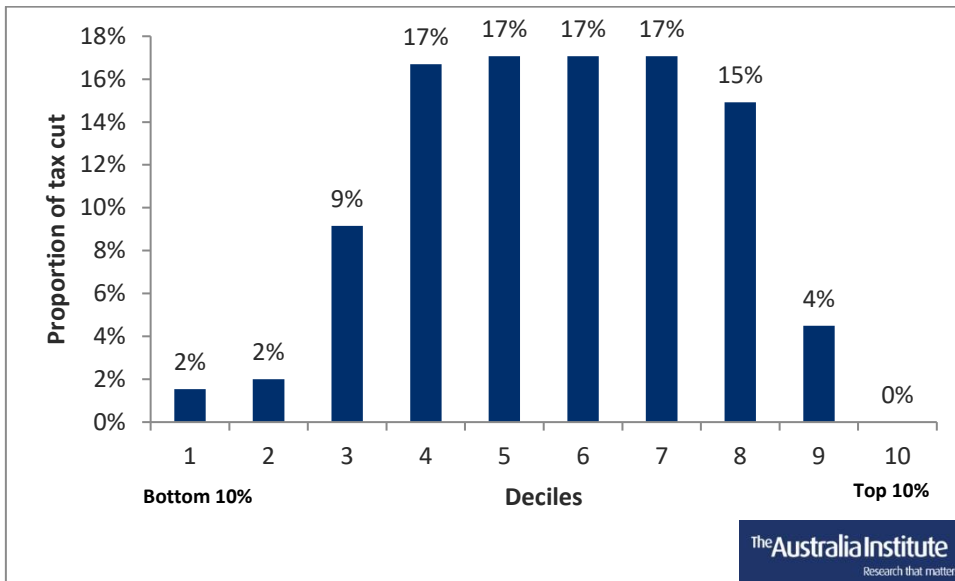
Figure 3 shows that the deciles that are dominated by females are also the deciles that get only a small proportion of the tax cut. The deciles that are dominated by males get most of the tax cut.

This means that most of the tax cut goes to males. In 2024-25, the first-year stage 3(a) comes into effect, about \$11 billion will go to males and about \$6 billion will go to females. This means males will get almost twice the benefit from the tax cut as females.

COMPARISON TO STAGE 1(A)

Tax cuts don't have to overwhelmingly flow to males. Figure 4 shows the income distribution of stage 1(a), which is much more even than stage 3(a). In 2018-19, the first-year stage 1(a) comes into effect, the split between females and males is almost equal (47 per cent to females and 53 per cent to males).

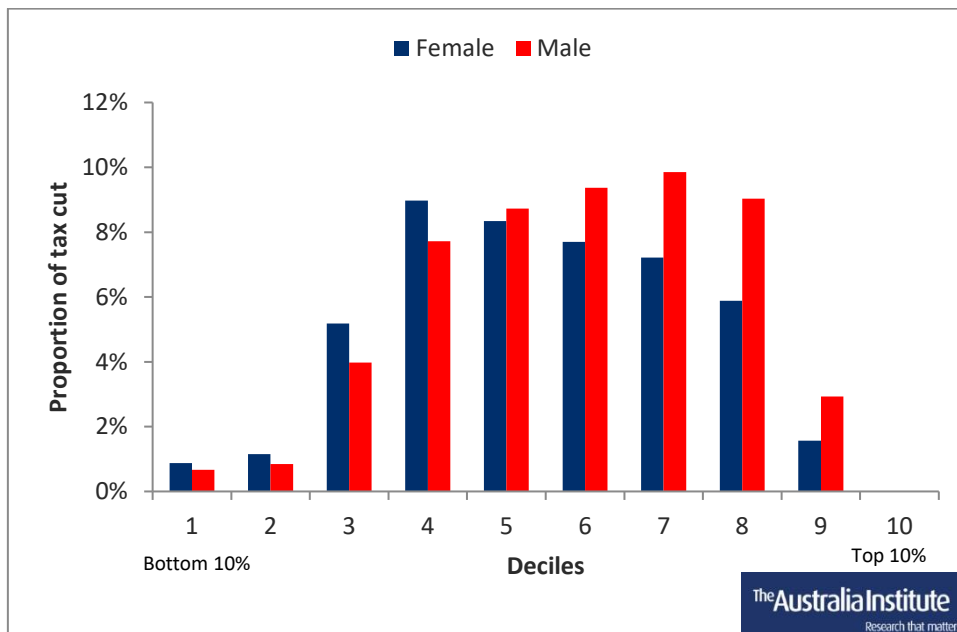
Figure 4 – Income distribution of stage 1(a) in 2018-19



Source: Grudnoff M (2019), Tax targets, The Australia Institute, 7 June, available at <http://www.tai.org.au/content/33-billion-delivered-those-earning-more-180k-unlegislated-income-tax-cuts-new-research>

Figure 5 shows the proportion of the tax cut going to each decile by gender for stage 1(a). The distribution of the tax cut is more even than stage 3(a), and it goes to deciles that have a larger proportion of females. The split between males and females is more even.

