

Benefits of modifying the Stage 3 tax cuts by electorate

Lower income electorates on the fringes of capital cities and rural areas will get the largest benefit from modifying the Stage 3 tax cuts. National Party electorates will get a larger average benefit than Liberal and Labor electorates. Tasmania, the Northern Territory and South Australia will also see large benefits.

Discussion paper

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Summary

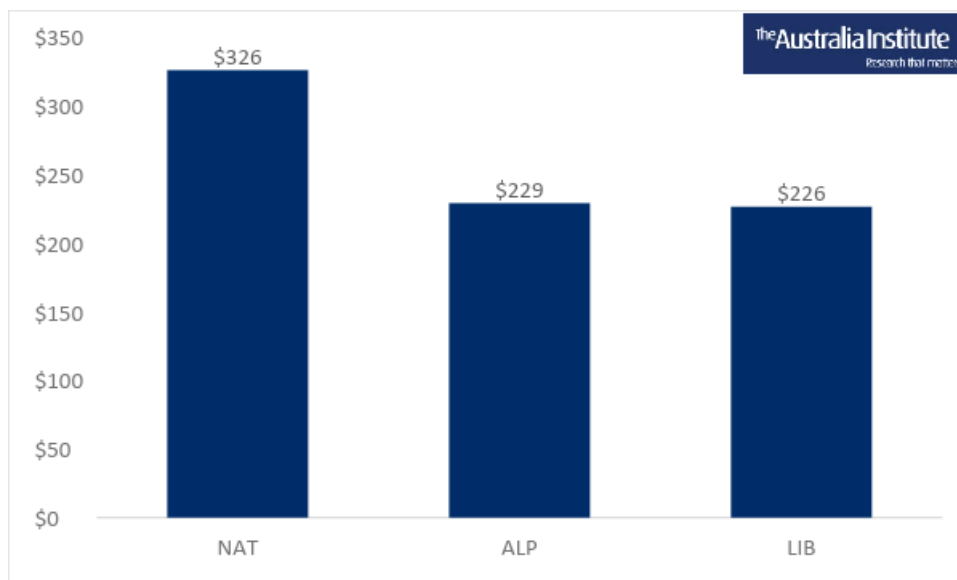
The modifications to the Stage 3 tax cuts announced by Labor on the 25th of January 2024 will see a bigger tax cut for everyone earning less than \$146,487.¹ This paper compares the benefit of the original Stage 3 tax cuts with Labor’s modified Stage 3 by federal electorates.

It finds that the biggest winners are outer metropolitan electorates on the outskirts of our capital cities as well as rural electorates. This is because these electorates have more low-and middle-income earners who received the least benefit from the original Stage 3 tax cuts and will get much of the additional benefit from the modified Stage 3 tax cuts.

Most electorates, on average, will see an increase in the size of the tax cut. Of the 151 electorates, 127 will get a larger tax cut, while 24 will see a smaller tax cut. It is important to note that those electorates getting a smaller tax cut will still be paying lower taxes than currently. In fact, the electorates losing the most were the electorates that originally got the largest tax cut and will still gain a substantial cut.

Of the three major parties, Labor, Liberal, and National, the biggest average additional benefit goes to National electorates. They will see an additional \$326 per taxpayer on top of what they would have got from the original Stage 3 tax cuts.

