HOW DOES THE BUDGET AFFECT US?

NATSEM Policy Note 2019/3
April 2019
Introduction

The National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra independently modelled the following components of the 2019-20 Budget.

- One-off energy payment for certain welfare recipients in 2018-19 and 2019-20
- Increased Low and Middle Income Tax Offset (LMITO) between 2018-19 and 2021-22
- Low Income Tax Offset (LITO) change from 2022-23 onwards
- Personal income tax thresholds and marginal tax rates change in 2022-23 and 2024-25

The estimation is based on NATSEM’s STINMOD+ microsimulation model, where we simulate the impact of the policy change on households based on the latest ABS Survey of Income and Housing (SIH). The base dataset is adjusted to reflect the population and economic change between the time of collection and the current year. Small area estimates are derived using calibrated area weights based on the latest population Census. Please note that this analysis only reports the direct effect of the budget measures and does not estimate the secondary economic impact.

The findings reported can be replicated using STINMOD+ online at https://stinmod.canberra.edu.au/stinmod/population_impact/
The webpage may contain further information, including the detailed numeric values for graphs and spatial estimates.

PERSONALISED BUDGET IMPACT ESTIMATES

STINMOD+ online allows you to enter your family information and find out what financial impact of this budget is on your family. Scan the QR code with the camera app on your phone or visit https://stinmod.canberra.edu.au/stinmod/family_impact in your browser for more information.

Overall Impact

Given the wide range of tax changes and the energy payment, nearly 85% of families (income units) will be affected by at least one measure of the tax and transfer policy changes, and nearly 90% of the population.

Overall, the new measures in the budget

- Favour middle and mid-high income families before 2020-21 due to the income requirement of the LMITO.
- Favour mid-high income earners from 2022-23 onwards due to the reduced tax rate at mid- and high- thresholds.

Figure 1 Population affected by at least one of the budget 2019-20 measures
- Benefit some of the low and middle-income families through the LITO and LMITO, although the gain is lower in dollar terms compared with the high-income earners.

- By the end of 2024-25, the greatest benefits go to those in the federal election districts of Wentworth, North Sydney, Warringah, Sydney and Grayndler while those in the area of Spence, Hinkler, Lyne, Lyons and Page benefit the least.

**Impact by Income Level**

Figure 2 shows the impact of the new measures introduced in the 2019-20 budget on disposable income by levels of total private income of the household. Private income includes wages and salaries, business and investment returns, and other non-government income. Note this effect is on top of what was already introduced in the 2018-19 budget.

If we examine the impact by household types, then couples, especially those in the mid- and high-income ranges gain more from this year’s budget as both people may benefit from the tax offset increase and the tax bracket/rates adjustment.

![Figure 2 Budget Impact by Annual Private Income (Family)](image)

Figure 3 shows the budget impact by family type and equivalised income quintile.

![Figure 3 Budget Impact by Family Type and Equivalised Income Quintile](image)
Another way to examine the budget impact is to examine the distribution by age and gender. In this analysis, we focus on the change in per-capita disposable income. The analysis assumes all incomes are pooled within the family, thus capturing the overall impact of the policy change given the family situation. Most of the benefits from this budget are observed between ages 26 and 55 years, which are the majority of the labour force. The modelling shows males, on average, benefit more than females under the adjusted tax rates. Those aged 65 years and over, who made up 22% of the voting population in 2016, benefit the least of any of the age groups.

