

Divided nation

The Stage 3 tax cuts broken down by city and country electorates

The 20 electorates that will benefit the most from Stage 3 are all classified as metropolitan, with 10 in Sydney, five in Melbourne, three in Brisbane, and one in Perth and Canberra. Of the 20 electorates that benefit the least, 12 are classified as rural.

Discussion paper

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Summary

While the inherent inequality of the Stage 3 tax cuts is widely understood—with higher income earners to benefit disproportionately from the policy—the geographic implications of that inequality are not.

This paper calculates how the Stage 3 tax cuts will be distributed amongst all 151 federal electorates in Australia. This analysis finds that the lion's share of Stage 3 cuts will go to seats classified by the Australian Electoral Commission (AEC) as Inner Metropolitan seats, a classification only applied to seats in capital cities. Of the 20 electorates that benefit most from Stage 3, 17 are Inner Metropolitan seats. Half of these electorates are in Sydney, and a quarter in Melbourne.

By contrast, electorates classified by the AEC as Rural benefit the least from the Stage 3 cuts: 12 of the 20 electorates (60%) that get the least benefit from Stage 3 are Rural seats.

These results reflect the fact that the Stage 3 tax cuts will go mainly to high income earners. About half of the Stage 3 tax cuts over the next 10 years will go to people earning more than \$180,000 per year. Those on less than \$45,000 per year, meanwhile, will save nothing at all.

This analysis shows that the high-income earners who will benefit most from the tax cuts are largely clustered in the Inner Metropolitan areas of our large capital cities. Rural areas, on the other hand, are more likely to be home to lower income earners, who will receive little or no benefit from Stage 3.

There is already a stark income divide between Australia's capital cities and its rural areas. The Stage 3 tax cuts will only widen this divide, giving an oversized benefit to those with the most, and almost no benefit to those with the least.

Introduction

The Coalition Government legislated changes to personal income tax in 2018, 2019 and 2020, which are collectively referred to as the Personal Income Tax Plan. The plan was split into three stages, with the first two stages affecting mainly low- and middle-income earners. These have already come into effect.

The third stage of this plan—the so-called Stage 3 tax cuts—are scheduled to come into effect in July 2024. They are the most controversial stage of the plan, because their benefits flow largely to high income earners.

They continue to feature strongly in Australian political debate because, before the 2019 election, the Labor Party committed to repealing them. However, in the lead-up to the 2022 election, Labor changed course, and committed to keeping the already legislated tax cuts.

By cutting their marginal rate of tax and increasing the minimum income threshold for the top tax bracket, Stage 3 cuts will benefit high-income earners. Those earning less than \$45,000 gain no benefit from these changes. These tax cuts will:

- Increase the annual income threshold at which the top tax bracket is applied (from \$180,001 to \$200,001);
- Remove the second-highest bracket, which previously applied tax at 37% on income between \$120,001 and \$180,000; and
- Lower the income tax rate for the new bracket (that extends from \$45,001 to \$200,000) from 32.5% to 30%.

Table 1: Marginal tax rates before and after the Stage 3 tax cuts

| Income bracket | Before Stage 3 | After Stage 3 |
|-------------------------------|----------------|---------------|
| \$18,200 | None | None |
| \$18,201 to \$45,000 | 19% | 19% |
| \$45,001 to \$120,000 | 32.5% | 30% |
| \$120,001 to \$180,000 | 37% | 30% |
| \$180,001 to \$200,000 | 45% | 30% |
| \$200,000 plus | 45% | 45% |

