

# A Better Stage 3

## Fairer tax cuts for more Australians

*The Stage 3 cuts are a high-cost, inequitable policy. Re-examining the policy presents the Albanese government with the opportunity to deliver bigger and fairer tax cuts to most Australians while providing scope for greater spending on infrastructure, programs or benefits.*

Discussion paper

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# Summary

The Stage 3 cuts due to come into effect in July 2024 are the most expensive and most inequitable tax cuts in Australia's history. The cuts are the third and final stage of the Turnbull and Morrison government's tax reform policy. Stages one and two, implemented in 2018 and 2020 respectively, provided modest savings for low- and middle-income earners, and were relatively uncontroversial.

By contrast, the Stage 3 cuts comprise significant reductions in the tax collected on annual income between \$45,000 and \$200,000. The Parliamentary Budget Office's latest calculations estimate that over the first 10 years after the cuts come into effect, they will mean that the Federal Government will collect \$320 billion less tax revenue than it would have done otherwise. In the first year alone, the cuts are estimated to cost \$21 billion in foregone revenue. This is \$1 billion less than the entire budget surplus for 2022–23, equal to the annual budgeted expenditure for financial support for People with Disability in 2024–25, and some \$6 billion more than the amount budgeted for Job Seeker Income Support.

If the Stage 3 tax cuts were listed as expenditure, they would be the ninth most expensive program item in the budget. Meanwhile, rising prices and costs have led to reports of budget blowouts of more than \$33 billion over the next 10 years for Commonwealth Government infrastructure programs. Placing an additional strain on the budget will undermine the government's ability to address these problems, and also leave Australia with a much less progressive personal tax system.

Much of the debate about the Stage 3 cuts has been based around the suggestion that the Albanese government is faced with an all-or-nothing choice: the Stage 3 cuts must either be delivered as they were legislated under the Morrison Government or cancelled completely.

In reality, neither of these options is politically feasible or economically appropriate.

Failing to deliver tax cuts would open the government up to damaging political attacks: they would be accused of breaking promises, and of leaving Australians worse off in doing so. Equally, as explained above, delivering the cuts as envisaged by the Coalition government would be both hugely costly and unnecessarily inequitable.

However, there is a third option: repurposing the cuts to address problems with the existing tax system, but doing so without enriching a minority at the expense of the majority. The Coalition government's rationale for the Stage 3 cuts was to address the problem known as "bracket creep", whereby taxpayers end up being taxed at a higher marginal rate without any commensurate increase to their real income. Bracket creep is often driven by inflation—if consumer prices rise rapidly and wages increase to keep

pace, but the thresholds of marginal tax rates are not adjusted to reflect these higher incomes, taxpayers can end up in higher income brackets for tax purposes while still effectively earning the same real wages.

This is a genuine problem: the Parliamentary Budget Office has estimated that bracket creep over the next decade is set to be a major driver of increased average income tax rates over the next decade. However, as designed, the Coalition government's Stage 3 tax cuts do very little to address that problem.

The Parliamentary Budget Office notes that bracket creep has the strongest effects on those earning just above \$45,000 tax, the threshold at which the marginal rate currently increases from 19% to 32.5%. However, the Parliamentary Budget Office also estimates that 72% of the benefit of the Stage 3 cuts will go to the richest 20% of taxpayers—those who are least affected by bracket creep.

This situation provides a unique opportunity for the Albanese government to keep its promise to deliver Stage 3 tax cuts, but to amend them to be fit for purpose. Doing this would mean providing larger tax cuts to those low- and middle-income earners most affected by both bracket creep and the recent increases in inflation. This would address the problem of bracket creep while also reducing the overall cost to the budget.

This paper proposes four alternative changes to the tax system. Each proposition would deliver equal or larger tax cuts to all those earning less than at least \$124,600 than the existing Stage 3 policy and would do so while costing between \$70 billion and \$130 billion less over the first 10 years than the proposed Stage 3 cuts.

Under these alternatives, a person on today's median annual income of \$65,000 would be between \$200 and \$872 a year better off than under the Coalition government's Stage 3 policy, while someone on the current average full-time earnings of around \$100,000 would be between \$522 and \$868 better off a year than they would under Stage 3.

Adopting one of these alternatives would allow the Albanese government to keep its promise to deliver tax cuts, but also ensure that those cuts are better targeted, providing a larger cut for around 80% of taxpayers, while also providing at least a \$2,197 tax cut to those in the highest tax bracket.

It is worth noting that each of these alternatives is so much less costly to the Budget than the existing policy that in all four cases, the government would be able to provide tax cuts while also having enough money left over to lift the level of Jobseeker to that of the Age Pension—and do so while still spending less in the first 10 years than it would if it adopted the Coalition government's Stage 3 cuts.

Truly Stage 3 fairer, Stage 3 better.

# Introduction

The Morrison government planned for the third stage of its tax cut policy to come into effect after the 2022 federal election. This naturally led to speculation about what would happen to the policy if the LNP lost power. In July 2021, the ALP set this speculation to rest, pledging to implement the Coalition government’s Stage 3 tax cuts should it win the 2022 election.<sup>1</sup>

This pledge has often been cast as a millstone for the now Labor Government, given that the Stage 3 cuts will deliver the greatest benefits to those on the highest incomes in a manner that significantly reduces the progressive nature of Australia’s personal income tax system, and does so at a massive cost to the budget.

The Stage 3 cuts are currently set to come into effect in July 2024. In May 2023, the Parliamentary Budget Office estimated that the Stage 3 cuts would cost \$313 billion in their first 10 years of operation (from 2024-25 to 2033-34)—and that 72% would go to those in the highest income quintile.<sup>2</sup> In late June 2023, the Parliamentary Budget Office released a new version of its “Build your Own Budget” tool, which included revised estimates for GDP, employment and wage growth, as well as new projections for interest rates and inflation. Using this tool, The Australia Institute was able to estimate the Stage 3 tax cuts will in fact cost an estimated \$320 billion in foregone revenue over the first 10 years, along with a further \$57 billion in increased interest repayment costs due to higher levels of government debt.<sup>3</sup> Thus the full cost of Stage 3 is now \$377 billion out to 2033-34. This represents an extra 9% of GDP in government debt that would not be incurred were the tax cuts not to be implemented.

Such a massive cost could perhaps be justified were it to result in a better and fairer Australia. However, the Stage 3 tax cuts will do the exact opposite: they will serve only to make Australia’s tax system less progressive by reducing the average tax rates of high-income earners relative to those on low-middle incomes, and gift an annual

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<sup>1</sup> Jim Chalmers (2021) “Labor to Deliver Income Tax Cuts and Certainty on Negative Gearing”, <https://anthonyalbanese.com.au/media-centre/labor-to-deliver-income-tax-cuts-and-certainty-on-negative-gearing-26-july-2021>

<sup>2</sup> Parliamentary Budget Office (2023) *Distributional analysis of the Stage 3 tax cuts*, <https://www.pbo.gov.au/publications-and-data/publications/costings/the-cost-of-nuclear-submarines/distributional-analysis-stage-3-tax-cuts-may2023>.

<sup>3</sup> All figures are in cash terms. The PBO tool also provides figures in accrual terms, however given cost to the Budget (including the Budget balance) is most commonly represented in cash terms we shall use those throughout the document.