**Table 1 Average Change to the Per-Capita Disposable Income (Annual)**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2019-20 Male</th>
<th>Female</th>
<th>2022-23 Male</th>
<th>Female</th>
<th>2024-25 Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 15</td>
<td>$100</td>
<td>$103</td>
<td>$137</td>
<td>$141</td>
<td>$455</td>
<td>$465</td>
</tr>
<tr>
<td>16 - 25</td>
<td>$170</td>
<td>$171</td>
<td>$192</td>
<td>$190</td>
<td>$445</td>
<td>$431</td>
</tr>
<tr>
<td>26 - 35</td>
<td>$245</td>
<td>$213</td>
<td>$292</td>
<td>$256</td>
<td>$793</td>
<td>$716</td>
</tr>
<tr>
<td>36 - 45</td>
<td>$165</td>
<td>$153</td>
<td>$230</td>
<td>$207</td>
<td>$759</td>
<td>$665</td>
</tr>
<tr>
<td>46 - 55</td>
<td>$188</td>
<td>$204</td>
<td>$250</td>
<td>$258</td>
<td>$795</td>
<td>$759</td>
</tr>
<tr>
<td>56 - 65</td>
<td>$181</td>
<td>$161</td>
<td>$227</td>
<td>$186</td>
<td>$678</td>
<td>$509</td>
</tr>
<tr>
<td>65+</td>
<td>$83</td>
<td>$81</td>
<td>$46</td>
<td>$32</td>
<td>$130</td>
<td>$89</td>
</tr>
</tbody>
</table>

**Poverty**

If we compare the poverty rate before and after the budget measures, without taking into account changes in behaviours, the 2019-20 budget measures are expected to have a reduction in the poverty rate, mostly due to the increase in the tax offset. The reduction, however, is relatively small considering the national poverty rate is around 13.6%.

**Selected Households**

This section examines a range of common household types in Australia and identifies who benefits the most and the least from the proposed reforms. Generally, no one would be worse off because the budget measures focus on tax cuts. Middle-income earners benefit the most in the financial years 2018-19 and 2019-20 thanks to an increase in the low- and middle-income tax offset. Those earning an average full-time salary of around $85,500 per year would get a maximum annual tax offset of $550 back in each of these two financial years. However, in the long term, individuals with high incomes will benefit the most if a higher tax bracket and
A segment of the most vulnerable population, the unemployed people and the pensioners, will not benefit or benefit very little ($125 per year) from the proposed measures. The benefit of the measures primarily depends on the taxable income. This means that for households with the same income, they may not necessarily enjoy the same level of benefit. For instance, a couple both at the average wage will be better off by $1,100 in 2019-20, while another couple with a similar total income (one with high income and one with minimum wage) will receive tax relief of only $128. Young couples, who are assumed to have a full-time salary of about 70% of average income earners, and single parents with minimum wages tend to benefit from both tax cuts and tax offset reforms.

![Figure 5 - Changes in annual disposable income for singles](image)

A lower tax rate are implemented. For example, a high-income earner with one and half times the average full-time salary would expect an extra $3,000 in 2024-25.

![Figure 6 - Changes in annual household disposable income by household types](image)
NATSEM has also assessed the changes on the new electorate divisions. The modelling finds that the seats with the greatest benefit from the 2022 tax changes are Sydney, Wentworth, Macnamara, North Sydney and Grayndler. The seats that benefit least are Lyne, Hinkler, Page, Gilmore and Wide Bay.

For the 2024 changes in tax scales, the greatest benefits also go to those in the seats of Wentworth, North Sydney, Warringah, Sydney and Grayndler while those in the seats of Spence, Hinkler, Lyne, Lyons and Page benefit the least.
Figure 10 and 11 plot the expected spatial impact of the budget 2019-20 in terms of disposable income change once the 2024-25 policies are implemented.

For detailed data of each electorate and graphs for all states and capital cities, please visit STINMOD+ online (spatial) model at https://stinmod.canberra.edu.au/stinmod/spatial_impact/.
ABOUT NATSEM AND STINMOD+

The National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra is one of the premier sources of independent quantitative social and economic research services and policy advice in Australia, and one of the world’s foremost centres of excellence for microsimulation, economic modelling and policy evaluation. STINMOD+ is an advanced tax microsimulation model developed by a team led by A/Prof Jinjing Li. The model is designed to evaluate the distributional and fiscal impact of tax and transfer policies in Australia. It covers all major taxation and welfare schemes in Australia and has a longitudinally consistent policy database from 2001 onwards, including comprehensive income and asset testing. Numbers presented may contain sampling and non-sampling errors. NATSEM has no affiliation with any political party and received no external funding to conduct this budget analysis.

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For more information about STINMOD+, please visit https://stinmod.canberra.edu.au/

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