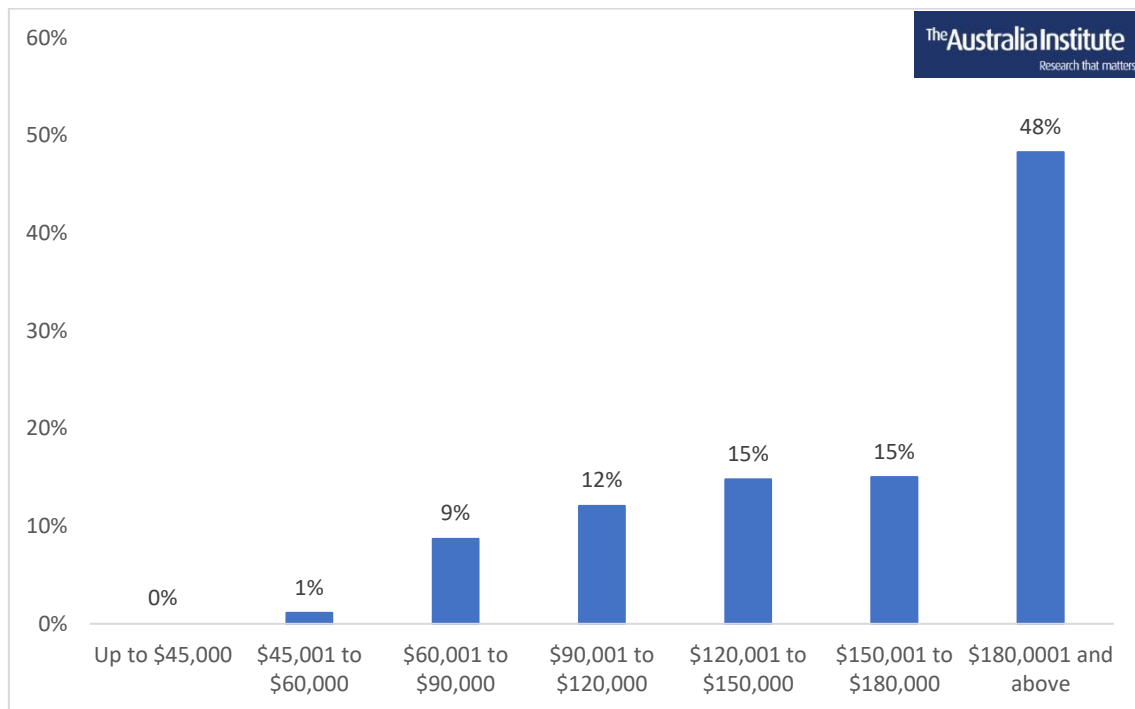
Source: Author's calculations based on latest government figures

The Stage 3 tax cuts will have a large impact on the Federal Government's budget, costing \$254 billion over the next 10 years. In 2024-25, their first year of operation, the

tax cuts will cost \$17.7 billion—more than the government spends on JobSeeker income support or the Child Care Subsidy.

The latest government estimates show that, over the next decade, those earning over \$180,000 will receive almost half of the benefit from Stage 3 (48%).¹ In 2019-20, people earning over \$180,000 comprised 4% of all taxpayers.² The distribution of the benefit of Stage 3 tax by income brackets over the first 10 years of its operation is shown in Figure 1.

Figure 1: Distribution of Stage 3 tax cuts by income bracket, 2024 to 2033



Source: Author’s calculations based on Parliamentary Budget Office (2022) *Costings – Stage 3 tax cuts distributional analysis*

In their first year of operation, 80% of the benefit of the Stage 3 cuts will flow the highest-earning 20% of taxpayers. The lowest earning 40%, by contrast, will receive no benefit at all.