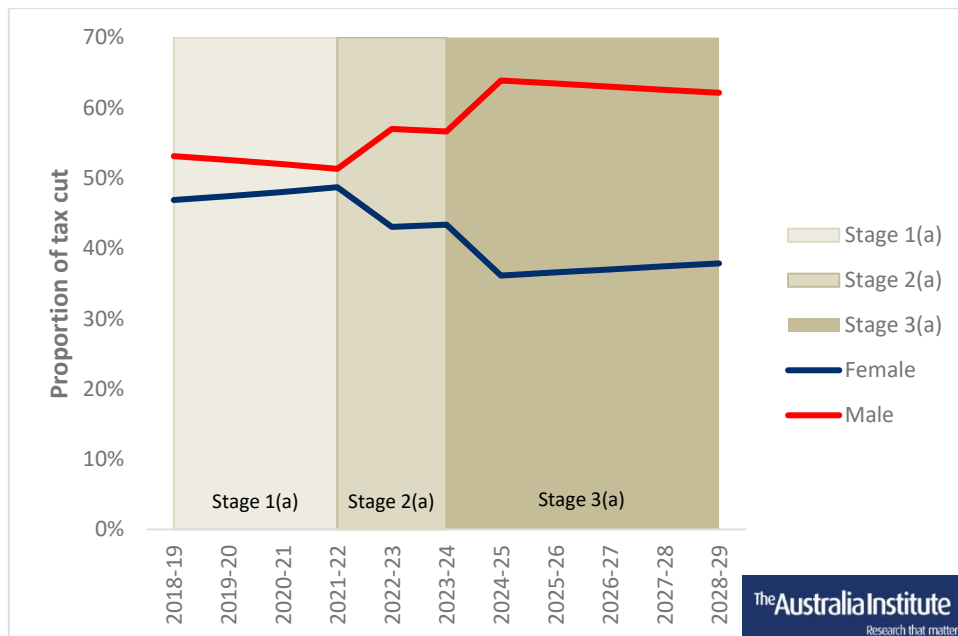
Figure 5 – Benefit of stage 1(a) in 2018-19 by decile and gender



Source: Budget Paper 2, 2019-20 and author calculations (see Appendix 1: Method)

If we look at all three stages of the unlegislated tax cut (stage 1(a), 2(a) and 3(a)), we can see that as each new stage comes into effect, males get a larger share of the tax cut. This can be seen in Figure 6.

Figure 6 – Benefit of each stage of the tax cut split by gender over the next 11 years



Source: Budget Paper 2, 2019-20 and author calculations (see Appendix 1: Method)

In stage 1(a) the tax cuts are fairly evenly split. When stage 2(a) begins in 2022-23 the female share falls from 49 per cent to 43 per cent. When stage 3(a) begins the female share falls to 36 per cent.

IMPLICATIONS OF MALE DOMINATED TAX CUTS

It is important to consider the gender imbalance of the beneficiaries of income tax cuts. In recent history, income tax cuts have heavily favoured high-income earners. Most of the benefit of the mining boom income tax cuts through the mid-2000s went to high income earners.³ The more recent increase in the 37 per cent threshold from \$80,000 to \$87,000 mainly benefited the top 20%.⁴ The most recent tax cuts passed

³ Grudnoff M (2013) *Tax cuts that broke the budget*, The Australia Institute, Policy brief, 14 May <<http://www.tai.org.au/content/tax-cuts-broke-budget>>

⁴ Grudnoff M (2016) *Good economics or populism?*, The Australia Institute, Policy brief, 3 May <<http://www.tai.org.au/content/income-tax-cuts-report>>

last year also flowed mainly to high income earners.⁵ The benefit of income tax cuts is overwhelmingly flowing to men.

Also concerning are the costs of these tax cuts. The permanent income tax cuts paid for by the temporary windfall gains of the mining boom contributed to the decade of deficits that followed the GFC. The large income tax cuts made it very difficult for the budget to generate enough revenue even when the economy improved.

In the 2014 Budget, the current government attempted to reduce the deficit by cutting government spending. The Australia Institute looked at the impacts of the 2014 Budget and found that the proposed cuts impacted females more than males. 55% of the cut was borne by females and 45% by males.⁶

The result of this is that men got most of the benefit of the tax cuts while women had the most to lose from the spending cuts. This cycle of tax cuts and spending cuts further entrenches income inequality between men and women.

If the current round of income tax cuts occurs, they may provoke another round of budget cuts in future years. It is likely that women will again be most disadvantaged by this process. Whether deliberate or not, this cycle of tax cut and spending cut is making gender inequality worse.

APPENDIX 1: METHOD

We have calculated the benefit of the tax cut flowing to females and males using the latest taxation statistics. Using the taxation statistics, we have constructed a model of Australia's income tax system. We then broke down all taxpayers into 100 groups from the lowest income earners to the highest and the proportion of females and males in each group. By inflating income by nominal GDP and calculating how much each group pays as the income tax cut is introduced, we then calculated how much of the tax cut went to females and how much went to males.

⁵ Grudnoff M (2018) *Income tax cuts in 2018 Budget will largely benefit men*, The Australia Institute, 16 May, available at <<http://www.tai.org.au/content/gender-gap-2018-budget-personal-tax-plan>>

⁶ Grudnoff M (2014) *The budget's hidden gender agenda*, The Australia Institute, Policy brief, 4 December <<http://www.tai.org.au/content/budget%E2%80%99s-hidden-gender-agenda>>