\$9,075 income boost to those earning more than \$200,000, while delivering a negligible \$23 to those on the current minimum wage of \$45,906. The entire *raison d'être* for the Stage 3 tax cuts was to address the bracket creep that results occurs from people's incomes rising in line with inflation.<sup>4</sup> However, the Parliamentary Budget Office has found that the Stage 3 tax cuts do little to redress bracket creep for those who are most affected, i.e., those earning less than \$120,000.<sup>5</sup>

The \$320 billion in foregone revenue also places extreme pressures on the government to find cuts in services or benefits to reduce the budget deficit, especially at a time of rising costs. On this point, while much of the attention placed on inflation and the rising cost of living has justifiably focused on these problems' consequences for the public, it is important to realise that it is not only household budgets they affect—they also have adverse consequences for government budgets. The interest rate paid by the Australia government on its new borrowing has risen from 1.25% in the middle of 2021 to a high of 4.45% in September this year.<sup>6</sup> A recent report has also suggested that there has been a \$33 billion increase in the cost of the government infrastructure projects both new and in the current pipeline over the next 10 years due to rising costs of labour and materials.<sup>7</sup>

This is not surprising given the cost of heavy and civil engineering in Australia has risen 15% since June 2021. (For comparison, the average two-year increase since 2008 is only 5%.)<sup>8</sup> We estimate that the cost of heavy and civil engineering projects in June 2023 were around 11% higher than would have been expected to be the case in July 2021 when the ALP made its initial commitment to implement the Stage 3 tax cuts.

The Albanese government's decision to deliver the Stage 3 cuts as promised is a case of pursuing bad policy for poor political reasons. The tax cuts are not popular. Last year, Australia Institute polling found that almost twice as many Australians support

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<sup>4</sup> Frydenberg (2019), Hansard, Treasury Laws Amendment (Tax Relief So Working Australians Keep More Of Their Money) Bill 2019 - Second Reading, 2 August 2019, [https://www.aph.gov.au/Parliamentary\\_Business/Hansard/Hansard\\_Display?bid=chamber/hansardr/33c1fd11-10a4-44ad-9ff8-e52f8b1f3bd4/&sid=0066](https://www.aph.gov.au/Parliamentary_Business/Hansard/Hansard_Display?bid=chamber/hansardr/33c1fd11-10a4-44ad-9ff8-e52f8b1f3bd4/&sid=0066).

<sup>5</sup> Parliamentary Budget Office (2021), Beyond the budget 2021-22: Fiscal outlook and scenarios, <https://www.pbo.gov.au/publications-and-data/publications/fiscal-projections-and-sustainability/beyond-budget-2021-22>.

<sup>6</sup> Reserve Bank of Australia (2023) Capital Market Yields – Government Bonds – Daily Table F2.

<sup>7</sup> Mizen, (2023), "No new road, rail projects for 'next 10 years' without major cuts", AFR, 18 Sept 2023, <https://www.afr.com/politics/federal/no-new-road-rail-projects-for-next-10-years-without-major-cuts-20230917-p5e592>.

<sup>8</sup> Authors' calculations based on ABS (2023), Producer Price Index, Table 17, <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/jun-2023/6427017.xlsx>.

the idea of the Labor Government repealing the Stage 3 income tax cuts (41%) than oppose it (22%), and that a majority (61%) agree that adapting economic policy to suit changing circumstances—even if that means breaking an election promise—is more important than keeping an election promise.<sup>9</sup> Moreover, keeping a bad promise is bad policy, especially when better options are available.

This paper argues that the nature of the currently envisaged Stage 3 tax cuts—i.e., that they will be both hugely expensive and ineffective in meeting their stated goals—provides the Albanese government with a unique chance to change the nation for the better. It is a chance to modify the Stage 3 tax cuts to reduce their costs considerably, while also improving the policy’s fairness and effectiveness, and simultaneously enabling the government to fund the vital government services, infrastructure and benefits that are currently coming under great strain due to increased costs.

Similarly, even after the most recent increase in JobSeeker to \$749.20 a fortnight, which includes the Albanese government’s \$40-a-fortnight increase as well as increases due to indexation, the payment remains around 38% below the current Henderson poverty line of \$1,203. In the past, the Prime Minister has suggested that a larger increase was not currently possible due to the need to ensure a “responsible budget”.<sup>10</sup> We demonstrate that by adopting any one of our four alternative policies, the government could deliver its promised tax cuts and still be able to raise Jobseeker to the level of the Age pension—all while costing less than the Morrison government’s Stage 3 policy.

The Stage 3 tax cuts should therefore not be seen as a burden for the Albanese government, but instead as an opportunity to be seized. This is a moment of massive upheaval in the economy—falling real wages, increased infrastructure costs, weak productivity growth and an urgent need to shift to a net-zero emissions economy. The Stage 3 tax cuts represent an envelope of \$320 billion of increased expenditure or foregone revenue to deal with these issues without damaging the budget balance or increasing the level of government debt.

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<sup>9</sup> The Australia Institute (2022), *Polling – Stage 3 income tax cuts*, <https://australiainstitute.org.au/report/polling-stage-3-income-tax-cuts/>.

<sup>10</sup> Evans (2023), “Prime minister flags future changes to JobSeeker and other support payments”, ABC Online, 10 May 2023, <https://www.abc.net.au/news/2023-05-10/prime-minister-says-future-federal-budget-jobseeker-reform/102325318>.



# Four alternative tax cuts

## EXISTING SITUATION AND ALTERNATIVES

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As of September 2023, Australia's marginal tax brackets are as follows:

- Annual income up to \$18,200 (the tax-free threshold): not taxed;
- Annual income between \$18,201 and \$45,000: taxed at 19%;
- Annual income between \$45,001 and \$120,000: taxed at 32.5%;
- Annual income between \$120,001 and \$180,000: taxed at 37%;
- Annual income over \$180,001: taxed at 45%.

As currently legislated, the Stage 3 cuts will do the following:

- Abolish the existing 37% marginal income tax rate;
- Reduce the existing 32.5% marginal income tax rate to 30%; and
- Increase the threshold for the 45% marginal income tax rate to \$200,000.

If the Stage 3 tax cuts go into effect, then, Australia's tax brackets will look like this:

- Annual income up to \$18,200 (the tax-free threshold): not taxed;
- Annual income between \$18,201 and \$45,000: taxed at 19%;
- Annual income between \$45,001 and \$200,000: taxed at 30%;
- Annual income over \$200,001: taxed at 45%.

We propose four alternative tax cuts that meet three aims:

- Better target low-and-middle income earners affected by bracket creep.
- Preserve the progressive nature of the tax system by ensuring those who earn more pay a higher marginal rate of taxation.
- Cost less than the Stage 3 cuts.

The four alternatives discussed below range from costing \$70 billion to \$130 billion less than the Stage 3 tax cuts over the first 10 years. Under all four alternatives everyone earning between \$45,000 and \$124,600 is better off, and in all but the first alternative everyone earning between \$18,200 and \$45,000 is also better off.

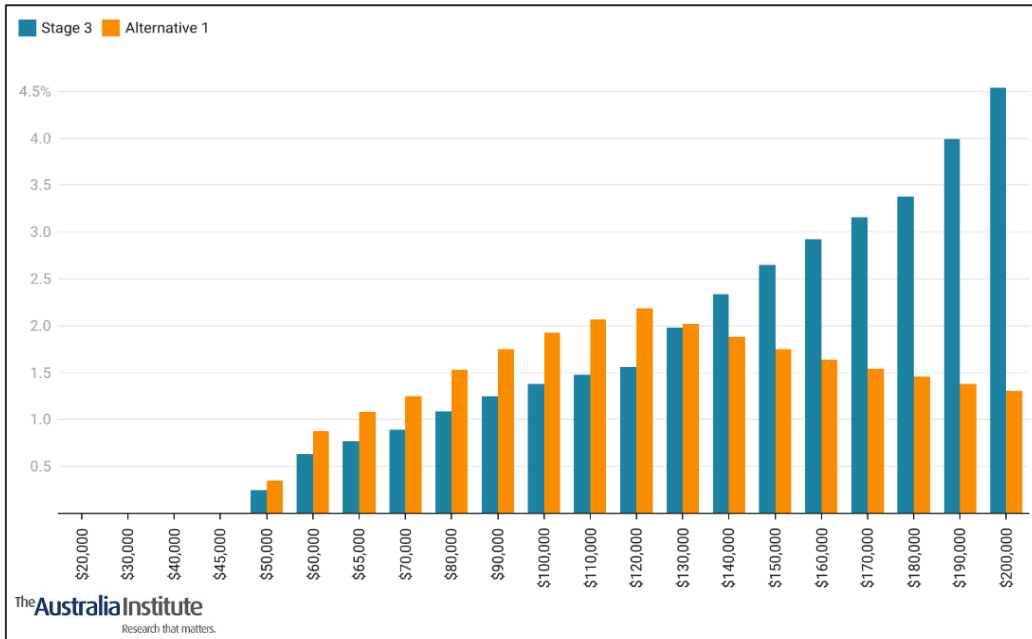
The alternatives not only would be better targeted tax cuts, but they also demonstrate the options available to the Government to amend the Stage 3 tax cuts in such a way that is politically as well as economically defensible.