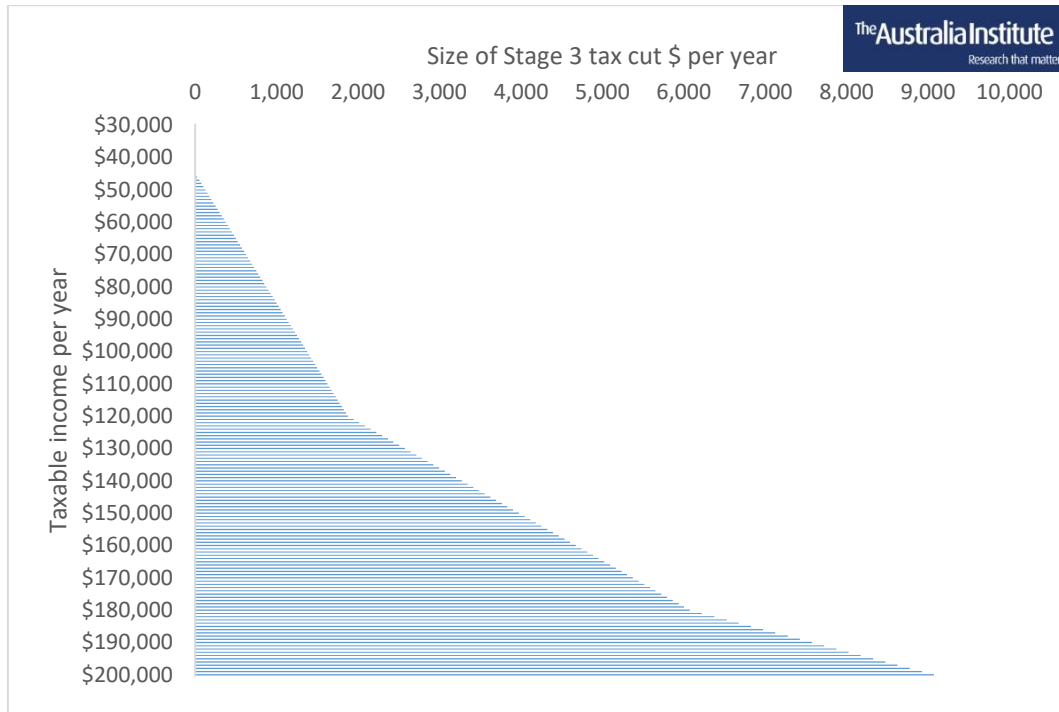
Figure 2 shows taxable incomes in \$1,000 increments, from \$30,000 per year to \$200,000 per year, along with the size of the associated Stage 3 tax cut. It shows how the benefits rise with income: a person on a salary of \$200,000 will receive an annual

¹ Parliamentary Budget Office (2022) *Costings – Stage 3 tax cuts distributional analysis*

² Australian Tax Office (2022) *Taxation Statistics 2019-20, Individuals – Table 4*

tax cut of \$9,075, while those earning a \$50,000 salary will receive a cut of only \$125. Taxpayers earning \$45,000 or less will receive nothing.

Figure 2: Gain from Stage 3 for incomes from \$30,000 to \$200,000 per year



Source: Author's calculations

Figure 2 also shows that the level of benefit increases more rapidly for higher tiers of income. For taxable incomes between \$45,000 and \$120,000, the benefit of the tax cut increases at a rate of 2.5 cents for each extra dollar of income earned. After \$120,000, however—the threshold for the old 37% tax bracket—the rate at which the benefit increase accelerates to 7 cents for each extra dollar of income earned.

For incomes between \$180,000 and \$200,000— which previously fell into the highest bracket, but which will fall into the newly-created 30% bracket—the savings accrue even more quickly, at 15 cents for each extra dollar earned. The maximum value of the cuts, for a taxable income of \$200,000, is \$9,075. Above this level, marginal tax will continue to be applied at the existing rate of 45%.

While it is widely understood that the Stage 3 cuts create greater inequality between income earners, the geographic implication of this inequality is not as well understood. To address this, the following sections assess how the tax cuts affect income earners in different federal electorates.

It is important to remember that, while some electorates receive far greater tax cuts than others, these tax cuts do not benefit everyone in an electorate, only the highest

income earners. While some electorates have a larger group of high-income earners, even these electorates will see many people get little or no benefit from the Stage 3 cuts.

Method

In order to study the geographic distribution of the Stage 3 tax cuts, this paper takes taxation statistics by postcode from the Australian Tax Office (ATO) and aggregates them into federal electorates, officially called Commonwealth Electoral Divisions. The taxation statistics, from 2019–20 (the latest year available), show the number of people in each tax bracket by postcode. The tax brackets in 2019–20 were:

- Less than or equal to \$18,200;
- \$18,201 to \$37,000;
- \$37,001 to \$90,000;
- \$90,001 to \$180,000; and
- More than \$180,000.