Figure 1: Benefit of modified stage 3 per taxpayer by party in 2024-25

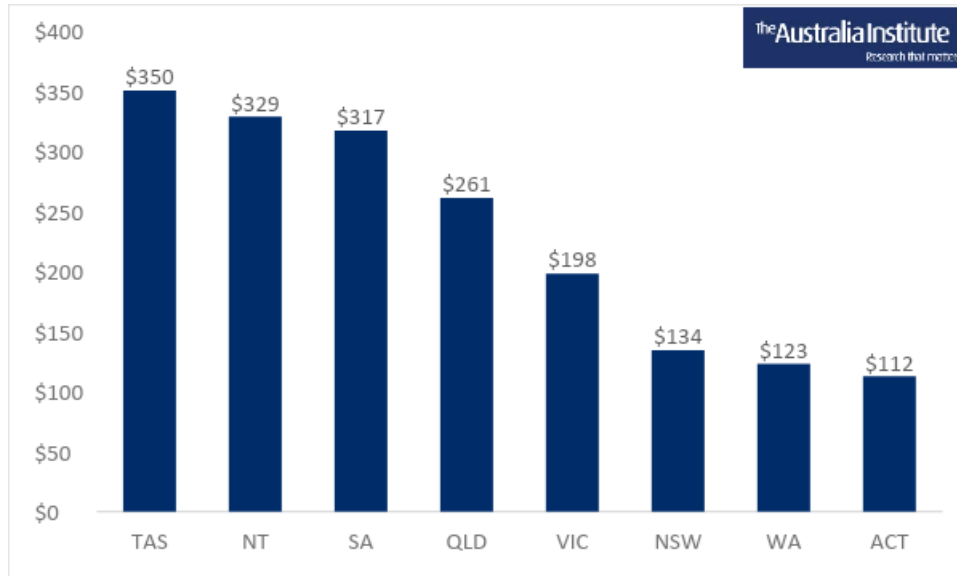


Source: Author’s calculations based on taxation statistics (2019-20) and PBO (2024) costings (see Appendix A)

¹ Commonwealth Treasury (2024) *Advice on amending tax cuts to deliver broader cost of living relief*, <https://treasury.gov.au/sites/default/files/2024-01/tax-cuts-treasury-advice.pdf>

The benefit by state shows that smaller low-income states like Tasmania, the Northern Territory, and South Australia, will see the biggest additional benefit. Tasmanians will see an additional \$350 per taxpayer. The highest income states, the Australian Capital Territory and Western Australia will see the smallest additional benefit.

Figure 2: Benefit of modified stage 3 per taxpayer by State and Territory in 2024-25



Source: Author's calculations based on taxation statistics (2019-20) and PBO (2024) costings (see Appendix A)

Introduction

On 25 January this year, the Albanese Labor Government announced that they were going to revise the Stage 3 tax cuts due to begin in July 2024. Table 1 below shows what the changes are. The revisions make two broad changes. They keep the 37% tax bracket and move it from up slightly so instead of starting at \$120,001 and ending at \$180,000, it instead starts at \$135,000 and ends at \$190,000. Secondly the revisions reduce the tax rate for the lowest tax bracket from 19% to 16%.

Table 1: Original and revised stage 3 tax cuts

Income bracket	Original Stage 3	Revised Stage 3
\$18,200	None	None
\$18,201 to \$45,000	19%	16%
\$45,001 to \$135,000	30%	30%
\$135,001 to \$190,000	30%	37%
\$190,001 to \$200,000	30%	45%
\$200,000 plus	45%	45%

The modified Stage 3 tax cut has the effect of reducing the size of the tax cut going to high income earners and increasing the tax cut for low- and middle-income earners.

This paper updates Divided Nation² which looked at the distribution of the original Stage 3 tax cuts by federal electorates. In this paper we will compare the electorate distribution of the modified Stage 3 tax cuts with the electoral distribution of the original Stage 3.

This paper uses the same methodology for distributing the Stage 3 tax cuts that was used in Divided Nation. This methodology can be found in Appendix A. All figures are for the financial year 2024-25, which is the year the Stage 3 tax cuts will first come into effect.

Most electorates are net winners from the modified Stage 3 tax cuts. Of the 151 electorates, 127 are better off, with just 24 being worse off compared to the original Stage 3. We will now look more closely at the winners and losers – although it must be noted that all taxpayers will receive a tax cut compared to the amount they pay in 2023-24.

² Grudnoff et al. (2023) *Divided Nation: The Stage 3 Tax Cuts Broken Down by City and Country Electorates*, The Australia Institute, <https://australiainstitute.org.au/report/divided-nation-the-stage-3-tax-cuts-broken-down-by-city-and-country-electorates/>

Winners from modified Stage 3

We first look at those electorates that have the most to gain from the modified Stage 3 tax cuts. Table 2 below shows the top 20 electorates that will gain the most from the modified Stage 3 compared to the original Stage 3. It shows both the dollar value for the whole electorate as well as the average dollar amount for each taxpayer.

