

# 2018 tax cuts by electorate

*The government's proposed income tax cuts would benefit some electorates more than twice as much as other electorates, with wealthy electorates in Sydney and Melbourne gaining the most.*

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## Introduction

In the 2018 Budget, the government announced a radical plan to reshape the income tax system by flattening the progressive income scales. The result would be a less progressive tax system and the largest income tax cut ever proposed.

Previous Australia Institute research has looked at the income distribution of the tax cuts and found that the biggest winners would be high income earners, especially men.<sup>1</sup>

The unequal distribution of the benefit from the tax cut is also geographic. This analysis continues our analysis of the effects of the government's income tax plans by looking at the distribution of the benefits by federal electorate.

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<sup>1</sup> Grudnoff (2018) *High income earners the big winners from scrapping 37% tax bracket*, <http://www.tai.org.au/content/high-income-earners-big-winners-scrapping-37-tax-bracket>; Grudnoff (2018) *Income tax cuts in 2018 Budget will largely benefit men*, <http://www.tai.org.au/sites/default/files/Briefing%20Note%20-%20Gender%20breakdown%20of%20income%20tax%20cuts%20-%20Final.pdf>; see also Grudnoff (2018) *Radical plan to increase inequality in Australia revealed in budget*, [http://www.tai.org.au/sites/default/files/Briefing%20Note%20-%207%20year%20flat%20tax%20plan%20FINAL\\_0.pdf](http://www.tai.org.au/sites/default/files/Briefing%20Note%20-%207%20year%20flat%20tax%20plan%20FINAL_0.pdf)

## Methodology

The analysis looks at the average change in disposable household income compared to the average change for the whole of Australia in 2024–25, which is the first year the income tax cuts would be fully implemented.

While the analysis covers all budget impacts, the tax cut makes up the overwhelming majority of the changes. By way of comparison, the second largest impact on household disposable income is the Pension Work Bonus, which is estimated to cost the budget \$230 million over four years. The income tax cuts are estimated to cost the budget \$13.4 billion over four years and \$144 billion over 10 years. Because the impact of other policy changes are so small in comparison to the tax cuts, for ease of explanation this paper will treat change in disposable income as equivalent to the impact of the tax cuts.

The analysis was conducted by the National Centre for Social and Economic Modelling – NATSEM’s STINMOD+ Tax/Transfer model and SpatialMSM18 spatial microsimulation model. The models use Australian Bureau of Statistics data including data from the 2016 Census and the 2015-16 Survey of Income and Housing.

Some electorates are excluded because they fail validation tests: both Northern Territory electorates (Lingiari and Solomon), two large rural electorates in Western Australia (O’Connor and Durack) and the Western Sydney seat of Fowler.

Failing validation means that households within the seat were sufficiently unusual that NATSEM judged the possible error in results to be too high to produce useful results.

## Biggest winners

The biggest winners from the tax cut are wealthy electorates in Sydney and Melbourne. As shown in Table 1, the top 10 electorates all come from these cities. The average household in any of the top 10 electorates would get at least 50% more than the average Australian household.

Prime Minister Malcolm Turnbull’s seat of Wentworth will get the largest benefit from the tax cuts. The average increase in disposable income for households in Wentworth is almost twice that of the average household, and more than two and half that of the average household in the lowest-rank electorate.

Liberal electorates dominate, with seven of the top 10 being Liberal electorates and three being Labor.

The National Party did not have any electorates in the top 10. The highest-ranked National Party electorate was Dawson, at 72<sup>nd</sup>. Dawson was the only National Party electorate in the top half of electorates. On average households in Dawson will get slightly less than the average of the tax cut (93 per cent).

**Table 1: Top 10 electorates**

Rank	Electorate	State	Percentage of average	Party
1	Wentworth	NSW	192%	LIB
2	North Sydney	NSW	180%	LIB
3	Warringah	NSW	172%	LIB
4	Sydney	NSW	167%	ALP
5	Melbourne Ports	VIC	160%	ALP
6	Higgins	VIC	159%	LIB
7	Bradfield	NSW	158%	LIB
8	Kooyong	VIC	156%	LIB
9	Grayndler	NSW	154%	ALP
10	Goldstein	VIC	150%	LIB



Source: Analysis from NATSEM's STINMOD+ Tax/Transfer model and SpatialMSM18 spatial microsimulation model

The bottom 10 electorates are more geographically distributed, as shown in Table 2. There are both city and regional electorates. They are spread across four of the six states, with New South Wales and Queensland each having three seats and South Australia and Tasmania having two seats each.

There is a fairly even split between Labor electorates (six) and National electorates (four) in the bottom 10. This is a particularly high concentration of National electorates since there are only 16 such electorates in Australia. There are no Liberal electorates in the bottom 10. The lowest Liberal party electorate was the electorate of Barker in South Australia, which ranked 20<sup>th</sup> lowest.

The electorate that will get the least benefit from the tax cuts is Blaxland in Western Sydney. It will receive just 70 per cent of the average benefit.

**Table 2: Bottom 10 electorates**

Rank	Electorate	State	Percentage of average	Party
1	Blaxland	NSW	70%	ALP
2	Hinkler	QLD	71%	NAT
3	Lyons	TAS	72%	ALP
4	Braddon	TAS	72%	ALP
5	Wakefield	SA	73%	ALP
6	Wide Bay	QLD	76%	NAT
7	Lyne	NSW	76%	NAT
8	Port Adelaide	SA	76%	ALP
9	Cowper	NSW	77%	NAT
10	Longman	QLD	77%	ALP



Source: Analysis from NATSEM's STINMOD+ Tax/Transfer model and SpatialMSM18 spatial microsimulation model

## State and party differences

Table 3 shows the tax cut benefits per state compared to the Australian average.

Western Australia, New South Wales and Victoria outperform the average, although in the case of Victoria only by one percentage point. Western Australia's result is skewed by the absence of two electorates that are likely to lower the average, O'Connor and Durack.

Three states – Queensland, South Australia and Tasmania – will receive less than the average, with Tasmania the worst performing. Tasmanian households will receive 80% the benefit of the tax cut compared to the average Australian household.

The Australia Institute is preparing state-specific briefing papers that will give more detail of the performance of electorates within states.

**Table 3: State totals**

Rank	State	Percentage of average
1	WA*	107%
2	NSW	105%
3	VIC	101%
4	QLD	94%
5	SA	90%
6	TAS	80%



Source: Australia Institute calculations; Analysis from NATSEM’s STINMOD+ Tax/Transfer model and SpatialMSM18 spatial microsimulation model

Note (\*): The WA total is inflated because two of the electorates that are likely to lower the average (O’Connor and Durack) did not pass NATSEM’s validation test.

Table 4 shows how electorates will benefit from the tax cut by which party their elected representative is from. Overall, only households in Liberal Party electorates will receive above-average benefits from the tax cut, at 110% of the average.

Households in Labor Party electorates will receive 96% of the average benefit. Households in National Party electorates will benefit the least, at just 82% of the national average.

**Table 4: Party totals**

Rank	Percentage of average	Party
1	110%	LIB
2	96%	ALP
3	82%	NAT



Source: Australia Institute calculations; Analysis from NATSEM’s STINMOD+ Tax/Transfer model and SpatialMSM18 spatial microsimulation model

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