

WOULD TAX INDEXATION HAVE MADE US BETTER OFF?

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Despite the excitement among some in the media about the benefits of indexing tax brackets to the rate of inflation this paper shows Australians have been much better off without the solution to ‘bracket creep’. Had indexation of personal income tax thresholds applied over the last 30 years a taxpayer on average weekly earnings would now be \$147 a week worse off. The average nurse would be \$187 a week worse off with teachers and police worse off by \$172 and \$207 per week respectively.

INTRODUCTION

The Leader of the Opposition, Angus Taylor, announced a policy of tax indexation in his budget reply speech. He described the present tax system as a “stealth raid on Australians working hard to get ahead” and that Labor was “stealing” from Australians via inflation.¹ This paper explains the policy being proposed by Mr Taylor and evaluates

¹ McHugh F (2026) “Angus Taylor pledges to index tax brackets to inflation, slash migration in budget reply”, *MSN*, 14 May at <https://www.msn.com/en-au/money/news/angus-taylor-pledges-to-index-tax-brackets-to-inflation-slash-migration-in-budget-reply/ar-AA23gub3?ocid=BingNewsSerp>

the impact of his proposal by measuring the impact of such an idea had it been introduced in 1996.

Every taxpayer's personal tax liability is based on the income scales that apply in the year their income was earned. Most people are not familiar with their tax scales but for every taxpayer there is no tax payable below a certain level of income, presently \$18,200. After that the extra income you earn above the threshold is taxed at 16 cents in the dollar. After \$18,200 you can earn up to \$45,000 before there is a new tax bracket where you pay 30 cents in the dollar rather than 16. In turn individuals pay 30 cents in the dollar after you earn \$45,000 and until their income hits \$135,000, then they go onto yet another higher tax rate and so on.

The idea of tax indexation, as proposed by Angus Taylor, is that each of the thresholds would be automatically adjusted for inflation each year. For example, if inflation was 5% then the idea is that the income below which you pay no tax, \$18,200, should be increased by 5% and so on for all of the tax thresholds which would all increase in line with inflation.

The following section shows what would have happened to the amount of tax payable by Australians if Mr Taylor's idea for automatic indexation had been applied over the last 30 years instead of the normal practice of governments adjusting tax scales every few years as the needs of the economy and their political goals dictate.

THE IMPACT OF INTRODUCING TAX BRACKET INDEXATION IN 1996

This section shows how the tax scales would look had they been indexed to the CPI since 1996-97. Once we calculate what those thresholds would be today the results can be compared with the present tax scales. First, in Table 1 we present the income tax scales that applied in in 1996-97.

Table 1: 1996-97 personal income tax scale

Bottom of range \$	Top of range \$	Marginal tax rate %
0	5,400	0
5,400	20,700	20
20,700	38,000	34
38,000	50,000	43
50,000	Open ended	47

Source: ATO Taxation Statistics at <https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/taxation-statistics/taxation-statistics-2022-23>

If the thresholds that existed in 1996-97 were indexed annually in line with the increase in the CPI then they would have all increased by 2.09 times by 2025-26 (Inflation in 2024-25 being used to set the tax scales for 2025-26.)

The first 2 columns in Table 2 show what the tax thresholds that existed in 1996 would be today had they grown in line with CPI as proposed by Mr Taylor and the third column in Table 3 shows what the tax rate applying to those income thresholds would be had they too remained unchanged. The last 3 columns in Table 2 show the actual tax thresholds and rates that exist today. Put simply, Table 2 shows that sporadic tax cuts made by governments at times that suit the economic or political cycle have delivered significantly larger tax cuts than those that would have resulted from Mr Taylor’s proposal. Significantly, as discussed in the earlier paper, “Indexation of tax scales: Stimuluses not wanted”,² a significant problem with automatic tax adjustments such as those proposed by Mr Taylor is that they deliver the largest personal income tax cuts at times of high inflation, times where the Reserve Bank is usually trying to curtail household spending rather stimulate it as would be the case with automatic indexation.

² Richardson D (2026) “Indexation of tax scales: Stimuluses not wanted”, May at <https://australiainstitute.org.au/report/indexation-of-tax-scales-stimuluses-not-wanted/>

Table 2: Comparing the actual tax scales today with the inflation adjusted scales of 1996-97

Inflation adjusted 1996-97 scales today			Actual scales today, 2026-27.		
Bottom of range \$	Top of range \$	marginal rate %	Bottom of range \$	Top of range \$	marginal rate %
0	11,308	0	0	18,200	0
11,308	43,346	20	18,200	45,000	16
43,346	79,572	34	45,000	135,000	30
79,572	104,700	43	135,000	190,000	37
104,700	Open ended	47	190,000	Open ended	45

Source: Source: Authors calculations based on ATO Taxation Statistics and ABS Consumer Price Index at <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release>.

Table 2 shows that successive governments have lifted tax thresholds at a far faster rate than CPI and, at the same time, they have lowered tax rates significantly. It shows that the tax-free threshold would today only be \$11,130 had indexation been in place, this contrasts sharply with the actual tax-free threshold which at \$18,200 is currently 60.9% more than the threshold that would have resulted from automatic indexation.