These are not the only options to improve Stage 3, but these alternatives demonstrate the potential for the government to deliver a more progressive outcome for Australia.

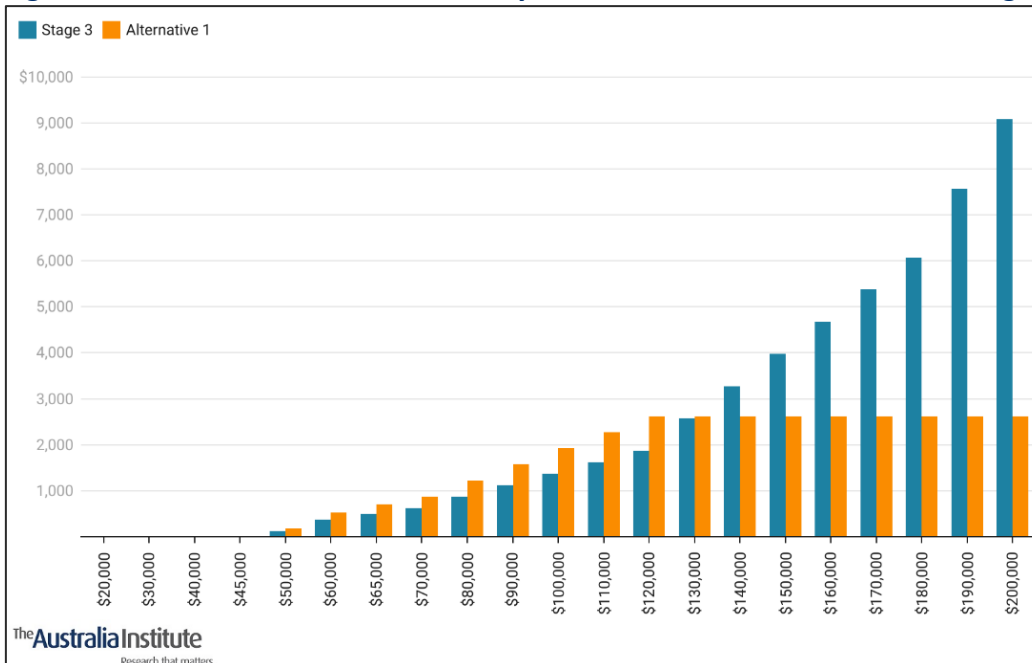
# Alternative 1

Alternative 1 keeps the current tax scales in place, but reduces the 32.5% rate for incomes between \$45,001 and \$120,000 to 29%. Under this scenario, the largest tax cut (2.2%) would go to those earning \$120,000, and all taxpayers earning between \$45,001 and \$130,700 receive a larger tax cut than would be the case under Stage 3.

**Figure 1. Size of tax cut by percent of taxable income: Alternative 1 v Stage 3**



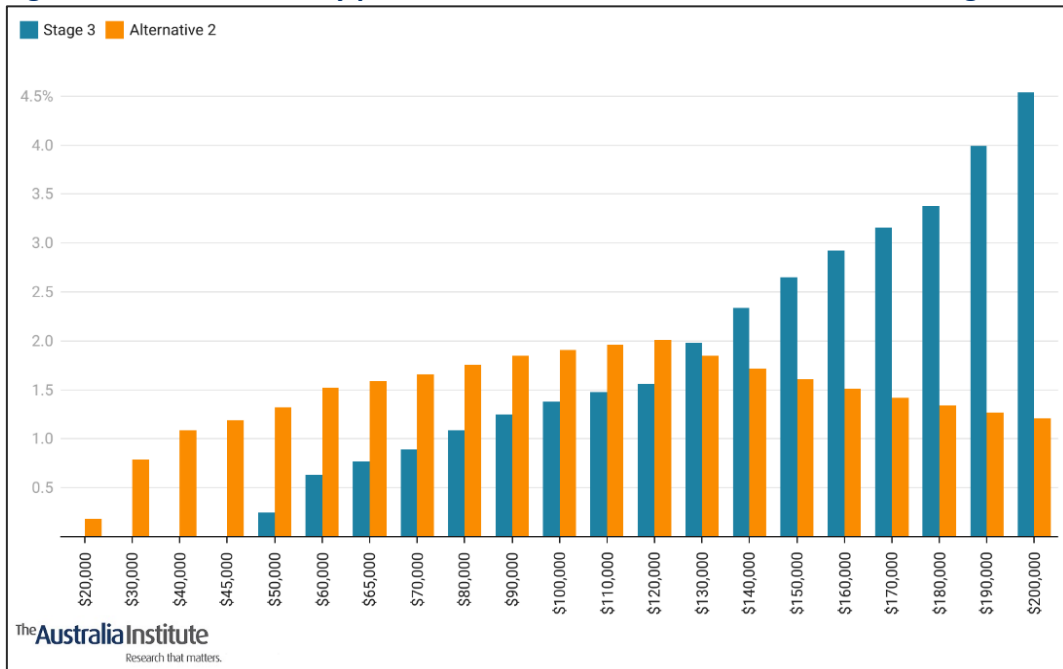
**Figure 2. Size of annual dollar tax cut by taxable income: Alternative 1 v Stage 3**



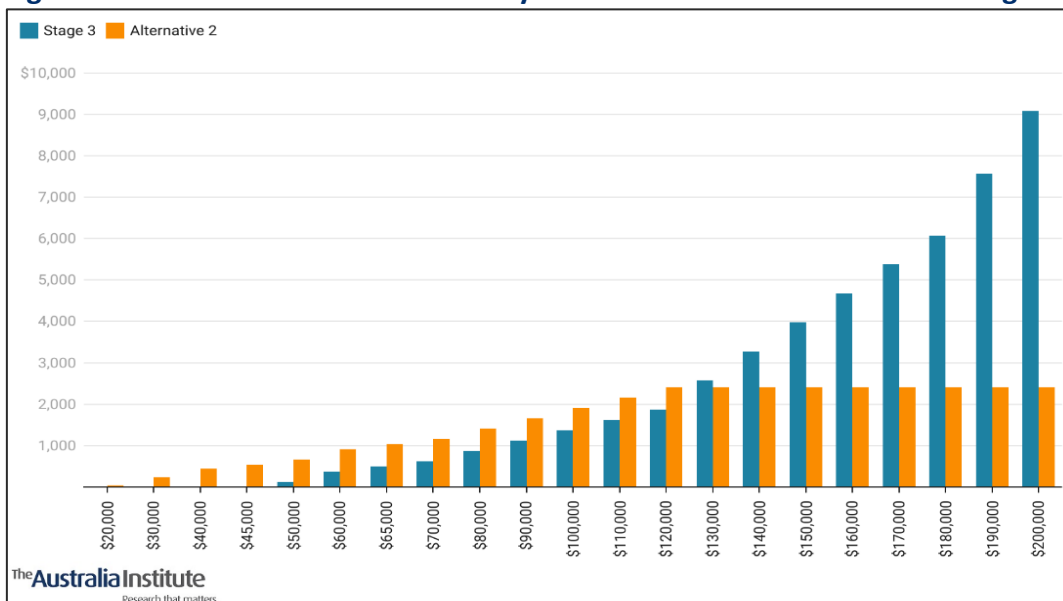
## Alternative 2

Under Alternative 2, the 19% tax rate for those earning between \$18,201 and \$45,000 is lowered to 17%, and the 32.5% tax rate for those earning between \$45,001 and \$120,000 is lowered to 30%. Under this scenario, the largest tax cut (2.0%) would go to those earning \$120,000, and all taxpayers earning between \$18,201 and \$127,600 receive a larger tax cut than would be the case under Stage 3.