We then aggregated the ATO postcode data into Commonwealth Electoral Divisions (from 2019) using a correspondence from the Australian Bureau of Statistics (ABS). The ABS correspondence allocates each postcode to a Commonwealth Electoral Division. When a postcode straddles multiple electorates, the ABS provides a proportion of the postcode that belongs to each electorate. Once all ATO postcode data was allocated to an electorate, we added up the number of taxpayers in each tax bracket for each electorate.

This aggregation allowed us to estimate the number of taxpayers in each income bracket in each electorate. In particular, we estimated the number of people earning over \$180,000 per year. This is an important group because, while they make up only a small proportion of taxpayers—about 4%—they will get almost half the benefit of the Stage 3 tax cut over the next 10 years.

After calculating the number of taxpayers in each tax bracket in each electorate, we then calculated the proportion of each electorate’s taxpayers in each tax bracket. Using information from the Parliamentary Budget Office on how much of the tax cut will go to each tax bracket, we then calculated the total amount of Stage 3 cuts going to each electorate.³

³ The details of this calculation can be found in Appendix A.

CLASSIFYING FEDERAL ELECTORATES

The Australian Electoral Commission (AEC) classifies federal electorates into four geographic classifications: Inner Metropolitan, Outer Metropolitan, Provincial and Rural.⁴ Both Metropolitan classifications cover electorates in capital cities. In Provincial electorates, a majority of enrolled voters live in a major provincial (non-capital) city. Rural electorates are areas outside capital cities where a majority of enrolled voters do not live in a major provincial city. Table 2 shows the number of electorates in each classification, and their proportion of all electorates.

Table 2: AEC federal electorate classification

| Demographic classification | Number of electorates | Proportion of electorates |
|----------------------------|-----------------------|---------------------------|
| Inner Metropolitan | 45 | 30% |
| Outer Metropolitan | 43 | 28% |
| Provincial | 25 | 17% |
| Rural | 38 | 25% |
| Total | 151 | 100% |

Source: Australian Electoral Commission (2022) *Demographic classification of electoral divisions*

⁴ Australian Electoral Commission (2022) *Demographic classification of electoral divisions*, <https://www.aec.gov.au/Electorates/maps.htm>

The impact of Stage 3 tax cuts by electorate

All 151 electoral divisions were ranked by the total reduction in tax payments that the Stage 3 cuts would provide to taxpayers in each electorate. Figure 3 shows the reduction in tax revenue expected in all 151 electorates, in 2024-25, colour coded between Inner Metropolitan, Outer Metropolitan, Provincial and Rural seats.