Table 2: Top 20 winners from the modified stage 3 compared with the original Stage 3 tax cuts in 2024-25

Electorate	State	Party	Better off	Better off per taxpayer
Parramatta	NSW	ALP	\$52 million	\$307.04
Blair	QLD	ALP	\$48 million	\$448.31
Makin	SA	ALP	\$47 million	\$451.61
La Trobe	VIC	LIB	\$46 million	\$369.16
Spence	SA	ALP	\$45 million	\$486.37
Rankin	QLD	ALP	\$45 million	\$412.55
Fowler	NSW	IND	\$45 million	\$404.91
Kingston	SA	ALP	\$44 million	\$459.10
Lindsay	NSW	LIB	\$44 million	\$403.85
Fadden	QLD	LIB	\$43 million	\$302.01
Chifley	NSW	ALP	\$43 million	\$437.98
Scullin	VIC	ALP	\$43 million	\$408.99
Holt	VIC	ALP	\$42 million	\$460.99
Lalor	VIC	ALP	\$41 million	\$417.46
Macarthur	NSW	ALP	\$41 million	\$426.60
Calwell	VIC	ALP	\$40 million	\$419.47
Cowan	WA	ALP	\$39 million	\$368.05

Greenway	NSW	ALP	\$39 million	\$332.35
Barker	SA	LIB	\$39 million	\$393.47
Longman	QLD	LIB	\$38 million	\$401.46

Source: Author's calculations based on taxation statistics (2019-20) and PBO (2024) costings (see Appendix A)

Given that the modified Stage 3 tax cuts give a larger tax cut to low- and middle-income earners, the biggest winners are those electorates that have a larger proportion of low- and middle-income taxpayers. These electorates received the least from the original Stage 3.

These are mainly electorates on the fringes of our major cities and rural electorates. They include 14 Labor electorates, five Liberal electorates and the independent electorate of Fowler. On average, taxpayers in each of these electorates will get an additional \$300 a year each, on top of what they would have previously got from Stage 3.

Losers from modified Stage 3

It is important to note that no taxpayer will pay more tax when the modified Stage 3 tax cuts come into effect in July 2024. Taxpayers earning more than \$146,486 will get a tax cut, but that tax cut won't be as large as was originally proposed under Stage 3. For example, someone earning \$200,000 will get a tax cut of \$4,529 rather than \$9,075.

Table 3 shows the 20 electorates that have the largest reduction from the Modified Stage 3 compared to the original Stage 3.

Table 3: The 20 electorates with the largest reduction in their Stage 3 tax cut in 2024-25

Electorate	State	Party	Worse off	Better off per taxpayer
North Sydney	NSW	IND	-\$77 million	-\$649.11
Wentworth	NSW	IND	-\$75 million	-\$862.34
Warringah	NSW	IND	-\$69 million	-\$717.02
Curtin	WA	IND	-\$65 million	-\$563.58
Bradfield	NSW	LIB	-\$57 million	-\$488.27
Kooyong	VIC	IND	-\$51 million	-\$493.13
Goldstein	VIC	IND	-\$48 million	-\$486.94
Higgins	VIC	ALP	-\$46 million	-\$384.04
Grayndler	NSW	ALP	-\$30 million	-\$261.97
Sydney	NSW	ALP	-\$26 million	-\$176.13
Macnamara	VIC	ALP	-\$25 million	-\$228.79
Mackellar	NSW	IND	-\$23 million	-\$226.64
Brisbane	QLD	GRN	-\$20 million	-\$154.29
Ryan	QLD	GRN	-\$19 million	-\$193.15
Berowra	NSW	LIB	-\$19 million	-\$235.68
Kingsford Smith	NSW	ALP	-\$15 million	-\$128.94

Canberra	ACT	ALP	-\$10 million	-\$87.94
Tangney	WA	ALP	-\$5 million	-\$45.16
Griffith	QLD	GRN	-\$5 million	-\$38.63
Mitchell	NSW	LIB	-\$3 million	-\$22.99

Source: Author's calculations based on taxation statistics (2019-20) and PBO (2024) costings (see Appendix A)

This list is made up mainly of high income inner metropolitan electorates in capital cities. There are seven Labor and independent electorates, and three Liberal and Greens electorates. All the independent electorates are so-called teal electorates.

These are the electorates that received the most from the original Stage 3 because they have larger proportions of high-income earners. While they will see the biggest reduction in the size of their tax cut, they will still receive some of the largest cuts in dollar terms.

Benefits by party

We now look at the size of the additional benefits going to the electorates of the three main parties, the Labor Party, the Liberal Party, and the National Party. Table 4 shows the net benefit flowing to the electorates of each party as well as the average benefit going to taxpayers in those electorates and the number of electorates each party has.