**Figure 3. Size of tax cut by percent of taxable income: Alternative 2 v Stage 3**



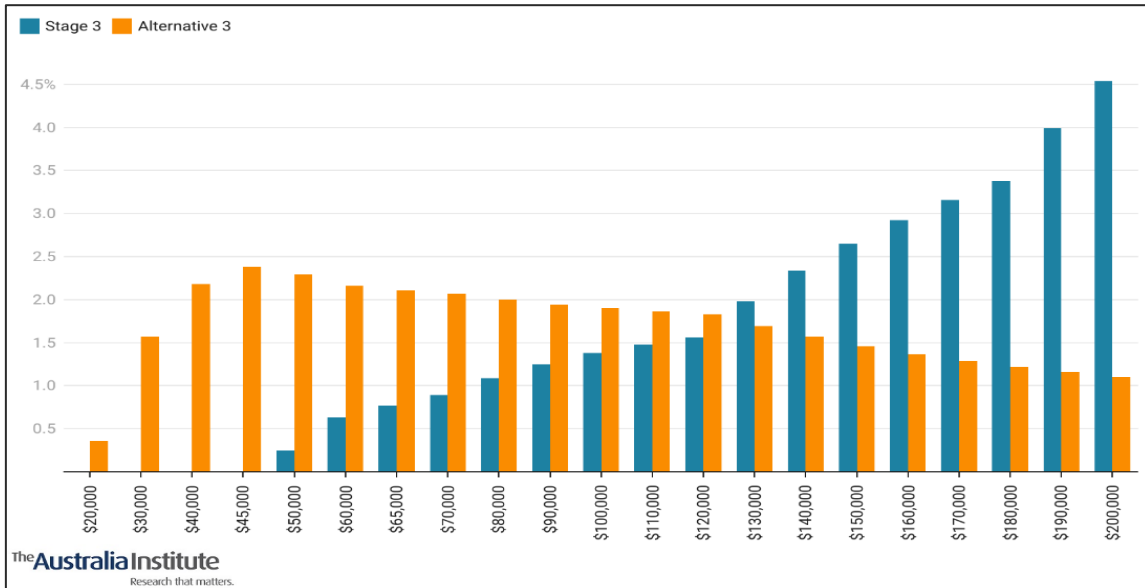
**Figure 4. Size of annual dollar tax cut by taxable income: Alternative 2 v Stage 3**



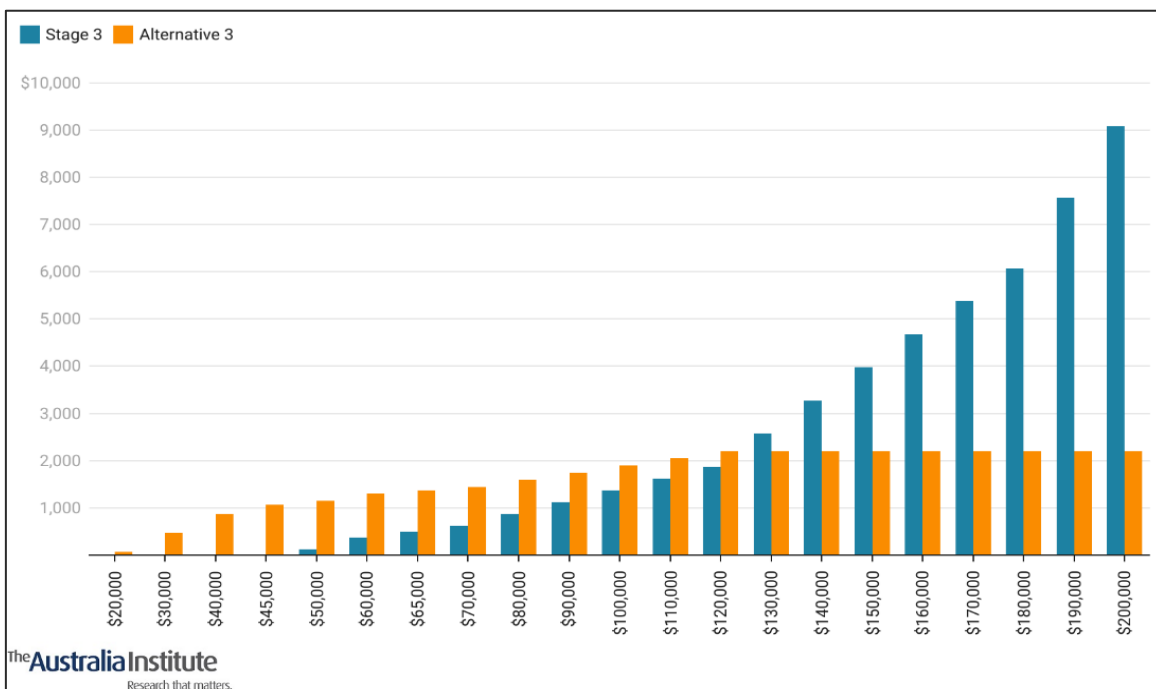
## Alternative 3

Under Alternative 3, the 19% tax rate for those earning between \$18,201 and \$45,000 is lowered to 15%, and the 32.5% tax rate for those earning between \$45,001 and \$120,000 is lowered to 31%. Under this scenario the largest tax cut (2.4%) would go to those earning \$45,000, and all taxpayers earning between \$18,201 and \$124,600 receive a larger tax cut than would be the case under Stage 3.

**Figure 5. Size of tax cut by percent of taxable income: Alternative 3 v Stage 3**



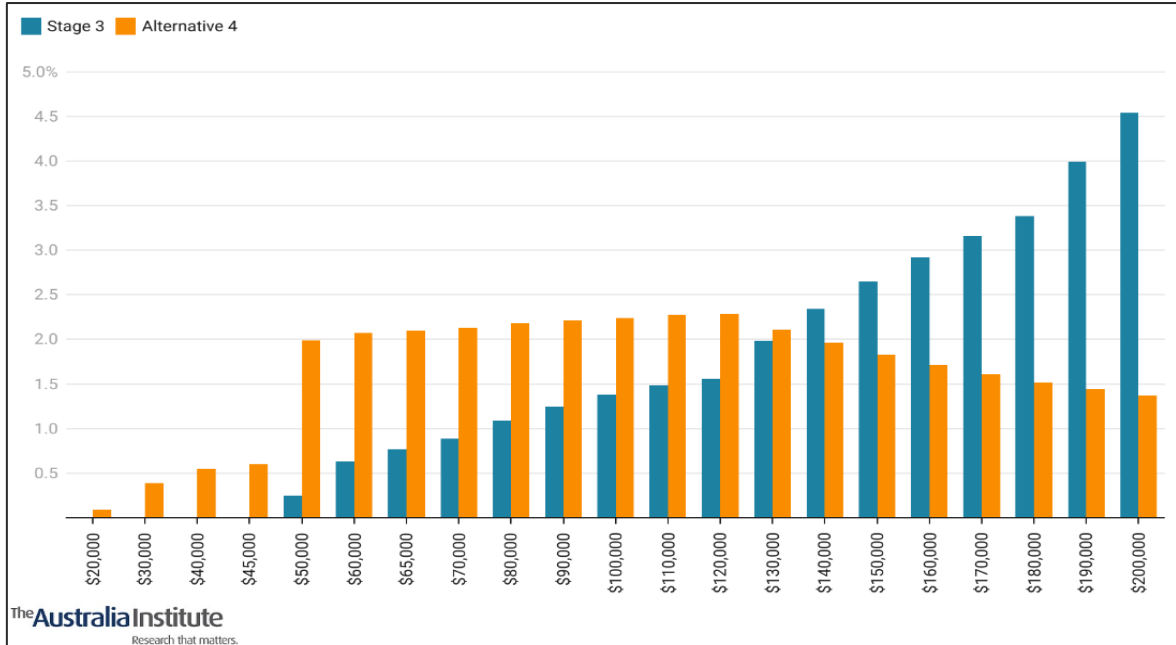
**Figure 6. Size of annual dollar tax cut by taxable income: Alternative 3 v Stage 3**