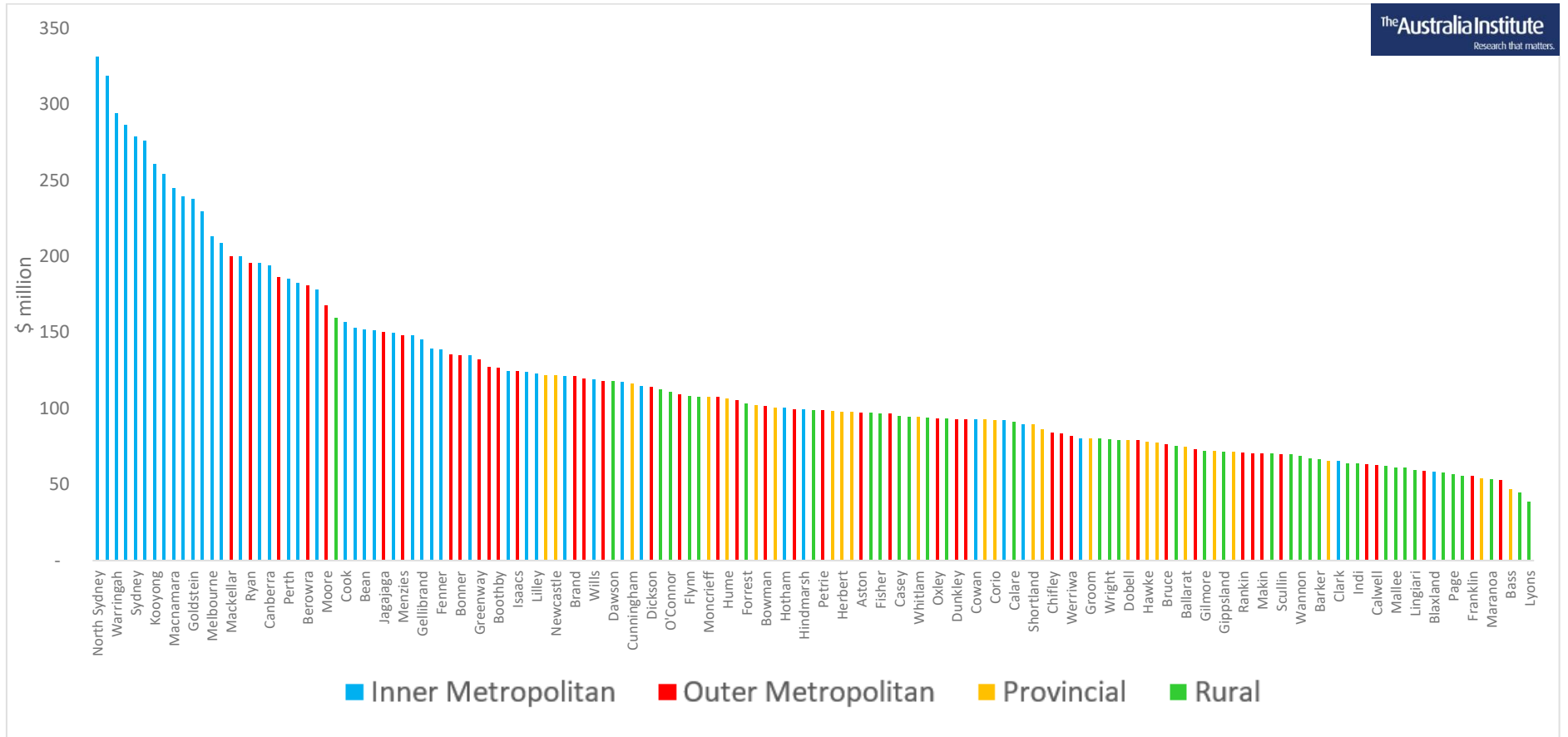
Inner Metropolitan electorates dominate the list of electorates that get the most benefit from Stage 3. Outer Metropolitan and Provincial electorates are spread more evenly across the range. Rural electorates are mainly in the bottom half of beneficiaries, and are overrepresented in the very bottom electorates.

There are large differences in the size of the tax cut between electorates. Taxpayers in the Division of Lyons (Tasmania)—the electorate that will benefit least from Stage 3—will pay just \$39 million less tax per year. In contrast, taxpayers in the Division of North Sydney – the electorate that will benefit the most – will benefit from cuts totalling \$331 million. This means that North Sydney will get about eight and half times the tax cut that Lyons will receive.

There is also a considerable difference in the proportion of taxpayers in each of these electorates who earn more than \$180,000 per year. This is the group that will get the most from the Stage 3 cuts. In the Division of North Sydney, 14% of taxpayers earn more than \$180,000 per year. While in the Division of Lyons, only 1% of taxpayers earn more than \$180,000 per year.

The uneven distribution of the Stage 3 tax cuts also distorts the average benefit going to electorates. Only the top 55 electorates will receive more than the average amount of the tax cut, with 96 electorates receiving a below average amount. This is because the size of the tax cut going to those electorates getting the most is so large that it is distorting the average.

Figure 3: Reduction in tax revenue due to Stage 3 tax cuts by inner/outer metro, provincial and rural electorate, per year



Source: Author’s calculations based on taxation statistics (2018-19) and PBO (2022) costings (see Appendix A). Note: the names of the 151 electorates do not all fit onto Figure 3. Information on each electorate can be found in tables below, in forthcoming publications or by request.

Figure 3 shows that the 14 electorates that will benefit most from the Stage 3 tax cuts are all Inner Metropolitan seats. The two Outer Metropolitan seats that rank highest, at numbers 15 and 17 respectively, are Mackellar, which is on Sydney's northern beaches, and Ryan, which is less than 10km from Brisbane's CBD.

