

Income tax cuts in 2018 Budget will largely benefit men

Men get twice the benefit from the income tax cuts compared to women while previous spending cuts have mainly disadvantaged women

By Matt Grudnoff

In the 2018 Budget the government has proposed handing out significant income tax cuts over seven years. While the first four years are targeted at low and middle income earners, the last three years will see substantial cuts to high income earners. In recent analysis The Australia Institute showed that, when the tax cuts are fully implemented in 2024-25, 62% will go to the top 20% of taxpayers (including 40% to the top 10% of taxpayers).¹

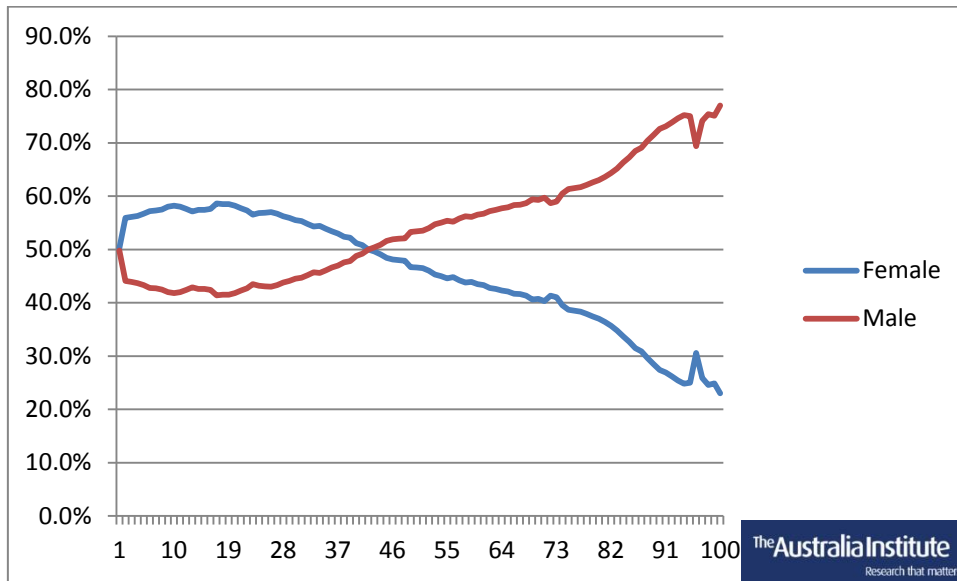
The initial targeted tax relief to low and middle income earners was estimated to cost the budget \$13.4 billion over the four years of the forward estimates. Larger tax cuts after the first four years increase the cost substantially. The government has estimated the cost to the budget over the whole 10 years to be \$140 billion.

It is not just high income earners who are the big winners from these tax cuts. Once they are fully implemented in 2024-25, men will also be the big beneficiaries. Men will get twice the tax cut in 2024-25 compared to women (men will get about two thirds and women will get about a third).

This is because men dominate the ranks of high income earners. Figure 1 groups all taxpayers into 100 equally sized groups by taxable income with the bottom one per cent in the first group rising to the top one per cent in the 100th group. It then shows the percentage of females and percentage of males in each group.

¹ Grudnoff M (2018) *Radical plan to increase inequality in Australia revealed in budget*, The Australia Institute, Briefing paper, 10 May <<http://www.tai.org.au/content/62-tax-cuts-benefits-go-highest-income-earners>>