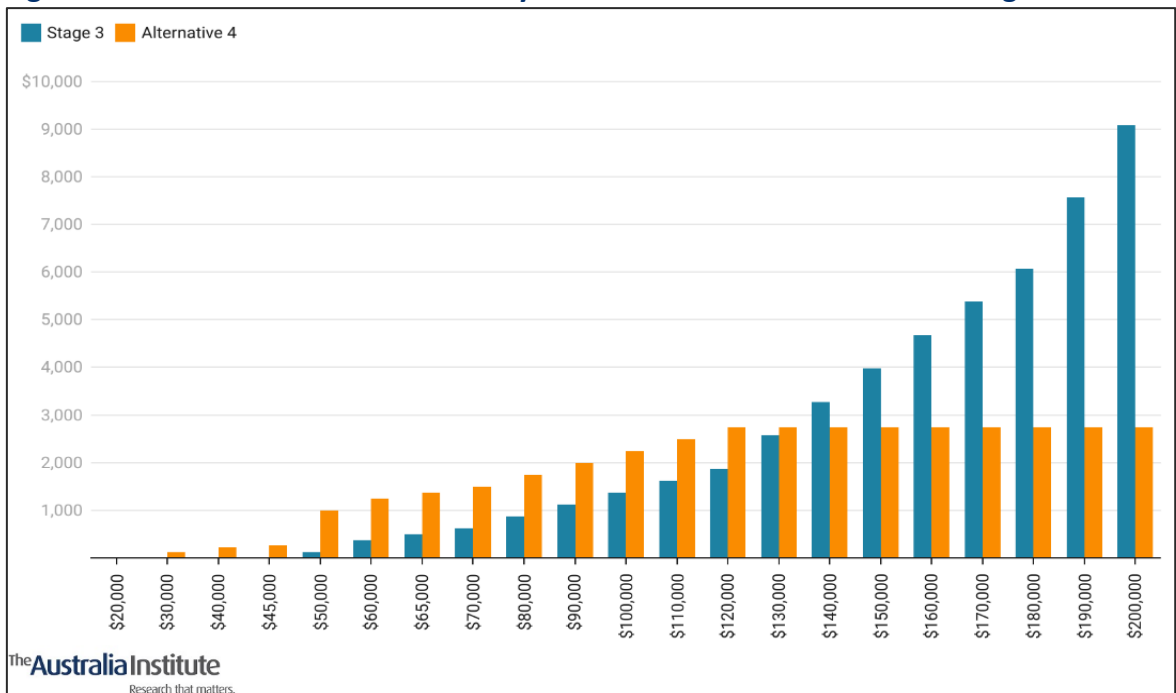
## Alternative 4

Under Alternative 4, the 19% tax rate is lowered to 18%, the threshold for the next bracket is increased from \$45,001 to \$50,001, and the 32.5% tax rate for that bracket is lowered to 30%. Under this scenario, the largest tax cut (2.3%) would go to those earning \$120,000 and all taxpayers earning between \$18,201 and \$132,400 receive a larger tax cut than would be the case under Stage 3.

**Figure 7. Size of tax cut by percent of taxable income: Alternative 4 v Stage 3**



**Figure 8. Size of annual dollar tax cut by taxable income: Alternative 4 v Stage 3**



## COSTS AND BENEFITS OF ALTERNATIVES

The following table details the proposed changes to the marginal tax rates and thresholds compared to the current rates and those under the proposed Stage 3 set to come into effect in July 2024:

**Table 1. Tax rates and thresholds of various alternatives**

Income bracket	Current	Stage 3	Alternative 1	Alternative 2	Alternative 3	Alternative 4
<b>\$18,200</b>	None	None	None	None	None	None
<b>\$18,201 to \$45,000</b>	19%	19%	19%	17%	15%	18%
<b>\$45,001 to \$50,000</b>	32.5%	30%	29%	30%	31%	18%
<b>\$50,001 to \$120,000</b>	32.5%	30%	29%	30%	31%	30%
<b>\$120,001 to \$180,000</b>	37%	30%	37%	37%	37%	37%
<b>\$180,001 to \$200,000</b>	45%	30%	45%	45%	45%	45%
<b>\$200,000 plus</b>	45%	45%	45%	45%	45%	45%

Each alternative delivers larger tax cuts than Stage 3 for those earning between \$45,001 and \$124,700. Alternative 4 extends the cuts to annual incomes as high as \$132,400. Alternatives 2, 3 and 4 deliver tax cuts for those earning less than \$45,000 (unlike Stage 3). While clearly our four proposed alternatives are targeted toward those on low-middle incomes, the nature of Australia’s tax system means those on high incomes will still receive a tax cut. This is important to ensure the tax cuts are politically viable. Under all four proposed alternatives, those in the highest current tax bracket would still receive at least a \$2,197 tax cut. Those on the current median income of \$65,000 would be at least \$200 better off under all alternatives compared to under Stage 3 and \$872 better off under Alternative 3.<sup>11</sup>

<sup>11</sup> ABS (2022) “Characteristics of Employment, Australia”, <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/characteristics-employment-australia/aug-2022>.

**Table 2. Annual dollar tax cut at various income levels under alternatives**

Income	Stage 3	Alternative 1	Alternative 2	Alternative 3	Alternative 4
\$20,000	\$0	\$0	\$36	\$72	\$18
\$30,000	\$0	\$0	\$236	\$472	\$118
\$40,000	\$0	\$0	\$436	\$872	\$218
\$45,000	\$0	\$0	\$536	\$1,072	\$268
\$50,000	\$125	\$175	\$661	\$1,147	\$993
\$60,000	\$375	\$525	\$911	\$1,297	\$1,243
\$65,000	\$500	\$700	\$1,036	\$1,372	\$1,368
\$70,000	\$625	\$875	\$1,161	\$1,447	\$1,493
\$80,000	\$875	\$1,225	\$1,411	\$1,597	\$1,743
\$90,000	\$1,125	\$1,575	\$1,661	\$1,747	\$1,993
\$100,000	\$1,375	\$1,925	\$1,911	\$1,897	\$2,243
\$110,000	\$1,625	\$2,275	\$2,161	\$2,047	\$2,493
\$120,000	\$1,875	\$2,625	\$2,411	\$2,197	\$2,743
\$130,000	\$2,575	\$2,625	\$2,411	\$2,197	\$2,743
\$140,000	\$3,275	\$2,625	\$2,411	\$2,197	\$2,743
\$150,000	\$3,975	\$2,625	\$2,411	\$2,197	\$2,743
\$160,000	\$4,675	\$2,625	\$2,411	\$2,197	\$2,743
\$170,000	\$5,375	\$2,625	\$2,411	\$2,197	\$2,743
\$180,000	\$6,075	\$2,625	\$2,411	\$2,197	\$2,743
\$190,000	\$7,575	\$2,625	\$2,411	\$2,197	\$2,743
\$200,000	\$9,075	\$2,625	\$2,411	\$2,197	\$2,743

Highlighted cells are those with larger cuts than Stage 3

Under Stage 3, the largest tax cut both in dollars and percentage terms goes to those earning \$200,000. Under the 4 alternative plans the highest percentage tax cut goes to those earning \$120,000 or less. This ensures that the biggest tax cuts are directed towards the majority of taxpayers.