A total of 55 electorates (around 36% of all electorates) will receive a higher-than-average benefit from the Stage 3 tax cuts. Only four of these are Provincial or Rural seats and, importantly, each has characteristics that makes it atypical. Specifically, each of these seats either enjoys significant mining industry employment, which pushes up average earnings, or contains a large number of people commuting to capital cities:

- The highest-ranking Rural electorate—Durack, at number 27—is a vast Western Australian electorate that takes in many iron ore mines, major offshore gas projects, and some other mining regions, all of which appear likely to increase the number of high-income earners;
- The highest-ranking Provincial electorate—Capricornia, at number 48—also has a large mining presence: it is in the Bowen Basin coal mining region of Queensland, and takes in the regional city of Rockhampton, along with parts of Mackay;
- The next highest Provincial electorate—Newcastle, at number 49—covers a large city with a university, a CBD, and a large number of residents who commute to Sydney; and
- The final non-Metropolitan electorate to receive a higher-than-average cut—Dawson, at number 55—is a rural Queensland electorate that also covers mining and gas hubs.

This demonstrates that the handful of Provincial and Rural electorates that are likely to see above-average reductions in tax collection are not typical of regional Australia.

Top 20 electorates

Table 3 shows the top 20 electorates by total reduction in Stage 3 tax payments. The top 14 are all Inner Metropolitan seats. There are only three Outer Metropolitan seats, and no seats outside a capital city.

Table 3: Top 20 electorates by Stage 3 tax cut in 2024-25

| Electorate | State | AEC regional classification | Amount of Stage 3 (millions) | Party |
|-----------------|-------|-----------------------------|------------------------------|-------|
| North Sydney | NSW | Inner Metropolitan | \$331 | IND |
| Wentworth | NSW | Inner Metropolitan | \$319 | IND |
| Warringah | NSW | Inner Metropolitan | \$294 | IND |
| Curtin | WA | Inner Metropolitan | \$286 | IND |
| Sydney | NSW | Inner Metropolitan | \$279 | ALP |
| Bradfield | NSW | Inner Metropolitan | \$276 | LIB |
| Kooyong | VIC | Inner Metropolitan | \$261 | IND |
| Higgins | VIC | Inner Metropolitan | \$254 | ALP |
| Macnamara | VIC | Inner Metropolitan | \$245 | ALP |
| Brisbane | QLD | Inner Metropolitan | \$239 | GRN |
| Goldstein | VIC | Inner Metropolitan | \$238 | IND |
| Grayndler | NSW | Inner Metropolitan | \$229 | ALP |
| Melbourne | VIC | Inner Metropolitan | \$213 | GRN |
| Kingsford Smith | NSW | Inner Metropolitan | \$209 | ALP |
| Mackellar | NSW | Outer Metropolitan | \$200 | IND |
| Griffith | QLD | Inner Metropolitan | \$200 | GRN |
| Ryan | QLD | Outer Metropolitan | \$196 | GRN |
| Reid | NSW | Inner Metropolitan | \$196 | ALP |
| Canberra | ACT | Inner Metropolitan | \$194 | ALP |
| Mitchell | NSW | Outer Metropolitan | \$186 | LIB |

Source: Author's calculations based on taxation statistics (2018-19) and PBO (2022) costings (see Appendix A)

Of the seats listed in Table 3, half are in Sydney, five are in Melbourne, three in Brisbane, and one each in Perth and Canberra. In total, taxpayers in the top 20 electorates listed in Table 3 will pay \$4.8 billion less in tax in 2024-25 due to Stage 3.

Bottom 20 electorates

Table 4 shows the 20 electorates receiving the smallest tax cut under Stage 3. There are 12 Rural, five Outer Metropolitan and two Provincial electorates, but only one Inner Metropolitan electorate.