Table 4: Benefit of modified Stage 3 tax cuts by party in 2024-25

Party	Better off	Better off per taxpayer	Number of electorates
ALP	\$1,806 million	\$229.01	78
LIB	\$913 million	\$226.19	41
NAT	\$451 million	\$325.78	16

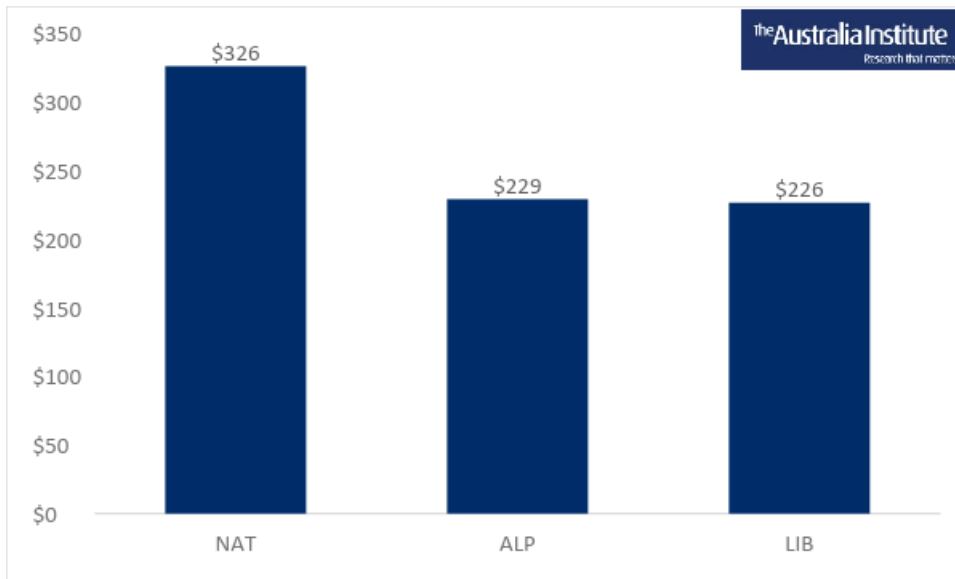
Source: Author's calculations based on taxation statistics (2019-20) and PBO (2024) costings (see Appendix A)

The largest dollar value goes, unsurprisingly to the Labor Party, because it has by far the most numbers of seats. This is followed by the Liberal Party and then the National Party. The average benefit per taxpayer shows the National Party electorates getting the largest benefit. This is because National Party electorates are in rural areas and tend to have lower incomes than Labor and Liberal electorates.

Labor and Liberal electorates have a mix of electorates that are net winners and net losers from the modified Stage 3 tax cuts. The Labor party has 71 electorates that are net winners and 7 electorates that are net losers. Liberal electorates have 36 net winners and 5 net losers. National Party electorates are different, all their electorates are net winners from the modified Stage 3 tax cut.

Figure 3 shows, National electorates get the largest benefit per taxpayer, with Labor and Liberal electorates almost identical.

Figure 3: Benefit of modified stage 3 per taxpayer by party in 2024-25



Source: Author's calculations based on taxation statistics (2019-20) and PBO (2024) costings (see Appendix A)

At the time of writing, the Coalition (made up of the Liberal Party and National Party) have not announced if they will support modifying the Stage 3 tax cuts. They are still holding out the possibility of voting against the changes. If the National Party in particular were to vote against them and prevent these changes, then taxpayers in their electorates would have the most to lose. The National Party would be denying \$451 million in additional tax cuts going to the taxpayers in their electorates, worth on average \$326 per taxpayer.

Benefits by State and territory

We now look at the benefits of modifying the Stage 3 tax cuts by State and Territory. Table 5 shows the net benefit flowing to all eight state and territories, as well as the average benefit going to taxpayers, and the number of electorates each State and Territory has.