Under all four of our alternatives more people would be better off than they would be under Stage 3. In 2020–21, 85% of Australians— including 90% of women and 80% of men— had a taxable income of less than \$120,000.<sup>12</sup> If we were to assume a 3% annual increase in taxable income by 2024-25, the taxable income of least 80% of all individuals would still be below \$120,000.<sup>13</sup> While those who earn more than \$132,400 will receive a lower tax cut than they would under Stage 3, everyone earning \$200,000 will receive at least a 1.1% tax cut under all four alternatives. To demonstrate how

<sup>12</sup> ATO (2023), Taxation Statistics 2020-21, Individuals Table 16, <https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/taxation-statistics/taxation-statistics-2020-21/>.

<sup>13</sup> 3% annual growth is the average growth of the top 20 percentile of taxable incomes from 2018-19 to 2020-21.

biased the Stage 3 tax cuts are against low-middle income earners, this 1.1% tax cut is larger than everyone earning less than \$80,000 will receive from Stage 3.

**Table 3. Percentage tax cuts at various income levels under alternatives**

Income	Stage 3	Alternative 1	Alternative 2	Alternative 3	Alternative 4
\$20,000	0.0%	0.0%	0.2%	0.4%	0.1%
\$30,000	0.0%	0.0%	0.8%	1.6%	0.4%
\$40,000	0.0%	0.0%	1.1%	2.2%	0.5%
\$45,000	0.0%	0.0%	1.2%	2.4%	0.6%
\$50,000	0.3%	0.4%	1.3%	2.3%	2.0%
\$60,000	0.6%	0.9%	1.5%	2.2%	2.1%
\$65,000	0.8%	1.1%	1.6%	2.1%	2.1%
\$70,000	0.9%	1.3%	1.7%	2.1%	2.1%
\$80,000	1.1%	1.5%	1.8%	2.0%	2.2%
\$90,000	1.3%	1.8%	1.8%	1.9%	2.2%
\$100,000	1.4%	1.9%	1.9%	1.9%	2.2%
\$110,000	1.5%	2.1%	2.0%	1.9%	2.3%
\$120,000	1.6%	2.2%	2.0%	1.8%	2.3%
\$130,000	2.0%	2.0%	1.9%	1.7%	2.1%
\$140,000	2.3%	1.9%	1.7%	1.6%	2.0%
\$150,000	2.7%	1.8%	1.6%	1.5%	1.8%
\$160,000	2.9%	1.6%	1.5%	1.4%	1.7%
\$170,000	3.2%	1.5%	1.4%	1.3%	1.6%
\$180,000	3.4%	1.5%	1.3%	1.2%	1.5%
\$190,000	4.0%	1.4%	1.3%	1.2%	1.4%
\$200,000	4.5%	1.3%	1.2%	1.1%	1.4%

Highlighted cells are those with larger tax cuts than Stage 3

Crucially, each alternative is also significantly cheaper than the Stage 3 cuts, costing between \$70 billion and \$130 billion less over their first 10 years of operation. These savings would provide a wide scope for the government to either provide increased and improved service delivery, make greater investment in key infrastructure, or increase government benefits, especially to those currently living in poverty. They would also provide the government with the ability to respond to changes in the economy since the initial promise of delivering the Stage 3 tax cuts was made. Over the past two years inflation has become a much greater concern, all four alternatives provide greater support for those low-middle income earners most hurt by rising inflation, while also delivering prudent budget management given the impact of the rising costs on government projects.



The four alternatives would therefore allow the government to deliver larger tax cuts to around 80% of taxpayers while also providing scope to deal prudently with additional budget costs that were unforeseen when the initial promise to deliver the Stage 3 cuts was made.

**Table 4. 10-year cost of Stage 3 and the four alternatives**

	Stage 3	Alternative 1	Alternative 2	Alternative 3	Alternative 4
<b>Cost to underlying budget balance</b>	\$377,072m	\$247,000m	\$266,099m	\$285,170m	\$306,696m

Includes increased cost of interest payments relative to 2023-24 income tax rates.<sup>14</sup>

## JOBSEEKER INCREASE

Among the most urgent needs to assist those on low incomes, outside of improving the fairness of the Stage 3 tax cuts, is to increase the rate of JobSeeker. Currently the level of JobSeeker at \$749.20 per fortnight is around 38% below the most recent estimate of the Henderson poverty line for a single person of \$1,203.<sup>15</sup> The Reserve Bank’s current assumption, upon which government policies are based, is that 4.5% of the labour force needs to be unemployed in order to keep inflation growth constant within the 2% to 3% target band.<sup>16</sup> While the merits of that policy are highly debatable, given inflation has begun to slow even while unemployment has remained below 4% and wage growth in the June quarter actually fell, working on the assumption that a significant proportion of the labour force is expected to be out of work, behoves the government to ensure the unemployed can live with dignity. To this end, we have calculated the costs of each alternative tax cut proposal combined with an increase in Jobseeker to that of the Age Pension at \$1,002 a fortnight in the 2023-24 financial

<sup>14</sup> Full 10-year costings are presented in the appendix.

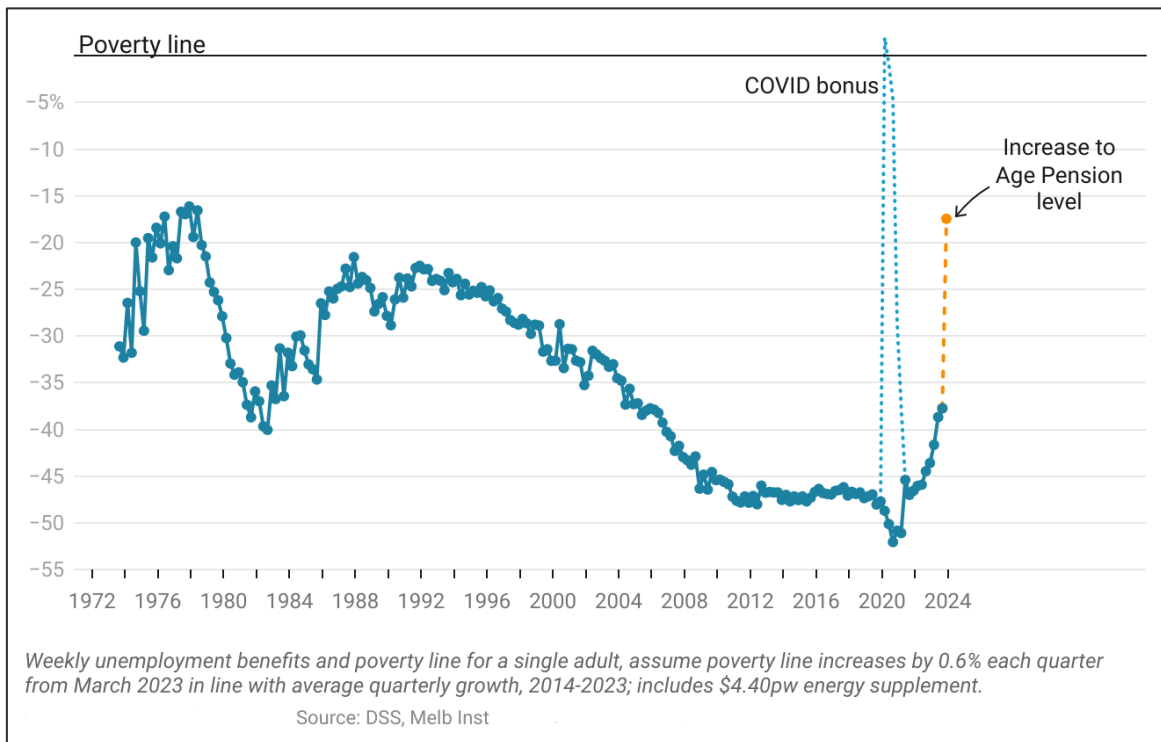
<sup>15</sup> Melbourne Institute (2023) *Poverty Lines: Australia, March quarter 2023*, [https://melbourneinstitute.unimelb.edu.au/\\_\\_data/assets/pdf\\_file/0003/4710153/Poverty-Lines-Australia-March-Quarter-2023.pdf](https://melbourneinstitute.unimelb.edu.au/__data/assets/pdf_file/0003/4710153/Poverty-Lines-Australia-March-Quarter-2023.pdf).