Figure 1 – Income percentiles by gender

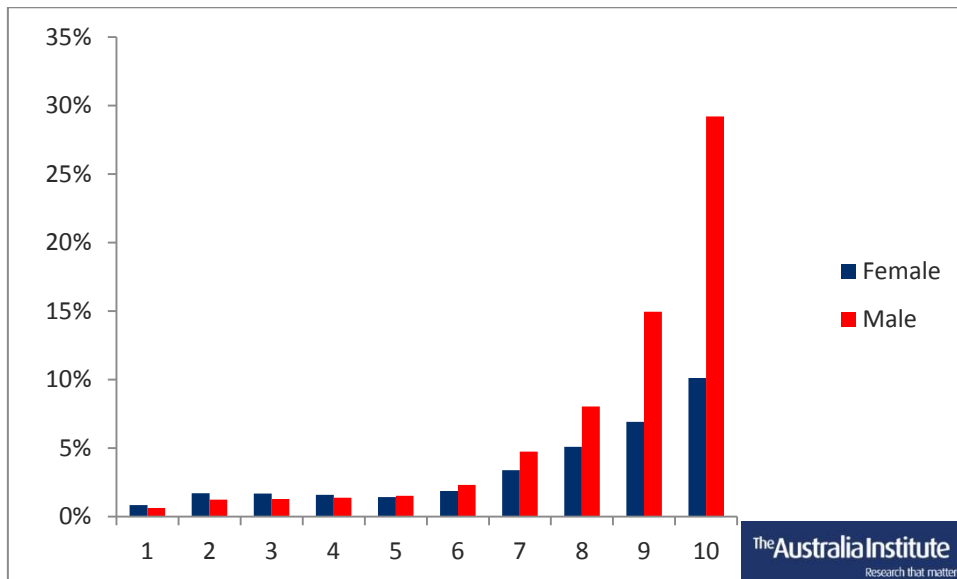


Source: ATO (2018) *Taxation Statistics 2015-16*

We can see that as incomes rise, the percentage of males in each of the percentiles also increases. Income tax cuts that favour high income earners are going to hand back increasingly large amounts to men.

If we look at the benefit of the tax cuts by decile and by gender we can see that the top 10% of taxpayers get the largest proportion of the tax cut and the males in that decile get the lion’s share of the benefit. This is shown in Figure 2.

Figure 2 – Benefit of the income tax cut in 2024-25 by decile and gender

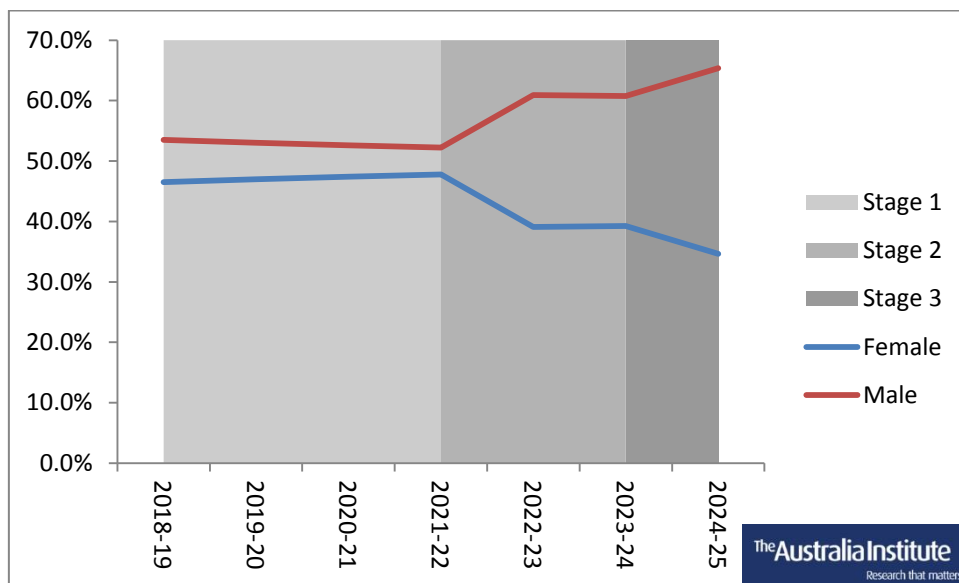


Source: ATO (2018) *Taxation Statistics 2015-16* and Australia Institute calculations

We can also see that the deciles that are dominated by women are the bottom deciles that get relatively little from the tax cut.

By contrast, the first four years of the tax cut are targeted at low and middle income earners. Because of this, the split between females and males is far more equal in these years. In the first year the tax cuts 53% will go to men and 47% will go to women. As Figure 3 shows this more even spread continues for the first four years until the cuts to higher income earners come into effect. In the last three years the split between female and male quickly widens.

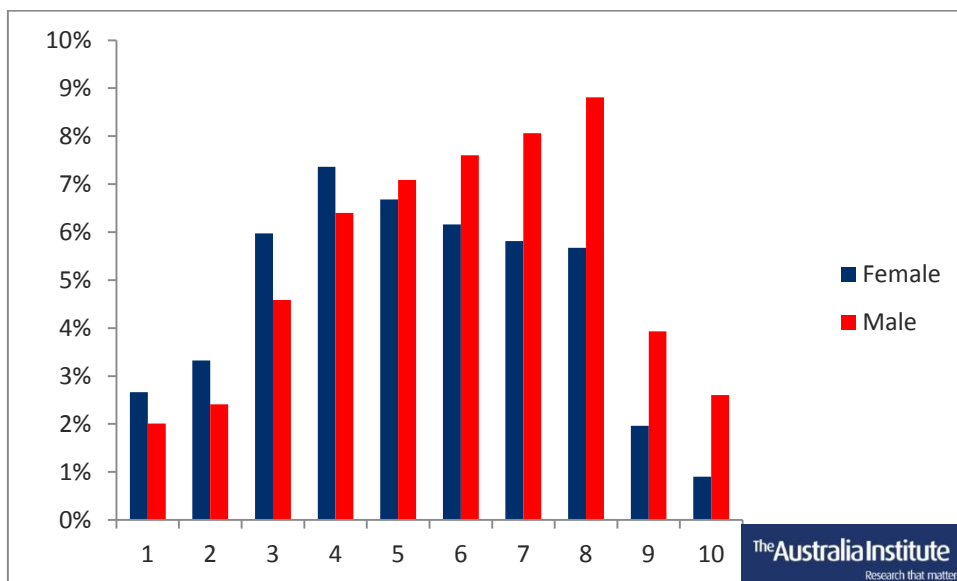
Figure 3 – Tax cut split by gender over the 7 year implementation period