Significantly, Table 2 also shows how much larger tax cuts for higher income earners have been than for low-income earners. The second tax threshold in 1996 was \$20,700 above which taxpayers paid 34 cents in the dollar until income reached \$38,000. With indexation 34 cents in the dollar would be payable from \$43,346 to \$79,572. By comparison, in today's tax scale the 34 cents is down to 30 cents in the dollar and the range is now \$45,000 through to \$135,000. The top of that range had been increased by 70% more than under indexation. The other changes are shown in Table 2 and note that the threshold at which the top marginal tax rate applies has been increased to \$190,000 which is 81.4% above the top threshold of \$104,700 had the policy of tax indexation applied. Those expressing concern about the income at which Australia's top marginal income tax rate kicks in rarely place the current threshold in such a context. For example, the NSW Premier, Chris Minns, pointed to a need to combat

bracket creep but without acknowledging the top income tax bracket has been increased much more than indexation. Indeed, tax indexation since 1996 would have meant that the top marginal tax rate would apply at less than average weekly earnings (\$2,051.10 per week or \$106,657.20 annually).

Table 2 shows clearly that governments have gradually given back much more in personal income tax cuts than a policy of tax indexation would have returned to taxpayers. There have also been significant reductions in the marginal tax rates, and the combined result is that Australia collects far less revenue from personal income tax today than it would have collected had simple indexation been in place. Put simply, these results raise the question of what the alleged benefits of tax indexation are supposed to be.

Applying the results in table 2 to a range of different incomes allows for the estimation of how much less tax Australians currently pay compared to what they would pay under an indexation regime such as that proposed by Mr Taylor.

As shown in Table 3, taxpayers on average weekly earnings are better off by \$7,583 a year or \$147 a week under the present tax scales compared with the 1996-97 scales indexed for inflation.³ For someone on twice average weekly earnings the difference between the actual tax scales and the 1996-97 scales indexed for inflation is \$355 a week. Table 3 also uses ABS classifications to present the results for a wide range of income earners.⁴

³ These figures assume no deductions or other offsets to their tax liabilities.

⁴ Note that the ABS figures for occupations relate to May 2025 and it is likely these incomes have increased since then and, as a result, the figures in Table 3 are conservative estimates of their incomes and consequent amount they are worse off.

Table 3: Cost to various occupational groups of the indexation policy had it applied over the last 30 years.

	Average weekly ordinary time earnings	Tax in 2025-26	If indexed to 1996-97	Change in tax had indexation applied, per year per week	
School teachers	2,193.80	25,011	33,936	-8,925	-172
Medical practitioners	3,554.10	49,718	67,182	-17,464	-336
Nurses	2,283.30	26,407	36,124	-9,717	-187
Bricklayers, and carpenters and joiners	1,816.70	19,128	25,129	-6,001	-115
Police	2,399.90	28,226	38,974	-10,748	-207
ICT managers	3,401.40	46,780	63,450	-16,670	-321
AWE	2,051.10	22,785	30,449	-7,664	-147
2xAWE	4,102.20	62,129	80,578	-18,449	-355

Sources: As for Table 2 and ABS (2026) *Employee Earnings and Hours, Australia, May 2025*. Note nurses includes midwives and police includes defence force members and firefighters in the ABS data.

As Table 3 makes clear, bricklayers, carpenters and joiners would have been \$6,001 a year worse off or \$115 a week worse off under a policy of tax indexation, likewise a schoolteacher would have been \$172 a week worse off, a nurse \$187 a week worse off. Medical practitioners are the highest paid in our sample and they would have been \$336 per week worse off under the indexation policy.

CONCLUSION

There seems to be some support for the idea that tax scales should be adjusted for inflation. The tax indexation policy is designed to give fiscal drag back to taxpayers against claims that not indexing is tantamount to “stealing” from taxpayers. This raises the question of whether governments have indeed been stealing from taxpayers.

The figures in Table 2 show that if tax indexation had applied since the first budget under the Howard Government, the tax scales would have been less generous to taxpayers than the present scales which follow a series of ad hoc changes to tax scales made by various governments over that time.

In 1996 no tax was payable until income reached \$5,400 so that, with indexation, there would have been no tax paid until income reached \$11,310 in 2026-27, but that threshold had been increased to \$18,200 in the meantime. Hence tax indexation would have reduced the tax-free threshold for all personal income taxpayers. Similarly, the income above which the top marginal tax rate applies has been increased to \$190,000 but with indexation it would apply at just \$104,700, less than average weekly earnings.

All the other thresholds are now much higher than they would have been under tax indexation with clear benefits to taxpayers. For example, taxpayers on average weekly earnings and no complications are better off by \$147 a week compared with the alternative of tax indexation since 1996-97. Someone on twice average weekly earnings would have been \$355 a week worse off. The average nurse working full time ordinary hours would have been \$187 a week worse off with teachers and police worse off by \$172 and \$207 a week respectively.

Earlier research by the Australia Institute showed that tax indexation would stimulate household spending most when the Reserve Bank's monetary would be trying to counter inflation. When we compare how taxpayers would have fared under tax indexation it can hardly be said that governments have been "stealing" from taxpayers. Rather, relative to tax indexation, taxpayers have benefited from ad hoc discretionary changes in the tax scales under various governments over the last 30 years.