<sup>16</sup> See for example, Bullock (2023) *Achieving Full Employment: Speech at the Ai Group Newcastle – 20 June 2023*, <https://www.rba.gov.au/speeches/2023/sp-dg-2023-06-20.html>.

year.<sup>17</sup> These are presented in Table 5 below. This increase is in line with the proposals by the “Raise the Rate” campaign.<sup>18</sup>

While this amount is less than the current poverty line, the cost of increasing JobSeeker to \$1,203 would rule out being able to offer larger tax cuts to low-middle income earners than they would receive under the Stage 3 cuts. This we believe would render the four alternatives politically untenable. Raising the JobSeeker level to that of the Age Pension however would raise it from 38% below the poverty line to 17% below. This would be the highest level of the JobSeeker relative to poverty since the 1970s. At a stroke it would undo nearly 45 years of austerity and policies aimed at forcing the unemployed into ever greater levels of penury.

**Figure 9. Single unemployment benefits relative to the poverty line**



Currently JobSeeker is indexed to CPI, while the Age Pension is indexed to the higher of CPI or the Pensioner and Benefits Living Cost Index, and then benchmarked to 41.76% of Male Total Average Weekly Earnings. The PBO budget tool does not allow for this indexation, but it does enable the option of indexing to the highest of the CPI or WPI. We have chosen this method to best replicate the Age Pension indexation. According

<sup>17</sup> The Parliamentary Budget Office, “Build Your Own Budget” tool uses the base rate for Jobseeker of in the current financial year of \$750 per fortnight, and the base rate for the Age pension of \$1,002 per fortnight.

<sup>18</sup> Raise the Rate (2023). <https://www.raisetherate.org.au/faqs>.

to the PBO’s budget model the cost to the budget would be \$4.5 billion in 2024-25, \$20.2 billion over the first four years and \$69.7 billion to 2033-34.<sup>19</sup>

**Table 5. 10-year cost to budget of Stage 3 and the 4 Alternative tax cuts including an increase in JobSeeker to the Age Pension level**

	<b>Stage 3</b>	<b>Alternative 1 + JS</b>	<b>Alternative 2 +JS</b>	<b>Alternative 3 + JS</b>	<b>Alternative 4 + JS</b>
<b>Cost to underlying budget balance</b>	\$377,072m	\$317,007m	\$336,032	\$355,030m	\$376,663m

Includes increased cost of interest payments relative to 2023-24 income tax rates.

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<sup>19</sup> The net cost figure is not exactly equal to the savings from modifying Stage 3 plus the increased spending on JobSeeker due to changed interest payments resulting from the two combined.

# Conclusion

The economy has undergone massive changes since July 2021 when the then Labor opposition made its initial promise to deliver the Stage 3 tax cuts. Inflation—driven largely by supply-side issues and the Russian invasion of Ukraine, along with ever-increasing corporate profit margins—has become a major concern for the first time in 30 years. The cost of borrowing, both for homeowners and governments, has soared. Likewise, the cost of materials required for infrastructure projects has also soared, increasing by some 15% over the past two years.

These are more than enough reasons to reconsider handing out tax cuts that will add \$377 billion to government debt over the next 10 years. However, even without these impacts on the economy, the Stage 3 tax cuts remain a policy anathema to a progressive government. They do not achieve their stated objective—addressing the problem of bracket creep—and they would leave Australia with a less fair and less progressive tax system.

No government should be beholden to the policy mistakes of previous governments, let alone ones that would irreparably damage the social cohesion of the country as would the regressive Stage 3 cuts. Thankfully, the Albanese government still has time to reconsider the existing Stage 3 policy and rework it to deliver better, fairer, less expensive and more effective tax cuts.

We have presented four examples of how the policy could be reworked. Each of these alternatives targets the low- and middle-income earners who are most affected by bracket creep, and cost less than the Stage 3 tax cuts. All four alternatives also provide the government with enough savings to raise the JobSeeker rate.

The four alternatives demonstrate that the Stage 3 cuts as currently legislated are an ill-conceived waste of revenue that could be used to deliver a fairer nation while also meeting the objective of providing tax relief to those suffering most from cost-of-living pressures due to rising inflation and interest rates.

The alternatives allow the government to still deliver tax cuts, but to do so in an improved manner. The result would genuinely mean Stage 3 fairer *and* Stage 3 better.

**Table 6. 10-year Cost of Stage 3 Tax Cuts and Alternatives**

	<b>Stage 3</b>	<b>Alternative 1</b>	<b>Alternative 2</b>	<b>Alternative 3</b>	<b>Alternative 4</b>
<b>10-year cost to budget</b>	\$377,072m	\$247,000m	\$266,099m	\$285,170m	\$306,696m
<b>Savings compared to Stage 3</b>	NA	\$130,072m	\$110,973m	\$91,902m	\$70,376m
<b>10 year cost, + Jobseeker increase</b>	NA	\$317,007m	\$336,032	\$355,030	\$376,663m
<b>Savings compared to Stage 3</b>	NA	\$60,065m	\$41,040m	\$22,042m	\$409m

Includes increased cost of interest payments relative to 2023-24 income tax rates.

# Appendix

**Table 7. Impact on Budget of Stage 3 tax cuts, (\$ million)<sup>20</sup>**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
<b>Taxation revenue</b>	-\$21,048	-\$24,202	-\$26,292	-\$27,975	-\$30,262	-\$32,714	-\$35,253	-\$37,851	-\$40,688	-\$43,647	-\$99,517	-\$319,931
<b>Interest expenses</b>	\$343	\$1,300	\$2,057	\$3,110	\$4,307	\$5,675	\$7,232	\$8,988	\$10,962	\$13,168	\$6,809	\$57,141
<b>Underlying cash balance</b>	-\$21,391	-\$25,502	-\$28,348	-\$31,085	-\$34,569	-\$38,389	-\$42,485	-\$46,839	-\$51,650	-\$56,815	-\$106,326	-\$377,072

**Table 8. Breakdown cost of Stage 3 elements (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
Cut \$45k-120K to 30%	\$10,995	\$12,968	\$14,181	\$15,234	\$16,610	\$18,080	\$19,609	\$21,183	\$22,891	\$24,678	\$53,378	\$176,429
Cut \$120k-\$180k to 30%	\$7,522	\$9,062	\$10,230	\$11,429	\$12,929	\$14,595	\$16,403	\$18,346	\$20,500	\$22,825	\$38,243	\$143,841
Cut \$180k-\$200k to 30%	\$2,874	\$3,472	\$3,937	\$4,422	\$5,030	\$5,714	\$6,473	\$7,310	\$8,259	\$9,311	\$14,705	\$56,802
<b>Total Stage 3</b>	<b>\$21,391</b>	<b>\$25,502</b>	<b>\$28,348</b>	<b>\$31,085</b>	<b>\$34,569</b>	<b>\$38,389</b>	<b>\$42,485</b>	<b>\$46,839</b>	<b>\$51,650</b>	<b>\$56,814</b>	<b>\$106,326</b>	<b>\$377,072</b>

<sup>20</sup> All costings in the appendix and used throughout this document are derived from the Parliamentary “Build Your Own Budget Tool” using the default economics settings as of 29 September 2023. All figures are in cash flow terms.