Table 5: Benefit of modified Stage 3 tax cuts by State and Territory in 2024-25

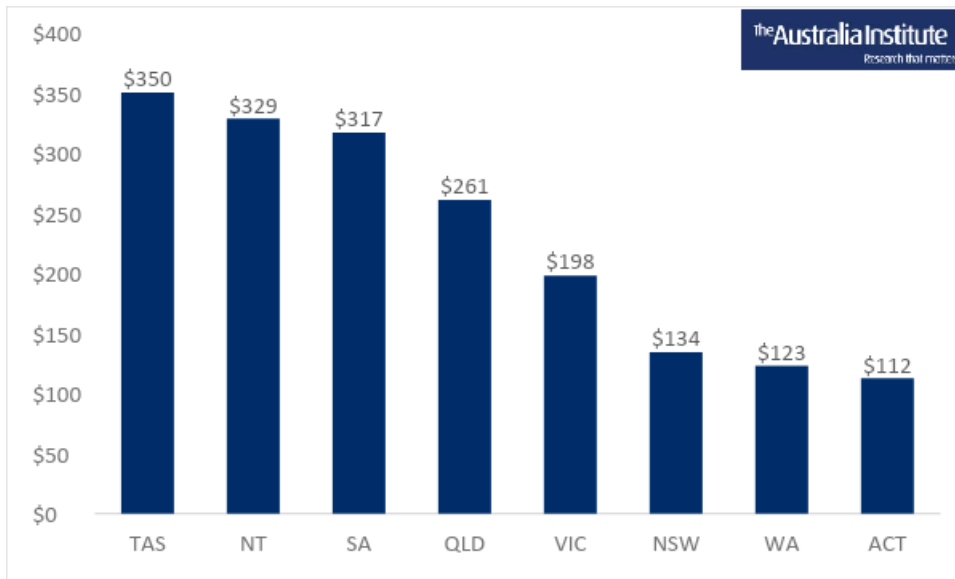
State/Territory	Better off	Better off per taxpayer	Number of electorates
ACT	\$33 million	\$112.45	3
NSW	\$629 million	\$134.29	47
NT	\$42 million	\$328.54	2
QLD	\$796 million	\$261.05	30
SA	\$327 million	\$316.74	10
TAS	\$112 million	\$350.15	5
VIC	\$763 million	\$198.01	39
WA	\$199 million	\$122.84	15

Source: Author's calculations based on taxation statistics (2019-20) and PBO (2024) costings (see Appendix A)

The larger states, unsurprisingly, receive a bigger share of the change in the Stage 3 tax cuts, but there are some anomalies. New South Wales is the largest state with the most electorates but receives the third largest benefit. Queensland is the third largest state but has the largest benefit, more than both New South Wales and Victoria, both of which have more taxpayers. This is because the benefits from modifying the Stage 3 tax cuts flow disproportionately to poorer rural electorates, and Queensland has the largest proportion of people living outside its capital city. For the Territories, the Northern Territory receives considerably more benefit than the Australian Capital Territory because it has a much lower average income.

On a per taxpayer basis, the biggest beneficiaries are Tasmanians, with those from the Northern Territory, and South Australia close behind. Figure 4 shows the benefit of modifying the Stage 3 tax cuts by State and Territory.

Figure 4: Benefit of modified stage 3 per taxpayer by State and Territory in 2024-25



Source: Author's calculations based on taxation statistics (2019-20) and PBO (2024) costings (see Appendix A)

Tasmanian taxpayers, on average stand to receive an additional \$350, with both taxpayers from the Northern Territory and South Australia to receive more than \$300. Queensland taxpayers get the largest increase for the big states, an additional \$260. Western Australia and the Australian Capital Territory are expected to get the smallest increase of just over \$100.

Conclusion

The modification to the Stage 3 tax cuts will see lower income electorates receive a larger tax cut than they would have got under the original Stage 3. While the Liberal and National Coalition have not announced if they will support the modified tax cuts, their electorates, particularly National electorates, will be better off if these tax cuts become law. Nationals electorates alone will see an additional \$450 million next financial year.

These modified tax cuts highlight just how inequitable the original Stage 3 tax cuts were. The modified tax cuts cost a very similar amount and yet make the vast majority of electorates better off, all the while still giving the largest tax cuts to high income earners. These changes will preserve the progressive nature of the income tax system while making the overwhelming majority of taxpayers better off.

Appendix A

In order to study the geographic distribution of the modified 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 2020–21 (the latest year available), show the number of people in each tax bracket by postcode. The tax brackets in 2020–21 were:

- Less than or equal to \$18,200;
- \$18,201 to \$45,000;
- \$45,001 to \$120,000;
- \$120,001 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. 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

This distribution was then compared with the distribution by electorate of the original Stage 3 tax cuts which is found in *Divided Nation*.⁴ By taking one from the other we were able to calculate how much better off or worse off each electorate was.

³ Parliamentary Budget Office (2024) *Costings – Labor's revised stage 3 tax cuts*, <https://www.pbo.gov.au/publications-and-data/publications/costings/labors-revised-stage-3-tax-cuts-distributional-analysis>

⁴ Grudnoff et al. (2023) *Divided Nation: The Stage 3 Tax Cuts Broken Down by City and Country Electorates*, The Australia Institute, <https://australiainstitute.org.au/report/divided-nation-the-stage-3-tax-cuts-broken-down-by-city-and-country-electorates/>