Source: ATO (2018) *Taxation Statistics 2015-16* and Australia Institute calculations

If we look at the benefit of the tax cuts in the first year (2018-19) by decile and gender we see that the deciles in which women are the majority get far more of the benefit of the tax cut. This is shown in Figure 4.

Figure 4 – Benefit of the income tax cut in 2018-19 by decile and gender



Source: ATO (2018) *Taxation Statistics 2015-16* and Australia Institute calculations

Method

We have calculated the benefit of the tax cut flowing to females and males using the latest taxation statistics. Using the taxation statistics we have constructed a model of Australia’s income tax system. We then broke down all taxpayers into 100 groups from the lowest income earners to the highest and the proportion of females and males in each group. By inflating income by nominal GDP and calculating how much each group pays as the income tax cut is introduced, we then calculated how much of the tax cut went to females and how much went to males.

The implications of male dominated tax cuts

It is important to consider the gender imbalance of the beneficiaries of income tax cut. This is because in recent history income tax cuts have heavily favoured high income earners. The majority of the mining boom income tax cuts through the early 2000s went to high income earners.² Even the more recent increase in the 37 cent threshold from \$80,000 to \$87,000 mainly benefited the top 20%.³

² Grudnoff M (2013) *Tax cuts that broke the budget*, The Australia Institute, Policy brief, 14 May <<http://www.tai.org.au/content/tax-cuts-broke-budget>>

³ Grudnoff M (2016) *Good economics or populism?*, The Australia Institute, Policy brief, 3 May <<http://www.tai.org.au/content/income-tax-cuts-report>>

Taken together, this means that the benefit of income tax cuts are overwhelmingly flowing to men. What is also concerning is the costs of these tax cuts. The permanent income tax cuts paid for by the temporary windfall gains of the mining boom are important factors in the decade of deficits that followed the GFC. The large income tax cuts made it very difficult for the budget to generate sufficient revenues when economic times returned to more normal levels.

The consequence from the 2014 Budget was the current government's attempt to reduce the deficit by cutting government spending. Women are bigger beneficiaries of government services than men and the proposed cuts in the 2014 Budget affected women more than men.

The Australia Institute looked at the impacts of the 2014 Budget and found that the proposed cuts impacted women more than men. 55% of the cut in incomes was borne by women and 45% by men.⁴

The result of this is that men got most of the benefit of the tax cuts while women were affected the most by the spending cuts. The result of this cycle of tax cuts and spending cuts further entrenched income inequality between men and women.

The government's planned \$140 billion income tax cut over ten years is of a similar quantum to the tax cuts through the mining boom. While we don't have figures for the 10 year cumulative cost of the mining boom tax cuts, Australia Institute research has shown that it cost the budget \$169 billion over the seven years from 2005-06 to 2011-12.⁵

If the current round of income tax cuts occurs they may well provoke another round of budget cuts in future years. If history repeats and a future government tries to reduce the deficit through spending cuts rather than revenue raising, it is likely that women will again get disadvantaged by this process. Whether deliberate or not, this cycle of tax cut and spending cut is making gender inequality worse.

Conclusion

The impact of budget decisions on gender inequality has been largely ignored by governments. This does not need to be the case. If a government is intent on reducing income tax then cuts that target middle and low income earners will have far less

⁴ Grudnoff M (2014) *The budget's hidden gender agenda*, The Australia Institute, Policy brief, 4 December <<http://www.tai.org.au/content/budget%E2%80%99s-hidden-gender-agenda>>

⁵ Grudnoff M (2013) *Tax cuts that broke the budget*, The Australia Institute, Policy brief, 14 May <<http://www.tai.org.au/content/tax-cuts-broke-budget>>

impact on income inequality. Equally if attempts to reduce deficits focus on the revenue side then it is less likely to mainly disadvantage women.

The impacts of budget decisions on gender inequality should be a more prominent part of budget decision making. One way to help achieve this would be mandating that all budget decisions should include a statement showing the impact by gender. This at least would highlight which policies benefit men and disadvantage women.



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