**Table 9. Cost of increasing Jobseeker to 100% of Age Pension and indexed to higher of WPI or CPI<sup>21</sup>**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
<b>Jobseeker increase</b>	\$4,485	\$4,901	\$5,135	\$5,684	\$6,353	\$7,020	\$7,741	\$8,501	\$9,456	\$10,408	<b>\$20,205</b>	<b>\$69,683</b>

**Table 10. Cost of Alternative 1, 32.5% rate cut to 29% (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
<b>Alternative 1</b>	\$15,393	\$18,155	\$19,854	\$21,328	\$23,253	\$25,312	\$27,452	\$29,656	\$32,047	\$34,550	<b>\$74,729</b>	<b>\$247,000</b>

**Table 11. Cost of Alternative 1 + Increase in JobSeeker to 100% of Age Pension (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
<b>Alternative 1 +JS</b>	\$19,882	\$23,085	\$25,019	\$27,042	\$29,638	\$32,367	\$35,231	\$38,196	\$41,545	\$45,002	\$95,028	\$317,007

<sup>21</sup> Includes impacts on taxation revenue and increased interest payments relative to the situation where the tax scales and rates remains as they are in 2023-24.

**Table 12. Cost of Alternative 2, 19% rate cut to 17% & 32.5% rate cut to 30% (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
<b>Alternative 2</b>	\$17,256	\$20,222	\$21,929	\$23,333	\$25,227	\$27,247	\$29,339	\$31,484	\$33,813	\$36,246	<b>\$82,741</b>	<b>\$266,099</b>

**Table 13. Cost of Alternative 2 + increase in Jobseeker to 100% of Age Pension (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
<b>Alternative 2 + JS</b>	\$21,739	\$25,146	\$27,089	\$29,041	\$31,605	\$34,295	\$37,110	\$40,016	\$43,302	\$46,689	<b>\$103,015</b>	<b>\$336,032</b>

**Table 14. Cost of Alternative 3, 19% rate cut to 15% & 32.5% rate cut to 31% (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
<b>Alternative 3</b>	\$19,120	\$22,286	\$24,001	\$25,336	\$27,198	\$29,180	\$31,223	\$33,309	\$35,577	\$37,940	<b>\$90,743</b>	<b>\$285,170</b>

**Table 15. Cost of Alternative 3 + increase in Jobseeker to 100% of Age Pension (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
<b>Alternative 3 + JS</b>	\$23,595	\$27,205	\$29,155	\$31,038	\$33,569	\$36,221	\$38,986	\$41,832	\$45,056	\$48,373	<b>\$110,993</b>	<b>\$355,030</b>



**Table 16. Cost of Alternative 4, 19% rate cut to 18%, and 32.5% rate cut to 30% plus threshold raise to \$50,001 (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
<b>Alternative 4</b>	\$19,906	\$23,336	\$25,304	\$26,918	\$29,093	\$31,411	\$33,809	\$36,267	\$38,934	\$41,720	<b>\$95,463</b>	<b>\$306,696</b>

**Table 17. Cost of Alternative 4 + increase of JobSeeker to 100% of Age Pension (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
<b>Alternative 4 + JS</b>	\$24,388	\$28,263	\$30,467	\$32,629	\$35,474	\$38,462	\$41,584	\$44,802	\$48,427	\$52,167	<b>\$115,747</b>	<b>\$376,663</b>

**Table 18. Estimates of Underlying Cash Balance for Stage 3 and each alternative (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Stage 3	-\$35,058	-\$36,627	-\$28,450	-\$27,962	-\$24,205	-\$18,572	-\$14,613	-\$13,800	-\$6,927	-\$1,429
Alternative 1	-\$29,060	-\$29,280	-\$19,955	-\$18,205	-\$12,890	-\$5,495	\$420	\$3,383	\$12,675	\$20,836
Alternative 2	-\$30,923	-\$31,347	-\$22,031	-\$20,210	-\$14,863	-\$7,430	-\$1,467	\$1,555	\$10,909	\$19,139
Alternative 3	-\$32,787	-\$33,411	-\$24,103	-\$22,213	-\$16,834	-\$9,363	-\$3,351	-\$270	\$9,146	\$17,446
Alternative 4	-\$33,573	-\$34,461	-\$25,406	-\$23,795	-\$18,729	-\$11,594	-\$5,937	-\$3,227	\$5,789	\$13,666
Alternative 1 +JS	-\$33,549	-\$34,210	-\$25,121	-\$23,919	-\$19,275	-\$12,550	-\$7,358	-\$5,157	\$3,178	\$10,384
Alternative 2 +JS	-\$35,406	-\$36,272	-\$27,190	-\$25,918	-\$21,242	-\$14,478	-\$9,237	-\$6,977	\$1,421	\$8,697
Alternative 3 + JS	-\$37,263	-\$38,330	-\$29,257	-\$27,915	-\$23,206	-\$16,403	-\$11,113	-\$8,793	-\$333	\$7,012
Alternative 4 + JS	-\$38,055	-\$39,388	-\$30,569	-\$29,506	-\$25,111	-\$18,645	-\$13,712	-\$11,763	-\$3,704	\$3,219

Highlighted cells are those with the budget in surplus.

**Table 19. Annual savings of each Alternative relative to cost of Stage 3 (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	First 4 years	First 10 years
Alternative 1	\$5,998	\$7,347	\$8,495	\$9,757	\$11,315	\$13,077	\$15,032	\$17,183	\$19,602	\$22,264	\$31,597	\$130,071
Alternative 2	\$4,135	\$5,280	\$6,419	\$7,752	\$9,342	\$11,142	\$13,146	\$15,355	\$17,837	\$20,568	\$23,585	\$110,973
Alternative 3	\$2,271	\$3,216	\$4,347	\$5,749	\$7,371	\$9,209	\$11,262	\$13,530	\$16,073	\$18,874	\$15,583	\$91,902
Alternative 4	\$1,485	\$2,166	\$3,044	\$4,167	\$5,476	\$6,978	\$8,676	\$10,572	\$12,716	\$15,094	\$10,863	\$70,376
Alternative 1 +JS	\$1,509	\$2,417	\$3,329	\$4,043	\$4,931	\$6,022	\$7,254	\$8,643	\$10,105	\$11,812	\$11,298	\$60,065
Alternative 2 +JS	-\$348	\$356	\$1,259	\$2,044	\$2,964	\$4,094	\$5,375	\$6,823	\$8,348	\$10,125	\$3,311	\$41,040
Alternative 3 + JS	-\$2,205	-\$1,703	-\$807	\$47	\$1,000	\$2,169	\$3,499	\$5,007	\$6,594	\$8,441	-\$4,667	\$22,042
Alternative 4 + JS	-\$2,997	-\$2,761	-\$2,119	-\$1,544	-\$905	-\$73	\$901	\$2,037	\$3,223	\$4,647	-\$9,421	\$409

Highlighted cells are those where the cost of the alternative is less than Stage 3 in that year/period.