Table 4: Bottom 20 electorates by Stage 3 tax cut in 2024-25

| Electorate | State | AEC regional classification | Value of Stage 3 (millions) | Party |
|-------------|-------|-----------------------------|-----------------------------|-------|
| Lyons | TAS | Rural | \$39 | ALP |
| Braddon | TAS | Rural | \$44 | LIB |
| Bass | TAS | Provincial | \$47 | LIB |
| Spence | SA | Outer Metropolitan | \$53 | ALP |
| Maranoa | QLD | Rural | \$53 | NAT |
| Hinkler | QLD | Provincial | \$54 | NAT |
| Franklin | TAS | Outer Metropolitan | \$55 | ALP |
| Lyne | NSW | Rural | \$55 | NAT |
| Page | NSW | Rural | \$57 | NAT |
| Nicholls | VIC | Rural | \$58 | NAT |
| Blaxland | NSW | Inner Metropolitan | \$58 | ALP |
| Fowler | NSW | Outer Metropolitan | \$59 | IND |
| Lingiari | NT | Rural | \$59 | ALP |
| New England | NSW | Rural | \$61 | NAT |
| Mallee | VIC | Rural | \$61 | NAT |
| Wide Bay | QLD | Rural | \$62 | NAT |
| Calwell | VIC | Outer Metropolitan | \$63 | ALP |
| Kingston | SA | Outer Metropolitan | \$63 | ALP |
| Indi | VIC | Rural | \$63 | IND |
| Monash | VIC | Rural | \$64 | LIB |

Source: Author's calculations based on taxation statistics (2018-19) and PBO (2022) costings (see Appendix A)

In total, taxpayers in the bottom 20 electorates listed in Table 4 will pay \$1.1 billion less tax in 2024-25 due to the Stage 3 cuts.

Conclusion

The Stage 3 tax cuts will give only limited benefit to most Australians, with the majority of the benefit going to a small number of high-income-earning taxpayers. As this analysis shows, these high-income earners are disproportionately clustered in the Inner Metropolitan electorates of Australia's capital cities, particularly in Sydney and Melbourne. Of the 20 electorates that will benefit most from Stage 3, 17 are classified by the AEC as Inner Metropolitan seats. Half of these seats are in Sydney, and a quarter are in Melbourne.

Rural electorates are more likely to be home to low-income earners who get little or no benefit from Stage 3. It is therefore not surprising that these electorates dominate the list of seats getting the least benefit from the Stage 3 tax cuts. Rural seats make up 60% of the 20 electorates that get the least from Stage 3 cuts.

There is already a stark income divide between Australia's capital cities and rural and regional areas. The Stage 3 tax cuts will make this divide even larger.

Appendix A

The dollar value of tax cuts to people in a certain tax bracket in each electorate for 2024-25 has been calculated as follows:

$$Tax\ cuts_{i,e} = \frac{Cost\ of\ tax\ cuts_i * N_{i,e}}{N_i}$$

Where

$Tax\ cuts_{i,e}$ = Total value of tax cuts to all people in income bracket i in electorate e

$Cost\ of\ tax\ cuts_i$ = Total cost of tax cuts going to people in income bracket i in 24-25⁵

$N_{i,e}$ = Number of people in tax bracket i electorate e

N_i = Number of people in tax bracket i across all electorates

Value of tax cuts going to each electorate has been calculated as

$$Tax\ cuts_e = \sum_i Tax\ cuts_{i,e}$$

Where

$Tax\ cuts_e$ = Total value of tax cuts going to electorate e

$Tax\ cuts_{i,e}$ = Total value of tax cuts to all people in income bracket i in electorate e

⁵ See Table B3 in Parliamentary Budget Office (2022), *Stage 3 Tax Cuts Distributional Analysis*, https://www.aph.gov.au/-/media/05_About_Parliament/54_Parliamentary_Depts/548_Parliamentary_Budget_Office/Costings/Publicly_released_costings/2022/Stage_3_tax_cuts_distributional_analysis_updated_PDF.pdf?la=en&hash=7A6C7350261623ECC11268D806C00A821B1DDC7F; Tax cuts to the \$37,000-\$90,000 bracket have been estimated as the sum of tax cuts to the \$45,001-\$60,000 bracket and the \$60,001-\$90,000 bracket; Tax cuts to the \$90,001-\$180,000 bracket have been calculated as the sum of tax cuts to the \$90,001-\$120,000 bracket, \$120,001-\$150,000 and the \$150,001-\$180,000 bracket.